Draft Tunbridge Wells Borough Council

Annual Financial Report

for 2016/17

Contents | *Page*

Contents ***Page***

Narrative Report

1 Contents of the Financial Report

The Financial Report for 2016/17 consists of the following:

- This Narrative Report
- The Annual Governance Statement
- The Statement of Responsibilities, setting out the general responsibilities of both the Borough Council, and of the Director of Finance, Policy and Development, in making proper financial arrangements and in maintaining financial records.
- The Independent Auditor's report on the Statement of Accounts
- The Statement of Accounts, as outlined below.

2 The Statement of Accounts

This consists of:

- The core accounting statements:
    - **The Comprehensive Income and Expenditure Statement** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations, and this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.
    - **The Movement in Reserves Statement** shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into "Usable Reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other "Unusable Reserves". The Movement in Reserves Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/(Decrease) line shows the statutory General Fund Balance movements in the year following adjustments.
    - **The Balance Sheet** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first grouping is of usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (such as the Capital Receipts Reserve being restricted to fund capital expenditure or to repay debt). The second grouping of reserves are those that the Council is not able to use to provide services. This group includes reserves that hold unrealised gains or losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".
    - **The Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of the services provided by the Council. Investing activities represent the amount to which cash outflows have been made for resources which are intended to contribute towards the Council's future service delivery. Cash flows arising from financing activity are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.
    - **The Expenditure and Funding Analysis** demonstrates to council tax payers how the funding available to the Council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by Councils in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.
- **Notes to the core financial statements**, giving further detailed information.
- **The Collection Fund Statement**, together with notes to this account.

The accounting statements and notes are normally rounded to the nearest thousand pounds, the main exceptions being Note 15.4 Risk management for financial instruments, where amounts are in millions, and Note 19.1 Remuneration of senior management, where amounts are shown to the nearest pound. The headings in the tables indicate the level of rounding used.

The Statement of Accounts unavoidably uses a number of technical accounting terms, which are explained in Note 1 Accounting policies, and, where appropriate, in the commentaries to the other notes to the accounts.

3 End of Year Performance 2016/17

The Council uses a range of indicators to measure the performance of its strategic objectives (Corporate Priorities), and the day to day running of services (Council Business). The indicators that measure Corporate Priority performance assess each project through a series of 'milestones' that need to be achieved throughout the year. These milestones are measured on a quarterly basis, and those that are on target are given a green status.

A range of indicators are used to measure Council Business, varying from financial indicators that are used to assess performance on key income streams such as off-street parking, to usage targets, which measure levels of attendance at key discretionary services such as the Museum and Art Gallery and the Assembly Hall Theatre. Targets for these indicators are discussed with Directors and Heads of Service, and are set before the start of each new financial year.

The authority also continues to collect information for the Government's Single Data list, and monitors a range of indicators with no targets, that provide a picture of the state of the borough, such as the number of crimes per 1000 population and unemployment levels.

Corporate Priorities

The Council's performance on achieving the milestones within the Corporate Priorities has slowed for the year 2016/17, with 9 out of 14 projects having passed all of their milestones by the end of the year. This is slightly down compared with previous years, as shown in the table below.

Year	On Target
2014/15	71%
2015/16	68%
2016/17	64%

The Council has reduced the number of Corporate Priority projects in recent years and those remaining are large-scale and complex. A Programme Management Board, with appropriate Project Management support, has been established in 2016/17 to ensure good management and timely delivery of the Corporate Priority projects.

Of the five Corporate Priority projects experiencing delays, three are due to the complexities around external decision making, as the Council is working in partnership with other organisations. Managing external relationships, has been recognised within the strategic risk register, and continues to be a priority for the organisation. It is also important to note that a reduction in the number of projects has resulted in each project representing a larger statistical proportion of the whole programme. A positive or negative movement has a much greater impact upon the statistics.

Council Business

The performance indicators for Council business are refreshed periodically to ensure they remain up-to-date and relevant for the authority. Our indicators were reviewed by Cabinet and Management Board in May 2016 for the 2016/17 financial year and a number of changes were made to targets and new indicators were added. In particular, new performance indicators were added for Planning, to ensure that the authority can assess its performance on appeals accurately.

The Council now reports on 35 performance indicators that have target measures either quarterly or annually (26 in 2015/16). Performance on these targets, as reported to Cabinet, has been good across the year. Where the performance indicators are directly comparable with previous years, performance has been consistent.

Year	On Target
2014/15	81%
2015/16	76%
2016/17	86%

The Planning Department continues to benefit from the measures put in place in the previous year to ensure that targets, for decisions without extensions of time, are achieved. The processing of major applications has missed the target this year by 10%. However, it should be noted that the volumes of this type of application are very low, so each application represents a significant proportion of the overall percentage achieved. Missing a very low number of applications will have a large impact on the performance percentage.

Conclusion

Despite continuing cuts to local government funding Tunbridge Wells Borough Council has continued to perform well. The

Council has embarked on an ambitious Property Development programme to secure continued growth for the borough, in particular around arts, heritage and culture, and is managing its daily business according to the performance targets set.

The Council operates in a complex environment, and needs to balance the needs of many different partners, stakeholders, agencies and businesses to succeed. This environment could be further complicated by national devolution plans, and the strength of its partnership and contractor arrangements must remain a focus to ensure delivery of its plans.

The evolving national policy position relating to Britain's withdrawal from the European Union is a further uncertainty and the Council will need to consider this carefully when planning for the future.

A strong performance management system that is current and fit for purpose can help to focus the organisation and manage the risks, so a review of the Five Year Plan has been undertaken and will be finally agreed in 2017. Similarly, a review of service planning will take place in 2017/18 ready for the 2018/19 financial year.

4 Net Revenue Outturn figures for 2016/17

Introduction

The table below sets out the net expenditure for the year compared to budget.

	Approved Budget	Outturn	Variance
	£000	£000	£000
Chief Executive			
Chief Executive	169	166	(3)
	169	**166**	**(3)**
Finance & Corporate Services			
Director of Finance & Corporate Services	147	142	(5)
Finance & Procurement	1,205	1,522	317
Mid-Kent Client Services	2,245	2,038	(207)
Policy and Governance	1,133	1,057	(76)
Business Support	1,532	1,396	(136)
	6,262	**6,155**	**(107)**
Change & Communities			
Director of Change & Communities	137	126	(11)
Human Resources	1,120	1,029	(91)
Customers and Communities	(1,518)	(1,532)	(14)
Partnerships and Engagement	2,301	2,161	(140)
Digital Services & Transformation	485	469	(16)
	2,525	**2,253**	**(272)**
Planning & Development			
Director of Planning & Development	139	205	66
Environment & Street Scene	2,662	2,383	(279)
Economic Development	3,179	3,048	(131)
Planning	1,190	1,146	(44)
	7,170	**6,782**	**(388)**
Cost of Services	**16,126**	**15,356**	**(770)**
Accounting Adjustments	(603)	(603)	-
Parish Council Precepts	2,072	2,072	-
Interest payable	221	221	-
Interest and investment income	(1,016)	(1,038)	(22)
Capital expenditure from revenue	2,471	2,471	-
Transfer to (from) earmarked reserves	574	1,091	517
Net Expenditure	**19,845**	**19,570**	**(275)**
General Government Grants	(3,776)	(3,814)	(38)
Business Rates from Collection Fund	(2,173)	(2,768)	(595)

Council Tax from Collection Fund	(9,196)	(9,196)	-
Balance transferred (to) from General Fund	**4,700**	**3,792**	**(908)**

<u>Commentary</u>

The Directorate Cost of Services actual outturn shows an underspend to the balanced budget of £770,000, a considerable achievement considering the continuing reductions in government grants. Some of this surplus to budget was transferred into earmarked reserves to fund specific future expenditure. A transfer was made from the General Fund to the Capital and Revenue Initiatives Reserve of £4,700,000 million to replenish it in order to fund the Capital and Development Programmes. A sum of £908,000 was returned to the General Fund where it can be used to fund capital investment or revenue expenditure in the future.

Within the Cost of Services, there are some significant positive and negative variances worthy of note. Those affecting income are:

- Crematorium income was £189,000 above budget, up £188,000 on last year. Following requests by customers and Funeral Directors, the length of time allocated to each service was lengthened and the price increased accordingly. There were also a small number of shorter, cheaper, time allocations created for simple funerals. These changes have been well received and continue to be so.
- Planning Application fee income was £111,000 above budget and £241,000 higher than last year. Whilst the number of small planning applications has remained steady, the receipt of larger applications, which generate significant income, fluctuate considerably from year to year.
- Parking income was £62,000 above budget, and £10,000 above the outturn for last year. Car park prices were increased for cash payments in 2016/17 encouraging the use of cashless parking. Decrease in footfall at the shopping centre has negatively affected income at some of the town centre car parks although overall the parking income has remained stable.
- The Assembly Hall has experienced improved revenue receipts this year and the subsidy to the theatre was £79,000 below budget.

Those affecting costs are:

- Pension costs of £203,000 paid to the Kent County Council Pension scheme and severance costs of £97,000, resulting from redundancies made during the year.
- Emergency temporary accommodation costs increased by £158,000. A combination of factors including limited permanent accommodation due to the demand on social housing, the increasing cost of private rented accommodation in the borough and the impact of welfare reform, mean that the number of families eligible for help from our Housing Service is rising. The service is looking at innovative ways to tackle this into the future.
- Savings of £151,000 made from the Mid Kent Partnerships, compared to budget this year. Joint working has enabled processes to be re-engineered to save costs.

Net interest was £22,000 above budget. The council achieved a rate of 1.74% on investments and bank interest. Fortunately, the council's investment in the property development fund has generated dividends at 5.2% which has helped to balance the interest budget.

Business rates from the collection fund were greater than budget by £595,000. On the 1st April 2013 the government introduced the Business Rates Retention Scheme. The intention was to encourage economic growth and support localism by allowing Councils to benefit from the growth of business rates in their areas. However, Councils were also given responsibility for any liabilities resulting from reductions in rateable values following appeals, and the setting of those rateable values remained the responsibility of the Valuation Office. TWBC still has appeals outstanding on some businesses with high rateable values and if they are substantially reduced, they could adversely affect the Councils share of retained business rates in the future. The Government also continues to change legislation which directly affects the Councils Business Rates income and the implications of the new 2017 Ratings List have yet to unravel. The Council established a Grant Volatility Earmarked reserve, which currently holds £1.1m, to mitigate against these risks and also the risks to other government grants, which are generally set annually after our budget process has been completed.

Transfers to Earmarked Reserves were made of £1,091,000 to fund future schemes including revenue generating capital investments for the future.

All of the hard work the Council has undertaken to become more efficient, grow revenue and provide value for money has enabled the Council to achieve this surplus. There is every indication that Government funding will continue to be reduced into the future but this Council is in a strong position to meet these future financial challenges.

5 Capital Programme and Outturn for 2016/17

The Council's Capital Programme was approved at the Cabinet meeting of 3 March 2016, and approved a gross budget of £15,999,000. In net terms, after allowing for specific funding, the amount to be met from the sale of assets or from the Capital and Revenue Initiative Reserve was £10,715,000. The table below shows how this changed during the year from additional approvals, deletions and reductions, and from spend being rescheduled to and from the next financial year.

	Gross Expenditure	Income/Funding	Net Expenditure
	£000	£000	£000
Original approved gross capital programme	15,999	(10,715)	5,284
Approvals added or increased	2,395	(1,826)	569
Approvals deleted or reduced	(5,492)	2,266	(3,226)
Deferred to 2017/18	(5,144)	4,477	(667)
Brought forward from 2017/18	65	(50)	15
Actual expenditure 2016/17	**7,823**	**(5,848)**	**1,975**

Reductions and deferrals mainly related to the Council's Asset Acquisition Fund scheme, which at the start of the year stood at £9m, and which is only used if and when suitable property opportunities arise.

The largest single schemes were: the Asset Acquisition Fund (£4,008,000), John Street Car Park (£1,022,000) Disabled Facilities Grants (£714,000), and the Cultural Hub (£490,000).

The Council obtained a total of £27,000 from the sale of assets, as part of a continuing programme to review its asset base and to obtain the best price in the market when sale is appropriate.

6 Liability for Pension Costs

The Council's net liability for future pension costs stood at £63.6m at 31 March 2017, an increase of about £8.2m from the previous year. The main reason for the increase is a decrease of 1.0% in the rate for discounting the scheme liabilities. Every 0.1% reduction in the discount rate creates an additional £3.1m in liability. The deficit is measured correctly in line with accounting standards, which, for example, measure the value of the assets held by the Pension Fund according to their market value at 31 March 2017, rather than assessing the likely income over the period in which the benefits will be paid.

The next actuarial valuation of the Fund will be carried out as at 31 March 2019.

7 Material and Unusual Charges in the accounts

There were no material charges to the accounts.

8 Changes to Accounting Policies

Note 2 to the Statement of Accounts explains the changes to accounting policies that have been adopted for 2016/17 and also those which have not yet been included in the accounting Code of Practice. Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis have required a restatement of these main accounting statements and notes, but not the Balance Sheet.

9 Revenue budget for 2016/17 and beyond

The table below summarises planned net expenditure on services for 2017/18 compared to 2016/17, and shows how this is funded from government grants and council tax. This shows that there is a net budget of £333,000 being returned to reserves from revenue. This is made up of returns to the reserves of £215,000 pensions settlement revenue saving from a one-off payment made to the Kent Pensions Fund in 2012/13, £12,000 insurance saving from the contract renewal to cover policy excess increases and £12,000 for the interest from the "Lend a Hand" mortgage scheme. Also an amount equivalent to the £202,000 received of Revenue Support Grant is being paid to the General Fund to achieve financial self-sufficiency.

	Budget 2016/17	Budget 2017/18	Budget Change
	£000	£000	£000
Chief Executive	150	152	2
Finance and Corporate Services	6,519	6,434	(85)
Change and Communities	459	56	(403)
Planning and Development	6,259	5,809	(450)
Net Expenditure on Services	**13,387**	**12,451**	**(936)**
Net Interest Receivable	(681)	(581)	100

Net Expenditure by Borough Council	**12,706**	**11,870**	**(836)**
General Grants & Non-Domestic Rates	(5,691)	(4,750)	941
Council Tax	(7,123)	(7,561)	(438)
Income from Grants & Council Tax	**(12,814)**	**(12,311)**	**503**
Net withdrawal from/(contribution to) reserves	**(108)**	**(441)**	**(333)**

It should be noted that the services expenditure figures above are shown purely on a funding basis and therefore exclude adjustments between accounting and funding bases as set out in Note 7 to the Statement of Accounts.

The table below shows the main variances in planned services expenditure from 2016/17 to 2017/18.

Reasons for Major Variances	**£ 000's**
Increased Car Parking Income	(462)
Reduction in Staff Costs	(268)
Debt Recovery Service In-house	(105)
Increase in Crematorium Income	(80)
Business rates revaluation	91
Other small increases/decreases in income and expenditure	(112)
Decrease in Net Interest Receivable	100
Difference in Net Expenditure by Borough Council	**(836)**
Reductions in Government Grants	941
Council Tax increase and Increased Tax Base	(438)
Difference in Income from Grants & Council Tax	**503**
Difference in Net Withdrawal from/(contribution to) Earmarked Reserves	**(333)**

Beyond 2017/18 the Council intends to continue its commitment to balance the revenue budget without the use of reserves. Its projections assume that Council Tax will be increased by 3.0% in 2018/19 and that fees and charges will rise by an average of 3% each year.

10 Capital Programme 2017/18 to 2019/20

At their meeting of 9 February 2017 Cabinet approved a new capital programme covering the years 2017/18 to 2019/20. This was subsequently amended by deferrals from and to 2016/17 and by some additions and deletions approved at the meeting of 22 June 2017. The adjusted capital programme is summarised below:

	Reserves	**Borrowing**	**Govt. Grants**	**Other grants & contribs.**	**Total**
	£000	£000	£000	£000	£000
2017/18					
Asset Acquisition Fund	-	2,992	-	-	2,992
Crescent Road Car Park	2,760	-	-	-	2,760
Public Realm Improvements	379	-	-	1,000	1,379
Disabled Facilities Grants	-	-	945	-	945
Dowding House	335	-	-	-	335
RVP Car Park Extract Fans	330	-	-	-	330
Affordable Housing Grants	-	-	-	314	314
Calverley Grounds Play Area	70	-	-	239	309
Telephony MKIP Project	-	-	287	-	287
Other schemes	990	-	349	370	1,709

Total	**4,864**	**2,992**	**1,581**	**1,923**	**11,360**
2018/19 to 2019/20					
Cultural Hub	7,280	-	-	7,200	14,480
Disabled Facilities Grants	-	-	1,648	-	1,648
Other schemes	548	-	-	-	548
Total	**7,828**	**-**	**1,648**	**7,200**	**16,676**
Total approved programme	**12,692**	**2,992**	**3,229**	**9,123**	**28,036**

11 Borrowing

During 2010/11 the Council investigated the possibility of purchasing properties for the purposes of investment and possible future use by the Council. To put itself in a position to bid for and complete the purchase it borrowed £20m from the Public Works Loan Board and provision was made in the capital programme for such purchases. At the end of 2016/17 £4m of the borrowing had been used to finance capital expenditure on two property purchases. The remaining loan has been put into planned investments.

The Council is making repayments of this loan of £2m each year, and will to do this by ensuring that the corresponding investments expire in time to make the repayment, by selling surplus assets or borrowing new funds from the PWLB. The Council continues to have the choice of repaying the money early, or spending it on further planned property purchases.

12 Material events after reporting date

Since 31 March 2017, the Council completed on the sale of land at Holly Farm in Hawkenbury for £9.25m. The receipt will be phased upon meeting certain milestones, but £1.85m was received in May 2017. In addition, a further 4 sites were sold at auction in May 2017 for a total of £536,000. The total of £2,386,000 will be usable capital receipts that can fund the capital programme going forward.

13 Impact of current economic climate

Overall 2016/17 proved to be yet another challenging year as the Council was required to manager a further reduction in core government grant, bringing the total reduction following the 2010 Spending Review to 82%, which translates to a cash reduction of £3.8 million. The Council has continued to operate within the parameters of the Medium Term Financial Strategy, which ensures the delivery of the Council's priorities.

Through the identification of further savings and increased partnership working the Council was able to set a balanced revenue budget for 2016/17 without the use of general reserves. This was made possible by the Council taking a more strategic view in reducing costs, which has ensured that savings are delivered on a sound basis and that there are no unintended consequences to service delivery.

The foresight to diversify the investment of reserves away from purely interest rate dependent cash deposits into a property fund has proved to be particularly well-timed, achieving both greater levels of return and capital growth.

The strategic decision to acquire new assets will further diversify income streams and will militate against exposure to the rising costs of sourcing temporary accommodation. The borough continued to be a sought after location with both housing and businesses with recent press reports identifying over £1 billion of inward investment if all planned schemes are delivered. The local property market continues to show positive growth. Local developers are reporting very strong interest in the first major new housing schemes for some time, so much so that only limited numbers of properties are being released for sale at a time with subsequent releases resulting in even higher asking prices. The glossy brochures produced by the developers that are successfully attracting large numbers of people looking to move into the borough highlight the attractive environment and facilities of the borough (which are nearly all provided or funded as discretionary services by the Council).

Through the culture of rigorous budget management, investing in digital technology and adapting services to reflect the needs of local businesses the Council was able to come in under budget and transfer savings to reserves. This will help to prepare for when the government ceases to provide any revenue support grant and the Council will be more reliant on the share of retained business rates.

The national economy continued to improve with the International Monetary Fund (IMF) revising up its growth forecasts for the second time in three months due to stronger than expected performance since Brexit. The IMF is now forecasting UK growth of 2 per cent in 2017 making it the second fastest growing advanced economy after the US. Despite the dramatic reductions in funding experienced by Local Government, the National Government's budget is still being set with a deficit and the original plan to arrive at a budget surplus in 2019/20 has been put back. The headline inflation rate came in above the Bank of England's target of 2.0 per cent whilst the bank rate is expected to remain at 0.25 per cent throughout 2017. The cost of providing local services in an expensive and thriving area such as the Tunbridge Wells Borough, continues to bring its own challenges regarding the ability of the Council and contractors to recruit and retain staff. This is a particular pressure for services where fees are set nationally by the Government, and for the Council, results in planning and licensing application fees not covering the Council's costs for processing and determination.

Locally, economic activity continues to hold up well, although the net impact on the Council's income streams is rather mixed. The Council was able to support a number of initiatives that have benefitted local businesses and residents such as the Ice Rink and a period of free Christmas car parking. Despite the unprecedented external challenges faced by Local Government, the Council's proactive financial management ensured that services were provided as planned, and the Council still holds a sufficient level of reserves which are needed to invest in existing and new community assets.

The Borough has the second lowest unemployment rate in Kent at just 0.8 per cent as at March 2017 and residents have median earnings of £28,700. The borough has the second highest Gross Value per Head of Population in Kent at £28,256 and is one of only three districts in Kent to be above the level for the South East as a whole.

Following the Parliamentary election in 2015 the Government published its Spending Review 2015, which set out even more drastic cuts in funding for Local Government as the number of protected Central Government departments has been increased. In October 2016 the Council accepted the Government's four year funding offer which will result in the complete loss of Revenue Support. However, the financial performance of the Council in 2016/17 and the adoption of a new Medium-Term Financial Strategy place it on a sound footing to manage the ending of government financial support, whilst still delivering the broad range of services expected from a successful and growing Borough.

Annual Governance Statement

Scope of responsibility

1. Tunbridge Wells Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It must also ensure that public money is safeguarded and correctly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

2. In discharging this overall responsibility, Tunbridge Wells Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions, including arrangements for the management of risk.

3. The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework: 'Good Governance in Local Government'. This statement explains how Tunbridge Wells Borough Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015, which requires all relevant authorities to prepare an Annual Governance Statement. This statement builds on last year's Annual Governance Statement and encompasses the 2016 edition of the CIPFA/SOLACE: 'Delivering Good Governance in Local Government'.

The purpose of the governance framework

4. The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

5. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Tunbridge Wells Borough Council's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

6. The governance framework has been in place at Tunbridge Wells Borough Council during the year ended 31 March 2017 and up to the date of approval of the Financial Report.

   The current governance framework is based on the 2007 guidance from CIPFA/SOLACE.

   http://www.tunbridgewells.gov.uk/council/councillors-and-meetings/how-the-council-works/council-constitution)

   Consequently, it will require review during 2017/18 to demonstrate continued good governance against the new guidance. The headings below consequently draw from the 2007 guidance, but also include a brief reconciliation against the core components of the 2016 guidance.

The application of the governance framework

7. CIPFA and SOLACE have together undertaken extensive research and consultation to produce a framework for delivering good governance in local government. The principles and standards set out in the 2016 framework are taken from the International Framework. This framework states that: 'To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest. At all times.' The framework sets out the following core principles as follows:

   - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
   - Ensuring openness and comprehensive stakeholder engagement;
   - Defining outcomes in terms of sustainable economic, social, and environmental benefits;
   - Determining the interventions necessary to optimise the achievement of the intended outcomes;
   - Developing the entity's capacity, including the capability of its leadership and the individuals within it;
   - Managing risks and performance through robust internal control and strong public financial management; and
   - Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

8. The framework also encourages local authorities to test their structures against these principles by:

   - reviewing their existing governance arrangements against the framework;

- developing and maintaining an up-to-date local code of governance including arrangements for ensuring its ongoing application and effectiveness; and
- preparing a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period.

9. This statement takes each of the principles espoused in the Council's Local Code of Corporate Governance in turn and assesses the authority's compliance and performance together with any issues that need to be addressed.

Focus on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

10. The Council's 'Vision 2026 – Enhancing the Quality of Life for All' was refreshed at the end of 2013-14 and replaced with the first Five Year Plan 2014-2019. This was adopted by Full Council in April 2014 and aligned with the Council's Medium Term Financial Strategy to set out a realistic and achievable plan for the authority over the following five years. Since that time we have undertaken a refresh of the Five Year Plan, which is currently being consulted on publicly, and will be considered by Full Council in September 2017.

11. The 'Strategic Compass' aligns with the Council's Five Year Plan, setting out our corporate commitments to staff and elected members. The 'Strategic Compass' adopts a balanced scorecard approach and encapsulates all priorities in relation to the community, residents and customers, staff and the provision of value for money.

12. The Council's approach to strategic, financial and service planning is integrated. The Corporate Five Year Plan was developed in parallel with the Medium Term Financial Strategy update and the Strategic Compass. The annual programme of community projects align with our annual updates of the Corporate Priorities, Asset Management Plan and Budget. These documents make clear what are priority and non-priority issues and inform the allocation of resources on an annual basis. This process has continued with the refresh of the Five Year Plan, with the MTFS recently being refreshed alongside this, and the corporate priorities (community projects) updated.

13. The Cabinet (and other committees of the Council) receive quarterly reports on the progress made against our Five Year Plan (our corporate priorities) as well as how we perform against our key performance indicators, resources and governance arrangements. The Council's management team consider a range of indicators relating to performance, finance, customer care and sickness absence on a quarterly basis drawn from the Council's performance management system.

    We are satisfied that by these measures we are effective in focussing on the purpose of the authority and on outcomes for the community.

Members and officers working together to achieve a common purpose with clearly defined functions and roles

14. The Council's Constitution, as approved by the Full Council, clearly sets out the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear descriptions of delegations. It includes a Protocol on Member/Officer Relations, and a range of communication tools have been developed, including staff conventions, weekly councillor e-mail briefings, regular Management Board/Cabinet meetings, and member briefing sessions (see below under training).

    We are satisfied that Members and officers work together effectively in their defined roles to achieve a common purpose.

Promoting the values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

15. The Council has adopted a Code of Corporate Governance which has been prepared in accordance with the principles outlined in the 2007 edition of the CIPFA/SOLACE: 'Delivering Good Governance in Local Government' but which remains consistent with the 2016 principles. The Council has also adopted codes of conduct for members and officers. Training has been provided on the various codes and this has been supplemented with written guidance and member briefings. Officers and members are required to declare interests that may impact on the Council's decision-making process. In those circumstances where Members or Officers have a pecuniary or other significant interest they withdraw from the decision-making process. These interests are held on a register and reviewed on a regular basis by the Monitoring Officer. The register of Member Interests is also published on the Council's website.

16. The Council's Constitution is kept under review by the Monitoring Officer and the Audit and Governance Committee. Changes are prepared through the Constitutional Review Working Party (CRWP) with the most recent proposed changes being agreed by the Audit and Governance Committee in June 2015 and March 2016.

17. All members and officers are under a duty to ensure that they comply with the relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. Mechanisms are in place to ensure compliance including a scheme of delegation, authorisations and an active Internal Audit function. Awareness is maintained through regular briefings and information posted on the intranet as well as a comprehensive induction programme for councillors and staff.

18. The Council operates a Confidential Reporting Code (also known as a Whistle-Blowing Charter) which is attached to the Council's Constitution. The Council wants all its officers and members to be part of the drive towards exemplary standards in public life and the policy is designed to promote a culture of honesty and openness, and to reassure anyone who feels that their position might be threatened if they speak up. The policy includes a promise from senior officers to treat seriously claims made in good faith; that claims will be investigated; that the complainant will be informed of the outcome of the investigation; and that no one will suffer any disciplinary action if they make a complaint in good faith. The Code is available on the intranet and a briefing paper has been circulated to all staff as part of the Corporate Briefing process with links to relevant external agencies. We have received no reports through the Whistleblowing Charter during 2016/17.

    We are satisfied that the Council effectively promotes its values and upholds high standards of behaviour.

    Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

19. The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is continually reviewed to ensure that it is fit for purpose. The most recent version of the Council's Constitution can be found on the Council's website at:

    http://www.tunbridgewells.gov.uk/council/councillors-and-meetings/how-the-council-works/council-constitution

20. Under the terms of the Constitution, the whole Council is responsible for the determination of the policy and budget framework.

21. The Council has a good record of being transparent about where public money is spent. For many years the Council has made public details of senior officers' salaries within the published Statement of Accounts, and as part of the annual audit it has always been possible for the public to request to see further information on the various vouchers which support the figures.

22. The Council also places a notice every year in the local press so that the public can see the value of allowances and expenses paid to every member of the Council.

23. The Council has been at the forefront of making it even easier to see where it spends taxpayers' money. With this regard the Council embraced the transparency agenda of the Coalition Government. This is just the start, and further publication of financial information will follow where there is a public appetite.

24. It is hoped that such wide publication of information will turn the tide on the number of bespoke and blanket freedom of information requests from the media which continue to demand significant resources to administer.

25. The Council's Cabinet is responsible for shaping and ensuring the delivery of the Council's day-to-day services within the parameters of the Five Year Plan and Budget. A Forward Plan of Key Decisions is published to enable consideration to be given by other elected members, stakeholders and the public. Cabinet meets regularly in public. Further details of individual Cabinet members and Cabinet as a whole (including links to agendas and minutes) can be found on the website:

    http://www.tunbridgewells.gov.uk/council/councillors-and-meetings/how-the-council-works/governance-of-the-council#cabinet

26. The Council introduced new Standards Arrangements, in accordance with the Localism Act 2011. It was decided to allocate the functions of the Standards Committee to the Audit Committee to form an Audit and Governance Committee which assists the Council in assuring its overall governance framework. This committee includes independent members who have been very effective in providing challenge on a range of governance issues. The Audit and Governance Committee have produced annual reports which provide further details of their work.

27. The Council's Overview and Scrutiny function is discharged by an Overview and Scrutiny Committee. The committee undertakes special policy reviews, and through the 'call-in' process challenge the decisions made by Cabinet.

28. Further details of the membership and work of this committee can be found on the website:

    http://democracy.tunbridgewells.gov.uk/mgCommitteeDetails.aspx?ID=359

29. In April 2012 the Council adopted governance arrangements to ensure the decision-making process is more inclusive and to involve more non-executive members in the day to day decisions taken by Cabinet. The revised model created three Cabinet Advisory Boards whose role is to participate in the development of Cabinet key decisions and to help develop the policy framework that Cabinet recommends to Council. The number of Overview and Scrutiny committees has been reduced to one. Full details of the governance arrangements can be found on the website:

    http://democracy.tunbridgewells.gov.uk/ieListDocuments.aspx?CId=134&MId=1506&Ver=4

30. The Council has developed a wide range of methods of consultation and communication which have been brought together in the Council's Communication and Engagement Strategy, which is currently being refreshed. This incorporates policies on communication, 'hard to reach' groups and customer access. Particular examples include the use of social media, a consultation portal, borough magazine, website, surveys, focus groups and traditional printed media. The Council also works closely with a wide range of partners and community groups including parish councils and the voluntary and community sector.

31. The Council has a Risk Management Strategy which provides a comprehensive framework for identifying, evaluating and managing risk. The strategy sets out the role of members and designates the Chief Executive as responsible for leading the management of risk in the Council, and allocates responsibilities to risk owners.

32. Following changes to the political and economic environment along with a restructure of the Council, a strategic risk register was developed in association with Zurich Municipal plc. The review took the form of a workshop in December 2013 which was facilitated by professional risk managers from Zurich Insurance Group and attended by the Council's Management Team, Audit Managers and politicians responsible for finance and governance.

33. Cabinet and senior managers have reviewed the strategic risks, and action plans have been developed to manage those risks. The Strategic Risk Register is more focused on those areas which present the greatest risk to the Council not achieving its objectives and Strategic Plan.

34. The Risk Register is subject to periodic reviews by the Council's Management Board, with risk owners invited to attend the Audit and Governance Committee throughout the year. A report on the Strategic Risk Register was presented to Cabinet in April 2016.

    http://democracy.tunbridgewells.gov.uk/meetings/documents/s26923/10%20Strategic%20Risk%20Register%20-%20Report.pdf

    We are satisfied these arrangements are operating effectively but recognise the additional demands brought about by reductions in senior staffing and the Council's development programme, as set out below.

Developing the capacity and capability of members and officers to be effective

35. The Council is committed to identifying and fulfilling the learning and development needs of members and officers. Officer training needs are identified through the annual appraisal process, six-monthly review and on an ongoing basis. A corporate training budget has been established and a training calendar developed to meet training and development needs identified through the appraisal process. Members are periodically surveyed to assess training needs, and a separate budget is made available for training that is required yearly (such as planning, licensing and audit committee training), or for training that has been identified through the survey.

    We are satisfied these arrangements operate effectively to develop the Council's capacity, but acknowledge the staffing changes described below.

Engaging with local people and other stakeholders to ensure robust public accountability

36. The Council manages service quality and the use of resources in a number of ways: through rigorous performance management (with key performance indicators aligned to the Council's key priorities); through the gathering of customer satisfaction data through surveys, complaints and mystery shopping; through external and peer reviews; and through a process of business transformation. The Council also has a recently updated Equality Policy Statement, and conducts equality impact assessments which are publicly consulted on.

37. The Council has for many years carried out regular surveys of its residents. The 2015 face to face survey of 1,000 residents reported that 67 per cent of residents agree that Tunbridge Wells Borough Council provides value for money – a significant improvement on previous years; 2012 (58 per cent), 2010 (51 per cent) and 2008 (30 per cent).

    We completed a Residents' Survey in 2015 which continued to demonstrate effectiveness of the Council's engagement strategy.

Review of effectiveness

38. Tunbridge Wells Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, by the Head of Audit Partnership's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The Council's Audit and Governance Committee, comprising both councillors and co-opted independent members, also has an ongoing responsibility to seek assurances concerning the Council's governance framework, processes and controls.

39. The processes that we have applied in maintaining and reviewing the effectiveness of the system of internal control are set out below:

Internal Audit

40. The Council has in place arrangements for internal audit for which the Director of Policy, Finance and Development has overall responsibility. Internal audit work is planned and undertaken on a risk-based approach and complies fully with the Public Sector Internal Audit Standards, as established by an independent assessment undertaken by the Institute of Internal Auditors in April 2015.

41. During 2016/17 the Head of Audit Partnership has delivered the work programme set out in the Audit Plan agreed by the Audit & Governance Committee on 29 March 2016. The Head of Audit opinion to be provided to Members provides assurance that the system of internal control, governance and risk management that has been in place for the year ended 31 March 2017 accords to proper practice and has operated effectively. One area was reported as offering only 'weak' assurance in 2016/17; the Council's arrangements on Safeguarding. While the audit report stressed that the Council had not caused or allowed harm to come to any individuals, it noted weaknesses in the rigour and resilience of safeguarding measures. The Council is working to implement the audit recommendations, with regular reports on progress to Management Board and members of the Audit & Governance Committee.

Other explicit review/assurance mechanisms

42. The Council has a range of other review/assurance mechanisms which, between them, contribute to the overall effectiveness of the Council's control environment. These include:

- The Council, Cabinet and committees are advised by the Council's Management Board;
- Corporate Asset issues come before a Development Advisory Panel to ensure that the Council adopts a holistic approach in the acquisition, maintenance, review and disposal of property and assets;
- Human Resources oversees the Council's overall approach to effective people management, including regular appraisals and the provision of relevant training and development activity;
- A standardised approach to project management has been adopted by the Council and additional resources have been put into key projects to ensure that they are adequately managed and delivered to time, cost and quality;
- The Council works with Maidstone and Swale councils to look at opportunities for partnership working, but has an open attitude to working with anyone that can improve the value for money services. As part of this process, services are subjected to external review, satisfaction surveys and benchmarking, as well as an examination of service processes to assess value for money.
- In the Summer of 2016, the Council developed plans with the Local Government Association (LGA) to volunteer to have a peer challenge to help improve performance and learning from others within the sector. The three day on-site assessment reviewed the following areas;

    - Understanding of the local place and priority setting
    - Leadership of place
    - Financial planning and viability
    - Organisational leadership and governance; and
    - Capacity to deliver

  The findings of the LGA Peer Challenge were reported to Cabinet in March 2017 and overall provided an extremely positive set of findings.

  http://democracy.tunbridgewells.gov.uk/meetings/documents/s31254/9%20LGA%20Corporate%20Peer%20Challenge%20-%20Report.pdf

CONCLUSION

43. There is a commitment to monitor the implementation of this Annual Governance Statement and to report back as part of the next annual review.

CIPFA Statement on the Role of the Head of Internal Audit

44. CIPFA introduced a formal requirement for local authorities to report on compliance with the Statement on the Role of the Head of Internal Audit (2010). This Council complies with these requirements.

45. A shared corporate approach is taken in order to compile the Annual Governance Statement, as it is the Council's view that it should be owned by all senior officers and members of the Council, and any delegation to an individual or section would dilute the statement's significance and encourage others to distance themselves from their proper responsibilities.

    http://democracy.tunbridgewells.gov.uk/meetings/documents/g3576/Public%20reports%20pack%2028th-Jun-2016%2018.00%20Audit%20and%20Governance%20Committee.pdf?T=10

46. Although the evidence provided to date points towards the conclusion of a sound level of internal control, it should be noted that there was one audit report which have corporate or significant implications where only 'weak' control assurance was found to be in place at the end of the financial year. No new assurance rating has been provided as actions to implement the recommendations were continuing. However, the review did note positive progress since the date of the audit report and anticipated sound assurance being received once actions were in place. The report covered:

    - Safeguarding.

47. In addition, the reduction in the number of staff has increased the risk of non-compliance with a number of regulatory regimes including, Data Protection, Freedom of Information requests, HMRC and Equalities. This vulnerability is reflected as a risk to the Strategic Risk Register. Operational risk is managed at service manager level by individual managers.

CIPFA Statement on the Role of the Chief Financial Officer in Local Government

48. CIPFA introduced a formal requirement for local authorities to report on compliance with the Statement on the Role of the Chief Financial Officer in Local Government (2010).

49. The Council's Senior Management Structure complies with all requirements, including the first principle which requires that:

    - 'The Chief Financial Officer reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members.'

Significant Governance Issues

50. There a number of significant governance issues;

    1) The reduction in staff capacity and increased use of services and public expectation leaves the Council at a greater risk of non-compliance with a number of regulatory regimes as set out above.

    2) The Council has an ambitious development programme that it wants to implement and Cabinet have agreed a total budget of up to £5,000,000 to obtain the required expertise to produce business and development cases for each site. The report in August 2013 sets out the governance and risk management arrangements for this fund. In a buoyant market securing the right level of expertise both internal and external is crucial to the delivery of major projects. The Development Programme is now a separate risk on the Council's Strategic Risk Register.

    3) Revising the Local Code of Governance to align with the 2016 guidance.

Action Plan

51. These are included on the Council's Strategic Risk Register; further details are contained within the risk register report.

    http://democracy.tunbridgewells.gov.uk/meetings/documents/s31570/Item%207A%20-%20Strategic%20risk%20review%20-%20report.pdf

Issues raised in the previous year's Annual Governance Statement

52. There were four issues raised in the previous year's Annual Governance Statement, three of which remain live and are described above. The other issue concerned the disaggregation of the Planning Support Service from the Mid Kent Improvement Partnership. This service was successfully brought back in-house in July 2016.

Reconciliation to the new 2016 principles

Principle	Arrangement at TWBC	Conclusion on effectiveness
A: Behaving with integrity…	See paragraphs 15-18	Operating effectively
B: Ensuring openness…	See paragraphs 21-24	Operating effectively
C: Defining sustainable outcomes…	See paragraphs 10-13	Operating effectively
D: Determining necessary interventions…	See paragraphs 19-29	Operating effectively
E: Developing our capacity…	See paragraph 35	Operating effectively, but acknowledging challenges ahead (paragraph 50)
F: Managing risk and performance…	See paragraphs 31-34	Operating effectively, but acknowledging challenges ahead (paragraph 50)
G: Transparency, reporting and audit…	See paragraphs 38-49	Operating effectively

Signed:

Cllr David Jukes
Leader of the Council

William Benson
Chief Executive

On behalf of Tunbridge Wells Borough Council

Statement of Responsibilities

Statement of Responsibilities for the Statement of Accounts

The Borough Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance and Corporate Services.
- Manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- Approve the Statement of Accounts

The Responsibilities of the Director of Finance, Policy and Development

The Director of Finance, Policy and Development is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom ('the Code').

In preparing this statement of accounts, the Director of Finance, Policy and Development has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code

The Director of Finance, Policy and Development has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities

L.M. Colyer CPFA

Director of Finance, Policy and Development

31 May 2017

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TUNBRIDGE WELLS BOROUGH COUNCIL

Added after audit sign off

Comprehensive Income and Expenditure Statement

2015/16 Restated Expend. £000	Income £000	Net £000	Note		2016/17 Expend. £000	Income £000	Net £000
167	-	*167*		Chief Executive	167	(1)	166
42,457	*(36,264)*	*6,193*		Finance and Corporate Services	41,870	(35,715)	6,155
12,151	*(11,147)*	*1,004*		Change and Communities	13,854	(11,601)	2,253
11,436	*(5,894)*	*5,542*		Planning and Development	13,309	(6,527)	6,782
66,211	***(53,305)***	***12,906***		**Cost of Services**	**69,200**	**(53,844)**	**15,356**
(151)	-	*(151)*		(Gain) / Loss on disposal of non-current assets	(27)	-	(27)
1,987	-	*1,987*		Parish Council Precepts	2,073	-	2,073
52	-	*52*		Pensions administration expenses	48	-	48
1,888	***-***	***1,888***		**Other Operating Expenditure**	**2,094**	**-**	**2,094**
269	-	*269*	15	Interest payable	221	-	221
-	*(975)*	*(975)*	15	Interest and investment income	-	(1,038)	(1,038)
1,994	-	*1,994*	20	Pensions interest expense and income	2,004	-	2,004
2,263	***(975)***	***1,288***		**Financing and Investment Income and Expenditure**	**2,225**	**(1,038)**	**1,187**
328	*(4,969)*	*(4,641)*		Non-ringfenced government grants and contributions	509	(4,323)	(3,814)
(69)	*(2,502)*	*(2,571)*		Capital grants and contributions	-	(104)	(104)
-	*(8,870)*	*(8,870)*		Council Tax receivable	-	(9,301)	(9,301)
17,236	*(19,400)*	*(2,164)*		NNDR retained income	18,142	(20,981)	(2,839)
-	*(8)*	*(8)*		Donated assets	-	(1)	(1)
17,495	***(35,749)***	***(18,254)***		**Taxation and Non-Specific Grant Income**	**18,651**	**(34,710)**	**(16,059)**
		(2,172)		**(Surplus) or Deficit on Provision of Services**			**2,578**
		(3,652)	8.2	Surplus on revaluation of non-current assets			(15,032)
		13	8.2	Impairment losses on non-current assets charged to Revaluation Reserve			139
		(588)	8.2	(Surplus) or deficit on revaluation of available-for-sale financial assets			162
		(8,289)	20	Re-measurement of defined benefit liability			6,037
		(12,516)		**Other Comprehensive Income and Expenditure**			**(8,694)**
		(14,688)		**Total Comprehensive Income and Expenditure**			**(6,116)**

Refer to Note 2.2 for explanation of restatement.

Movement in Reserves Statement

	General Fund	Capital Grants & Contribs.	Capital Receipts	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	**£000**	**£000**	**£000**
Balance at 31 March 2015	***19,500***	***547***	***1,011***	**21,058**	**37,946**	**59,004**
Movement in Reserves in 2015/16 (Restated)						
Surplus or (deficit) on provision of services (accounting basis)	*2,172*	-	-	***2,172***	**-**	***2,172***
Other Comprehensive Expenditure and Income	-	-	-	**-**	***12,516***	***12,516***
Total Comprehensive Expenditure and Income	*2,172*	-	-	***2,172***	***12,516***	***14,688***
Adjustments between accounting and funding basis under regulation	*(3,669)*	*586*	*(11)*	***(3,094)***	***3,093***	***(1)***
Net Increase / (Decrease) in Year	***(1,497)***	***586***	***(11)***	***(922)***	***15,609***	***14,687***
Balance at 31 March 2016	**18,003**	**1,133**	**1,000**	**20,136**	**53,555**	**73,691**
Movement in Reserves in 2016/17						
Surplus or (deficit) on provision of services (accounting basis)	(2,578)	-	-	**(2,578)**	**-**	**(2,578)**
Other Comprehensive Expenditure and Income	-	-	-	**-**	**8,694**	**8,694**
Total Comprehensive Expenditure and Income	(2,578)	-	-	**(2,578)**	**8,694**	**6,116**
Adjustments between accounting and funding basis under regulation	(123)	(297)	-	**(420)**	**420**	**-**
Net Increase / (Decrease) in Year	**(2,701)**	**(297)**	**-**	**(2,998)**	**9,114**	**6,116**
Balance at 31 March 2017	**15,302**	**836**	**1,000**	**17,138**	**62,669**	**79,807**

Details of Comprehensive Income and Expenditure are given in the Comprehensive Income and Expenditure Statement. A further analysis of adjustments between accounting and funding bases are given in Note 7. Refer to Note 2.3 for explanation of restatement. The purpose of each Earmarked Reserve is set out in Note 8.

The Balance Sheet

31 March 2016 £000		Note		31 March 2017 £000	
101,972		10	Property, Plant & Equipment	111,571	
3,391		11	Heritage Assets	3,412	
-		12	Investment Property	1,781	
626		13	Intangible Assets	883	
15,387		15	Long Term Investments	15,225	
3,276		16	Long Term Debtors	1,729	
	124,652		**Long Term Assets**		**134,601**
15,286		15	Short Term Investments	5,207	
45			Stock	41	
6,830		16	Short Term Debtors	6,946	
6,992			Cash and Cash Equivalents	11,165	
-		14	Assets held for sale	9,595	
	29,153		**Current Assets**		**32,954**
(2,058)			Short Term Borrowing	(3,049)	
(9,767)		17	Short Term Creditors	(10,755)	
(2,328)		17	Short term Provisions	(1,963)	
(47)			Capital grants receipts in advance	(524)	
	(14,200)		**Current Liabilities**		**(16,291)**
(8,000)		15	Long Term Borrowing	(5,000)	
(886)		17	Long Term Creditors	(1,718)	
(55,426)		20	Long Term Pension Liability	(63,594)	
(1,602)			Capital grants receipts in advance	(1,145)	
	(65,914)		**Long Term Liabilities**		**(71,457)**
	73,691		**Net Assets**		**79,807**
18,003		8.1	General Fund	15,302	
1,133		8.1	Capital Grants & Contributions	836	
1,000		8.1	Usable Capital Receipts	1,000	
	20,136		**Usable Reserves**		**17,138**
147		8.2	Deferred capital receipts	147	
31,543		8.2	Revaluation reserve	45,915	
(55,241)		8.2	Pensions reserve	(63,385)	
75,457		8.2	Capital adjustment account	78,329	
(4)		8.2	Financial instrument adjustment account	(3)	
266		8.2	Collection fund adjustment account	441	
1,387		8.2	Available for sale financial instrum reserve	1,225	
	53,555		**Unusable Reserves**		**62,669**
	73,691		**Total Reserves**		**79,807**

The Cash Flow Statement

2015/16			2016/17	
£000	£000		£000	£000
(29,930)		Taxation	(30,122)	
(37,117)		Grants	(41,550)	
(15,915)		Sale of goods and rendering of services	(16,685)	
(972)		Interest received	(1,115)	
(2,098)		Other receipts from operating activities	(2,940)	
	(86,032)	**Cash inflows generated from operating activities**		**(92,412)**
11,529		Employees	11,779	
35,176		Housing Benefit paid out	34,464	
18,474		National Non-Domestic Rates tariff and levies	18,142	
2,214		Precepts paid	2,301	
15,771		Cash paid to suppliers of goods and services	18,870	
339		Interest paid	230	
4,132		Other payments for operating activities	4,483	
	87,635	**Cash outflows generated from operating activities**		**90,269**
	1,603	**Net cashflows from operating activities**		**(2,143)**
	4,594	Purchase of property, plant and equipment, investment property and intangible assets		6,769
	10,000	Purchase of short-term and long-term investments		14,000
	(151)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(27)
	(10,000)	Proceeds from sale of short-term and long-term investments		(24,000)
	(3,169)	Grants and contributions to non-current assets		(124)
	1,274	**Net cashflows from investing activities**		**(3,382)**
	2,000	Repayments of short-term and long-term borrowing:		2,000
	(422)	Changes in Council tax balances held for preceptors		(626)
	(2,299)	Changes in NNDR balances held for central government		(22)
	(721)	**Net cashflows from financing activities**		**1,352**
	2,156	**Net (increase) / decrease in cash and cash equivalents**		**(4,173)**
	9,148	Cash and Cash Equivalents as at 1 April		6,992
	6,992	Cash and Cash Equivalents as at 31 March		11,165
	2,156	**Net (increase) / decrease in cash and cash equivalents**		**(4,173)**

Expenditure and Funding Analysis

	Net Expenditure Chargeable to General Fund Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
2015/16	£000	£000	£000
Chief Executive	*149*	*18*	*167*
Finance and Corporate Services	*6,547*	*(390)*	*6,157*
Change and Communities	*(621)*	*1,661*	*1,040*
Planning and Development	*6,293*	*(751)*	*5,542*
Net Cost of Services	***12,368***	***538***	***12,906***
Other Operating Expenditure	*4,896*	*(3,008)*	*1,888*
Financing & Investment Income	*(705)*	*1,993*	*1,288*
Taxation & Non-Specific Grant Income	*(15,062)*	*(3,192)*	*(18,254)*
(Surplus) or Deficit	***1,497***	***(3,669)***	***(2,172)***
Opening General Fund Balance at 1 April 2015	*(19,500)*		
Less Deficit on General Fund In Year	*1,497*		
Closing General Fund Balance at 31 March 2016	***(18,003)***		
2016/17	£000	£000	£000
Chief Executive	150	16	166
Finance and Corporate Services	6,663	(508)	6,155
Change and Communities	104	2,149	2,253
Planning and Development	7,835	(1,053)	6,782
Net Cost of Services	**14,752**	**604**	**15,356**
Other Operating Expenditure	4,543	(2,449)	2,094
Financing & Investment Income	(816)	2,003	1,187
Taxation & Non-Specific Grant Income	(15,778)	(281)	(16,059)
(Surplus) or Deficit	**2,701**	**(123)**	**2,578**
Opening General Fund Balance at 1 April 2016	(18,003)		
Less Deficit on General Fund In Year	2,701		
Closing General Fund Balance at 31 March 2017	**(15,302)**		

Notes to the Core Financial Statements

1 Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the end of 31 March 2017, the close of the financial year. The Council is required to prepare an Annual Statement of Accounts by the Accounts and Audit Regulations 2011, which specify that the Statement is prepared in accordance with proper accounting practices. These primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

1.2 Accruals of Expenditure and Income

The Council accounts for activity in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, and where the amounts are significant, they are carried as stocks on the Balance Sheet.
- Expenses in relation to services received are recorded as expenditure when the services are received, rather than when the payments are made. However, as set out in Note 1.7 below, the Council does not accrue for services provided by employees, as the amounts concerned are not material.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.
- Accruals for income are offset by allowances for the impairment of debt where it is determined that recovery is unlikely, although the Council continues to attempt to recover sums legally due. This policy applies to contractual debt as well as to statutory debt for Council Tax, Non-Domestic Rates and overpayment of Housing Benefit.

The Council collects income from Council Tax payers, but only part of the income relates to this Council, the balance being collected on behalf of other major precepting authorities. The amounts of debtors, adjustments for doubtful debts, and income in advance that relate to the precepting authorities are shown as a single net creditor in the balance sheet. The element of the Collection Fund due to preceptors is split between payments due to be made in the following financial year, which are held as Short Term Creditors, and any other amounts, due in succeeding financial years, which are shown as Long Term Creditors. In the event of a deficit, the amounts would be split between Short Term and Long Term Debtors.

Accounting for Non-Domestic Rates is on the same basis as Council Tax.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

The Council does not operate a cash overdraft on its bank account..

1.4 Charges to Revenue for Non-Current Assets and other capital expenditure

The Surplus or Deficit on the Provision of Services is debited or credited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Any subsequent reversal of such losses.

- The annual write-down of intangible fixed assets attributable to the service.
- Any revenue costs which are met from capital resources as Revenue Expenditure Financed from Capital under Statute (REFFCUS – see Note 1.22 below)

The Council is not required to raise Council Tax to fund these charges, and they are therefore reversed through an appropriation from the Capital Adjustment Account to the General Fund.

1.5 Contingent Assets

A contingent asset is a possible asset that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council. Typically a contingent asset is related to a legal action by the authority, whose outcome is uncertain when the balance sheet is compiled.

Contingent assets are not recognised in the balance sheet, but their existence is recorded in a note to the accounting statements.

1.6 Contingent Liabilities

A contingent liability is a possible obligation that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council. Typically a contingent liability is related to a legal action against the authority, whose outcome is uncertain when the balance sheet is compiled.

Contingent liabilities are not recognised in the balance sheet, but their existence is recorded in a note to the accounting statements.

1.7 Employee Benefits Payable during Employment

Accounting standards require that accruals for expenditure are made for short-term compensated absences, covering entitlements for annual leave, flexi-time and time in lieu. The Council has determined that the net value of the accumulated leave, etc. in previous years is immaterial, and therefore makes no adjustment for these amounts. At the end of each financial year an assessment is made to ensure that the amounts involved remain immaterial.

1.8 Events after the Balance Sheet date

Events after the Balance Sheet Date are those events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Statement of Accounts is authorised for issue. There are potentially two types of events:

- If they provide evidence of conditions that existed at the end of the reporting period, the Statement of Accounts is amended to reflect these events;
- If they are indicative of conditions that arose after the reporting period, the Statement of Accounts is not amended. If, however, an event would have a material effect, a disclosure is made in the notes to the accounts, outlining the event and its estimated financial effect.

Any event taking place after the accounts are authorised for issue is not reflected in the Statement of Accounts.

1.9 Exceptional Items

Where items of income and expense are material, their nature and amount is disclosed separately on the face of the Comprehensive Income and Expenditure Account and also in the notes to the accounts.

1.10 Financial instruments

Financial Assets

The term “financial asset” covers cash, equity instruments, and beneficial contractual rights to receive or exchange cash or liabilities. The Council’s financial assets fall within two categories: “Loans and Receivables” and “Available-for-Sale Assets”

Loans and Receivables are financial assets that have fixed or determinable payments, and are not quoted in an active market. The Council’s balance sheet includes four groups of financial assets:

- Trade debtors are recorded as invoices issued to individuals or other entities, for which immediate payment is required. The balance awaiting collection (“Trade accounts receivable”) is included in the balance sheet under “short term debtors”.
- Cash held in current or call accounts, together with investments for periods of less than one month, is included in the balance sheet under “cash and cash equivalents”.
- Investments receivable within periods of three months and one year are included in the balance sheet as “short term investments”.

- Investments taken out for periods of longer than one year are included in the balance sheet as "long term investments".

Trade debtors are regularly assessed for possible non-payment, and an adjustment is made for possible impairment to the gross balance.

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the Council's short-term investments this means that the amount presented in the Balance Sheet is the outstanding principal and interest, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year according to the loan instrument. The position is the same for long term investments, except that outstanding interest receivable within the next year is included under "short-term investments".

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. The Council's only asset in this category is its investment in the Local Authorities Property Fund. Income from the fund is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Assets are maintained on the balance sheet at fair value, represented by the market price. The gain or loss is recognised in Other Expenditure and Income, but is offset by a transfer to or from the Available-for-Sale Reserve. When the asset is derecognised on disposal the cumulative gain or loss previously recognised in this reserve will be transferred from the reserve and recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial Liabilities

The term "financial liability" covers contractual obligations to deliver or exchange financial assets to another entity. For the most part the Council's financial liabilities consist of loans taken out with the Public Works Loan Board (the PWLB), and with Kent County Council, which come within the category of "loans and receivables".

These financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. This Council's PWLB borrowing bears a single rate of interest payable throughout the life of the loan, meaning that the effective rate of the interest is the same as the original repayable rate. The amount presented in the Balance Sheet under "long term borrowing" is therefore the outstanding principal repayable. As the accrued interest is payable within one year of the balance sheet date, it is included under "short term borrowing". The Kent County Council loan relates to the Local Authority Mortgage Scheme, and the fair value is worked out in the same way as that for the deposit (see under "financial assets" above).

Under the Local Authority Mortgage Scheme the Council guarantees the repayment of loans for a greater proportion of the value of a house than the bank would normally allow. This guarantee is recognised as a financial liability, initially equal to the difference between the fair value of the deposit with the bank, less the fair value of the Kent County Council loan, and the initial amounts of the loan and deposit, adjusted for accrued interest. The value of the guarantee is reviewed and adjusted annually.

1.11 Government grants and other contributions

Whether paid on account, by instalments or in arrears, the Council recognises government grants and third party contributions and donations when they are received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as capital grants received in advance (either current or long-term). When conditions are satisfied the grant or contribution is credited to the Comprehensive Income and Expenditure Statement.

Grants and contributions towards specific services for revenue purposes are credited against the appropriate line in the Cost of Services, but if grants and contributions are not related to specific services they are credited as Taxation and Non Specific Grant Expenditure and Income, along with all grants and contributions receivable towards investment in Property Plant and Equipment, Investment Properties or Intangible Assets. As these capital grants and contributions are not legally a credit to the General Fund, an equivalent appropriation is made from the General Fund into the Capital Grants and Contributions Reserve, which is set aside for the financing of capital investment.

1.12 Heritage Assets

Identification of Heritage Assets

Tangible heritage assets have historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The balance sheet includes three groupings of heritage assets:

- the collections of the Tunbridge Wells Museum and Art Gallery, including works of art and historic civic regalia;
- current civic regalia;
- various works of art on public display

Recognition

Expenditure on the acquisition, creation or enhancement of heritage assets is capitalised on an accruals basis. Expenditure that secures but does not add to an asset's value (e.g. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Account as an expense when it is incurred. The estimated values of donations of assets are also capitalised as they occur, with the corresponding value of the donation being recognised in the "Taxation and Non-Specific Grant Income" section of the Comprehensive Income and Expenditure Statement. As this notional income is not a legal credit to the General Fund, a corresponding transfer is made from the General Fund to the Capital Adjustment Account.

Revaluation and Impairments

The value of assets based on insurance values, which are reviewed and amended on an annual basis, any change being debited or credited to the Revaluation Reserve, to the extent to which there is a balance in the reserve for the particular asset. In the event that there is no balance in the Revaluation Reserve, a reduction is charged to the relevant service heading as an impairment in the Comprehensive Income and Expenditure Statement. A corresponding transfer is made, however, from the Capital Adjustment Account to the General Fund, as such impairments are not a legal charge on the General Fund. An annual review is also made for impairments caused by theft or physical or economic damage. Any such impairments are accounted for in the same way as those to items of property plant and equipment (see Note 1.19).

Disposals

Disposals of heritage assets are accounted for in the same way as those of items of property plant and equipment (see Note 1.19).

1.13 Investment Property

Investment properties are those that are used solely to earn rentals/and or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are initially measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year end.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals income received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

1.14 Intangible assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets (not including websites intended to promote or advertise the Council's goods and services) are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed, with adequate resources being available, and that the Council will be able to generate future economic benefits or service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset, and is restricted to that incurred in the development phase, not, therefore, including research expenditure.

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is written down over its useful life, as estimated by the ICT Shared Service Manager, to the appropriate line in the Comprehensive Income and Expenditure Statement. No intangible assets are recorded with indefinite lives. An asset is tested for impairment whenever there is an indication that the asset might be impaired, and any losses are posted to the appropriate line in the Income and Expenditure Statement.

The calculated amounts for amortisation and impairment are charged to the Cost of Services in the Comprehensive Income and Expenditure Account, but they are not legal charges against the General Fund. A transfer is therefore made from the Capital Adjustment Account to the General Fund to reverse the impact.

1.15 Leasing

Definition of a lease

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or a number of payments, the right to use an asset (property, plant and equipment, investment properties, non-current assets available for sale or intangible assets) for an agreed period of time. A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership to the lessee. Any lease that does not come within the definition of a finance lease is accounted for as an operating lease.

The Council has a number of leasing agreements, acting both as lessee (paying for the use of assets) and as lessor (receiving money for the use of assets owned by others).

The Council may also enter into an agreement which, while not itself a lease, nevertheless contains a right to use an asset in the same way as a lease. Such agreements are treated as either finance leases or operating leases as set out below (the Council has no such arrangements at present).

The Council reviews all of its leases to determine how they stand against various detailed criteria which distinguish between finance and operating leases, to determine whether the risks and rewards have been transferred to the lessee. In undertaking this review, however, the Council operates a de minimis level, so that all leases with a term of less than 10 years, or for assets valued at less than £10,000 would be treated within the accounts as an operating lease without a detailed analysis. All leases of land are considered to be operating leases, including the land element of a lease of a building.

Finance leases – Council acting as lessee

Where the council uses or occupies an asset held under a finance lease, the asset is recognised as such in the appropriate line in the balance sheet, subject to the de minimis limit in Note 1.19 below. The value recognised is the fair value, or (if lower) the present value of the minimum lease payments. This value is offset on the balance sheet by a creditor or long term liability for the leasing charge.

As these assets are included as part of the Council's property plant and equipment balance, they are subsequently accounted for, in relation to disposal, depreciation, impairment, etc, as set out below in Note 1.19.

Minimum lease payments are apportioned between interest payable as the finance charge and the reduction of the outstanding liability. The finance charge is calculated to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases – Council acting as a lessee

Lease payments for operating leases are recognised as an expense on a straight-line basis over the lease term, unless they can be otherwise apportioned in line with benefits received.

Finance leases – Council acting as lessor

Where the council acts as lessor for an asset held under a finance lease, the relevant asset is written out of the balance sheet as a disposal, and accounted for in line with Note 1.19 below. At the start of the lease a receivable (long term debtor or short term debtor) is recognised as at an amount equal to the net investment in the lease. The lease payment receivable is apportioned between the repayment of principle and interest, the interest being calculated to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases – Council acting as a lessor

Income from operating leases is recognised on a straight-line basis over the lease term, unless they can be otherwise apportioned in line with the benefits provided.

1.16 Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared amongst users in proportion to the benefits received.

The Cost of Services line in the Comprehensive Income and Expenditure Statement reports on spend by council directorate and excludes support services inline with internal management reporting.

1.17 Post-Employment Benefits

The majority of employees of the Council are members of the Local Government Pension Scheme, administered by Kent County Council for local authorities within Kent. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. The Council therefore accounts for this scheme as a defined benefit plan.

- The liabilities of the Kent County Council pension scheme attributable to this Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.7% (based on the annualised yield at the 20 year point on the Merrill Lynch AA rated corporate bond curve)
- The Council includes the assets of the Kent County Council Pension Fund attributable to this Council in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value
  - target return portfolio – current bid price
- The change in the net pensions liability is analysed into the following components:
  - service cost, comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the service for which the employees worked.
    - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. Past service costs include the cost of curtailments, which are normally linked to an event giving rise to a post employment benefit. Past service costs are debited to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement.
    - settlements – transactions that eliminate all further legal or constructive obligations for some of the benefits provided, other than by the payment of benefits. Settlements are debited to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement
  - net interest on the defined liability – the change to the net pension liability that arises from the passage of time during the year. This is debited to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.
  - administration expenses – charged to Other Operational Income and Expenditure
  - contributions by scheme participants, which reduce plan liabilities, but correspondingly increase plan assets, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
  - actuarial gains and losses – changes in the present value of the net pensions liability, resulting from:
    - experience adjustments (the differences between the previous actuarial assumptions and what has actually occurred).
    - the effects of changes in actuarial assumptions.
  - benefits paid, which reduce plan assets, but correspondingly reduce its liabilities, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
  - contributions paid to the Kent County Council Pension Fund – the employer's contributions to the pension fund for the financial year, not accounted for as an expense.

Statutory provisions require the Council to charge the General Fund balance with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. This means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and the amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of contributions paid rather than as benefits are earned by the employee.

1.18 <u>Prior period adjustments</u>

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes to accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. When a change is made, it is applied retrospectively (unless stated otherwise), by adjusting opening balances and comparative amounts for the prior period as if the new policy had always applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative figures for the prior period.

The use of accounting estimates is discussed in Note 1.26 below. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

1.19 Property plant and equipment

Definition and Categories

Property plant and equipment consists of assets that have physical substance and are held for use in the provision of services, for rental to others, or for administrative purposes, and that are expected to be used during more than one financial year. They exclude assets which are held purely for investment purposes (Investment properties) and assets which the Council is actively seeking to sell (Assets available for sale). Property plant and equipment consists of the following categories:

- Land and buildings – properties owned by the Council, other than those in another category shown below, or Investment Properties.
- Vehicles, plant and equipment – individual items or groupings of items which are purchased from capital resources.
- Infrastructure – for this Council, this category includes only footway lighting.
- Community assets – properties such as parks, which are used for the community as a whole, with no determinable market value in their present use, and which are not likely to be sold.
- Surplus assets – individual properties which the Council has determined to be surplus to operational requirements as they are not being used to provide services.
- Assets under construction – capital expenditure on an asset before it is brought into use.

Recognition

Expenditure on the acquisition, creation or enhancement of property plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that secures but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Account as an expense when it is incurred. Land and Buildings assets valued at less than £25,000 are not included on the balance sheet, provided that the total excluded has no material impact.

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Land and buildings – current value, usually based on the market value for the existing use (EUV). Some specialised properties, where the valuer cannot identify a market for the asset, are instead valued on the basis of depreciated replacement cost (DRC).
- Vehicles, plant and equipment – current value, for which depreciated historic cost is normally used as a proxy.
- Infrastructure – depreciated historic cost
- Community Assets – historic cost, depreciated where appropriate.
- Surplus assets - fair value, based on the market value for the existing use (EUV).
- Assets under construction – historic cost

Revaluation

The Council re-values assets included in the Balance Sheet at current value when there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account. Reductions in value are charged to the Revaluation Reserve, up to the amount held for that asset in the Revaluation Reserve, or otherwise to the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, it is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

<u>Disposals and Non-Current Assets Held for Sale</u>

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continued use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before its reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains to fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to property plant and equipment and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Account. An equivalent transfer is made to the General Fund to the Capital Adjustment Account to eliminate impact on the General Fund, and any revaluation gains accumulated for the asset in the Revaluation Reserve are also transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Account, but an equivalent appropriation is made from the General Fund to the Capital Receipts Reserve .There is a legal requirement that sale proceeds held in this reserve can only be used to reduce debt or to finance capital expenditure.

In some cases the receipt of income from asset disposals is delayed until a future financial year. In such cases a credit is made to the unusable Deferred Capital Receipts Reserve, matched by a long-term or short term debtor. When the income is received, the debtor is written down and a transfer is made from the Deferred Capital Receipts Reserve to the Capital Receipts Reserve.

<u>Depreciation</u>

Depreciation is provided for on all assets with a determinable finite life by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. Depreciation is based on the opening net book value, as adjusted by gains or losses arising from revaluations at 1 April each year.

Depreciation is calculated on the following bases:

- Land – not subject to depreciation
- Buildings – straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet:

ICT equipment	5 years
Litter bins	5 years
Play area equipment	10 years
Other equipment	Normally 5 years

- Infrastructure – footway lighting is depreciated on a straight-line basis over a period of 30 years.
- Community assets – not subject to depreciation
- Surplus assets – straight-line allocation over the life of the property as estimated by the valuer
- Assets under construction – not subject to depreciation

Where new assets are acquired or brought into use, depreciation is charged from the start of the following year. Depreciation is charged for the full final year when assets are sold.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

Depreciation is charged to the Cost of Services in the Comprehensive Income and Expenditure Account, but is not a legal charge against the General Fund. A transfer is therefore made from the Capital Adjustment Account to the General Fund to reverse the impact.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.20 Provisions

The Council recognises provisions to represent liabilities of uncertain timings or amounts. Provisions in the balance sheet represent cases where:

- The Council has a present obligation as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- A reliable estimate can be made of the amount of the obligation.

Provisions may sometimes relate to income, where the Council has collected income in a previous financial year and has a quantifiable liability to repay some or all of it. In the particular case of the provision for losses arising from rating appeals, the whole of the provision is included in the Collection Fund Statement, but only the Council's 40% share of the liability is included in the Balance Sheet.

1.21 Reserves

The Council maintains both usable and unusable reserves. The usable reserves consist of general and earmarked reserves. General reserves are to meet general rather than specific future expenditure and earmarked reserves are for specific purposes. No expenditure is charged directly to a reserve, but is charged to the service revenue account within the Comprehensive Income and Expenditure Statement, which is then offset by a reserve appropriation within the Movement in Reserves Statement. The unusable reserves are held for statutory reasons and to comply with proper accounting practice, for example non-current assets and retirement benefits, which do not represent resources available for use by the Council.

1.22 Revenue Expenditure financed from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset, is charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged, so there is no impact on the level of Council Tax.

1.23 Stocks

Where the values are significant to an operation, stocks are included in the Balance Sheet at the lower of cost and net realisable value.

1.24 Termination Benefits

Termination benefits include lump sum payments to departing employees, enhancements to retirement benefits, and salaries paid to the end of a notice period, when the employee ceases to provide services to the Council. The Council accrues for such payments at the point when a decision is made to terminate employment, rather than when the benefits fall due for payment. These payments are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement.

1.25 Value Added Tax (VAT)

VAT is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income, except in the unusual circumstance where VAT was charged to customers in a previous financial year, but where the Council was able to challenge successfully the legality of the charge. In these circumstances recovered VAT is credited to the appropriate line in the Comprehensive Income and Expenditure Statement.

1.26 Assumptions made about the future, and other major sources of estimating uncertainty

Pensions accounting

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made, taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

For this Council the only balance where there could be some uncertainty is the liability for future pension costs, which stood at £63.6m at 31 March 2017. The estimate of this liability depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes to retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries, Barnett Waddingham, is engaged to provide the Council with expert advice about the assumptions to be applied. The table below shows the impact of small changes to the major assumptions:

31 March 2016		**31 March 2017**
£000		£000
	Discount Rate:	

(2,076)	Increase of 0.1%	(3,128)
2,184	Reduction of 0.1%	3,290
	Salary increases:	
2,130	Increase of 0.1%	3,208
(2,128)	Reduction of 0.1%	(3,208)
	Pension increases:	
2,183	Increase of 0.1%	3,290
(2,076)	Reduction of 0.1%	(3,128)
	Adjustment to mortality estimates	
2,183	Increase of 1 year	3,310
(2,076)	Reduction of 1 year	(3,109)

<u>Valuations of Property</u>

Valuations of property depend on various assumptions, as set out in detail in Note 10.3 below. In particular, valuers have to determine:

- The estimated life of the building.
- Whether or not there is a market for the property in its existing use, which means that they could value at such a market value (EUV). If there is no such market, properties are valued at Depreciated Replacement Cost (DRC), which is likely to give a higher value.

Note 10.3 shows how asset valuations are included in the total value of property plant and equipment.

2 Changes to Accounting Policies and to previous years' figures

2.1 <u>Accounting policies newly adopted</u>

The 2016/17 Code includes amendments to the Code's provisions on the presentation of financial statements to reflect the reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and has introduced a new Expenditure and Funding Analysis as a result of the "Telling the Story" review of improvements to the presentation of local authority financial statements. This change in accounting policy requires the 2015/16 figures to be re-stated in line with the 2016/17 Code of Practice within the 2016/17 financial statements, as shown in Note 2.2 and Note 2.3 below.

2.2 <u>Restatement of Service Expenditure and Income</u>

The 2016/17 Code requires that authorities present expenditure and income on services on the basis of its reportable segments. These reportable segments are based on the authority's internal management reporting structure. This is a change from the previous requirement to present expenditure and income in accordance with the Service Expenditure Code of Practice. The comparative figures for 2015/16 have been adjusted in accordance with this change, but with no impact on the Cost of Services. The table below shows how the expenditure and income has been restated.

	As reported in the Comprehensive Income and Expenditure Statement 2015/16	**Adjustments between SERCOP classifications and internal reporting classifications**	**As restated 2015/16**	
	£000	£000	£000	
Net Expenditure				
Central services to the public	1,280	(1,113)	167	Chief Executive
Cultural and related services	3,939	(2,899)	1,040	Change & Communities
Environmental and regulatory services	4,842	(4,842)	-	
Highways and transport services	(2,987)	2,987	-	
Other housing services	1,616	(1,616)	-	
Planning services	2,123	3,419	5,542	Planning & Development
Corporate and democratic core	1,984	4,173	6,157	Finance & Corporate Services
Non distributed costs - other	109	(109)	-	

Cost of Services	**12,906**	**-**	**12,906**	
Gross Expenditure				
Central services to the public	2,102	(1,935)	167	Chief Executive
Cultural and related services	7,382	4,769	12,151	Change & Communities
Environmental and regulatory services	8,085	(8,085)	-	
Highways and transport services	4,122	(4,122)	-	
Other housing services	37,744	(37,744)	-	
Planning services	4,664	6,772	11,436	Planning & Development
Corporate and democratic core	2,003	40,454	42,457	Finance & Corporate Services
Non distributed costs - other	109	(109)	-	
Cost of Services	**66,211**	**-**	**66,211**	
Income				
Central services to the public	(822)	822	-	Chief Executive
Cultural and related services	(3,443)	(7,668)	(11,111)	Change & Communities
Environmental and regulatory services	(3,243)	3,243	-	
Highways and transport services	(7,109)	7,109	-	
Other housing services	(36,128)	36,128	-	
Planning services	(2,541)	(3,353)	(5,894)	Planning & Development
Corporate and democratic core	(19)	(36,281)	(36,300)	Finance & Corporate Services
Non distributed costs - other	-	-	-	
Cost of Services	**(53,305)**	**-**	**(53,305)**	

2.3 Restatement of Movement in Reserves Statement

The 2016/17 Code requires the total General Fund Balance be presented whereas in the past it was recommended that Earmarked Reserves be separately presented. The 2015/16 Movement in Reserves Statement has been restated for this change. The table below shows how this has been restated.

	General Fund as previously stated	**Earmarked General Fund Reserves as previously stated**	**General Fund Balance Restated**
	£000	£000	£000
Balance at 31 March 2015	**7,720**	**11,780**	**19,500**
Movement in Reserves in 2015/16			
Surplus or (deficit) on provision of services (accounting basis)	2,172	-	2,172
Total Comprehensive Expenditure and Income	**2,172**	**-**	**2,172**
Adjustments between accounting and funding basis under regulation	(3,669)	-	(3,669)
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**(1,497)**	**-**	**(1,497)**
Transfers to / from Earmarked Reserves	1,728	(1,728)	-
Increase / Decrease in Year	**231**	**(1,728)**	**(1,497)**
Balance at 31 March 2016	**7,951**	**10,052**	**18,003**

2.4 Accounting policies issued but not yet adopted

The Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. An authority is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant year. The additional disclosures that will be required in the 2016/17 and 2017/18 financial statements in respect of accounting changes that are introduced in the 2017/18 Code are:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

3 Critical Judgements in Accounting Policies

In applying the accounting policies set out in Note 1 the authority has to make judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in preparing the Council's 2016/17 accounts are as follows:

Employee Benefits

As noted above in Note 1.7, accounting standards normally require that the value of employee benefits such as outstanding annual leave is taken into account as a liability at the end of the financial year. The Council evaluates the amount concerned at the end of each financial year, and in all cases it has determined that the amount is not material, and therefore, as allowed by the accounting standards, not made any adjustment to its accounts for these amounts. Under legislation such accruals would be matched by appropriations to or from an adjustment account (an unusable reserve), so there would be no impact on the call on Council Tax or on the General Fund balance.

Finance and operating leases

The Council has examined all its leasing arrangements to determine whether they should be classified as finance or operating leases. In accordance with Note 1.15, all leases of land or of buildings values at less than £10,000 have been classified as operating leases. Other leases have been checked against various criteria, the main one in practice being the length of the lease compared with the expected life of the asset. This has resulted in two cases, where the Council pays rent for its operational properties, where the leases have been classified as finance leases, while all other leases have been determined to be operating leases.

Embedded leases

Under the accounting Code of Practice some legal agreements, such as waste collection contracts, may be regarded as containing a lease for the use of assets operated by the contractors. Such leases, in turn, may be judged to be either finance leases or operating leases, as set out in Note 1.15. The Council has examined its service contracts, particularly the Waste Collection contract, and has determined that, in the circumstances in which the contract was negotiated and is operated, it does not contain such a lease.

Group Accounts

The Tunbridge Wells Property Holdings Company began trading on 18 May 2015 and is a wholly owned subsidiary of the council. The revenue has only been £88,000 during the year and is considered immaterial. Hence the council has determined that it is not yet necessary to provide Group Accounts. This will be monitored in the future and should the revenue become material, Group Accounts will be provided.

4 Events after the Reporting Period

This Statement of Accounts was authorised for issue by the Director of Finance, Policy and Development on 31 May 2017.

Since 31 March 2017, the Council has sold land at Holly Farm in Hawkenbury for £9.25m. The receipt will be phased upon meeting certain milestones, but £1.85m was received in May 2017. In addition, a further 4 sites were sold at auction in May 2017 for a total of £536,000. The total of £2,386,000 will be usable capital receipts that can fund the capital programme going forward.

5 Note to Expenditure and Funding Analysis

This note details the main adjustments from Net Expenditure Chargeable to the General Fund Balance to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustment
2015/16	£000	£000	£000	£000

Chief Executive	*-*	*18*	*-*	*18*
Finance and Corporate Services	*443*	*(833)*	*-*	*(390)*
Change and Communities	*1,155*	*506*	*-*	*1,661*
Planning and Development	*(1,255)*	*504*	*-*	*(751)*
Net Cost of Services	***343***	***195***	***-***	***538***
Other Operating Expenditure	*(3,060)*	*52*	*-*	*(3,008)*
Financing & Investment Income	*-*	*1,994*	*(1)*	*1,993*
Taxation & Non-Specific Grant Income	*(2,571)*	*-*	*(621)*	*(3,192)*
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit	***(5,288)***	***2,241***	***(622)***	***(3,669)***

2016/17	**Adjustments for Capital Purposes** £000	**Net Change for the Pensions Adjustments** £000	**Other Differences** £000	**Total Adjustment** £000
Chief Executive	-	16	-	16
Finance and Corporate Services	345	(853)	-	(508)
Change and Communities	1,685	464	-	2,149
Planning and Development	(1,481)	428	-	(1,053)
Net Cost of Services	**549**	**55**	**-**	**604**
Other Operating Expenditure	(2,497)	48	-	(2,449)
Financing & Investment Income	-	2,004	(1)	2,003
Taxation & Non-Specific Grant Income	(104)	-	(177)	(281)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit	**(2,052)**	**2,107**	**(178)**	**(123)**

The total adjustments are also shown in the General Fund adjustments between accounting and funding basis in Note 7.

6 Expenditure and Income Analysed by Nature

The table below breaks down the Surplus or Deficit on the Provision of Services, as shown in the Comprehensive Income and Expenditure Statement, into the different types of income and expenditure.

2015/16 £000		**2016/17** £000
16,705	Employee benefit expenses	17,412
50,652	Other service expenses	52,375
900	Depreciation, etc	1,465
269	Interest payments	221
1,987	Precepts and levies	2,073
(151)	Gain or loss on disposal of fixed assets	(27)
70,362	**Total Expenditure**	**73,519**
(15,682)	Fees, Charges and other service income	(16,508)
(975)	Interest and Investment Income	(1,038)
(8,870)	Income from council tax	(9,301)
(2,164)	Retained NNDR income	(2,839)

(44,843)	Government grants and contributions	(41,255)
(72,534)	**Total Income**	**(70,941)**
(2,172)	**(Surplus) or Deficit on provision of services**	**2,578**

The Fees, charges and other service income is analysed further below between the directorates into which the Council is organised.

2015/16 £000		**2016/17** £000
-	Chief Executive	(1)
(541)	Finance & Corporate Services	(978)
(9,860)	Change & Communities	(10,022)
(5,281)	Planning & Development	(5,507)
(15,682)	Cost of Services	**(16,508)**

7 Adjustments between Accounting and Funding Basis under Regulations

This note details the adjustments that are made to the comprehensive income and expenditure recognised by the Council in the year according to proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	General Fund £000	**Capital Grants & Contribs.** £000	**Capital Receipts** £000	**Total Usable Reserves** **£000**	**Unusable Reserves** £000	**Total Reserves** **£000**
2015/16						
Reversal of items debited or credited to Comprehensive Income and Expenditure Statement:						
Write down Intangible Assets	*156*	-	-	***156***	*(156)*	**-**
Depreciation of Property Plant and Equipment	*2,667*	-	-	***2,667***	*(2,667)*	**-**
Impairment to Property Plant and Equipment	*(2,708)*	-	-	***(2,708)***	*2,708*	**-**
Revenue Expenditure financed from Capital under Statute	*228*	-	-	***228***	*(228)*	**-**
Gain or (Loss) on sale of non-current assets	*(151)*	-	*151*	**-**	-	**-**
Difference between accounting and statutory finance costs	*(1)*	-	-	***(1)***	*1*	**-**
Difference between accounting and statutory credit for Council Tax	*(613)*	-	-	***(613)***	*613*	**-**
Difference between accounting and statutory pension costs	*2,241*	-	-	***2,241***	*(2,241)*	**-**
Donated assets	*(8)*			***(8)***	*8*	**-**
Insertion of items not debited or credited to Comprehensive Income and Expenditure Statement:						
Capital expenditure from revenue	*(2,909)*	-	-	***(2,909)***	*2,909*	**-**
Capital grants and contributions in Comprehensive I&E Account	*(2,571)*	*2,571*	-	**-**	-	**-**
Financing of capital expenditure directly from reserves:						
Financing from capital grants and contributions reserve	-	*(1,985)*	-	***(1,985)***	*1,985*	**-**
Financing from capital receipts reserve	-	-	*(161)*	***(161)***	*161*	**-**
Total to Movement in Reserves Statement	***(3,669)***	***586***	***(10)***	***(3,093)***	***3,093***	**-**

	General Fund £000	**Capital Grants & Contribs.** £000	**Capital Receipts** £000	**Total Usable Reserves** **£000**	**Unusable Reserves** £000	**Total Reserves** **£000**
2016/17						

Reversal of items debited or credited to Comprehensive Income and Expenditure Statement:						
Write down Intangible Assets	159	-	-	**159**	(159)	**-**
Depreciation of Property Plant and Equipment	2,856	-	-	**2,856**	(2,856)	**-**
Impairment to Property Plant and Equipment	(3,010)	-	-	**(3,010)**	3,010	**-**
Revenue Expenditure financed from Capital under Statute	544	-	-	**544**	(544)	**-**
Gain or (Loss) on sale of non-current assets	(27)	-	27	**-**	-	**-**
Difference between accounting and statutory finance costs	(1)	-	-	**(1)**	1	**-**
Difference between accounting and statutory credit for Council Tax	(175)	-	-	**(175)**	175	**-**
Difference between accounting and statutory pension costs	2,107	-	-	**2,107**	(2,107)	**-**
Donated assets	(1)			**(1)**	1	**-**
Insertion of items not debited or credited to Comprehensive Income and Expenditure Statement:						
Capital expenditure from revenue	(2,471)	-	-	**(2,471)**	2,471	
Capital grants and contributions in Comprehensive I&E Account	(104)	104	-	**-**	-	**-**
Financing of capital expenditure directly from reserves:						
Financing from capital grants and contributions reserve	-	(401)	-	**(401)**	401	**-**
Financing from capital receipts reserve	-	-	(27)	**(27)**	27	**-**
Total to Movement in Reserves Statement	**(123)**	**(297)**	**-**	**(420)**	**420**	**-**

8 Reserves

The Movement in Reserves Statement shows the annual movements on reserves but only shows a summary of the movements. A detailed analysis and explanation of each reserve is shown below.

8.1 Usable Reserves

General Fund: this represents a non specific reserve, without legal restrictions on spending, arising from annual surpluses or deficits as well as earmarked reserves to cover specific projects or contingencies. The earmarked reserve amounts are transferred from the General Fund, and amounts are withdrawn as required to finance such expenditure. The expenditure itself is charged to the appropriate line in the Comprehensive Income and Expenditure Statement. There are no legal restrictions on the use of earmarked reserves, and unspent balances can be taken back to the General Fund.

The table below shows the balance on the General Fund including the earmarked reserves, and the transfers between the reserves.

	1/4/15	**Inc.**	**Exp.**	**1/4/16**	**Inc.**	**Exp.**	**31/3/17**
	£000	£000	£000	£000	£000	£000	£000
General Fund	*7,720*	*231*	-	7,951	908	(4,700)	4,159
Capital and Revenue Initiatives	*5,838*	*85*	*(3,465)*	2,458	4,931	(4,229)	3,160
Torrington Car Park	*40*	-	-	40	62	-	102
On-Street Parking	*50*	*79*	-	129	257	-	386
Local Development Framework	*606*	-	-	606	120	(120)	606
Section 106 contribution interest	*18*	*17*	-	35	-	(1)	34
Maintenance of Graves	*32*	-	-	32	19	(51)	-
Maint of Garden of Remembrance	*24*	*2*	*(8)*	18	1	(19)	-
Strategic Plan	*652*	*43*	*(167)*	528	109	(30)	607
Performance Reward	*133*	-	*(44)*	89	-	(57)	32
RVP Car Park Maintenance	*399*	*367*	-	766	-	(113)	653
Carbon Reduction	*50*	-	-	50	-	-	50
Government Grants	*261*	*79*	*(40)*	300	138	(42)	396
Invest to Save	*1,201*	*454*	*(24)*	1,631	-	(396)	1,235
Cultural Reserve	*64*	*2*	*(3)*	63	81	-	144
Pensions Settlement	*677*	*250*	-	927	250	-	1,177
Housing Renewal	*111*	*69*	-	180	51	(1)	230
Insurance	*63*	*25*	-	88	51	-	139
LAMs Scheme Interest	*72*	*28*	-	100	28	-	128

MMI	*30*	*20*	-	50	-	-	50
Grant volatility	*797*	*323*	-	1,120	-	-	1,120
ICT MKIP Partnership	*343*	*24*	*(50)*	317	-	(47)	270
Establishment	*243*	*73*	-	316	6	-	322
Parish Enabling	*15*	-	-	15	10	-	25
Ice Rink	*61*	*34*	-	95	78	-	173
Digital Transformation	-	*50*	-	50	-	(2)	48
Traveller Protocol	-	*7*	-	7	7	-	14
Land charges loss of income	-	*42*	-	42	-	-	42
Total	**19,500**	**2,304**	**(3,801)**	**18,003**	**7,107**	**(9,808)**	**15,302**

The reasons for maintaining the earmarked reserves are shown below:

Capital & Revenue Initiatives	Used to support future capital and revenue schemes in accordance with the Council's Corporate and Financial Plan.
Torrington Car Park	To be used to refurbish Torrington car park.
On Street Parking	The ring-fenced parking surplus that is used to fund highways and transport schemes in the borough.
Local Development Framework	A reserve for costs associated with the Local Development Framework due to a re-phasing of timeframes and costs.
Section 106 Contributions	These are developers' contributions to be used to finance capital projects: normally they would have to be repaid with interest if they cannot be used for the specified purpose within a given time. Sufficient money is retained within this reserve to pay interest on unapplied contributions.
Maintenance of Graves and Garden of Remembrance	Where money is donated for these purposes it is retained in these reserves until it can be spent.
Strategic Plan	Where the Council obtains more money from investment income than it has budgeted for, it places the excess into this reserve, which is then used to finance various strategic projects.
Performance Reward	Money received in previous years as a result of reaching targets under the Local Area Agreement has been set aside to fund individual projects.
RVP Car Park	To provide for periodic maintenance in the car parks used for the Royal Victoria Place shopping centre.
Carbon Reduction Reserve	This will enable the Council to purchase initial and subsequent allowances under the Carbon Reduction Commitment scheme, a mandatory 'cap and trade' scheme which started in April 2010.
Government Grants	Contains the equivalent amount of grants provided by the Government during the financial year that cannot be used until after 31 March each year.
Invest to Save	This was created to cover the redundancy costs for various money saving restructures but is now also used to fund revenue and capital initiatives which will result in savings or increase income streams.
Cultural	This reserve is used to support grant applications and encourage fund-raising, thereby providing an enhanced pot of money to undertake key cultural projects in the Borough.
Pensions Settlement	The balance of the reserve was used in 2012/13 to finance the one-off payment to the pension fund to settle the Council's liability for unfunded "added years" pensions. From 2012/13 the amount that the Council would have paid for unfunded pensions has instead been paid into this reserve to meet possible future increases in pension liability.
Housing Renewal	When housing renewal grants are repaid an equivalent contribution is made to this reserve, which will be used to finance future grants.
Insurance	Savings made through higher excess thresholds in the new insurance contract are paid into this reserve, and will be used where necessary to finance expenditure that would previously have been recovered from the insurers.
Local Authority Mortgage Scheme	An amount equal to the net interest receivable from the mortgage scheme deposit

Interest	is placed in this reserve to meet possible future defaults, as described in Note 17.3 below.
MMI	This reserve is maintained for use in case the Council's share of the overall MMI deficit, as described in Note 17.3, rises beyond the current estimate.
Land charges refunds	This reserve is used to finance the repayment of land charge search fees.
Grant Volatility	This reserve will be used to cushion the impact of any further changes to government grant funding that could not have been anticipated from information available at the time of setting the budget.
ICT MKIP Partnership	All Information Technology services are now provided from Maidstone Borough Council via a partnership agreement. This reserve will be used to hold any budget surpluses or fund deficits between financial years. This enables the agreed budgets to be retained although project implementation timetables may flex.
Establishment	The Council introduced Contribution Related Pay for 2012/13 which was paid for the first time in 2013/14. This reserve provides for differences between budgets set and actual performance assessed and will also provide for any rebasing of salaries as a result of the agreed triennial review.
Parish Enabling	This reserve is to be used to assist parish and town Councils who wish to take on responsibility of discretionary services or who may face financial difficulties.
Ice Rink	This reserve will be used to smooth the impact of inclement weather on the financial success of the Ice Rink and accompanying events.
Digital Transformation	This reserve has been created from the ICT MKIP Partnership reserve to fund digital transformation projects.
Traveller Protocol	This reserve will be used to manage traveller incursions and will be matched by parish and town Council contributions. The reserve will be used to enable the Borough Council to enforce a Section 77/78 court-ordered eviction or to restore land after the vacation of an unauthorised encampment.
Land Charges Loss of Income	This reserve has been created from an overachievement in Land Charges income to mitigate against the surplus revenue that will be lost if Government centralises the service.

Capital Grants and Contributions Reserve: the Council receives grants and contributions towards capital expenditure, and, where there are no repayment conditions, or when such conditions have been fulfilled, these are credited to the Income and Expenditure Account and immediately transferred into the Capital Grants and Contributions Reserve until required to finance capital investment.

Usable Capital Receipts Reserve: proceeds from the sales of Property, Plant and Equipment are initially credited to the Income and Expenditure Account, but legally can only be used to finance capital expenditure, and so are transferred to the Capital Receipts Reserve and afterwards used for this specific purpose.

8.2 Unusable Reserves

Capital Receipts Reserve: proceeds from the sales of Property, Plant and Equipment are initially credited to the Income and Expenditure Account, but legally can only be used to finance capital expenditure, and so are transferred to the Capital Receipts Reserve and afterwards used for this specific purpose. Repayments of mortgages advanced by the Council are also included in this reserve, a transfer from the Deferred Capital Receipts Reserve being made as the payment is actually received.

2015/16 £000	**Deferred Capital Receipts**	**2016/17** £000
147	Balance at 1 April	147
147	**Balance 31 March**	**147**

Revaluation Reserve: this consists of accumulated gains on individual items of Property, Plant and Equipment. The Reserve contains only gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains before that date are consolidated into the balance on the Capital Adjustment Account. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or

- disposed of and the gains are realised.

2015/16 £000	Revaluation Reserve	2016/17 £000
28,365	Balance at 1 April	31,543
3,652	Gain on revaluation of non-current assets	15,032
(13)	Impairment losses on non-current assets charged to Revaluation Reserve	(139)
(461)	Adjustment for depreciation in revalued non-current assets	(521)
31,543	**Balance 31 March**	**45,915**

Pensions Reserve: this is a statutory reserve to offset the Pension Liability assessed on an accounting and actuarial basis, and to ensure that variations in this liability do not affect the General Fund.

2015/16 £000	Pension Reserve	2016/17 £000
(61,289)	Balance at 1 April	(55,241)
8,289	Re-measurement of defined benefit liability	(6,037)
(2,241)	Difference between accounting and statutory pension costs	(2,107)
(55,241)	**Balance 31 March**	**(63,385)**

Capital Adjustment Account: receives credits when capital is financed from revenue resources or other usable reserves, and receives debits to offset depreciation and other charges relating to capital which are not chargeable against the General Fund. The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The account contains revaluation gains accumulated on Property Plant and Equipment before 1 April 2007, the date on which the Revaluation Reserve was created to hold such gains.

2015/16 £000	Capital Adjustment Account	2016/17 £000
70,276	Balance at 1 April	75,457
(156)	Write Down Intangible Assets	(159)
(2,667)	Depreciation of Property, Plant and Equipment	(2,856)
2,708	Impairment to Property, Plant and Equipment	3,010
(228)	Revenue Expenditure financed from Capital under Statute	(544)
8	Donated assets	1
2,909	Capital expenditure financed from revenue	2,471
1,985	Capital expenditure financed from grants and contributions	401
161	Capital expenditure financed from capital receipts	27
461	Adjustment for depreciation on revalued non-current assets	521
75,457	**Balance 31 March**	**78,329**

Financial Instruments Adjustment Account: this represents the difference between the accounting and legislative charges for finance costs.

2015/16 £000	Financial Instruments Adjustment	2016/17 £000
(5)	Balance at 1 April	(4)
1	Difference between accounting and statutory finance costs	1
(4)	**Balance 31 March**	**(3)**

Collection Fund Adjustment Account: this represents the differences arising from the recognition of council tax income and non-domestic rates in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers, compared with the statutory arrangements for paying across amounts from the Collection Fund to the General Fund.

2015/16 £000	Collection Fund Adjustment	2016/17 £000
(347)	Balance at 1 April	266
613	Difference between accounting and statutory credit for Council Tax	175
266	**Balance 31 March**	**441**

Available-for-sale Reserve: the balance represents the difference between the fair value of available-for-sale assets (the Local Authorities Property Fund) and the purchase price.

2015/16		2016/17
£000		£000
	Available for Sale	
799	Balance at 1 April	1,387
588	(Surplus) or deficit on revaluation of available-for-sale financial assets	(162)
1,387	**Balance 31 March**	**1,225**

9 Summary of capital expenditure and financing

Capital expenditure was incurred and financed as shown below.

2015/16			2016/17	
£000	£000		£000	£000
	1,182	**Opening Capital Financing Requirement**		**1,167**
4,793		Property Plant and Equipment	4,166	
-		Investment Property	1,781	
35		Intangible Assets	416	
784		Revenue Expenditure Funded from Capital under Statute (REFFCUS)	1,460	
	5,612	**Total capital investment**		***7,823***
		Financed by:		
(162)		Capital Receipts	(27)	
(1,985)		Government Grants and other contributions	(401)	
(556)		Grants and contributions towards REFFCUS	(916)	
(2,909)		Revenue financing	(2,471)	
	(5,612)	**Total financing**		**(3,815)**
	(15)	**Movement in Long Term Debtors within CFR**		**(16)**
	1,167	**Closing Capital Financing Requirement**		**5,159**

The Capital Financing Requirement (CFR) is the measure, taken from the Balance Sheet, of the capital expenditure incurred historically by the Council, which has yet to be financed at the end of the financial year. This Council's CFR in 2015/16 was represented partly by past capital expenditure on assistance to a housing association and a bowls club, which is being reimbursed annually by repayments of mortgages, and by half of its investment in the Local Authority Mortgage Scheme (LAMS), financed by a loan from Kent County Council. The amount advanced to a housing association and the bowls club is reduced by their annual repayments, while the loan relating to LAMS will be repaid with the proceeds of the repayment from Lloyds Banking Group at the end of the five year LAMS period.

The Council made two capital purchases totalling £4.0m in 2016/17 which has yet to be financed so this amount has been added to the Capital Financing Requirement. The Council will need to set aside money from the General Fund to reduce the CFR for both of these items, starting in 2017/18.

The CFR is made up of the following balance sheet totals:

31 March 2016		31 March 2017
£000		£000
101,972	Property plant and equipment	111,571
3,391	Heritage assets	3,412
-	Investment Properties	1,781
626	Intangible assets	883
2,178	Long term debtors financed from capital	161
-	Short term debtors financed from capital	2,000
-	Assets available for sale	9,595
(31,543)	Revaluation reserve	(45,915)
(75,457)	Capital adjustment account	(78,329)

1,167	**Total**	**5,159**

10 Property Plant and Equipment

10.1 Analysis of carrying amounts

The following table shows the net carrying amounts of the categories of Property Plant and Equipment, as at 31 March, split between the gross carrying amount and the accumulated depreciation and impairment.

	Land & Buildings	Vehicles, Plant & Equipment	Infrastructure	Community	Surplus	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	**£000**
Balance at 1 April 2016:							
Gross carrying amount	*93,284*	*3,729*	*854*	*7,453*	*150*	*1,177*	***106,647***
Cumulative depreciation & impairment	*(2,678)*	*(1,345)*	*(508)*	*(144)*	*-*	*-*	***(4,675)***
Total	***90,606***	***2,384***	***346***	***7,309***	***150***	***1,177***	***101,972***
Balance at 31 March 2017:							
Gross carrying amount	102,574	3,972	854	7,834	-	-	**115,234**
Cumulative depreciation & impairment	(1,339)	(1,643)	(537)	(144)	-	-	**(3,663)**
Total	**101,235**	**2,329**	**317**	**7,690**	**-**	**-**	**111,571**

Note 1.19 sets out the methods for measuring the gross carrying amounts, and of calculating depreciation and impairment.

10.2 Reconciliation of opening and closing balances

The table below shows the movements in the different categories for the year:

	Land & Buildings	Vehicles, Plant & Equipment	Infrastructure	Community	Surplus	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	**£000**
Movements 2015/16							
Balance at 1 April 2015	*85,571*	*2,182*	*374*	*5,319*	*-*	*55*	***93,501***
Additions	*1,099*	*581*	*-*	*1,990*	*-*	*1,122*	***4,792***
Revaluations	*3,639*	*-*	*-*	*-*	*-*	*-*	***3,639***
Impairment losses	*(1)*	*-*	*-*	*-*	*-*	*-*	***(1)***
Impairment loss reversals	*2,708*	*-*	*-*	*-*	*-*	*-*	***2,708***
Depreciation	*(2,260)*	*(379)*	*(28)*	*-*	*-*	*-*	***(2,667)***
Transfers to assets held for sale	*-*	*-*	*-*	*-*	*-*	*-*	***-***
Reclassifications	*(150)*	*-*	*-*	*-*	*150*	*-*	***-***
Balance at 31 March 2016	***90,606***	***2,384***	***346***	***7,309***	***150***	***1,177***	***101,972***
Movements 2016/17							
Balance at 1 April 2016	90,606	2,384	346	7,309	150	1,177	**101,972**
Additions	2,344	419	-	381	-	1,022	**4,166**
Revaluations	5,429	-	-	-	-	-	**5,429**
Impairment losses	(722)	-	-	-	-	-	**(722)**
Impairment loss reversals	3,732	-	-	-	-	-	**3,732**

Depreciation	(2,353)	(474)	(29)	-	-	-	**(2,856)**
Transfers to assets held for sale	-	-	-	-	(150)	-	**(150)**
Reclassifications	2,199	-	-	-	-	(2,199)	**-**
Balance at 31 March 2017	**101,235**	**2,329**	**317**	**7,690**	**-**	**-**	**111,571**

10.3 Valuation of property

Two of the categories shown in the tables above (land and buildings and surplus assets) are subject to valuations. The Royal Victoria Place shopping centre is valued as at 31 March each year by GVA Grimley Ltd, the others being dealt with by G L Hearn Ltd. Other than the shopping centre and the Council's multi-storey car parks, all assets have been revalued at 5 year intervals (20% as at 31 March each year).

Many of this Council's assets had been subject to losses in values in previous years, particularly those triggered by the reduction in asset values around 2007/08. As the Revaluation Reserve was established only at 1 April 2007 most of those losses had to be accounted for as impairment losses – gains in value prior to 1 April 2007 being absorbed into the Capital Adjustment Account.

Revaluations and impairment reversals are treated in line with Note 1.19.

The table below analyses the gross carrying cost at 31 March for these two categories of assets according to the year of valuation.

31 March 2016				**31 March 2017**		
Land & Buildings	**Surplus Assets**	**Assets under Cons**		**Land & Buildings**	**Surplus Assets**	**Assets under Cons**
£000	£000	£000		£000	£000	£000
90,606	*150*	*1,177*	Net Book Value at 31 March	101,235	-	-
			Adjust for changes since last valuation:			
(1,296)	-	*(1,177)*	Additions	(2,434)	-	-
2,677	-	-	Depreciation	1,339	-	-
91,987	***150***	***-***	**Total valuations**	**100,140**	**-**	**-**
			Valuation in financial year:			
-	-	-	2016/17	81,008	-	-
56,834	*150*	-	2015/16	5,634	-	-
2,074	-	-	2014/15	2,075	-	-
30,919	-	-	2013/14	11,423	-	-
2,160	-	-	2012/13	-	-	-
91,987	***150***	***-***	**Total valuations**	**100,140**	**-**	**-**

The valuers employed by both firms are members of the Royal Institute of Chartered Surveyors. For the majority of assets the basis of valuation for fair value is market value in its existing use (EUV). For a minority of specialised properties the valuers are unable to identify market evidence of such a value, and these assets are instead measured on the basis of depreciated replacement cost (DRC).

The significant assumptions applied in estimating the fair value are:

- A continuation of the existing use;
- Mains services for built properties are connected to the properties and drainage is to the public sewer;
- There is no environmental contamination;
- Buildings being marketed for sale or let have an Energy Performance Certificate in place, which has not revealed any shortcomings impacting on the value;
- Freehold interests are not subject to easements, restrictive covenants, encumbrances, leases or licences that would adversely affect their sale;
- Accuracy and completeness of information provided by Council officers.

10.4 Surplus Assets

The surplus asset value shown in Note 10.1 for 2015/16 related to land at Holly Farm, which was deemed to be surplus as it was not being used to deliver services. Proposals were explored to sell the site for development and planning was permission obtained during 2016/17. The asset, which has now been revalued at £9.25m and has been sold in 2017/18 as set out in Note 4, has therefore been classified as an asset held for sale and transferred, as set out in Note 14.

10.5 Impairments

Impairments are assessed each year, in accordance with the policy in Note 2.18, for losses triggered by such occurrences as physical, environmental or economic damage, but no such impairments have been recorded in 2016/17. As noted above in Note 10.3, the impairments (usually reversals) recorded arise from the revaluation of assets carried out in the year.

10.6 Capital commitments

At 31 March 2017 the Council was contractually committed to the payment of £810,000 for the acquisition of property plant and equipment, compared to £1,124,000 at 31 March 2016.

11 Heritage Assets

As set out in the accounting policies in Note 1.12 above, the Council maintains three groupings of heritage assets:

- Civic regalia
- The contents of the Museum and Art Gallery, including works of art on display in the Town Hall
- Various monuments and public works of art, including the war memorial, the Canon Hoare memorial, and the water fountain in Dunorlan Park.

The museum's assets are generally enhanced by donations from members of the public.

The annual movements in the balance sheet figures for heritage assets are shown below:

2015/16		**2016/17**
£000		£000
3,383	Balance at 1 April	3,391
8	Additions by donation	2
-	Revaluations	19
3,391	**Balance at 31 March**	**3,412**

12 Investment Property

The following table summarises the movement in the fair value of investment properties over the year.

2015/16		**2016/17**
£000		£000
-	Balance at 1 April	-
-	Purchases	1,781
-	**Balance at 31 March**	**1,781**

The Council's investment properties consist of one commercial property purchased during 2016/17.

The following income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

2015/16		**2016/17**
£000		£000
-	Rental Income from investment properties	26
-	Direct operating expenses from investment properties	-
-	**Net Gain/(Loss)**	**26**

13 Intangible Assets

As set out in the accounting policies in Note 1.14 above, the Council accounts for its software as intangible assets. The balance sheet value is only £883,000 in 2016/17, compared to £626,000 in 2015/16 and is immaterial.

14 Assets held for sale

Following its policy of seeking to dispose of properties not required to provide services, for the best price available, the Council has disposed of a number of pieces of land in recent years. Most of these were considered below the de minimis level for recognising in Property, Plant and Equipment. Note 1.19 specifies that assets made available for sale are held at the lower of carrying value and market value, so that, although the Council expects to gain capital receipts from their disposal, they are not recognised in the Balance Sheet as at 31 March 2017. There are four exceptions, which have been valued as they are being prepared to be sold in May 2017. One of these has been transferred from Surplus Assets during 2016/17.

2015/16		**2016/17**
£000		£000
-	Balance at 1 April	-
-	Transfers from Surplus Assets	150
-	Revaluations	9,445
-	**Balance at 31 March**	**9,595**

15 Financial Instruments

15.1 Year-end balances compared to fair values

As noted in the accounting policies Note 1.10 above, all of the Council's investments fall within two categories: "loans and receivables" and "available-for-sale assets". Loans and receivables are financial assets that have fixed or determinable payments, and are not quoted in an active market. The only asset within the Available-for-sale category is a long-term investment with the Local Authorities' Property Fund which is a Collective Investment Scheme investing in UK properties. The book value, representing the market value, was £10,225,000 at 31 March 2017 compared to £10,378,000 at 31 March 2016. The table below summarises the "loans and receivables" category.

31 March 2016			**31 March 2017**	
Book Value	**Fair Value**		**Book Value**	**Fair Value**
£000	£000		£000	£000
5,044	*5,184*	Investments over one year	5,049	5,188
(44)	-	Less interest due within one year	(49)	-
5,000	***5,184***	**Long term investments**	**5,000**	**5,188**
9,147	*9,147*	Available for sale assets	9,130	9,130
(147)	-	Less interest due within one year	(130)	-
1387	*1387*	Add gain on available for sale assets	1,225	1,225
10,387	***10,534***	**Available for sale assets**	**10,225**	**10,355**
2,032	*2,032*	Loans and Receivables	1,459	1,459
(32)	-	Less interest due within one year	-	-
2,000	***2,032***	**Long term debtors**	**1,459**	**1,459**
15,095	*15,137*	Investments less than one year	5,028	5,042
191	-	Add accrued interest on long term	179	-
15,286	***15,137***	**Short term investments**	**5,207**	**5,042**
-	-	Loans and Receivables	2,421	2,421
755	*755*	Trade accounts receivable	1,036	1,036
32	-	Add accrued interest on long term	-	-
787	***755***	**Short term debtors**	**3,457**	**3,457**
5,002	*5,002*	Cash in bank call accounts	10,005	10,005

5,002	***5,002***	**Cash and cash equivalents**	**10,005**	**10,005**
38,462	***38,644***	**Total Financial Assets**	**35,353**	**35,506**
8,000	*8,201*	Borrowing over one year	5,000	5,156
8,000	***8,201***	**Long term borrowing**	**5,000**	**5,156**
2,000	*2,109*	Borrowing less than one year	3,000	3,120
58	*-*	Add accrued interest	49	-
2,058	***2,109***	**Short term borrowing**	**3,049**	**3,120**
10,058	***10,310***	**Total Financial Liabilities**	**8,049**	**8,276**

15.2 Interest and Investment Income Receivable and Payable

The table below sets out the interest receivable and payable for the year related to financial assets and liabilities, reconciled to the amounts included in the Comprehensive Income and Expenditure Statement:

2015/16		**2016/17**
£000		£000
	Interest and investment income	
(854)	Interest from loans and receivables	(833)
(56)	Local Authority Mortgage Scheme	(56)
-	Investment Income	(26)
(65)	Other interest receivable	(123)
(975)	**Total Interest and investment income**	**(1,038)**
	Interest payable	
241	Interest on long term borrowing	193
28	Local Authority Mortgage Scheme	28
269	**Total Interest payable**	**221**

15.3 Valuation Techniques for Fair Value

The fair values valuations have been provided by the Council’s Treasury Management advisor, Capita Asset Services. This uses the Net Present Value (NPV) approach, which provides an estimate of the value of payments in the future in todays terms. This is a widely accepted valuation technique commonly used by the private sector. The discount rate used in the NPV calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation, for an instrument with the same duration i.e. equal to the outstanding period from valuation date to maturity. The structure and terms of the comparable instrument should be the same, although for complex structures it is sometimes difficult to obtain the rate for an instrument with identical features in an active market. In such cases, Capita has used the prevailing rate of a similar instrument with a published market rate, as the discount factor.

The Available for Sale Asset, which is an investment in the Local Authorities’ Properties Fund, is included on the balance sheet at fair value. The Fund is an unquoted investment with the value being determined on a monthly basis by the fund manager.

The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value in the Balance Sheet. Since this will include accrued interest as at the Balance Sheet date, the calculations also include accrued interest in the fair value calculation. This figure is calculated up to and including the valuation date.

The rates quoted in this valuation were obtained by Capita from the market on 31st March, using bid prices where applicable. The rate for the Available for Sale Asset was calculated based on the net asset value price as provided by the Local Authorities’ Property Fund.

15.4 Risk Management

The Council’s activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Accountancy Section, under policies approved by the Council in the annual Treasury Management Policy and Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

The investment in the Local Authorities' Property Fund is the Council's only investment with a Collective Investment Scheme. The Fund employs a risk management process, including the use of appropriate stress-testing procedures, which enable it to identify measure, manage and monitor at any time the relevant risks of the positions to which the Fund is or may be exposed and their contribution to the overall risk profile of the Fund.

Credit risk

Credit risk arises from deposits with banks and financial institutions. The risk is minimised through the Treasury Management Policy and Strategy, which specifies that deposits are not made with financial institutions unless they meet identified criteria, as assessed by its main agency, Fitch. It also reviews ratings from the other agencies, Moodys and Standard and Poors. The Policy and Strategy also imposes a maximum sum to be invested with a financial institution within each category, and the maximum period for a deposit. The Policy & Strategy also specifies that the Council can invest with other UK Local Authorities and the Government's Debt Management Office.

The Council's maximum exposure to credit risk in relation to its investments in private sector financial institutions, amounting to £29m at 31 March 2017, cannot be assessed generally, as the risk of any institution failing to make interest payments or to repay the principal sum, will be specific to each individual institution. Recent experience indicates that it is rare for such entities to be unable to meet their commitments. A risk of non recoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2017 that this was likely to crystallise. There has been no experience of default by any of the institutions holding the Council's financial instruments, other than for trade accounts receivable, see Note 16 below.

The investment with the Local Authorities' Properties Fund is represented by the purchase of units within the fund. The price of units and the income from them may fall and rise and therefore as a unit holder the Council may not recover the full amount invested.

Note 17.3, Contingent Liabilities, refers to the Local Authority Mortgage Scheme under which the Council could be liable for the mortgage sums they have guaranteed, should the owner default. To date there have been no defaults.

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council's investment with the Local Authorities' Properties Fund, which is a collective investment scheme investing in properties in the UK, is an illiquid investment and therefore the Council has ensured that these funds will not be needed in the medium term future. The units in the fund are purchased and redeemed through the fund manager. The investment is not traded in an active market and offer and bid prices quoted by the manager may be adjusted to protect subsisting unit holders.

The maturity analysis of financial liabilities is as follows:

	31-Mar-16	**31-Mar-17**
Less than one year	£2m	£3m
Between 1 and 2 years	£3m	£2m
Between 2 and 5 years	£5m	£3m
Total Financial Liabilities	**£10m**	**£8m**

Market risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. Reductions in interest rates would reduce the interest income credited to the Income and Expenditure Account, while increases in interest rates would increase the income.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated.

According to this assessment strategy, at 31 March 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would have been to increase investment income by £459,000.

The Council had a loan of £9 million from the Public Works Loan Board (PWLB) at the start of the year, at a fixed interest rate of 2.38%. £2 million of this has been repaid during the year. If the interest rate at which this money was borrowed had been 1% lower with all other variables held constant, the financial effect would have been to decrease interest payable by £81,000.

The return from the Local Authorities Properties' Fund is expected to fluctuate in response to changes in capital appreciation or income. The Fund is permitted to borrow up to 50% of the value of the Fund in order to purchase direct properties. A failure by the Fund to perform its obligations under the terms of any such loan would permit lenders to demand early repayment of the finance and to realise any security they have over the Fund's Property. Borrowing also increases risk by magnifying capital and income performance, gains and losses.

16 Debtors

16.1 Groupings of Debt

The table below analyses the balance sheet figures between different types of debt.

31 March 2016 £000		31 March 2017 £000
755	Trade accounts receivable	1,036
1,081	Other trade debtors	1,344
2,856	Related parties (central government)	202
467	Prepayments	432
1,671	Other debtors	3,932
6,830	**Total Short Term Debtors**	**6,946**
3,276	**Long Term Debtors (all "other debtors")**	**1,729**
10,106	**Total Debtors**	**8,675**

16.2 Trade Accounts Receivable

As explained in Note 2.10 above, the grouping of "Trade accounts receivable" comes within the definition of Financial Instruments. Invoices are sent to individuals and other entities, where money cannot be obtained in advance of the service being rendered, and where payment is required on the receipt of the invoice.

The Council gives priority to collecting this debt, taking action through collection agencies or legal processes where appropriate, but has to make a prudent provision for impairment for doubtful debts, based on previous experience of default and on assessment of individual outstanding balances. The table below shows the age profile of this debt.

31 March 2016 £000		31 March 2017 £000
580	Less than 3 months	896
34	3 to 6 months	18
39	6 to 12 months	10
102	More than 1 year	112
755	**Total Debtors**	**1,036**

The increase in Trade Debtors is due to a small number of larger invoices being raised at the end of March 17. The Council has made a provision for impairment of £45,000 for doubtful debts in this category, compared to £60,000 as at 31 March 2016.

The Council has also made doubtful debt provisions of £2,373,000 at 31 March 2017, compared to £2,168,000 at 31 March 2016, covering debts for Housing Benefit overpayments, this Council's share of Council Tax and Non-Domestic Rates debts, rents and Penalty Charge Notices for parking. The approach to assessing these impairment provisions is similar to those for trade debtors, as outlined above, although such debts do not fall within the definition of financial instruments.

16.3 Groupings of Debtor

The table below analyses the balance sheet total for short-term debtors into different groups of debtor. Long-term debtors all come within the "all other bodies" grouping.

31 March 2016 £000		31 March 2017 £000
2,856	Central government	203
234	Other local authorities	256
3,740	All other bodies	6,487
6,830	**Total Short Term Debtors**	**6,946**
3,276	**Long Term Debtors (other bodies)**	**1,729**
10,106	**Total Debtors**	**8,675**

16.4 Contingent Assets

There are no contingent assets to be reported.

17 Liabilities

17.1 Creditors

The table below analyses short-term creditors between different types of creditor.

31 March 2016 £000		31 March 2017 £000
(3,576)	Central government	(4,182)
(1,613)	Other local authorities	(1,322)
(4,578)	All other bodies	(5,251)
(9,767)	**Total Short Term Creditors**	**(10,755)**
(313)	Central government	(450)
(573)	Other local authorities	(1,268)
(886)	**Total Long Term Creditors**	**(1,718)**
(10,653)	**Total Creditors**	**(12,473)**

17.2 Provisions

Settlement of Legal Case

A provision for £21,000 has been made for the costs to settle a dispute over the savings share earned by Expense Reduction Analysts during the recovery of water charges from Southern Water.

Appeals against Business Rate Valuations

As part of the changes relating to business rates retention that came into force in 2013, a provision is now made to allow for the potential losses from appeals against valuations, based on the appeals outstanding at 31 March 2017 and the average reduction achieved from settled appeals. New legislation came into effect on 1st April 2015 which stated that appeals would no longer be backdated and no further appeals can be made on the 2010 Rating List after 31st March 2017. This is due to the new 2017 Rating List that will be applicable from 1st April 2017. The provision has been decreased to £1,941,000 (£2,252,000 at 31 March 2016) to reflect the decrease in forecast outstanding appeal values, which represents this Council's 40% share of the total provision.

17.3 Contingent Liabilities

Municipal Mutual "Run Off" Liabilities

Municipal Mutual Insurance Company (MMI) was the main local authority insurer for many years up until 1992 when the company failed and went into "run-off". A Scheme of Arrangement was approved in 1994 with the aim of meeting all claims and achieving a solvent run-off. For a number of years the Administration and Creditors Committee reported that a solvent run off was likely to be achieved and sought to sell the business to another insurer to bring the arrangement to a conclusion. Unfortunately a sale has never been achieved and more recently claims have emerged where courts have ruled in favour of claimants rather than MMI. In 2015/16 a review of the Scheme of Arrangements concluded that a 25% levy must be charged on claims since the Scheme of Arrangement commenced and the Council duly paid this in the last financial year. Each year MMI now provides an estimate of the outstanding claims as at 31st March, which for 2016/17 is zero. However, the Council has put £50,000 aside in a reserve for any future claims that are made or any further adjustments made to the levy rate.

<u>Local Authority Mortgage Scheme</u>

Under the Local Authority Mortgage Scheme (LAMS) the Council has undertaken to indemnify possible losses for the difference between 75% and 95% mortgages. At 31 March 2017, £1,864,730 had been committed against new mortgages, of which this Council is responsible for half of any losses. None of the mortgages are in arrears and no losses have been incurred by 31 March 2017, so there is no provision made in the balance sheet for the Council's possible guarantee liabilities. The 2.79% interest from the scheme has, however, been set aside in a reserve and can be used should any liability arise. The total available is now £128,000, which will be released upon the cessation of the scheme in September 2017, providing there is no call upon it.

<u>Business rates appeals not yet lodged</u>

The Local Government Finance Act 2012 introduced the business rates retention scheme which began on 1st April 2013 and was based upon the 2010 Rating List. Until 31st March 2017, local businesses could still appeal against the Rateable Value on the 2010 Rating List and a successful appeal could be backdated as far as April 2010. The Council therefore reported a contingent liability for any future appeals not yet lodged, as any refund could have been in relation to the present or past financial years.

However, a new Rating List was introduced for 2017 and the Valuation Office will no longer accept any appeals in relation to the 2010 Rating List. Any new appeals can now only be backdated to the 1st April 2017, which removes the financial risk of any future appeals having an impact on the financial position of the organisation in 2016/17. Therefore, there is no contingent liability in 2016/17 for business rates appeals not yet lodged, although the process will commence again next year unless there is any legislative change.

18 Grants and Contributions

The table below outlines Government grants and other external contributions accounted for within the Comprehensive Income and Expenditure Statement and the Cash Flow Statement.

	2015/16				2016/17	
Grants	**Contribs**	**Total**		**Grants**	**Contribs**	**Total**
£000	£000	£000		£000	£000	£000
(35,315)	*-*	*(35,315)*	DWP benefits grants	(34,622)	-	(34,622)
-	*(1,411)*	*(1,411)*	Cont. from other local auth and health sector	-	(1,453)	(1,453)
-	*(556)*	*(556)*	Contributions to rev exp financed from capital	-	(917)	(917)
(26)	*(315)*	*(341)*	Other grants and contributions	-	(344)	(344)
(35,341)	***(2,282)***	***(37,623)***	**Total within Cost of Services**	**(34,622)**	**(2,714)**	**(37,336)**
(1,633)	*-*	*(1,633)*	Revenue Support Grant	(834)	-	(834)
(142)	*-*	*(142)*	New Burdens Grant	(171)	-	(171)
(569)	*-*	*(569)*	Benefits and NNDR administration grants	(503)	-	(503)
(1,226)	*-*	*(1,226)*	New Homes Bonus	(1,778)	-	(1,778)
(521)	*-*	*(521)*	Small business rate relief	(467)	-	(467)
(438)	*-*	*(438)*	Section 31grants, re rate income	(64)	-	(64)
-	*(8)*	*(8)*	Donated assets	-	(1)	(1)
-	*(2,571)*	*(2,571)*	Grants & conts towards capital expenditure	-	(104)	(104)
(271)	*(169)*	*(440)*	Other grants and contributions	(381)	(125)	(506)
(4,800)	***(2,748)***	***(7,548)***	**Total within Taxation and non-specific grant income**	**(4,198)**	**(230)**	**(4,428)**
(40,141)	***(5,030)***	***(45,171)***	**Total within Comprehensive Income and Expenditure Statement**	**(38,820)**	**(2,944)**	**(41,764)**
3,024	*353*	*3,377*	Adjust for variation in accruals and cap grants	(2,730)	(101)	(2,831)
(37,117)	***(4,677)***	***(41,794)***	**Total within Cash Flow Statement**	**(41,550)**	**(3,045)**	**(44,595)**

The Council has also received contributions under Section 106 of the Town and Country Planning Act 1990, which enables developers to make contributions in connection with the granting of planning permission. Where these contributions are to be used towards capital investment, and if the agreements contain a condition specifying a date by which the contribution must be used for a specific purpose, this income is held on the balance sheet under the heading "capital grants receipts in advance". Balances under "current liabilities" represent those expected to be used to finance capital in the next financial year, and other balances are held under "long term liabilities".

19 Officers Remuneration

19.1 Remuneration of Senior Management

The tables below set out in more detail the remuneration of the senior staff of the Council. The pay of the officers concerned is also included in the remuneration band table set out in Note 19.2 below.

	Salary	Benefits	Compen. Loss of Employment	Pension Contribs.	Total Remun.
	£	£	£	£	**£**
2015/16					
Chief Executive	*118,335*	-	-	*14,472*	***132,807***
Director of Change & Communities	*97,911*	*251*	-	*11,749*	***109,911***
Director of Planning & Development	*97,355*	-	-	*11,683*	***109,038***
Director of Finance & Corporate Services (Section 151 Officer)	*90,180*	-	-	*10,602*	***100,782***
	403,780	***251***		***48,506***	***452,538***

	Salary	Benefits	Compen. Loss of Employment	Pension Contribs.	Total Remun.
	£	£	£	£	**£**
2016/17					
Chief Executive	126,240	618	-	14,298	**141,156**
Director of Change & Communities	96,801	-	-	11,616	**108,417**
Director of Planning & Development	100,064	60	247,207	11,616	**358,947**
Director of Finance & Corporate Services (Section 151 Officer)	96,879	231	-	10,867	**107,977**
	419,984	**909**	**247,207**	**48,397**	**716,497**

It should be noted that:

- No bonuses were payable to any of these officers.
- The figures for the Chief Executive include fees payable for the role of Returning Officer for electoral purposes. The amounts fluctuate between years, depending on what elections fall due during the financial year. The amount paid in 2016/17 was £12,886 compared to £7,103 in 2015/16.

19.2 Remuneration Bands

The table below shows the number of employees in the year whose remuneration was greater than £50,000. For this purpose remuneration means amounts paid to or receivable by an employee, and includes sums due by way of expenses allowance (so far as these sums are chargeable to United Kingdom income tax), and the estimated money value of any other benefits received by an employee otherwise than in cash. The table displays two columns for each year: the first column, in line with the Accounts and Audit Regulations, compares amounts paid to individuals including severance pay. As this can vary considerably between years, a second column is also included which excludes severance pay completely.

The table below shows total remuneration paid to individual employees for the year, whereas the detailed tables above in 19.1 show remuneration against the relevant senior post. This does not cause any difference for the two years reported above, but in other years a particular post may be held by more than one employee during the course of the year, and conversely an employee may occupy different posts during the year.

2015/16			**2016/17**	
Inc. Severance	**Exc. Severance**	**Remuneration Band**	**Inc. Severance**	**Exc. Severance**
7	*7*	£50,000 - £54,999	7	7

5	*5*	£55,000 - £59,999	4	4
2	*2*	£60,000 - £64,999	4	4
2	*1*	£65,000 - £69,999	1	1
2	*2*	£70,000 - £74,999	-	-
2	*2*	£75,000 - £79,999	3	3
1	*1*	£90,000 - £94,999	-	-
2	*2*	£95,000 - £99,999	2	2
-	-	£100,000 - £104,999	1	1
1	*1*	£115,000 - £119,999	-	-
-	-	£125,000 - £129,999	1	1
-	-	£345,000 - £349,999	1	-
24	***23***	**Total**	**24**	**23**

20 Post Employment Benefits

20.1 Participation in defined liability pension plan

As part of the terms and conditions of employment of its employees, the Council makes contributions towards the cost of post-employment benefits. Although these will not actually be payable until employees retire, the Council has a commitment to make the payments, and this needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, and therefore in the Kent Pension Scheme, which is administered by Kent County Council.

Under the Local Government Pension Scheme retirement benefits are based on the employee's final salary, and are increased each year in line with the Consumer Price Index.

The accounting policy for this pension plan, including the recognition of actuarial gains and losses, is set out in the accounting policies set out in Note 1.17.

20.2 Annual movement in plan obligations and assets

The table below shows separately the movements in the obligations and assets relating to the accounting group:

	2015/16				2016/17	
Liabilities	**Assets**	**Net**		**Liabilities**	**Assets**	**Net**
£000	£000	£000		£000	£000	£000
(136,768)	***75,207***	***(61,561)***	**Asset / Liability at 1 April**	**(130,321)**	**74,895**	**(55,426)**
(2,414)	-	*(2,414)*	Current service cost	(2,163)	-	(2,163)
(17)	-	*(17)*	Curtailments	(462)	-	(462)
(4,458)	*2,464*	*(1,994)*	Interest expense and income	(4,754)	2,750	(2,004)
-	*(52)*	*(52)*	Administration expenses	-	(48)	(48)
(6,889)	***2,412***	***(4,477)***	**To Surplus / Deficit on Prov. Of Services**	**(7,379)**	**2,702**	**(4,677)**
			Contributions:			
-	*2,323*	*2,323*	Employer	-	2,546	2,546
(581)	*581*	-	Employee	(592)	592	-
3,975	*(3,975)*	-	Payments to beneficiaries	4,312	(4,312)	-
3,394	***(1,071)***	***2,323***	**Other movements**	**3,720**	**(1,174)**	**2,546**
-	*(1,653)*	*(1,653)*	Return on assets excluding interest income	-	12,786	12,786
			Actuarial gains / (losses):			
9,942	-	*9,942*	Changes in financial assumptions	(30,234)	-	(30,234)
-	-	-	Changes in demographic assumptions	2,694	-	2,694
-	-	-	Experience gains and losses	8,469	248	8,717
9,942	***(1,653)***	***8,289***	**Re-measurements**	**(19,071)**	**13,034**	**(6,037)**
(130,321)	***74,895***	***(55,426)***	**Asset / Liability at 31 March**	**(153,051)**	**89,457**	**(63,594)**

20.3 Plan Assets

The plan's assets consist of the following categories:

31 March 2016 £000	%		31 March 2017 £000	%
49,947	*66.7%*	Equities	63,133	70.7%
663	*0.9%*	Gilts	667	0.7%
8,223	*11.0%*	Bonds	8,715	9.7%
10,879	*14.5%*	Property	11,148	12.5%
1,928	*2.6%*	Cash	2,285	2.5%
3,255	*4.3%*	Target Return Portfolio	3,509	3.9%
74,895	***100%***	**Total**	**89,457**	**100%**

20.4 Actuarial Assumptions

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions on mortality rates, salary levels, etc. The liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31 March 2017. The main assumptions used in their calculations are:

2015/16		2016/17
	Mortality assumptions:	
22.9	Longevity at 65 for current pensioners: Men	23.0
25.3	Longevity at 65 for current pensioners: Women	25.0
25.2	Longevity at 65 for future pensioners: Men	25.1
27.7	Longevity at 65 for future pensioners: Women	27.4
4.2%	Rate of increase in salaries	4.2%
2.4%	Rate of increase in pensions	2.7%
3.7%	Rate for discounting scheme liabilities	2.7%
50.0%	Take-up of option to convert annual pension into retirement lump sum	50.0%

20.5 Funding Arrangements

The estimated cash contribution for 2017/18 is £2,379,000 compared with the actual contribution of £2,564,000 for 2016/17.

21 Termination Benefits and Exit Packages

In 2016/17 the Council paid £119,000 in severance payments (excluding pension curtailment costs) to 13 former members of staff, compared to £36,000 paid to 3 former members of staff in 2015/16. 2 payments were settlement agreements and 11 were compulsory redundancies, 1 of which was a senior manager whose remuneration is disclosed in Note 19.1.

The table below shows the complete cost of exit packages agreed in each year that has been charged to the Comprehensive Income and Expenditure Statement. The costs shown include severance pay and any "curtailment" costs relating to the cost of allowing employees to take their pensions before normal retirement age.

2015/16 Number	Cost £000	Banding	2016/17 Number	Cost £000
2	*9*	0 - £19,999	11	59
1	*28*	£20,000 - £39,999	-	-
-	-	£60,000 - £79,999	1	71
-	-	£200,000 - £249,999	1	247
3	***37***		**13**	**377**

22 Members Allowances

The total amount of members' allowances paid in 2016/17 was £362,702, compared to £363,973 in 2015/16.

The Council produces a statement, in accordance with the Local Authorities Members' Allowance (England) Regulations 2003, giving details of the allowances paid. The statement may be seen on the Council's website or copies can be obtained by writing to the Democratic Services Manager, Town Hall, Royal Tunbridge Wells, Kent TN1 1RS. Telephone 01892 554179 or e-mail committee@tunbridgewells.gov.uk

23 Agency Income and Expenditure

The Council is responsible for the Collection of National Non-Domestic Rates and Council Tax, which it then passes on to the Government, Kent County Council, the Kent Police Authority and the Kent Fire and Rescue Service as shown below. While the element of Council Tax and National Non-Domestic Rates collected for this Council is accounted for in the Income and Expenditure Account, the remainder of the tax collection activity is excluded from this account and is accounted for as an agency service.

All amounts collected and paid over under these agency activities are excluded from the main accounting statements and the notes, other than the Cash Flow Statement, where the changes during the year are included in the “financing activities” heading.

The totals collected on this basis are shown below:

2015/16				2016/17		
Council Tax	**Rates**	**Total**		**Council Tax**	**Rates**	**Total**
£000	£000	£000		£000	£000	£000
-	*24,958*	*24,958*	Government	-	26,226	26,226
47,224	*4,492*	*51,716*	Kent County Council	49,913	4,721	54,634
6,375	-	*6,375*	Kent Police Authority	6,699	-	6,699
3,060	*499*	*3,559*	Kent Fire and Rescue Service	3,169	525	3,694
56,659	***29,949***	***86,608***	**Total agency income**	**59,781**	**31,472**	**91,253**

24 External Audit Costs

The audit fees for 2016/17, payable to Grant Thornton, are set out below.

2015/16		2016/17
£000		£000
51	External Audit Services - Statutory Accounts 2016/17	51
12	Audit & Statutory Certification of Grant Claims 2016/17	9
63	**Total**	**60**

25 Leasing

25.1 Finance leases – Council acting as lessee

The Council holds two properties under long term leases, as shown below. As the length of the leases are in line with, or greater than, the life expectancy of the building, the building element of these agreements are treated as a finance lease.

	Lease start	**Lease term**	**Value 31/03/16**	**Value 31/03/17**
			£000	£000
TN2 Centre	2006	30 years	*500*	475
Putlands Sports & Leisure Centre	1995	99 years	*264*	252
			764	**727**

As these leases are on peppercorn rents there are no lease commitments.

The Council has sub-let accommodation within the TN2 Centre back to the YMCA, also on a peppercorn rent, and to Kent County Council, for use as a library, for £14,000 per annum, under a sub-lease expiring on 16 March 2036.

25.2 Operating leases – Council acting as lessee

The Council makes payments under operating leases for photocopiers and printers, the Housing Leasing scheme (the Council obtained the use of various properties which were used for temporary accommodation), the Tourist Information Centre and various car parks.

Combined, the leases have a total value of £36,000, compared with £47,000 in 2015/16 and are immaterial.

The Council paid out £20,000 in minimum lease payments during 2016/17 compared to £19,500 in 2015/16. The Council did not pay any contingent rents or receive income under subleases, in either year.

25.3 Finance leases – Council acting as lessor

The Council has not leased out any properties under finance leases.

25.4 Operating leases – Council acting as lessor

The Council leases out various properties that it does not directly occupy, for purposes such as housing, leisure and economic development, including the ground rent received for the Royal Victoria Place shopping centre.

The future minimum lease payments receivable under non-cancellable leases as at the end of the financial year are:

31 March 2016		31 March 2017
£000		£000
	Leases expiring:	
(15)	Within one year	(52)
(1,063)	Between two and five years	(177)
(80,079)	Later than five years	(81,640)
(81,157)	**Total**	**(81,869)**

The minimum lease payments receivable as shown in the above table do not include rents that are contingent upon events taking place after the start of the lease, such as adjustments following rent reviews. In 2016/17 the Council received £23,000 in contingent rents, compared to £25,000 in 2015/16.

26 Related Parties

26.1 Definition

The term “related party” covers relationships between the Council and a body or individual where one of the parties can exercise significant influence over the policies and decisions of the other.

26.2 Central Government

The UK central government provides much of the Council’s funding and determines its statutory framework. Details of transactions with central government are shown in the Comprehensive Income and Expenditure Statement, the Cash Flow Statement, and Note 16 Debtors, Note 17 Liabilities and Note 18 Grants and Contributions.

26.3 Kent Pension Scheme

The Council participates in the Kent Pension Scheme, making annual contributions to the Kent Pension Fund as set out in Note 20. Although the scheme is administered by Kent County Council, the pension fund is a separate entity, and Kent County Council is not in itself a related party.

26.4 Tunbridge Wells Property Holdings Limited

This company was incorporated on 9 March 2015, with the purpose of owning and managing some of the Council’s property portfolio, particularly those properties being developed as part of the capital programme. The company is wholly owned by the Council and there are 3 company Directors, 2 Councillors and the Head of Economic Development. A letting agent has been appointed to manage the tenant relationships and the administration is provided by the council and recharged to the company.

The company started trading on the 18 May 2015, when 8 properties were leased to the company by the Council on 22 year leases. A further 7 properties were leased during 2016/17. In the second year of trading the company has made a loss of £6,400 due to the start up costs associated with the new properties. The accounts will be filed at Companies House by December 2017. Group Accounts have not been prepared as the revenue is immaterial as shown in Note 3.

26.5 Members and senior officers

All members and senior officers are required to complete an annual return, disclosing the details of any interest of themselves and their close family members, which might have an impact on their activities on behalf of the Council. Members also disclose such interests in the Register of Members’ Interests, which is held at the Town Hall, Tunbridge Wells, and is open to public inspection.

Returns were received from all Councillors elected for the 2016/17 financial year and all Chief Officers and there were no transactions considered of material significance to warrant separate disclosures in the accounts.

Details of payments to senior officers and to members are shown in Note 19 and Note 22 respectively.

The Collection Fund

The Collection Fund is an agent's statement that reflects the Council's statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities and the Government of council tax and non-domestic rates.

2015/16 C Tax £000	2015/16 Rates £000	2015/16 Total £000		2016/17 C Tax £000	2016/17 Rates £000	2016/17 Total £000
(65,849)	*(53,886)*	***(119,735)***	Income Collectable	(69,203)	(53,050)	**(122,253)**
-	-	-	Transfer from General Fund: Council Tax Benefit	-	-	-
(65,849)	***(53,886)***	***(119,735)***	**Income Receivable**	**(69,203)**	**(53,050)**	**(122,253)**
			Apportionments of previous year surplus:			
-	-	-	Kent County Council	-	-	-
-	-	-	Kent Police Authority	-	-	-
-	-	-	Kent Fire and Rescue Service	-	-	-
-	-	-	Tunbridge Wells Borough Council	-	-	-
			Precepts and central share:			
46,974	*4,365*	***51,339***	Kent County Council	49,353	4,705	**54,058**
6,342	-	***6,342***	Kent Police Authority	6,624	-	**6,624**
3,045	*485*	***3,530***	Kent Fire and Rescue Service	3,135	523	**3,658**
8,823	*19,400*	***28,223***	Tunbridge Wells Borough Council	9,196	20,910	**30,106**
-	*24,250*	***24,250***	Government	-	26,138	**26,138**
			Transfer to General Fund:			
-	*177*	***177***	Cost of Collection allowance	-	177	**177**
			Impairment of debts:			
311	*673*	***984***	Write offs	101	313	**414**
10	*461*	***471***	Allowance for impairments	21	684	**705**
			Impairments resulting from appeals:			
-	*2,603*	***2,603***	Allowance for impairments	-	(778)	**(778)**
-	*55*	***55***	Transitional protection payments	-	202	**202**
65,505	***52,469***	***117,974***	**Expenditure**	**68,430**	**52,874**	**121,304**
(344)	*(1,417)*	***(1,761)***	(Increase) / Reduction in fund balance	(773)	(176)	**(949)**
(246)	*950*	***704***	Balance on Fund 1 April	(590)	(466)	**(1,056)**
(590)	***(466)***	***(1,056)***	**Balance on Fund 31 March**	**(1,363)**	**(642)**	**(2,005)**

Notes to the Collection Fund

1 Non-Domestic Rates

The total non domestic rateable value at 31 March 2017 was £127.343m (£126.967m as at 31 March 2016). The national non-domestic multiplier for the year was 49.7p (49.3p for 2015/16). Revaluation usually takes place every 5 years to maintain fairness by ensuring that rateable values reflect changes in the property market. The next revaluation however, has been delayed to 2017 due to the vulnerable state of the economy and pressures on the valuation office. The most recent revaluation came into effect on 1 April 2010. At revaluation, the multipliers are revised so that the overall national business rates bill only changes in line with inflation.

In 2015/16 the Council joined the Kent Non-Domestic Rates Pool, which enables the County to retain much of the Business Rates Levy that would otherwise have been paid to Government. The Council was permitted to keep an additional £164,000 of the Business Rates income from the Borough.

The Council has received applications for mandatory relief from business rates on behalf of 2 NHS Foundation Trusts, but it considers the basis of these applications to be unfounded and has made no allowance for them in its financial statements.

2 Council Tax Base

The Council Tax base i.e. the number of chargeable dwellings in each valuation band (adjusted where discounts apply) converted to an equivalent number of band D dwellings was calculated as follows:

	2015/16			**2016/17**		
	Estimated No. Of Properties	Multiplier	Band D Equivalent Dwellings	Estimated No. Of Properties	Multiplier	Band D Equivalent Dwellings
A	1,975.59	6/9	1,317.31	1,992.92	6/9	1,329.76
B	3,420.34	7/9	2,660.27	3,455.55	7/9	2,688.13
C	10,251.69	8/9	9,112.63	10,448.79	8/9	9,287.80
D	8,440.99	9/9	8,440.99	8,512.52	9/9	8,512.52
E	5,848.42	11/9	7,148.09	5,873.75	11/9	7,179.03
F	4,167.35	13/9	6,019.49	4,198.23	13/9	6,064.10
G	4,798.67	15/9	7,997.79	4,829.69	15/9	8,049.50
H	483.50	18/9	967.00	500.50	18/9	1,001.00
TOTAL BAND D EQUIVALENTS			43,663.57	39,811.95		44,111.84
COLLECTION RATE			0.987			0.987
TAX BASE			43,095.94			43,538.39