

Agenda Item No: 4

Report To: Audit Committee

Date of Meeting: 11 July 2017

Report Title: Statement of Accounts 2016/17 and the Appointed Auditor's Audit Findings

Report Author & Job Title: Maria Seddon
Accountancy Manager

Portfolio Holder Cllr. Shorter

Portfolio Holder for: Finance & IT



Summary:

The report presents the 2016/17 Statement of Accounts for approval.

The Auditor's Report is attached and she will be present at the meeting to introduce this and take questions.

The Appointed Auditor is proposing to issue an unqualified opinion on the accounts.

Once approved the accounts will be published.

Key Decision: NO

Significantly Affected Wards: All but not significant impact

Recommendations: **The Audit Committee resolves to:-**

- I. Consider the Appointed Auditor's Audit Findings (Appendix A)**
- II. Agree the basis upon which the accounts have been prepared (going concern)**
- III. Approve the audited 2016/17 Statement of Accounts (Appendix B)**
- IV. Approve that the Chairman of this committee signs and dates the accounts as required by Section 10(3) of the Accounts and Audit Regulations 2003 as approved by the Council**
- V. Approve the Chief Financial Officer's Letter of Representation to the Appointed Auditor (Appendix C)**

Policy Overview: The 2016/17 Statement of Accounts complies with the requirement of various Codes of Practice and the Accounts and Audit regulations.

Financial Implications: The 2016/17 Statement of Accounts sets out the Council's financial position as at 31 March 2016 and movement in funds during the year.

Legal Implications
Contact:

N/A
Maria.seddon@ashford.gov.uk – Tel: (01233) 330547

Report Title: Statement of Accounts 2016/17 and the Appointed Auditor's Audit Findings

Introduction & Background

1. Our external auditors (Grant Thornton) have completed the audit of the Council's 2016/2017 financial statements. The Accounts and Audit regulations require the accounts to be approved by this Committee and must be published by 30 September 2016.
1. Next year, 2017/18 accounts need to be submitted to the Auditors by 31 May 2018 and Audit sign off by 31 July 2018. This year the accounts were submitted for audit before 31 May and the Audit team have completed their work to enable the Council to sign off the Accounts on the first available day being 15 July 2017.
2. Attached to this report is the Appointed Auditor's Audit Findings report setting out his work and conclusions in respect of the accounts. The Appointed Auditor will be present at the meeting and will wish to introduce the report and take questions.
3. The 2016/17 Statement of Accounts has been completed and with the International Financial Reporting Standards (IFRS), as set out in the Code of Practice on Local Authority Accounting in the United Kingdom and relevant Standards.
4. Over the last 3 weeks, the Auditor has been working on site conducting the review of the financial statements, Officers would like to record their thanks to the work of the team on site, the process has been intensive and thorough but conducted in a spirit of co-operation and good working relationships have been maintained. The Auditor has issued an unqualified opinion on the Statements of Account and an unqualified opinion for Value For Money.
5. The Audit Committee received a briefing on the un-audited accounts at its meeting on 22 June and the changes that have been made to the statement as a result of the audit process are outlined in the Auditors report.

Proposal/Current Position

6. The Committee is being asked to approve the Statement of Accounts, the Chairman of this committee can sign the Accounts and approve the letter of Representation. The committee is also being asked to consider the Auditor's report including the three recommendations.

Basis of Preparation

7. The Statement of Accounts has been prepared on a 'Going Concern' basis, in accordance with recommended accounting practice. This means, for accounting purposes, that the organisation is expected to be in existence for the medium to long term and that the Council has no intention in the foreseeable future of curtailing, materially, the extent of its operations.

8. This basis has been adopted as there are no plans to reorganise local government and no other factors exist that will materially affect the council's operations in the foreseeable future.

The Amended 2016/17 Financial Statements

9. The Council built upon the success of faster closing last year with a draft statement prepared by 20 May 2017. To do this the concept of materiality has been used throughout and items that are not material (qualitative included) a lighter touch approach has been adopted.
10. The auditor's report highlights some items that have been adjusted for and one item that has not been adjusted in the statements. The amendments include:
 - a. a misstatement between the bank and creditors. A creditor was setup to identify a tariff due to Government however this payment was made in year and highlighted as an outstanding item on the bank statement. Overall the balance sheet did not change however the current assets and current liabilities moved either way by £1.7m. There were no other statements affected.
 - b. Debtors for court costs (Council Tax & NNDR) totalling £0.55m were held on the Balance Sheet. During the transition to a new accounting model in 2013/14 these amounts were duplicated creating a gain in the general fund. This was held in earmarked reserves and the write off will be funded from these balances.
11. These items have been fed back to the appropriate staff and adjustments have been made to processes to ensure that similar errors are not expected in the future.
12. The Audit has identified that in 2012/13 Government granted an ability for NNDR payments to be deferred by some rate payers. A balance of £0.25m has been held on the Council's balance sheet for these deferrals and now needs to be written off. However NNDR receipts are shared between the Council, Government, KCC and Fire and so making an adjustment would affect the accounts for all the authorities above and need the statutory NNDR3 return to be amended. It has been agreed that the amendment can be completed as part of the closedown for 2017/18 and included in all of the statutory returns.
13. There were a number of other adjustments detailed in the auditor's report.

Audit Action Plan

14. The Auditors have prepared an action plan following the audit for consideration of management.
 1. The Audit process identified an item that was entered incorrectly in the Bank Reconciliation process. This has been resolved and the member of staff has received some training and new control process has been introduced to review the bank reconciliation to reduce the likelihood of a similar error in future.

2. The audit report highlights that they continue to have concerns over the control of authorisation of Journals within the finance system. This is an area where Audit and the Council often disagree on the appropriateness of the control environment. The Council takes the view that the ability to enter journals is controlled through user access and that the risk to the council's finances through this area is low and therefore the controls are appropriate. On average 1600 journals per year were entered into the system, if a process authorising individual journals was introduced it is considered that this would be time consuming and not significantly enhance the control environment. We will work with our Auditors to seek to develop an authorisation or review process that strikes a balance between providing review and oversight but is not onerous for resources.

Conclusion

15. The Audit of the 2016/17 Statement of Accounts is complete and there have been a few changes to the accounts and the auditor's report contains 2 recommendations in the Action Plan for the committee to consider.
16. The objective to achieve a fasted closing process and audit sign off has been achieved and some areas have been identified which will improve the Council's processes and procedures.
17. The auditor is issuing an unqualified opinion to the statement of accounts and an unqualified 'Value for Money' conclusion.

Portfolio Holder's Views

- 18.
- 19.

Contact and Email

20. Maria.seddon@ashford.gov.uk

The Audit Findings for Ashford Borough Council

Year ended 31 March 2017

11 July 2017

Elizabeth Jackson

Engagement Lead

T 0207 728 3329

E elizabeth.l.jackson@uk.gt.com

Terry Blackman

Engagement Manager

T 020 7728 3194

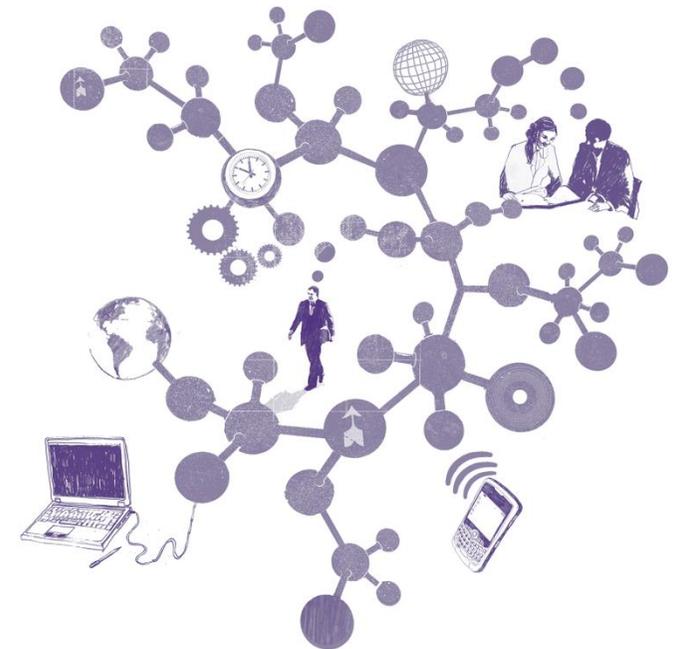
E terry.blackman@uk.gt.com

Steve Richards

In-charge Auditor

T 020 7728 3340

E steve.richards@uk.gt.com



Councillor Waters
Chair of the Audit Committee
Ashford Borough Council
Tannery Lane
Ashford
Kent
TN23 1PL

Grant Thornton UK LLP
Grant Thornton House,
22 Melton St,
London
NW1 2EPT
+44 (0) 20 7383 5100
www.grant-thornton.co.uk

Dear Councillor Waters

Audit Findings for Ashford Borough Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Ashford Borough Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Elizabeth Jackson
Engagement lead

Chartered Accountants

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Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Ashford Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 21 March 2017 with the exception of the new risk identified in relation to the transfer of the asset register to a new system. See details on page 14.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- valuation of the pension fund net liability; testing of housing benefit payments
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified one adjustment to the accounts which has had the effect of reducing the group and the Council's usable reserves by £541,000, in respect of an overstatement of debtors for Council Tax court costs (details are recorded in section two of this report). We have also identified one unadjusted misstatement of £264,000. We have also recommended a number of amendments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- The Council produced a good quality set of accounts on 22 May 2017 supported by well prepared working papers. Staff responded quickly and helpfully to queries and have done well to continue to bring forward the timetable for accounts preparation.
- We have not identified any adjustments affecting the group and Council's reported financial position and anticipate providing an unqualified opinion in respect of the financial statements (see Appendix B).

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention to control issues identified in relation to:

- bank account reconciliations
- journal authorisation.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in February 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance & IT.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Head of Finance & IT and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
July 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,753k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have revised our overall materiality to £1,717k being 2% of gross revenue expenditure in the draft 2016/17 financial statements.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £86k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

We have not identified any balances or items that require separate lower materiality levels.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|--|---|
| <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Ashford Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Ashford Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Although no specific procedures are therefore necessary regarding this risk, we have carried out substantive testing on the material revenue balances in the accounts.</p> | <p>We identified one misclassification of £112k of grant income as non-domestic rates income. (See 'Misclassifications and disclosure changes', page 22)</p> <p>This has been amended and we are satisfied that the Council's income is fairly stated. There was no impact on the revenue recognition policy of the misclassification as assurance obtained that it related to 2016/17.</p> |
| <p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p> | <p>We carried out the following procedures:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • Review of unusual significant transactions. | <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|-------------------------------------|--|--|---|
| <p>Operating expenses</p> | <p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Creditors understated or not recorded in the correct period (Operating expenses understated) | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • identifying the system controls and walked through the operating expenses system • testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces • cut off testing to assess whether transactions are recorded in the correct period • substantive testing of operating expenditure payments • substantive testing of year end payable balances • procedures to gain assurance that material goods and services received prior to the year are correctly accrued. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |
| <p>Employee remuneration</p> | <p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Employee remuneration accruals understated (Remuneration expenses not correct) | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • identified the system controls and walked through the operating expenses system • testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces • trend analysis and risk identification for monthly payroll costs • substantive testing of payroll payments, assessing whether payments are made in accordance with the individual's contract of employment and deductions are correctly calculated • testing to confirm the completeness of payroll transactions and appropriate cut-off. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|--|--|---|---|
| <p>Valuation of property, plant and equipment</p> | <p>Revaluation measurements not correct.</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • a walkthrough of the council's processes and controls over this area to gain an understanding of these • review of management's processes and assumptions for the calculation of the estimate • review of the competence, expertise and objectivity of any management experts used • review of the instructions issued to valuation experts and the scope of their work • discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions • review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>However, we have agreed a number of amendments to Note 14 Property, Plant and Equipment to improve and simplify the disclosures on the value of the Council's assets.</p> |
| <p>Property, plant and equipment additions</p> | <p>Property, plant and equipment activity not valid</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • a walkthrough of the council's processes and controls over this area to gain an understanding of these • testing of significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid • verification of the existence and ownership of material assets and a sample of those remaining. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>However, our testing of disposals identified one disposal of land where the asset had not been previously entered on the Council's asset register. We are satisfied that there are no other disposals of this nature in 2016/17 and that the gain on disposal is materially fairly stated.</p> <p>We have also sought assurance through the letter of representation regarding the completeness of the asset register.</p> |

Audit findings against other risks continued

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|--|---|---|---|
| Valuation of pension fund net liability | The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> identifying the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation understanding the basis on which the valuation was carried out procedures to confirm the reasonableness of the actuarial assumptions made Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the report from your actuary. | This work is in progress. To date, our audit work has identified that the discount rate factor used by the actuary, Barnett Waddingham, is outside of the auditors expert assessment and additional procedures will be required to confirm the factor used and variance is reasonable. |
| CIPFA Code – ‘Telling the Story’ | New requirements in the CIPFA code require restatement of Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MIRS), plus additional note disclosures | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We will review restated CIES and MIRS We will ensure all additional note disclosures are included correctly We will carry out a comprehensive review of the draft financial statements for compliance with the CIPFA Code. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>However, we have requested that management move the EFA disclosure for the prior year restatement in the draft accounts to be a note to the accounts and not be shown as part of the Comprehensive Income and Expenditure Statement.</p> |

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that management's assertion that the going concern basis is appropriate for the 2016/17 financial statements.

New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan.

| | Reasonably Possible Risk | Commentary |
|----|---|--|
| 1. | <p>Transfer of asset register to the new system in March 2017</p> <ul style="list-style-type: none"> • There is a risk over the completeness of the asset register in 2016/17. • The Council transferred its asset base from a Council maintained spreadsheet asset register to the CIPFA hosted asset register. | <p>Work completed</p> <ul style="list-style-type: none"> • a walkthrough of the council's processes and controls over this area to gain an understanding of these • reconciliation of new asset register to the old spreadsheet system <p>Assurance gained & issues arising</p> <ul style="list-style-type: none"> • Our walkthrough testing and substantive testing of the asset register transfer did not identify any weaknesses. • However, our disposals testing identified that an asset disposed in year was not included on the asset register (see findings on page 12). A review of the old asset register confirmed that it was not held on that system either so is not indicative of any completeness errors in the new system. • We have discussed the disposal issue with management and they have undertaken a review of the Corporate Delivery Plan to confirm that there are no other pieces of land owned by the Council where any potential sale is dependent on the overall capital scheme progressing as at 31 March 2017. None have been identified so it is appropriate that these small pieces of land owned throughout the Borough are not included as assets held for sale. • We have requested a specific representation from management in respect of the completeness of the asset register as a result of the disposal error. |

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

| Component | Significant? | Level of response required under ISA 600 | Risks identified | Work completed | Assurance gained & issues raised |
|-----------------------------------|--------------|--|-------------------------------|---|---|
| A Better Choice for Property Ltd. | Yes | Targeted | Property, Plant and Equipment | Specific (targeted) procedures performed by Grant Thornton include testing of the consolidation process and the value of property, plant and equipment. | Our audit work has not identified any issues in respect of its consolidation into the Group financial statements. |

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|---------------------------------|---|---|--|
| Revenue recognition | <p>Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services</p> <p>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.</p> <p>Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions. Revenue is recognised when it is probable that the economic benefits of the transaction will flow to the Council and the amount of revenue can be measured reliably.</p> <p>Grants received are credited to the Comprehensive Income and Expenditure Statement when the income is recognised once conditions have been met. If conditions have not been met, grants will be held as a creditor (Grants received in advance) on the Balance Sheet until conditions are met or grants are repaid.</p> | <p>The revenue recognition policies are appropriate and in accordance with the CIPFA Code and International Financial Reporting Standards (IFRS).</p> |  Green |
| Judgements and estimates | <p>Significant estimates and judgements include:</p> <ul style="list-style-type: none"> • useful life of capital equipment • land and building revaluations • expenditure accruals • NNDR appeals liability • recovery of benefit overpayments • allowance for doubtful debt • assessment that group accounts are not required for the building consultancy company. | <p>Our review of key judgements and estimates did not identify any significant issues.</p> |  Green |

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

| Accounting area | Summary of policy | Comments | Assessment |
|----------------------------------|--|---|---|
| Going concern | The Head of Finance & IT, as s151 officer, has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements. | We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements. |  Green |
| Other accounting policies | As set out in Note 1 to the accounts. | We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years. |  Green |

Assessment

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| | Issue | Commentary |
|----|--|--|
| 1. | Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2. | Matters in relation to related parties | <ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed. |
| 3. | Matters in relation to laws and regulations | <ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| 4. | Written representations | <ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. Specific representations have been requested from the Council regarding the unadjusted misstatements set out on page 22 and the completeness of the asset register. |
| 5. | Confirmation requests from third parties | <ul style="list-style-type: none"> We obtained direct confirmations from the Public Works Loans Board for loans and requested from management permission to send confirmation requests to counterparties for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. |
| 6. | Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements. |
| 7. | Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a number of areas. We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit If the information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading. |
| 8. | Specified procedures for Whole of Government Accounts | <p>The NAO requires external auditors to carry out specified procedures on its behalf on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions, where a given threshold is exceeded. The Council is below the threshold so no additional work is required.</p> |

Internal controls

| | Assessment | Issue and risk | Recommendations |
|----|---|--|---|
| 1. |  Red | <ul style="list-style-type: none"> Testing of bank reconciliations found that a reconciliation from, reconciling from bank balance to cashbook is not performed. This creates the risk of significant misstatement of the Council's cash balance. | <ul style="list-style-type: none"> Bank reconciliation procedures should include a reconciliation from bank balance to cashbook. |

Assessment

-  [Red] Significant deficiency – risk of significant misstatement
-  [Amber] Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls - continued

Review of issues raised in prior year

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|----|------------|--|---|
| 1. | X | The Council does not require authorisation of each journal. Instead the expected internal control is that the Head of Finance & IT reviews journals on a risk basis. However, this was not completed in 2015/16. | <p>This has continued to be a control weakness in 2016/17.</p> <ul style="list-style-type: none"> The Council should review its journal authorisation procedures to ensure that they provide an appropriate level of internal control. |

Assessment

- ✓ Action completed
- X Not yet addressed

Information technology controls

| | Work performed | Conclusion |
|--|---|--|
| Review of information technology controls | <p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p> | <p>Our work has identified no material weaknesses or control deficiencies that impact on the Council's financial statements.</p> |

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

| Detail | | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 |
|-----------------------|--|--|------------------------|
| 1 | <p>Balance Sheet</p> <p>The cash balance is overstated by £1,790k as a payment to the CLG was not posted to the ledger correctly. This was included as a creditor at year end even though the payment had been recognised in the bank account before year end.</p> <p>DR short term creditors</p> <p>CR cash and cash equivalents</p> | - | 1,790 (1,790) |
| 2 | <p>Balance Sheet</p> <p>The debtors balance for council tax is overstated as there were a number of old council tax court costs that should have been written off.</p> <p>DR Council Tax court costs debtor overstated</p> <p>CR Service pressure reserve</p> | 541 | (541) |
| Overall impact | | 541 | - |

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Reason for not adjusting |
|--|--|------------------------|---|
| 1 Creditors (note 23) The creditors balance includes £264k in respect of non-domestic rates deferrals which are no longer valid. | | | Immaterial to the group's financial position at the year end. |
| DR Creditors | 0 | 264 | |
| CR Non-domestic rates income and expenditure | (264) | 0 | |
| Overall impact | (264) | 264 | |

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|---------------------|----------------|--|--|
| 1 Misclassification | 112 | Comprehensive Income and Expenditure Statement: Non- domestic rates income and expenditure | A grant received in the year totalling £112k was incorrectly included in the CIES as non-domestic rates income when it should have been disclosed as non-ringfenced government grants. |
| 2 Misclassification | 93 | Note 22 Debtors | There was a misclassification between the 'local taxpayers / ratepayers debtors' and 'other debtors' as an amount relating to council tax debt was included in 'other debtors'. |

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2017 and identified one of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 21 March 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Changes to the management team: we have reviewed the implementation of the Council's succession plans to gain assurance over how the Council is identifying, managing and monitoring the impact of changes to the management team during the prior year to ensure arrangements are in place to deliver the Council's objectives.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 25.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management. We have no recommendations to make from our findings.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Work to address | Findings and conclusions |
|--|---|---|
| <p>Management capacity The Council put in place succession plans to address the loss of Council knowledge and experience as senior managers retired or departed during the 2015/16 financial year. This a continuous process for the Council as new roles are developed to ensure that all key roles are covered and the new management team works cohesively to drive the Council forward.</p> | <p>Review the implementation of the Council's succession plans to gain assurance over how the Council is identifying, managing and monitoring the impact of changes to the management team during the prior year to ensure arrangements are in place to deliver the Council's objectives.</p> | <p>As noted in our Audit Plan, succession planning to address the loss of Council knowledge and experience through the departure of a number of key senior managers has been a continuous process, and we included this issue as a significant risk in our 2015/16 VFM risk assessment.</p> <p>Our findings, as reported in the 2015/16 AFR, were as follows: <i>'The Council has a clear approach to succession planning, with proposals agreed at Cabinet meetings. It has a leadership and management development programme across Heads of Services in the Council. The majority of the changes in senior managers have been expected and transition arrangements well planned. These changes have allowed for the Council to reassess its directorate structure, alongside its member portfolios. Changes have been well communicated throughout teams with the introduction of regular Chief Executive walkabouts which include presentation of key Council issues and developments.'</i></p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Council had proper arrangements.</p> <p>Since we reported the above findings in July 2016, the Council has continue to take measure to address the impact of senior departures on its management capacity. The Council's current approach to Strategic Risk Management has identified seven key themes. The first was initially entitled 'Workforce skills & capacity', and has subsequently been revised to 'Organisational Skills & Capacity to Deliver' to reflect that the Council frequently needs to work in partnership with Members and partner organisations, private companies and other public sector providers. This theme clearly encompasses the risk of loss of knowledge and experience from senior management departures, and is 'owned' at senior level by the Director of Law and Governance.</p> <p>Key controls identified for this risk include succession planning, a flexible resourcing framework that gives ability to access to short term skilled staff, and business continuity plans. The need for an integrated approach to succession planning with the medium term financial plan and the Council's wider programme management processes has been identified as a key area for oversight by Directors and the Management Team.</p> <p>[Continued over...]</p> |

Key findings - continued

| Significant risk | Work to address | Findings and conclusions (continued) |
|---------------------------------|----------------------|--|
| Management capacity (continued) | Continued from above | <p>The Council's initial response to the prospect of a number of key senior level retirements was to establish a leadership development programme, and a number of programmes to prepare officers and the organisation for future roles were completed between 2013 and 2016.</p> <p>When the then Chief Executive left the Council in February 2016, the current Chief Executive took this role on an interim basis pending the outcome of discussions on a county and regional basis on potential devolution and mergers. However, in January 2017 the Council came to the view that a merged Council in East Kent was not appropriate for Ashford and chose not to progress with this.</p> <p>The Council therefore determined that it was appropriate to ratify the appointment of the Chief Executive on a permanent basis, and this occurred at the Full Council meeting on 20th April 2017. This in turn allowed a revision of the Council's senior management structure on a permanent basis to commence, moving to a structure with three Directors and 10 Heads of Service, which was approved by Cabinet in April 2017. Four vacant senior posts in the structure have now been through the Member Appointments Committee process and have been advertised for both external and internal candidates, with interviews scheduled for July 2017.</p> <p>Alongside this, the Council has also sought to strengthen its programme management and project initiation arrangements, in order to better identify the capacity required to deliver its key projects. This in turn has helped to determine the senior leadership structure needed to deliver the Council's objectives.</p> <p>The Council has put in place adequate temporary appointments during 2016/17 to provide senior leadership pending resolution of the East Kent Council merger discussions. Once the Council took the decision to withdraw from the East Kent discussions in January, it took effective action to start a senior manager restructure which is approaching completion. We are satisfied that the Council maintained proper arrangements to ensure sufficient senior capacity to deliver its objectives.</p> |

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

| | Issue | Commentary |
|----|--|---|
| 1. | Public interest report | <ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued. |
| 2. | Written recommendations | <ul style="list-style-type: none"> We have not made any written recommendations that the Group is required to respond to publicly. |
| 3. | Application to the court for a declaration that an item of account is contrary to law | <ul style="list-style-type: none"> We confirm that we have not had recourse to this duty. |
| 4. | Issue of an advisory notice | <ul style="list-style-type: none"> We confirm that we have not had recourse to this duty. |
| 5. | Application for judicial review | <ul style="list-style-type: none"> We confirm that we have not had recourse to this duty. |

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

| | Proposed fee £ | Final fee £ |
|--|-------------------|----------------|
| Council audit | 60,311 | 60,311 |
| Audit of subsidiary company - A Better Choice for Property Limited | 10,000 | TBC |
| Audit of subsidiary company - A Better Choice for Building Consultancy Limited | 6,000 | TBC |
| Grant certification | 10,650 | TBC |
| Total audit fees (excluding VAT) | 86,661 | TBC |

The proposed Council fee for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

The fees for the subsidiary audits are set by Grant Thornton. These will be confirmed after the audits have been completed.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table below summarises all non-audit services which were identified.

Fees for other services

| Service | Fees £ |
|--|--------|
| Audit related services: | |
| • Certification of housing pooling capital receipts return | 2,000 |

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to auditor's report, or emphasis of matter | | ✓ |
| Unadjusted misstatements and material disclosure omissions | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | ✓ | ✓ |
| Matters in relation to the group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud. | ✓ | ✓ |

Appendices

A. Action Plan

B. Audit Opinion

A. Action plan

Priority

| Rec no. | Recommendation | Priority | Management response | Implementation date and responsibility |
|---------|--|----------|---|--|
| 1 | Bank reconciliations: Procedures should include a reconciliation from bank balance to cashbook. | Red | The Council has reviewed the processes in place and given the officer responsible further training and strengthened the sign off process with the introduction of a cover sheet which should prevent this from happening in future. | Due 1 July 2017 Accountancy Manager |
| 2 | Journals: The Council should review its journal authorisation procedures to ensure that they provide an appropriate level of internal control. | Medium | The Council is comfortable with the controls in place. There is no sign off functionality within the system to control Journal processing and so to implement this would involve the introduction of a manual process. The staff that can input journals are restricted to the finance team and a journal cannot trigger a payment or change amounts due to or from 3 rd parties. We are happy to discuss with Audit whether additional controls can be introduced that are proportionate with the risk. | Due 31 March 2018 Accountancy Manager |

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Audit opinion

We anticipate we will provide the Group with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ASHFORD BOROUGH COUNCIL

We have audited the financial statements of Ashford Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Comprehensive Income and Expenditure Statement, the Group and Authority Movement in Reserves Statement, the Group and Authority Balance Sheet, the Group and Authority Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, the Group Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Group Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: Framework (2016)’ published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Elizabeth Jackson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

XX July 2017



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Ashford Borough Council

Statement of Accounts 2016/17

Final Draft to Audit

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Approval of the Statement of Accounts

The Audit Committee at its meeting on the 11th July 2017 approved the Statement of Accounts for the year ended 31 March 2017 in accordance with the Accounts and Audit Regulations 2015.

Signed:

Councillor Waters
Chairman Audit Committee
15 July 2017

Narrative Report

Introduction

Local Authority accounts are subject to a number of regulatory requirements and accounting standards. This results in a complex format, which requires the reader to have a reasonable knowledge of accounting terms and presentation. Where the use of technical terms is unavoidable, an explanation is provided in the Glossary (page 80).

The Statement of Accounts

The content and format of the Statement of Accounts is prescribed in the Accounting Code of Practice, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which has approval from the Financial Reporting Advisory Board. The Statement of Accounts includes the Core Financial Statements and Supplementary Financial Statements along with other statutory sections.

For this year (2016/17), there have been a few changes to the Code with some changes affect this Council.

The Core Financial Statements (page 9 to 13) comprise:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement

These statements include a group position, which includes the Council's property company.

There is a new note this year, the Expenditure and Funding Analysis, this note helps to demonstrate the movement from the CIES and the Management

accounts to the movements in reserves, see Note 5.

Overview of 2016/17 Financial Results and Activity

General Fund (i.e. excluding the Housing Revenue Account)

Spending overall for the year, after income and other receipts, was a little above the current budget, however this did include a first quarter transfer to reserves of £550,000 following an earlier reported underspend. There was a significant variance within Treasury Management which related to changes to the MRP policy, additional interest receipts and savings from borrowing decisions. These surpluses have been transferred to reserves to fund future revenue commitments.

The General Fund outturn overleaf excludes the Housing Revenue Account and therefore differs from the statutory presentation of the Comprehensive Income and Expenditure Statement (page 9).

The Council set its budget requirement at £15.5m (amount funded by Government Grant, Business Rates and Council Tax). The Council took the decision to increase Council Tax by £4.55 resulting in a band D at £150 for 2016/17.

Cabinet meetings during the year (September, November, February, and June) received budget monitoring positions, including details of variances. These reports are on the Council's website.

Reserves increased during the year, as the Council has set aside funds to offset future maintenance liabilities. Overall, revenue reserves remain at an appropriate level and afford some flexibility to help with investments to support local growth highlighted in the Corporate Plan.

The Comprehensive Income and Expenditure Statement, and associated notes on page 9, includes:

- the general fund outturn as detailed below
- the Housing Revenue Account income and expenditure

- other notional accounting entries for capital charges, pensions and asset sales.

A reconciliation between the statutory and management accounts is included in note 5, the new Expenditure and Funding Analysis.

During the year, the Council brought the grounds maintenance back to an in-house service. The new service has been branded Aspire and they had been operating for six months in 2016/17.

General Fund Final Outturn 2016/17

| Service | Original Budget | Revised Budget | Final Outturn | Variance |
|--|-----------------|-----------------|-----------------|------------|
| | 2016/17 | 2016/17 | 2016/17 | |
| | | A | B | B-A |
| | £'000 | £'000 | £'000 | £'000 |
| Head of Corporate & Strategy | 1,271 | 1,417 | 1,405 | (12) |
| Head of Cultural Services | 2,755 | 2,837 | 2,983 | 146 |
| Head of Financial Services | 2,555 | 2,558 | 2,626 | 68 |
| Head of Housing Services | 916 | 837 | 1,019 | 182 |
| Head of Environmental & Customer Services | 4,963 | 4,829 | 4,799 | (30) |
| Head of Corporate Property & Projects | (1,500) | (1,356) | (1,239) | 117 |
| Head of Health, Parking & Community Safety | 838 | 815 | 459 | (356) |
| Head of HR, Communications & Technology | 291 | 203 | 397 | 194 |
| Head of Legal & Democratic | 1,380 | 1,394 | 1,647 | 253 |
| Head of Planning & Development | 1,983 | 1,917 | 1,837 | (80) |
| Net Service Expenditure | 15,452 | 15,451 | 15,933 | 482 |
| Capital Charges and net interest | (1,476) | (1,476) | (2,597) | (1,121) |
| Levies and Grants | 271 | 271 | 275 | 4 |
| Contribution to Reserves | 1,317 | 1,317 | 1,984 | 667 |
| Net Expenditure | 15,564 | 15,563 | 15,595 | 32 |
| Funded by: | | | | |
| Government grant | (5,592) | (5,591) | (5,840) | (249) |
| Business Rates | (3,410) | (3,410) | (3,113) | 297 |
| Council Tax | (6,562) | (6,562) | (6,604) | (42) |
| Total Financing | (15,564) | (15,563) | (15,557) | 6 |
| Outturn reported | 0 | 0 | 38 | 38 |

Housing Revenue Account (HRA)

There was a comprehensive review of the HRA service during this year which has contributed to the outturn deficit being £2m lower than budgeted, along with £910,000 more income than anticipated, partly due to new build rent income being omitted from the budget, this was reported in the first quarter of 2016/17.

The accumulated HRA reserve balance at 31 March 2017 was £6.8m. In addition, the Major Repairs Reserve stands at £1.4m, which is available to fund the Decent Homes Programme, giving a total balance for HRA Reserves of £8.2m (compared with £8.3m as at 31 March 2016). This year's underspend will

be allocated to resource the HRA's longer-term business plan.

Council dwellings are revalued at the end of each financial year, this year there was a significant movement during the year resulting in a net valuation increase of £25.9m (£12.9m in 2015/16), there have been significant increasing in house prices this year and also partly due to the method of valuation. The EUV-SH (Existing Use Value for Social Housing) uses an adjustment factor which has moved from 32% to 33% so the total housing stock has increased by 1% resulting in a movement of over £2m

Housing Revenue Account Outturn 2016/17

| Service | Revised Budget | Final Outturn | Variance |
|---|-----------------|-----------------|----------------|
| | 2016/17 | 2016/17 | |
| | A | B | B-A |
| | £'000 | £'000 | £'000 |
| Income | (24,227) | (25,137) | (910) |
| Supervision and Management | 4,686 | 4,531 | (155) |
| Repairs and Maintenance | 3,450 | 3,029 | (421) |
| New Build | 800 | 585 | (215) |
| Other | 18,464 | 18,107 | (357) |
| Net Expenditure | 3,173 | 1,115 | (2,058) |
| Capital Works - Decent Homes | 4,424 | 4,184 | (240) |
| <i>Capital works financed by:</i> | | | |
| Major Repairs Allowance (from Self-Financing Determination) | (4,424) | (4,465) | (41) |
| Contribution to/(from) Major Repairs Reserve | 0 | 281 | 281 |
| Support costs greater than budget | 0 | 0 | 0 |
| | 3,173 | 1,115 | (2,058) |

Capital Expenditure

Capital expenditure is investment in the acquisition, construction, enhancement or replacement of tangible assets such as land, buildings or major items of equipment and intangible assets (such as computer software) which will be used to benefit services over a number of years.

Major projects during 2016/17 included:

- as part of the introduction of a new grounds maintenance service (Aspire) a new depot and equipment were purchased to deliver the service. The total capital spend was £1.7m
- New football pavilion at Spearpoint at a cost of £720k

- £5.4m was spent on the Farrow Court Sheltered Housing redevelopment this year, with phase two now nearing completion. This redevelopment is ongoing with a total budget of £16.4m, with completion expected in 2017/18.
- Spend on existing housing stock amounted to £4.1m to ensure Decent Homes Standards are maintained

In the financial year 2016/17, the outturn for the capital programme was:

Summary of Capital Spending and Financing

| | £'000 | £'000 |
|--|---------------|---------------|
| <i>Capital investment</i> | | |
| General Fund capital expenditure | 6,048 | |
| HRA capital expenditure | 10,993 | |
| Total expenditure | <u>17,041</u> | <u>17,041</u> |
| <i>Sources of finance</i> | | |
| Prudential borrowing | | 2,074 |
| Capital receipts | | |
| - 1-4-1 capital receipts | 56 | |
| - General capital receipts | 354 | 410 |
| Grants and contributions | | |
| - External grants and contributions | 2,548 | |
| - Developer contributions | 1,214 | 3,762 |
| Contribution to/(from) Major Repairs Reserve | | 4,184 |
| Direct revenue contributions | | |
| - Repairs and Renewals Reserve | 570 | |
| - General Fund financing | 471 | |
| - HRA Revenue contributions | 5,489 | |
| - Other revenue contributions | 81 | 6,611 |
| Total financing | | <u>17,041</u> |

Treasury Management

Borrowing

At 31 March 2017, the Council had long-term and short-term borrowing of £117.7m (£119.7m long term and short-term borrowing at 31 March 2016). These long-term loans were used to fund the housing subsidy buy-out payment to government. The first loan matured this year in March.

Investments

At 31 March 2017, the Council had investments and cash deposits of £24.4m (£25.7m at 31 March 2016) detail in note 21. In 2016/17 the Council continued to maintain a diversified investment portfolio in terms of counterparties and duration of investments, with more long-term investments continuing to be held. This has is in accordance with the objectives of the Treasury Management Strategy adopted by the Council.

Pensions

As part of the Conditions of Employment, the Council must offer staff retirement benefits under statutory requirements. At 31 March 2017, 87% of staff were part of the pension scheme, contributing between 5.5% and 12.5% of salary. The remainder of staff opted out of the scheme. Payments into the pension scheme, investment assets and future liabilities are held and managed by the Kent County Council Pension Fund for all contributing member authorities. For further information see note 28.

Stanhope Private Finance Initiative (PFI)

The PFI agreement for the regeneration of the Stanhope Estate has been ongoing since 2007 the details are in Note 27.

Council owned Companies

The CIPFA Code of Practice requires Local Authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures.

The Council has two wholly owned subsidiaries, A Better Choice for Property Ltd, and A Better Choice for Building Consultancy Ltd. The interest in the Property Company is considered material and therefore group accounts have been prepared in accordance with IFRS 10.

The Corporate Plan and Medium Term Financial Plan

The Council approved the Corporate Plan in 2015/16, covering the years 2015-2020. The plan includes looking at how the Council can investment in opportunities to become less reliant on Government funding.

During this financial year, the Council has continued work on a number of developments including the redevelopment of Elwick Road. Just after the year end the Council entered into contract with Stanhope PLC (the developer) to take the scheme forward, this is discussed further in Note 32.

The Council also introduced an in house grounds maintenance team, Aspire and one of the key reasons for this decision is to deliver the Attractive Ashford theme of the Corporate Plan.

The Corporate Plan includes four key themes and future projects look to compliment these themes:

- a. Enterprising Ashford
- b. Living Ashford
- c. Active and Creative Ashford
- d. Attractive Ashford

In conjunction with the Corporate Plan the Council has reviewed its medium term financial plan (for the full paper see the cabinet agenda for October 2016)

The Council set its budget for 2017/18 at the February Cabinet meeting to deliver

upon the themes identified above. The budget made use of the new freedom to increase council tax by up to £5 with an increase of £4.00 to £154.00 for a band D property, whilst this ensures that the Council still has the lowest council tax in Kent it has allowed the tax base to grow to cover some of the loss of central government funding.

The budget included an updated Treasury Management Strategy which will cover how cash flows are managed in the coming year, reviewed fees and charges and financial procedures.

The Capital programme was included in the report and with the addition of the Elwick road Scheme (as discussed in Note 32) will represent a considerable investment in the borough and represent a significant cash flow to the council.

The budget report also included an updated Medium Term Financial Plan that was updated to reflect the outcome of the Local Government 4 year settlement offer and government plans to reform business rates and New Homes Bonus. The full budget report can be accessed on the Councils website.

Just after the accounting period the Government announced there will be a General Election in June. Officers will review the Medium Term Financial Plan

in light of the policies of the incoming government.

To monitor the Council's performance in delivering the Corporate Plan a performance dashboard has been developed which measures both financial and non-financial performance indicators to assess the delivery of the plan and its impact on key areas. This is reported to the Cabinet quarterly.

Sale of Land

During the year the Council sold land at Conningbrook Country Park to enable housing development on the neighbouring site.

EU Referendum

The EU referendum was held on 23 June 2016 at which time the UK decided to exit the European Union. This decision had an adverse effect on asset valuations and property based investments were reduced by 4% of the overall balance however this has slightly reversed with 35% of the loss being recovered.

It is not yet sure how this decision could impact on the Council longer term although it is being monitored so the Council can respond quickly to any adverse effects.

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

Under Law the Authority 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 authority, the Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Responsibilities of the Chief Financial Officer (CFO)

As Chief Finance Officer is responsible, in law, for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'). There is a responsibility of the CFO to observe the CIPFA statement on the role of the CFO in public service organisations.

In preparing this Statement of Accounts, the CFO has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Codes of Practice.

The CFO has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts between pages 9 and 78 present a true and fair view of the financial position of Ashford Borough Council at 31 March 2017 and its income and expenditure for the year ended on that date.

Ben Lockwood

Head of Finance & IT and Chief Financial Officer

15 July 2017

Core Financial Statements

Comprehensive Income and Expenditure Statement

| | ABC 2015/16 | | | Group 2015/16 | | | ABC 2016/17 | | | Group 2016/17 | | |
|-------------------------------|--------------------------|-----------------------------|-----------------------------|--|-------------------------------|--------------------------|-----------------------------|-----------------------------|--|-------------------------------|--------------------------|-----------------------------|
| | Restated | | | | | | | | | | | |
| Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 | Net Expenditure £'000 | | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 | Net Expenditure £'000 | | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
| 1,371 | (109) | 1,262 | 1,262 | Head of Corporate & Strategy | 1,568 | (49) | 1,519 | 1,519 | | | | |
| (939) | (425) | (1,364) | (1,364) | Head of Cultural Services | 3,366 | (187) | 3,179 | 3,179 | | | | |
| 41,413 | (41,777) | (364) | (364) | Head of Financial Services | 41,149 | (39,996) | 1,153 | 1,153 | | | | |
| 3,007 | (1,863) | 1,144 | 1,117 | Head of Housing Services | 3,703 | (2,349) | 1,354 | 1,233 | | | | |
| 5,163 | (1,144) | 4,019 | 4,019 | Head of Environmental & Customer Services | 5,405 | (1,181) | 4,224 | 4,224 | | | | |
| 1,451 | (3,180) | (1,729) | (1,729) | Head of Corporate Property & Projects | 2,847 | (3,714) | (867) | (867) | | | | |
| 23,906 | (28,517) | (4,611) | (4,611) | Local Authority Housing | 17,262 | (29,243) | (11,981) | (11,981) | | | | |
| 3,380 | (2,869) | 511 | 511 | Head of Health, Parking & Community Safety | 3,496 | (2,835) | 661 | 661 | | | | |
| 340 | (90) | 250 | 250 | Head of HR, Communications & Technology | 450 | (91) | 359 | 359 | | | | |
| 1,412 | (173) | 1,239 | 1,239 | Head of Legal & Democratic | 1,546 | (306) | 1,240 | 1,240 | | | | |
| 3,894 | (3,580) | 314 | 314 | Head of Planning & Development | 3,351 | (1,958) | 1,393 | 1,393 | | | | |
| 1,756 | 0 | 1,756 | 1,756 | Non distributed costs | 2,225 | 0 | 2,225 | 2,225 | | | | |
| 86,154 | (83,727) | 2,427 | 2,400 | Cost of Services | 86,368 | (81,909) | 4,459 | 4,338 | | | | |
| | 1,475 | | 1,475 | Other operating expenditure | | | | | | | | |
| | 494 | | 494 | Parish Council Precepts & Levies | | 1,639 | | 1,639 | | | | |
| | (1,022) | 947 | (1,022) | Payments to the Government Housing Capital Receipts Pool | | 490 | | 490 | | | | |
| | | | | Disposal of non-current assets | | (3,817) | (1,688) | (3,817) | | | | |
| | | | | Financing and investment income and expenditure | | | | | | | | |
| | 4,922 | | 4,971 | Interest payable | | 4,991 | | 5,114 | | | | |
| | 2,319 | | 2,319 | Net interest on the net defined benefit liability (asset) | | 2,305 | | 2,305 | | | | |
| | (713) | | (713) | Interest receivable | | (952) | | (952) | | | | |
| | 0 | 6,528 | (112) | Income, Expenditure and Changes in fair value of Investment Property | | 0 | 6,344 | (249) | | | | |
| | | | | Taxation and non-specific grant income | | | | | | | | |
| | | | | Income Tax relating to companies | | 0 | | 50 | | | | |
| | (7,586) | | (7,586) | Council Tax income | | (8,249) | | (8,249) | | | | |
| | (2,329) | | (2,329) | Non-domestic rates income and expenditure | | (3,028) | | (3,028) | | | | |
| | (6,151) | | (6,151) | Non-ringfenced government grants (Note 12) | | (5,840) | | (5,840) | | | | |
| | (2,982) | (19,048) | (2,982) | Capital grants received in year | | (1,353) | (18,470) | (1,353) | | | | |
| | | (9,146) | (9,236) | (Surplus) or Deficit on Provision of Services | | | (9,355) | (9,552) | | | | |
| | (14,107) | | (14,107) | Surplus or deficit on revaluation of Property, Plant and Equipment (see note 14) | | (36,898) | | (36,898) | | | | |
| | (380) | | (380) | Surplus or deficit on revaluation of Available-for-Sale financial Assets | | (620) | | (620) | | | | |
| | (8,519) | | (8,519) | Remeasurements of the net defined benefit liability (See note 28) | | 13,415 | | 13,415 | | | | |
| | | (23,006) | (23,006) | Other Comprehensive Income and Expenditure | | | (24,103) | (24,103) | | | | |
| | | (32,152) | (32,242) | Total Comprehensive Income and Expenditure | | | (33,458) | (33,655) | | | | |

This 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. Authorities raise taxation, or rents, to cover expenditure in accordance with regulations; 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. Please see note 5 for the restatement

Movement in Reserves Statement

| 2016/17 | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Grants Unapplied Account | Total Usable Reserves (excluding company) | Unusable Reserves (Note 21) (excluding company) | Total Usable Reserves (group) |
|--|----------------------|-------------------------|--------------------------|-----------------------|--------------------------|---|---|-------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 31st March 2016 | (18,055) | (7,868) | (6,056) | (449) | (1,628) | (34,056) | (116,614) | (34,116) |
| <i>Movements in Reserves during 2016/17</i> | | | | | | | | |
| Surplus or deficit on the provision of services | (934) | (8,421) | | | | (9,355) | | (9,552) |
| Other Comprehensive Income & Expenditure | | | | | | | (24,103) | |
| Total Comprehensive Income & Expenditure | (934) | (8,421) | 0 | 0 | 0 | (9,355) | (24,103) | (9,552) |
| Adjustments between accounting and funding basis under regulations | 0 | | | | | | | |
| Sources of Finance | 1,241 | 110 | 411 | 4,185 | 1,198 | 7,145 | (7,145) | 7,145 |
| Sums set-a-side for capital purposes | 2,450 | 8,114 | | | | 10,564 | (10,564) | 10,564 |
| Revenue expenditure charged to capital under statute | (944) | 0 | | | | (944) | 944 | (944) |
| Removal of items not chargeable to Fund Balances | 0 | | | | | | | 0 |
| - Capital adjustment account | (3,762) | (3,116) | 0 | (5,175) | | (12,053) | 12,053 | (11,856) |
| - Capital grants unapplied account | 3 | 0 | | | (3) | 0 | | 0 |
| - Capital receipts reserve (for HRA, see note 5) | 691 | 4,756 | (5,447) | | | 0 | | 0 |
| - Deferred capital receipts reserve | 1,357 | | (58) | | | 1,299 | (1,299) | 1,299 |
| - Pensions reserve | (1,629) | (328) | | | | (1,957) | 1,957 | (1,957) |
| - Collection fund adjustment account | 189 | | | | | 189 | (189) | 189 |
| - Accumulated absences account | 0 | 0 | | | | 0 | 0 | 0 |
| Increase or decrease during 2016/17 | (1,338) | 1,115 | (5,094) | (990) | 1,195 | (5,112) | (28,346) | (5,112) |
| Balance at 31st March 2017 | (19,393) | (6,753) | (11,150) | (1,439) | (433) | (39,168) | (144,960) | (39,228) |

The Movement in Reserves Statement (MiRS) is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:

- the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income
- the increase or decrease in the net worth of the authority as a result of movements in the current or fair value of its assets
- movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

This year the format of the statement has changed, the General Fund Balance now incorporates the earmarked reserves; the 2015/16 statement has been adjusted to reflect this.

| 2015/16 | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Grants Unapplied Account | Total Usable Reserves | Unusable Reserves (Note 21) | Total Usable Reserves (group) |
|--|----------------------|-------------------------|--------------------------|-----------------------|--------------------------|-----------------------|-----------------------------|-------------------------------|
| Restated | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 31st March 2015 | (16,963) | (5,725) | (3,477) | (82) | (554) | (26,801) | (91,717) | (26,771) |
| <i>Movements in Reserves</i> | | | | | | | | |
| Total Comprehensive Income & Expenditure | (6,799) | (2,347) | 0 | 0 | 0 | (9,146) | (23,006) | (9,236) |
| Adjustments between accounting and funding basis under regulations | | | | | | | | |
| Sources of Finance | 436 | 1,392 | 1,280 | 4,817 | 80 | 8,005 | (8,005) | 8,005 |
| Sums set-a-side for capital purposes | 5,467 | 4,199 | | | | 9,666 | (9,666) | 9,666 |
| Revenue expenditure charged to capital under statute | (1,021) | 0 | | | | (1,021) | 1,021 | (1,021) |
| Removal of items not chargeable to Fund Balances | | | | | | | | |
| - Capital adjustment account | 3,291 | (10,335) | | (5,184) | | (12,228) | 12,228 | (12,228) |
| - Capital grants unapplied account | 0 | 1,154 | | | (1,154) | 0 | | 0 |
| - Capital receipts reserve (for HRA, see note 5) | (446) | 4,246 | (3,800) | | | 0 | | 0 |
| - Deferred capital receipts reserve | 0 | | (59) | | | (59) | 59 | (59) |
| - Pensions reserve | (1,824) | (426) | | | | (2,250) | 2,250 | (2,250) |
| - Collection fund adjustment account | (155) | | | | | (155) | 155 | (155) |
| - Accumulated absences account | (41) | (26) | | | | (67) | 67 | (67) |
| Increase or decrease during 2015/16 | (1,092) | (2,143) | (2,579) | (367) | (1,074) | (7,255) | (24,897) | (7,345) |
| Balance at 31st March 2016 | (18,055) | (7,868) | (6,056) | (449) | (1,628) | (34,056) | (116,614) | (34,116) |

Balance Sheet

| ABC | | Group | | | ABC | | Group | |
|------------------|------------------|------------------------------|-------|-----------|---------------|------------------|-------|------------------|
| 31 March 2016 | | | | | 31 March 2017 | | | |
| £'000 | £'000 | | Notes | £'000 | £'000 | £'000 | £'000 | |
| 335,569 | 335,569 | Property, Plant & Equipment | 14 | 377,243 | | 377,243 | | |
| 2,414 | 2,414 | Heritage Assets | 17 | 2,446 | | 2,446 | | |
| 0 | 3,227 | Investment Property | 16 | 0 | | 4,043 | | |
| 12 | 12 | Intangible Assets | | 0 | | 0 | | |
| 16,742 | 16,642 | Long Term Investments | 20 | 14,865 | | 14,522 | | |
| 4,600 | 1,538 | Long Term Debtors | 20 | 9,509 | | 5,904 | | |
| 359,337 | 359,402 | Long Term Assets | | | | 404,063 | | 404,158 |
| 750 | 750 | Current held for sale | | 0 | | 0 | | |
| 3,047 | 3,047 | Short Term Investments | 20 | 2,541 | | 2,541 | | |
| 0 | 0 | Inventories | | 0 | | 0 | | |
| 6,341 | 6,346 | Short Term Debtors | 22 | 7,508 | | 7,523 | | |
| 4,278 | 4,314 | Cash and Cash Equivalents | 38 | 7,300 | | 7,311 | | |
| 14,416 | 14,457 | Current Assets | | | | 17,349 | | 17,375 |
| (2,038) | (2,038) | Short Term Borrowing | | (3,039) | | (3,039) | | |
| (13,058) | (13,103) | Short Term Creditors | 23 | (14,579) | | (14,700) | | |
| (626) | (626) | Current Liabilities | 27 | (816) | | (816) | | |
| (15,722) | (15,767) | Current Liabilities | | | | (18,434) | | (18,555) |
| (1,424) | (1,424) | Long-term Provisions | 26 | (1,357) | | (1,357) | | |
| (117,664) | (117,664) | Long Term Borrowing | 20 | (114,664) | | (114,664) | | |
| (65,715) | (65,715) | Pension Liability | 28 | (81,087) | | (81,087) | | |
| (22,439) | (22,439) | PFI Liability | 27 | (21,623) | | (21,623) | | |
| (119) | (119) | Finance Lease Liability | 25 | (119) | | (119) | | |
| (207,361) | (207,361) | Long Term Liabilities | | | | (218,850) | | (218,850) |
| 150,670 | 150,731 | Net Assets | | | | 184,128 | | 184,128 |
| | | Financing (see MiRS) | | | | | | |
| (34,056) | (34,117) | Usable Reserves | | (39,168) | | (39,168) | | |
| (116,614) | (116,614) | Unusable Reserves | 24 | (144,960) | | (144,960) | | |
| (150,670) | (150,731) | | | | | (184,128) | | (184,128) |

The Balance Sheet summarises the authority's financial position as at 31 March. In the top half it contains the Council's assets and liabilities held or accrued from other parties. As local authorities do not have equity, the bottom half is comprised of reserves that shows the position of an authorities net worth, they fall into two categories:

- usable reserves, which include the revenue and resources available to meet future expenditure, such as the General Fund Balance and the Capital Receipts Reserve
- unusable reserves, which include unrealised gains and loss or adjustment accounts, such as the Revaluation Reserve or the Pension Reserve

These financial statements replace the unaudited financial statements

Certified by Ben Lockwood on 10th July 2017

Cash Flow Statement

| ABC Restated 2015/16 £'000 | Group 2015/16 £'000 | | Notes | ABC 2016/17 £'000 | Group 2016/17 £'000 |
|-------------------------------------|---------------------------|--|-------|-------------------------|---------------------------|
| (9,146) | (9,236) | Net (surplus) or deficit on the Provision of services | | (9,355) | (9,552) |
| (11,461) | (11,349) | Adjustment to the Net surplus or deficit on the provision of services for non-cash movements | 33 | (9,080) | (8,896) |
| 5,526 | 5,514 | Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities | 34 | 5,982 | 5,982 |
| (15,081) | (15,071) | Net cash flows from operating activities | | (12,453) | (12,466) |
| 15,103 | 17,123 | Investing activities | 36 | 6,767 | 7,334 |
| 773 | (1,267) | Financing activities | 37 | 2,664 | 2,135 |
| 795 | 785 | Net movements in year excluding non-cash items | | (3,022) | (2,997) |
| 5,073 | 5,099 | Cash and cash equivalents at the beginning of the reporting period | | 4,278 | 4,314 |
| (795) | (785) | Net increase or (decrease) in cash and cash equivalents | | 3,022 | 2,997 |
| 4,278 | 4,314 | Cash and cash equivalents at the end of the reporting period | 38 | 7,300 | 7,311 |

The Cash Flow Statement summarises the flows of cash that have taken place into and out of the authority's bank accounts over the financial year. It separates the flows into:

- those that have occurred as a result of the authority's operations
- those arising from the authority's investing activities (including cash flows related to noncurrent assets), and
- those attributable to financing decisions.

Notes to the Core Financial Statements

1. Accounting Policies

General Principles

The Statement of Accounts summarises the Authorities transactions for the 2016/17 financial year and its position at the year ending 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require being prepared in accordance with proper accounting practices. These practices primarily comprise the 'Code of Practice on Local Authority Accounting in the United Kingdom 2016/17' (the Code) and the 'Service Reporting Code of Practice 2016/17', supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1. Accounting Concepts and Conventions

The Going Concern basis has been selected for the preparation of these accounts based on the assumption that the Council will operate for the foreseeable future.

Qualitative characteristics are the attributes that make the information provided within this Statement of Accounts useful to users. The International Accounting Standards Board (IASB) Framework, sets out the two fundamental qualitative characteristics and four enhancing qualitative characteristics of financial statements, which have been adopted by the Code:

- Fundamental
 - relevance
 - faithful representation
- Enhancing
 - comparability
 - verifiability
 - timeliness
 - understandability

The Code also includes consideration of materiality as a qualitative characteristic, and the Framework considers it as part of the fundamental characteristic of relevance.

2. Accruals of Income and Expenditure

With the exception of the Cash Flow Statement, including its notes, and the Collection Fund, the Statement of Accounts is presented on an accruals basis.

The accruals basis of accounting requires the non-cash effect of transactions to be reflected in the Statement of Accounts for the year in which those effects are experienced, and not in the year in which the cash is actually received or paid. In particular: fees, charges and rents due from customers are accounted for as

income at the date the Council provides the relevant goods or services; 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, where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. There is a de minimis limit for manual accruals (not automatic accruals) of £5,000 to aid faster closing, transactions below this limit are not accrued for as they are deemed not material to the understanding of these accounts.

3. **Estimation Techniques**

Estimation techniques are the methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. Details of where these are used are contained in the relevant Note to the Accounts. Where a change in an estimation technique is material, an explanation is provided of the change and its effect on the results for the current period.

4. **Costs of Internal Support Services**

All costs of management and administration are fully allocated to services. The basis of allocation used for the main costs of management and administration are outlined below:

| Cost | Basis of Allocation |
|--|--|
| Accounting and other services | Budgeted time spent by staff, as predicted by budget managers |
| Legal services | Actual time spent by staff, as recorded on time recording systems |
| Administrative Buildings | Area occupied |
| IT support of corporate financial systems | Actual direct costs (hardware costs etc.) plus cost of estimated staff resources |
| Network / PC support | Per capita |
| Executive Support, Call Centre, Customer Contact Centre and Printing | Actual use, as recorded by monitoring systems |
| Internal Audit | Per audit plan |
| Payroll and Personnel Costs | Per capita |
| Debtors and Creditors | Per transaction |

5. **Council Tax and National Non-Domestic Rates**

Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions. Revenue is recognised when it is probable that the

economic benefits of the transaction will flow to the Council and the amount of revenue can be measured reliably.

The council tax and business rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year, which consists of:

- The Council's council tax precept and business rate share from the Collection Fund i.e. the amount billed for the year; and
- The Council's share of the actual council tax and business rates surplus or deficit on the fund at the preceding year end that has not been distributed or recovered in the current year.

The latter is not required by regulation to be credited to the General Fund and so is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves on the General Fund balance.

The Council, as billing authority, recognises the creditor in its balance sheet for cash collected from taxpayers and businesses on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors.

6. Charges to Revenue

Service and Support Service Accounts are debited with amounts to record the cost of holding non-current assets used in the provision of services.

These amounts include the annual provision for depreciation, certain revaluation gains/losses and impairment losses and the amortisation of intangible assets. The amounts are subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account so that they do not impact on the amounts required from local taxation.

Capital charges made to the Housing Revenue Account are the amounts as determined by statutory provision.

External interest payable is debited in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement and amounts set aside from revenue for the repayment of external loans are charged to the General Fund Balance in the Movement in Reserves Statement.

7. Revenue Expenditure Funded from Capital Under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a Property Plant and Equipment. The purpose of this is to enable it to be funded from capital resources rather than being charged to the General Fund and have a direct impact upon Council Tax. These items are generally grants and expenditure on property not owned by the Council.

Such expenditure is charged to Cost of Services in the Comprehensive Income and Expenditure Statement but subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account.

8. Government Grants and Contributions

Grants received are credited to the Comprehensive Income and Expenditure Statement when the income is recognised once conditions have been met. Revenue Grants specific to a particular service will be shown against the service expenditure line. General Revenue Grants, in the form of Revenue Support Grant and the contribution from the National Non-Domestic Rate Pool, and Capital Grants are credited and disclosed separately in the Taxation and Non-specific Grant Income line in the Comprehensive Income and Expenditure Statement.

Capital Grants and Capital Contributions will subsequently be transferred through the Movement in Reserves Statement to the Capital Adjustment Account or the Grants Unapplied Account, if expenditure has not been incurred.

If conditions have not been met, grants will be held as a creditor (Grants received in advance) on the Balance Sheet until conditions are met or grants are repaid.

9. VAT

VAT is accounted for separately and is not included in the Comprehensive Income and Expenditure Statement, whether of a capital or revenue nature. Input VAT, which is not recoverable from HM Revenue and Customs, will be charged to Service Revenue Accounts, or added to capital expenditure as appropriate. The Council's partial exemption status is reviewed on an annual basis.

10. Heritage Assets

Heritage assets are carried at valuation (e.g. insurance valuation) rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon. Valuations are determined by the insurance valuation, or where not available the historical cost. Although there are no prescribed minimum periods for review, the assets will be reviewed in line with the insurance policy and material changes will be incorporated into the accounts. A de-minimis level has been set at £10,000 for heritage assets based on the method of valuation above.

11. Assets Held for Sale (Current Assets)

These assets have been declared surplus to the Council's operational requirements, are being actively marketed for disposal and have an estimated sale date within twelve months of the balance sheet date. They are reported on the Balance Sheet date at the lower of the carrying amount or the fair value (market value) of the asset less the costs to sell the asset. Assets held for sale are not subject to depreciation. Potential 'Right-to-buy' sales are not accounted for until the date of sale as they are not actively marketed in any conventional way.

12. Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will benefit the Council for more than one financial year.

An intangible asset is initially measured at cost but will be revalued where the fair value of the asset differs significantly from its carrying value. The depreciable amount is amortised over its useful economic life to the relevant service line in the

Comprehensive Income and Expenditure Statement but subsequently reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

13. **Investment Assets**

These assets are held solely to earn rentals and/or capital appreciation . The property cannot be used for any other purpose to be classed as an investment asset.

They are held initially at cost and subsequently at fair value being the price that would be received to sell such an asset.

Properties are not depreciated but are revalued annually according to market conditions at the year-end.

14. **Property, plant and equipment**

14.1. **Recognition**

All expenditure on the acquisition, creation, or enhancement of these assets is capitalised on an accruals basis. These assets are depreciated on a straight line basis.

14.2. **Recognition Definition**

Property, plant and equipment are tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

The category is split into seven sub categories.

- Council Dwellings;
- Other Land and Buildings;
- Vehicles, Plant, Furniture and Equipment;
- Infrastructure Assets;
- Community Assets;
- Surplus Assets;
- Assets Under Construction.

The Accounting policy for each type of asset is detailed below:

14.3. **Council dwellings**

These assets are held on the balance sheet at fair value but discounted to allow for the Existing Use Value for Social Housing (EUV-SH).

An annual valuation is carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institute of Chartered Surveyors (RICS) as at 31 March. Material changes will be reflected in the accounts if they arise after the valuation.

14.4. **Other Land and Buildings**

These assets are held on the balance sheet initially at cost however are revalued and updated with a desktop revaluation annually. All property and land will be fully valued at least once within the 5 year cycle.

IFRS requires the consideration of componentisation for material items of property, plant and equipment, where they are of a material financial nature or have

significantly differing life expectancies. The Council has set a minimum asset value of £1,000,000 and a component size of at least 10% of the value.

14.5. Vehicles, Plant, Furniture and Equipment

These assets are recognised in the balance sheet at cost and are subject to straight-line depreciation over the expected life of the asset.

14.6. Infrastructure Assets

These assets are recognised in the Balance Sheet at cost and are subject to straight-line depreciation over the expected life of the asset.

14.7. Community Assets

These are defined as assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and allotments. These assets are held on the Balance Sheet at historic cost and are not subject to revaluation or depreciation.

14.8. Assets under Construction

This covers assets currently not yet ready for operational purposes. The Council does not depreciate nor revalue assets under construction. These asset are held at cost on the balance sheet.

14.9. Surplus Assets

These assets are not being used to deliver services and are held at fair value which is the price that would be receivable if sold.

14.10. Valuations

Increases in valuations are matched by credits to the Revaluation Reserve to recognise revaluation gains. However, where the increased valuation follows a previous reduction in the carrying value below its historic cost, gains would be credited to the service expenditure in the Comprehensive Income and Expenditure Statement to reverse the loss previously charged to a service.

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.

On revaluation, accumulated depreciation is written out.

14.11. Depreciation

Depreciation on assets with a finite useful life, in line with International Accounting Standard (IAS) 16, is calculated on a straight-line basis according to the following policy:

- All assets with a finite useful life are depreciated on a straight-line basis over the asset life. The life of buildings is reviewed as part of the asset revaluation. The life of vehicles, plant and equipment is generally taken to be five years, unless evidence exists to support a longer or shorter life.
- Newly acquired assets and enhancements are not depreciated in year one, assets in the course of construction are not depreciated until they are ready for use, starting in the following year.
- In accordance with recognised accounting practice, land owned by this Council is not depreciated.

For Council Dwellings, the Code allows authorities to use the Major Repairs Allowance as a proxy for depreciation for a five year period from 2012/13, in 2016/17 calculated depreciation instead of using this method. Council Dwellings are revalued annually. Other HRA land and property are valued as above.

14.12. Impairment of Non-current Assets

A review for impairment of a non-current assets, whether carried at historical cost or valuation, is carried out at year-end to ascertain whether events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Examples of events and changes in circumstances that indicate impairment may have been incurred include:

- a significant decline in the asset's fair value during the period;
- evidence of obsolescence or physical damage to the asset;
- a significant adverse change in the statutory or other regulatory environment in which the authority operates;
- a commitment by the authority to undertake a significant reorganisation.

In the event that an impairment is identified, the value will either be written off to the Revaluation Reserve where sufficient reserve levels for that asset exist, or written off to Service Expenditure through the Comprehensive Income and Expenditure Statement where the carrying value falls below the historic value of the asset. Any impairment at the Balance Sheet date is shown in the notes to the core financial statements, along with the name, designation and qualifications of the officer making the impairment.

If the impairment is identified on an investment property, the value is written out to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

14.13. Gains or Losses on Disposal of Property Plant and Equipment

When an asset is disposed of or de-commissioned, the carrying value of the asset and any receipts from the sale, together with the costs of disposal, are shown on the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement which, therefore, bears a net gain or loss on disposal. Where the receipt is in excess of £10,000, it is appropriated to the Capital Receipts Reserve, via the Movement in Reserves Statement, where it can be used for any approved capital purpose, e.g. for new capital investment. The carrying value of the disposed asset is appropriated to the Capital Adjustment Account from the Movement on Reserves Statement. Costs of disposal are accounted for within the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

15. Leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be

transferred. An operating lease is a lease other than a finance lease. A definition of a lease includes hire purchase arrangements.

15.1. Finance Leases

As lessee, the Council shall recognise finance leases as assets and liabilities at amounts equal to the fair value of the property or, if lower, the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge (interest) 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.

The Council recognises an asset under a finance lease in the Balance Sheet at an amount equal to the net investment of the lease.

Assets recognised under a finance lease are depreciated; the depreciation policy for leased assets is consistent with the policy for other property, plant and equipment. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset is depreciated over the shorter of the lease term and its useful economic life. After initial recognition, assets recognised under a finance lease are subject to accounting policies in the same way as any other asset.

As lessor, the Council derecognises the asset and show this as a long term debtor. Lease rentals receivable are apportioned between a charge for the acquisition of capital (applied to write down the lease debtor) and finance income – which is credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement. The Code required this income to be treated as a capital receipt and therefore, it is reversed out via the Movement in Reserves Statement to the Capital Receipts Reserve. For finance leases that existed at 31st March 2010, regulations allow these capital receipts to remain credited to the Comprehensive Income and Expenditure Statement.

15.2. Operating Leases

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the benefits received by the Council.

16. Current Assets and Liabilities

16.1. Short term Debtors and Creditors

With exception set out above (policy no 2), the Revenue and Capital accounts of the Council are maintained on an accruals basis in accordance with the Code and other relevant IASs. That is, sums due to or from the Council during the year are included, whether or not the cash has actually been received or paid in the year.

16.2. **Impairment Allowance for Bad and Doubtful Debts**

The figure shown in the Statement of Accounts for Debtors is adjusted for bad debts. This amount is to provide for debts that are unlikely to be collected in future years. The percentage used to reduce the Debtors figure is based on historical evidence of collection and management judgements.

17. **Contingent Assets and Contingent Liabilities**

Contingent assets are not recognised in the Statement of Accounts. They are disclosed by way of notes if the inflow of a receipt or economic benefit is probable. Such disclosures indicate the nature of the contingent asset and an estimate of its financial effect.

Contingent liabilities are not recognised in the accounting statements. They are disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits. For each class of contingent liability, the nature of the liability is disclosed together with a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

18. **Short term and long term Provisions**

The Council sets aside provisions for specific liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain. The value of the provision must be the best estimate of the likely liability or loss. When utilised, the payment is charged to Provisions and not to Service Expenditure.

19. **Reserves**

The Council holds Usable and Unusable Reserves. Usable Reserves give the Council discretion to meet expenditure without having a direct impact on Council Tax. In contrast, Unusable Reserves do not give the Council such discretion and are kept to manage the accounting processes for non-current assets, financial instruments and employee benefits.

Usable Reserves are created when the Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. No expenditure is charged directly to a reserve but is charged to the service revenue account within the Comprehensive Income and Expenditure Statement; this is then offset by a reserve appropriation within the Movement in Reserves Statement. The exception is amounts required for the repayment of external loans and for financing capital expenditure from revenue sources. Where this applies, amounts are appropriated from the General Fund Balance in the Movement in Reserves Statement.

The General Fund Balance acts as a working contingency to meet unforeseen and unforeseeable costs including those relating to emergencies. Earmarked reserves, such as the repairs and renewals reserve, are for specific purposes. The Capital Receipts Reserve can only be used for certain statutory purposes such as financing capital expenditure.

The Major Repairs Reserve is required by statutory provision to be set up in relation to the Housing Revenue Account.

20. **Employee Benefits**

Three categories of employee benefits exist, under IAS 19 and IPSAS 25 Employee Benefits, as detailed below.

20.1. **Benefits payable during employment**

- Short-term employee benefits arise during a financial year or are those due to be settled within 12 months of the year-end. They include wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, and are recognised as an expense for services in the year employees render service to the Council.
- Benefits earned by current employees but payable twelve months or more after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.

Where considered of a material nature these are accrued.

20.2. **Termination benefits including Exit Packages**

This covers costs that are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. These are often lump-sum payments, but also include enhancement of retirement benefits, and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

In the event of notice of termination being served on an employee, the costs of redundancy are accrued to the year that the notice is served, but other costs will be charged to the year they are incurred. These costs are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement where the Council is committed to the termination of employment.

20.3. **Post-employment benefits**

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Code requires the Council to account for this benefit at the time that employees earn their future entitlement. The amount charged to the Comprehensive Income and Expenditure Statement for employee's pensions is in accordance with IAS19 Retirement Benefits, subject to the interpretations set out in the Code. This is accounted for in the following ways:

- Pension liabilities, attributable to the 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 and projected earnings for current employees etc.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return.
- The assets of the pension fund attributable to the Council are included on the Balance Sheet at their fair value:
 - Quoted securities – current bid price;
 - Unquoted securities – professional estimate;

- Unitised securities – current bid price;
- Property – market value.
- The change in net pensions liability is analysed into five components:
 - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service where 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 – debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable Costs.
 - Net interest on the net defined benefit liability (asset) – the change during the period in the net liability (asset) that arises from the passage of time. This is debited/ (credited) to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
 - Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or actions that reduce the expected future service or actuarial benefits of employees - debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable Costs.
 - Actuarial Gains and Losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the assumptions have been updated - debited to the Comprehensive Income and Expenditure Statement.

Under IAS 19, the Council recognises, as an asset or liability, the surplus/deficit in pension costs calculated in accordance with the standard. This surplus/deficit is the excess/shortfall of the value of assets when compared to the present value of the pension liabilities. Where the contributions paid into the Pension Fund do not match the change in the Council's recognised liability for the year, the recognised cost of pensions will not match the amount required to be raised in taxation. Any such mismatch is to be dealt with by an equivalent appropriation to or from the Pension Reserve together with any actuarial gains/losses. The difference between the recognised net pension liability and the amounts attributed to this Council in Kent County Pension Fund are shown in the Balance Sheet as Pensions Liability and this is offset by the Pensions Reserve (an adverse balance).

The Local Government Pension Scheme, applicable to this Council, is administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets over the average future working life of its employees.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Kent County Pension Fund was at 31 March 2016 and changes to contribution rates as a result of that valuation did take effect on 1 April 2017.

21. **Financial Instruments**

The Code has significant disclosure requirements relating to Financial Instruments (e.g. loans and investments). They relate to the identification of the various types of Financial Instruments, gains and losses arising from transactions during the

year, comparative valuation statements, and the assessment of risks associated with holding Financial Instruments.

Detailed disclosure of the Council's holding of Financial Instruments is included in Note 20 on page 48.

21.1. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The reconciliation of amounts charged to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed in the Movement in Reserves Statement by a transfer to or from Unusable Reserves (Financial Instruments Adjustment Account).

21.2. Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments, but are not quoted in an active market; and,
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

21.3. Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income line in 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 most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event and payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (where specific) or to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement.

21.4. Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement

for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value.

Values are based on the following principles and are given a 'fair value level' based on the accuracy of the valuation (Level 1 being the most reliable estimate):

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities
- Level 2 – fair value is calculated from inputs other than those quoted prices that are observable for the asset or liability
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated credit worthiness

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. Subsequently, this entry is reversed in the Movement in Reserves Statement and debited/credited to the Available-for-Sale Reserve. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event and payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

21.5. **Financial Instrument Risk**

The Code requires Authorities to estimate the "Fair Value" of their Financial Instruments and compare them with the carrying amounts which appear on the Balance Sheet. The Fair Value estimate will include the future discounted cash flows associated with the Council's Financial Instruments as at 31 March and should reflect prevailing interest rates as at that date.

The Code identifies the following three types of risk associated with Financial Instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

The Code requires Authorities to produce a sensitivity analysis, detailing the impact of a 1% interest rate change. A full assessment of these risks, including the sensitivity analysis, is included in Note 20 on page 48.

These disclosure requirements are equally applicable to outstanding debtors, see Note 22 on page 53 for an analysis of debtors. In addition to this, a provision for bad debts is also included in the Statement.

22. **Cash and Cash Equivalents**

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and are shown on the Balance Sheet at their nominal value; these include investments that can be accessed immediately without incurring a penalty, such as call accounts. Cash and cash equivalents are shown net of any bank overdraft that form part of the Council's cash management.

23. **Private Finance Initiative (PFI)**

PFI contracts are agreements to receive services, where the responsibility for making available Property Plant and Equipment, needed to provide the services, passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as the ownership of the Property Plant and Equipment will pass to the Council at the end of the contract at no charge, the Council carries the Property Plant and Equipment used under the contract on the Balance Sheet.

The original recognition of these Property Plant and Equipment was balanced by the recognition of a liability for the amounts due to the scheme operator to pay for the assets net of any capital contributions made.

The stock is recognised at market value less the EUV-SH factor and additions are measured at cost as per the contractor model. Lifecycle costs are accounted for when they occur.

Property Plant and Equipment recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators will be analysed into the following elements:

- Fair value of the services received during the year;
- Finance charge – an interest charge on the balance sheet liability;
- Payment towards the liability.

24. **Group Accounts**

Group Accounts will be prepared in accordance with IFRS 10 (consolidated financial statements) and IFRS 12 (disclosure of interest in other entities), where it is considered that the Council has a material interest in subsidiaries.

Where applicable the following principles will be followed:

Basis of Consolidation

Group Accounts will be prepared on the basis of a full consolidation of the financial transactions and balances of the Council and a relevant subsidiary. Any gains and losses arising from a subsidiary will be fully reflected in the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement and Cashflow Statement within the Group column.

Accounting Policies

Group Accounts will be prepared using consistent accounting policies where possible, where there are conflicting policies with IFRS requirements then the requirements of the Code of practice for Local Authority accounting will be adopted for consolidation purposes.

Where Intra-group charges occur they will be removed during consolidation of the accounts

Whether to group account is determined by Qualitative and Quantitative materiality, therefore when considering whether to group not only the values are relevant, the interest to all stakeholders is also taken into account.

25. Exceptional Items and Prior Year Adjustments

Exceptional items are included in the cost of the service to which they relate, or on the face of the Comprehensive Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item is given within the notes to the accounts.

Prior year adjustments arise as a result of a change in accounting policies or to correct a material error. When either of the circumstances applies, the Council will show the extent of the adjustment in a table reconciling the adjusted opening and closing balances and/or comparative amounts shown for a prior period.

26. Events after the Balance Sheet Date

Where an event occurs after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, the amounts in the Statement of Accounts and any affected disclosures should be adjusted.

Where an event occurs after the Balance Sheet date and is indicative of conditions that arose after the Balance Sheet date the amounts recognised in the Statement of Accounts should not be adjusted but a disclosure made including:

- the nature of the event;
- an estimate of the financial effect.

Events after the Balance Sheet date should be reflected up to the date when the Statement of Accounts is authorised for issue as per the approved policies by the council.

2. Accounting Standards that have been issued but not adopted

'The Code' requires disclosure of the impact (where material) of an accounting change required by these 'new' standards. This requirement applies to those standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2017 for 2016/17).

The following apply to these Financial Statements:

- Amendments to the reporting of pension fund scheme transaction costs
- Amendments to the reporting of investment concentration (see paragraph 6.5.5.1 (m) of the 2017/18 Code)

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are

- The Council has set budgets, and its medium term financial plans, on the basis of central funding already announced by the Government. If these were to change in the near future, it may well arise that an adjustment in local services will be required to enable the Council to continue as a 'going concern'.
- From April 2013, changes in the accounting for business rates means that the Council is at risk if income is lower than the threshold set by government. In particular, this will be affected by the level of successful appeals by ratepayers against their rateable value, last determined by the Valuation Office Agency with effect from 2010. The Council's budget takes into account the possible effect of these changes but, if these exceed estimates made, the Council will need to make future provision.
- The Council places reliance on external property valuers, actuaries and other professionals for valuations and/or consideration of impairment of its property assets, and pension valuations. Should these be found to be inaccurate, the Council faces the risk of its accounts being qualified. To mitigate this, the Council seeks advice from reputable professionals only.
- The valuers have made a number of assumptions when valuing the Council's properties based on current market conditions. If the valuations were made under different assumptions, there could be significant changes in the accounts.
- The Council has an interest in two subsidiary companies, when determining whether the Council should consolidate factors in relation to qualitative and quantitative elements are used. Following an assessment the Council consolidated A Better Choice for Property based on materiality for both factors. A Better Choice for Building Consultancy has not been consolidated based on it not only being monetarily immaterial but its operations are also very small and not significant based on other Council operations.

4. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The items in the Authority's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results Differ from assumptions |
|-----------------------------------|---|--|
| Pensions | <p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>A firm of actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> | <p>A 0.1% change in the discount rate (the iBoxx Corporate Bond Index) would result in a change in the liability of £3.2m.</p> <p>A 1 year change in the mortality assumption would result in a £7.0m change in the pension liability.</p> |
| NNDR appeals liability | <p>From April 2013, the Council has been responsible for refunding successful appeals against past NNDR liabilities. however from April 2017, Business Rates have been revalued, estimates of the possible effect on this council have been taken into account in these accounts and future funding assumptions. The estimate has been made using an average of (a) the Council's historic experience of appeals with an average 28% of appeals successful resulting in an average 11% movement in rateable value and (b) the national average for appeals applied to the Council's Rateable Value.</p> | <p>If the level of successful appeals exceeds the assumptions already made, the cost will be met from future budgets.</p> |
| Recovery of Benefit over-payments | <p>These accounts assume that the Council will continue to be able to recover overpaid benefit from Benefit Claimants.</p> | <p>Should the changes being considered by the Government restrict the ability of local authorities to pursue such debts,</p> |

| Item | Uncertainties | Effect if Actual Results Differ from assumptions |
|------------------------------------|--|--|
| | | write-offs of uncollected debt will have to be met from future budgets. |
| Impairment Allowance for Bad Debts | The Council has impairment allowances for bad debts totalling £2,726,000 approximately 25% of the value outstanding debt, compared to £3,079,000 approximately 32% in 2015/16. | <p>Any decline in rates of collection for debt would result in a need to increase the allowance.</p> <p>This year there is significant movement in the provision however the debtors have increased. This is due to an increase in Government debt owed to the Council (provision not required) and write-offs of aged debts for housing rents and tax collection.</p> |

5. Expenditure and Funding Analysis

The Expenditure and Funding Analysis is a new note this year and has the objective to demonstrate to council tax and rent payers how the funding available to the authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services. This is in comparison with those resources consumed or earned by authorities 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 services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

The tables below include outturns for adjustments for the whole authority, including HRA and General Fund:

| 2016/17 Expenditure and Funding Analysis | As reported for resource Management | Adjustment to arrive at the net amount chargeable to GF and HRA balances | Net Expenditure Chargeable to the GF and HRA Balances | Adjustments between Funding and Accounting Basis | Net Expenditure in the CIES |
|--|-------------------------------------|--|---|--|-----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Head of Corporate & Strategy | 1,405 | 132 | 1,537 | (18) | 1,519 |
| Head of Cultural Services | 2,983 | (949) | 2,034 | 1,145 | 3,179 |
| Head of Financial Services | 2,626 | (1,407) | 1,219 | (66) | 1,153 |
| Head of Housing Services | 1,019 | (492) | 527 | 827 | 1,354 |
| Head of Environmental & Customer Services | 4,798 | (1,211) | 3,587 | 637 | 4,224 |
| Head of Corporate Property & Projects | (1,239) | (582) | (1,821) | 954 | (867) |
| Local authority housing (HRA) | 1,115 | (18,739) | (17,624) | 5,643 | (11,981) |
| Head of Health, Parking & Community Safety | 459 | 265 | 724 | (63) | 661 |
| Head of HR, Communications & Technology | 397 | (85) | 312 | 47 | 359 |
| Head of Legal & Democratic | 1,647 | (383) | 1,264 | (24) | 1,240 |
| Head of Planning & Development | 1,837 | (357) | 1,480 | (87) | 1,393 |
| Non distributed costs | 0 | 2,066 | 2,066 | 159 | 2,225 |
| Net Cost of Service | 17,047 | (21,742) | (4,695) | 9,154 | 4,459 |
| Other Income & Expenditure | (338) | 4,808 | 4,470 | (18,284) | (13,814) |
| (Surplus) or deficit | 16,709 | (16,934) | (225) | (9,130) | (9,355) |
| Opening GF and HR Balance 31 March 2016 | | | (25,923) | | |
| Add surplus on GF and HRA Balance | | | (26,148) | | |

Expenditure and Funding Analysis continued

| 2015/16 Expenditure and Funding Analysis | As reported for resource management | Adjustment to arrive at the net amount chargeable to the GF and HRA balances | Net Expenditure Chargeable to the GF and HRA Balances | Adjustments between Funding and Accounting Basis | Net Expenditure in the CIES |
|--|-------------------------------------|--|---|--|-----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Head of Corporate & Strategy | 1,268 | (10) | 1,258 | 5 | 1,263 |
| Head of Cultural Services | 3,180 | (1,181) | 1,999 | (3,364) | (1,365) |
| Head of Financial Services | 1,923 | (2,267) | (344) | (18) | (362) |
| Head of Housing Services | 783 | (126) | 657 | 487 | 1,144 |
| Head of Environmental & Customer Services | 4,760 | (639) | 4,121 | (102) | 4,019 |
| Head of Corporate Property & Projects | (1,272) | (1,005) | (2,277) | 548 | (1,729) |
| Local authority housing (HRA) | (2,121) | (14,800) | (16,921) | 12,309 | (4,612) |
| Head of Health, Parking & Community Safety | 452 | 46 | 498 | 13 | 511 |
| Head of HR, Communications & Technology | 191 | (16) | 175 | 75 | 250 |
| Head of Legal & Democratic | 1,318 | (95) | 1,223 | 16 | 1,239 |
| Head of Planning & Development | 2,125 | (1,773) | 352 | (37) | 315 |
| Non distributed costs | 0 | 1,710 | 1,710 | 46 | 1,756 |
| Net Cost of Service | 12,607 | (20,156) | (7,549) | 9,978 | 2,429 |
| Other Income & Expenditure | (14,699) | 19,012 | 4,313 | (15,888) | (11,575) |
| (Surplus) or deficit | (2,092) | (1,144) | (3,236) | (5,910) | (9,146) |
| Opening GF and HR Balance 31 March 2015 | | | (22,688) | | |
| Add surplus on GF and HRA Balance | | | (25,924) | | |

6. Note to the Expenditure and Funding Analysis and telling the story restatement

| 2016/17 | Depreciation/ impairment reported at Head level £'000 | Other adjustments in relation to management reporting £'000 | Total to arrive at the amount charged to the GF and HRA £'000 | Adjustments for capital purposes £'000 | Net change for the Pension Adjustment £'000 | Other differences £'000 | Total Adjustment between funding and accounting basis £'000 |
|--|---|---|---|--|--|----------------------------|---|
| Head of Corporate & Strategy | 0 | 132 | 132 | 0 | (18) | 0 | (18) |
| Head of Cultural Services | (965) | 16 | (949) | 1,165 | (20) | 0 | 1,145 |
| Head of Financial Services | 0 | (1,407) | (1,407) | 0 | (66) | 0 | (66) |
| Head of Housing Services | (111) | (381) | (492) | 854 | (27) | 0 | 827 |
| Head of Environmental & Customer Services | (76) | (1,135) | (1,211) | 688 | (51) | 0 | 637 |
| Head of Corporate Property & Projects | (515) | (67) | (582) | 984 | (30) | 0 | 954 |
| Local authority housing (HRA) | (4,636) | (14,103) | (18,739) | 5,701 | (58) | 0 | 5,643 |
| Head of Health, Parking & Community Safety | 0 | 265 | 265 | 0 | (63) | 0 | (63) |
| Head of HR, Communications & Technology | 0 | (85) | (85) | 92 | (45) | 0 | 47 |
| Head of Legal & Democratic | (18) | (365) | (383) | 18 | (42) | 0 | (24) |
| Head of Planning & Development | 0 | (357) | (357) | 0 | (87) | 0 | (87) |
| Non distributed costs | 0 | 2,066 | 2,066 | 0 | 159 | 0 | 159 |
| Net Cost of Service | (6,321) | (15,421) | (21,742) | 9,502 | (348) | 0 | 9,154 |
| Other Income & Expenditure | 0 | 4,808 | 4,808 | (20,400) | 2,305 | (189) | (18,284) |
| Total | (6,321) | (10,613) | (16,934) | (10,898) | 1,957 | (189) | (9,130) |

Note to the Expenditure and Funding Analysis continued

| 2015/16 | Depreciation reported at Head level £'000 | Other adjustments in relation to management reporting £'000 | Total to arrive at the amount charged to the GF and HRA £'000 | Adjustments for capital purposes £'000 | Net change for the Pension Adjustment £'000 | Other differences £'000 | Total Adjustment between funding and accounting basis £'000 |
|--|--|--|--|---|--|----------------------------|--|
| Head of Corporate & Strategy | 0 | (10) | (10) | 0 | (3) | 8 | 5 |
| Head of Cultural Services | (903) | (278) | (1,181) | (3,367) | (3) | 6 | (3,364) |
| Head of Financial Services | 0 | (2,267) | (2,267) | 0 | (14) | (4) | (18) |
| Head of Housing Services | (112) | (14) | (126) | 485 | (6) | 8 | 487 |
| Head of Environmental & Customer Services | (155) | (484) | (639) | (90) | (11) | (1) | (102) |
| Head of Corporate Property & Projects | (486) | (519) | (1,005) | 540 | (5) | 13 | 548 |
| Local authority housing (HRA) | (5,399) | (9,401) | (14,800) | 12,302 | (18) | 25 | 12,309 |
| Head of Health, Parking & Community Safety | 0 | 46 | 46 | 17 | (14) | 10 | 13 |
| Head of HR, Communications & Technology | (7) | (9) | (16) | 79 | (11) | 7 | 75 |
| Head of Legal & Democratic | (14) | (81) | (95) | 14 | (10) | 12 | 16 |
| Head of Planning & Development | 0 | (1,773) | (1,773) | 0 | (20) | (17) | (37) |
| Non distributed costs | 0 | 1,710 | 1,710 | 0 | 46 | 0 | 46 |
| Net Cost of Service | (7,076) | (13,080) | (20,156) | 9,980 | (69) | 67 | 9,978 |
| Other Income & Expenditure | 0 | 19,012 | 19,012 | (18,362) | 2,319 | 155 | (15,888) |
| Total | (7,076) | 5,932 | (1,144) | (8,382) | 2,250 | 222 | (5,910) |

Telling the story - Prior year adjustment of statement

This year the presentation of the Comprehensive Income and Expenditure Statement has changed, up until this financial year the segments that made up the *cost of services* were set out in the Service Reporting Code for Practice, however this has now changed and the *cost of services* is now to be based on the Management Accounts of the Council.

Restatement of the 2015/16 CIES *cost of services*.

| | Central services to the public £'000 | Cultural and related services £'000 | Environmental and regulatory services £'000 | Planning services £'000 | Highways and transport services £'000 | Local authority housing (HRA) £'000 | Other housing services £'000 | Corporate and democratic core £'000 | Non distributed costs £'000 |
|--|---|--|--|----------------------------|--|--|---------------------------------|--|--------------------------------|
| Cost of Services | 1,665 | (990) | 2,801 | 887 | (899) | (5,128) | (1,046) | 3,380 | 1,756 |
| Head of Corporate & Strategy | 0 | 0 | 15 | (33) | 0 | 0 | 0 | 1,280 | 0 |
| Head of Cultural Services | 284 | (1,655) | 0 | 5 | 0 | 0 | 0 | 0 | 0 |
| Head of Financial Services | 996 | 0 | 81 | 0 | 91 | 0 | (1,858) | 328 | 0 |
| Head of Housing Services | 0 | 0 | 0 | 0 | 0 | 0 | 1,041 | 103 | 0 |
| Head of Environmental & Customer Services | 0 | 665 | 3,360 | 0 | 0 | 0 | 0 | (6) | 0 |
| Head of Corporate Property & Projects | 0 | 0 | 9 | (1,163) | (346) | 0 | (229) | 0 | 0 |
| Local Authority Housing | 0 | 0 | 0 | 0 | 0 | (5,128) | 0 | 516 | 0 |
| Head of Health, Parking & Community Safety | 98 | 0 | 1,057 | 0 | (644) | 0 | 0 | 0 | 0 |
| Head of HR, Communications & Technology | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 250 | 0 |
| Head of Legal & Democratic | 330 | 0 | 0 | 0 | 0 | 0 | 0 | 909 | 0 |
| Head of Planning & Development | (43) | 0 | (1,721) | 2,078 | 0 | 0 | 0 | 0 | 0 |
| Non distributed costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,756 |
| Cost of Services | 1,665 | (990) | 2,801 | 887 | (899) | (5,128) | (1,046) | 3,380 | 1,756 |

7. Expenditure and Income Analysed by Nature

| 2015/16 | | 2016/17 | | |
|---------------------|--|--|--|---------------------|
| Totals per CI&ES | | Totals per Resources Allocations | Adjustments per Accounting Code | Totals per CI&ES |
| £'000 | | £'000 | £'000 | £'000 |
| (43,613) | Fees, charges and other service income | (14,188) | (29,243) | (43,431) |
| (40,115) | Grants | (38,478) | 0 | (38,478) |
| (83,728) | Total Income | (52,666) | (29,243) | (81,909) |
| 16,648 | Employees | 14,885 | 2,157 | 17,042 |
| 8,873 | Premises | 5,159 | 3,993 | 9,152 |
| 50,995 | Supplies and Services | 48,678 | 2,764 | 51,442 |
| 706 | Transport | 628 | 145 | 773 |
| (10,734) | Recharged from other accounts | (12,323) | 1,165 | (11,158) |
| 21,392 | Recharged to other accounts | 9,541 | 5,784 | 15,325 |
| (1,820) | Capital Charges | 1,308 | 2,479 | 3,787 |
| 95 | Transfers To/From Reserves | 5 | 0 | 5 |
| 86,155 | Total Expenditure | 67,881 | 18,487 | 86,368 |
| 2,427 | Cost of Services | 15,215 | (10,756) | 4,459 |
| 1,475 | Parish Council Precepts & Levies | 275 | 1,364 | 1,639 |
| 494 | Payments to housing capital receipts pool | 0 | 490 | 490 |
| (1,022) | Gain or loss on disposal of non-current assets | 0 | (3,817) | (3,817) |
| 4,922 | Interest payable and similar charges | (1,680) | 6,671 | 4,991 |
| 2,319 | Pension interest cost and expected return on pensions assets | 0 | 2,305 | 2,305 |
| (713) | Interest receivable and similar income | (952) | 0 | (952) |
| (7,586) | Council Tax income | (6,604) | (1,645) | (8,249) |
| (2,329) | Non-domestic rates | (3,089) | 62 | (3,027) |
| (6,151) | Non-ringfenced government grants | (5,840) | 0 | (5,840) |
| (2,982) | Capital grants and contributions | 0 | (1,353) | (1,353) |
| (9,146) | (Surplus) or Deficit on Provision of Services | (2,675) | (6,679) | (9,354) |
| 0 | Capital Charges & Interest | 0 | 0 | 0 |
| 0 | Transfer to/from reserves | 2,716 | (2,716) | 0 |
| (23,006) | Other Comprehensive Income and Expenditure | 0 | (24,104) | (24,104) |
| | Totals of Resources Allocations and Code adjustments | 41 | (33,499) | |
| (32,152) | Total Comprehensive Income and Expenditure | | | (33,458) |

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

8. Members' Allowances

The Authority paid the following amounts to Members of the Council during the year:

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|------------|------------------|
| 329 | Allowances | 325 |
| 11 | Expenses | 11 |
| <u>340</u> | | <u>336</u> |

Further details of this can be accessed at <http://www.ashford.gov.uk/members-allowances>

9. Officers' Remuneration

This note provides the details of Senior Officers' remuneration and the numbers of employees whose remuneration falls into the categories shown. 'Remuneration' for this purpose, means taxable pay, and includes the tax value of other benefits e.g. leased cars, and termination payments. Figures within this note will exclude any payments covered by confidentiality agreements.

Senior Employee Remuneration 2016/17

| 2016/17 | | Pay & expenses * | Compensation for Loss of Office | Benefits in kind | Total | Pension contributions | Total remuneration |
|--|-----|------------------|---------------------------------|------------------|------------|-----------------------|--------------------|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Chief Executive | + | 106 | | | 106 | 13 | 119 |
| Deputy Chief Executive | | 58 | | 4 | 62 | 0 | 62 |
| Corporate Director (Law & Governance) | + | 87 | | 4 | 91 | 11 | 102 |
| Corporate Director (Development) | | 94 | | 4 | 98 | 13 | 111 |
| Head of Corporate Property & Projects | | 67 | | 4 | 71 | 9 | 80 |
| Head of Health, Parking & Community Safety | | 69 | | 2 | 71 | 9 | 80 |
| Head of Financial Services | + | 70 | | | 70 | 9 | 79 |
| Head of Housing Services | | 63 | | | 63 | 8 | 71 |
| Head of Environmental & Customer Services | ** | 45 | | | 45 | 6 | 51 |
| Head of Environmental & Land Management | *** | 5 | | | 5 | 1 | 6 |
| Head of HR Communications & Technology | | 62 | | | 62 | 8 | 70 |
| Head of Cultural Services | | 59 | | 4 | 63 | 8 | 71 |
| | | <u>785</u> | <u>0</u> | <u>22</u> | <u>807</u> | <u>95</u> | <u>902</u> |

*Where an officer is entitled to a lease car, they may instead take a 'cash alternative'. Where this is the case the cash alternative is shown under 'Salary', but where a lease car is taken, the taxable benefit is shown under 'Benefits in Kind'. The taxable benefit is not the same value as the subsidy paid by the Council to the employee.

**The Head of Environmental & Customer Services resigned with effect from 20th November 2016, on an annualised salary of £66,030

***The Head of Environmental and Land Management appointed with effect from 27th February 2017 on an annualised salary of £59,457

+ Officers that also fulfil statutory roles.

Senior Employee Remuneration 2015/16 comparators

| 2015/16 | | Pay & expenses * | Compensation for Loss of Office | Benefits in kind | Total | Pension contributions | Total remuneration |
|--|-------|------------------|---------------------------------|------------------|------------|-----------------------|--------------------|
| Restated | | restated | | restated | | | |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Chief Executive + | ** | 117 | | | 117 | 15 | 132 |
| Chief Executive + | *** | 11 | | | 11 | 1 | 12 |
| Deputy Chief Executive & CFO + | | 82 | | 4 | 86 | 8 | 94 |
| Corporate Director (Operations) | **** | 28 | | | 28 | 3 | 31 |
| Head of Culture & the Environment | | 83 | | | 83 | 10 | 93 |
| Head of Housing Services | | 47 | | | 47 | 6 | 53 |
| Head of Corporate Property & Projects | ***** | 27 | | 4 | 31 | 4 | 35 |
| Head of Health, Parking & Community Safety | | 66 | | 1 | 67 | 8 | 75 |
| Head of Financial Services | | 68 | | | 68 | 8 | 76 |
| Head of Communications & Technology | | 83 | 30 | | 113 | 10 | 123 |
| Head of Legal and Democratic Services + | | 75 | | 4 | 79 | 10 | 89 |
| Head of Planning & Development | | 90 | | 4 | 94 | 12 | 106 |
| | | <u>777</u> | <u>30</u> | <u>17</u> | <u>824</u> | <u>95</u> | <u>919</u> |

**The Chief Executive resigned with effect from 20 February 2016 on an annualised salary of £121,413.

***New Chief Executive started with effect from 20 February 2016 on an annualised salary of £99,357.

****Head of Community & Housing appointed Corporate Director (Operations) from 1 November 2015 on an annualised salary of £81,852.

*****Head of Corporate property & Projects appointed with effect from 1st November 2015 on an annualised salary of £61,503

+ Officers that also fulfil statutory roles.

Other Employee Remuneration by Band

| 2015/16 | | | 2016/17 |
|------------|--------------------|--|------------|
| <i>nos</i> | Remuneration bands | | <i>nos</i> |
| 18 * | £50,000 - £54,999 | | 19 |
| 7 | £55,000 - £59,999 | | 5 |
| 5 | £60,000 - £64,999 | | 2 * |
| 3 | £65,000 - £69,999 | | 2 |
| 1 * | £70,000 - £74,999 | | |
| | £95,000 - £99,999 | | 1 * |
| <u>34</u> | | | <u>29</u> |

If figures are marked with an * this indicates bands which include officers who have received redundancy payments within their remuneration for the year.

The bandings only include the remuneration of senior employees and relevant officers which have not been disclosed individually above.

10. Termination Benefits

The Authority terminated the contracts of eight employees in 2016/17 incurring liabilities of £140,339 (£147,451 in 2015/16).

| 2015/16 | | Exit package cost band (including special payments) | 2016/17 | |
|-------------------------|--------------------------|---|-------------------------|--------------------------|
| Voluntary <i>nos</i> | Compulsory <i>nos</i> | | Voluntary <i>nos</i> | Compulsory <i>nos</i> |
| | 4 | £0 - £19,999 | 1 | 5 |
| | 4 | £20,000 - £39,999 | 2 | |
| | | £40,000 - £59,999 | | |
| <u>0</u> | <u>8</u> | Total number included in bandings and in CIES | <u>3</u> | <u>5</u> |

11. External Audit Costs

In 2016/17, Ashford Borough Council paid the following fees relating to external audit and inspection:

| 2015/16 <i>£'000</i> | | 2016/17 <i>£'000</i> |
|-------------------------|---|-------------------------|
| 60 | Fees payable with regard to external Audit services carried out by the appointed Auditor for the year | 60 |
| 8 | Fees payable for the certification of grant claims and returns | 11 |
| <u>68</u> | | <u>71</u> |

12. Grant Income

The Authority credited the following material government grants and contributions to the Provision of Services in the Comprehensive Income and Expenditure Statement.

| 2015/16 | | | 2016/17 | |
|---------|--------|---|---------|--------|
| £'000 | £'000 | | £'000 | £'000 |
| | | <i>Credited to Cost of Services</i> | | |
| 0 | | CLG: Refugee Project | 414 | |
| 95 | | CLG: Major Sites Planning Grant | 130 | |
| 149 | | DWP: Discretionary Housing Payments | 92 | |
| 469 | | DWP: Benefit Administration Subsidy | 583 | |
| 36,123 | | DWP: Benefits Subsidy | 36,087 | |
| 0 | | Home Office: Community Safety | 29 | |
| 658 | 37,494 | Other government grants | 160 | 37,495 |
| 272 | | KCC: Recycling Credits | 284 | |
| 119 | 391 | Preceptor Funding For CT Support Scheme | 41 | 325 |
| | 37,885 | Total credited to Cost of Services | | 37,820 |
| | | <i>Credited to Taxation and Non-specific Grant Income</i> | | |
| | | Non-ringfenced government grants: | | |
| 2,046 | | - Rate Support Grant | 1,381 | |
| 886 | | - S31 Grant NNDR | 670 | |
| 69 | | - Council Tax Freeze Grant | 0 | |
| 3,150 | | - New Homes Bonus | 3,789 | |
| 2,982 | | - Capital grants and contributions | 1,353 | |
| | 9,133 | | | 7,193 |
| | 47,018 | | | 45,013 |

13. General Fund Reserves

This note sets out the split of General Fund reserve balances to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in year.

| | Balance at 31st | 2016/17 | | Balance at 31st |
|---|-----------------|--------------|---------------|-----------------|
| | March 2016 | Transfers In | Transfers Out | March 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| General fund general reserves | (1,891) | (751) | 40 | (2,602) |
| <u>Earmarked general fund reserves</u> | | | | |
| Fund future expenditure | (7,209) | (4,064) | 6,077 | (5,196) |
| Provide for the maintenance of an asset | (1,542) | (3,431) | 575 | (4,398) |
| Required by statute reserves | (298) | (6) | 26 | (278) |
| Developer contributions | (7,115) | (1,600) | 1,796 | (6,919) |
| | (16,164) | (9,101) | 8,474 | (16,791) |

| | Balance at 31st | 2015/16 | | Balance at 31st |
|---|-----------------|----------------|---------------|-----------------|
| | March 2015 | Transfers In | Transfers Out | March 2016 |
| | £'000 | £'000 | £'000 | £'000 |
| General fund general reserves | (1,359) | (611) | 79 | (1,891) |
| <u>Earmarked general fund reserves</u> | | | | |
| Fund future expenditure | (5,931) | (2,258) | 980 | (7,209) |
| Provide for the maintenance of an asset | (3,950) | (785) | 3,193 | (1,542) |
| Required by statute reserves | (223) | (75) | 0 | (298) |
| Developer contributions | (5,500) | (2,726) | 1,111 | (7,115) |
| | <u>(15,604)</u> | <u>(5,844)</u> | <u>5,284</u> | <u>(16,164)</u> |

The Purpose of the Earmarked Reserves

The Council has established a number of earmarked reserves for specific purposes. These reserves broadly fall into four classifications:

Fund future expenditure – These have been established specifically to manage fluctuations in expenditure in the future or provide for specific risks that may need to be funded. Examples of these reserves are:

- Elections reserve
- Interest rate reserve
- Members' IT reserve
- Planning appeals
- Hopewell twinning reserve
- Section 106 monitoring fee

Provide for the maintenance of an asset – A general reserve has been established to provide for the maintenance of the Council's assets, in addition to this a number of leases require the Council to put aside money to cover future maintenance liabilities.

Required by statute reserves – A number of the Council's revenue generating activities are governed by statutory provisions that require the Council to breakeven over a number of years. Any surplus generated by these activities is allocated to these reserves to offset future deficits, for example land charges and building control surplus.

Developer contributions – As part of the Planning process developers can be required to pay sums to the Council for the provision and maintenance of community facilities and open space. Often the payment of these amounts occurs over a number of years and is linked to the progress of the development. These monies are held in reserves until needed.

14. Property, Plant and Equipment

| Property, Plant & Equipment 2016/17 | Council dwellings | Other land & buildings | Vehicles, plant, furniture & equipment | Infra- structure assets | Community assets | Surplus assets | Assets under construction | Total property, plant & equipment | PFI assets included in Property, plant & equipment |
|---|----------------------|---------------------------|---|-------------------------------|---------------------|-------------------|------------------------------|---|--|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| <i>Cost or Valuation</i> | | | | | | | | | |
| 1 April 2016 | 325,160 | 105,655 | 1,387 | 2,199 | 1,716 | 2,512 | 2,068 | 440,697 | 22,506 |
| Additions | 4,184 | 440 | 821 | 158 | 0 | 0 | 10,495 | 16,098 | (8,193) |
| Revaluation recognised in the Revaluation Reserve | (66,642) | (1,057) | 0 | 0 | 0 | (231) | 0 | (67,930) | 2,167 |
| Revaluation recognised in the Provision of Services | (1,060) | (1,063) | 0 | 0 | 0 | (132) | 0 | (2,255) | 0 |
| Derecognition - disposals | (3,145) | (1,039) | 0 | 0 | 0 | 0 | 0 | (4,184) | (141) |
| Assets reclassified (to)/from Held for Sale | 750 | 0 | 0 | 0 | 0 | 0 | 0 | 750 | |
| Transfer between classes of Assets | 0 | 1,327 | 0 | 78 | 0 | 1,255 | (2,660) | 0 | 0 |
| 31 March 2017 | 259,247 | 104,263 | 2,208 | 2,435 | 1,716 | 3,404 | 9,903 | 383,176 | 16,339 |
| <i>Accumulated Depreciation and Impairment</i> | | | | | | | | | |
| 1 April 2016 | (93,299) | (11,221) | (379) | 0 | (229) | 0 | 0 | (105,128) | (7,964) |
| Depreciation charge | (4,602) | (1,525) | (159) | (4) | 0 | 0 | 0 | (6,290) | (290) |
| Depreciation written out - Revaluation Reserve | 4,599 | 1,428 | 0 | 0 | 0 | 3 | 0 | 6,030 | 289 |
| Impairment recognised in the Revaluation Reserve | 92,624 | 5,112 | 0 | 0 | 0 | 1,031 | 0 | 98,767 | 7,916 |
| Derecognition - disposals | 679 | 9 | 0 | 0 | 0 | 0 | 0 | 688 | 49 |
| Other movements in Depreciation and Impairment | 0 | 1,034 | 0 | 0 | 0 | (1,034) | 0 | 0 | 0 |
| 31 March 2017 | 1 | (5,163) | (538) | (4) | (229) | 0 | 0 | (5,933) | 0 |
| <i>Net book value</i> | | | | | | | | | |
| 31 March 2017 | 259,248 | 99,100 | 1,670 | 2,431 | 1,487 | 3,404 | 9,903 | 377,243 | 16,339 |
| 31 March 2016 | 231,861 | 94,434 | 1,008 | 2,199 | 1,487 | 2,512 | 2,068 | 335,569 | 14,542 |

Property, Plant and Equipment continued

| Property, Plant & Equipment 2015/16 Restated | Council dwellings | Other land & buildings | Vehicles, plant, furniture & equipment | Infra- structure assets | Community assets | Surplus assets | Assets under construction | Total property, plant & equipment | PFI assets included in Property, plant & equipment |
|---|----------------------|---------------------------|---|-------------------------------|---------------------|-------------------|------------------------------|---|--|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| <i>Cost or Valuation</i> | | | | | | | | | |
| 1 April 2015 | 314,428 | 82,252 | 1,054 | 2,181 | 1,047 | 968 | 5,400 | 407,330 | 14,605 |
| Additions | 10,967 | 4,903 | 333 | 17 | 0 | 384 | 1,963 | 18,567 | 5 |
| Revaluation recognised in the Revaluation Reserve | 301 | 12,324 | 0 | 0 | 669 | 1,528 | 0 | 14,822 | |
| Revaluation recognised in the Provision of Services | (396) | 4,397 | 0 | 0 | 0 | 0 | 0 | 4,001 | (3) |
| Derecognition - disposals | (3,221) | (52) | 0 | 0 | 0 | 0 | 0 | (3,273) | (43) |
| Transfer between claesses of Assets | 3,081 | 1,831 | 0 | 1 | 0 | (368) | (5,295) | (750) | 0 |
| 31 March 2016 | 325,160 | 105,655 | 1,387 | 2,199 | 1,716 | 2,512 | 2,068 | 440,697 | 14,564 |
| <i>Accumulated Depreciation and Impairment</i> | | | | | | | | | |
| 01/04/2015 (restated) | (81,428) | (10,117) | (263) | 0 | (231) | 0 | 0 | (92,039) | (19) |
| Depreciation charge | (5,367) | (1,522) | (116) | 0 | (6) | 0 | 0 | (7,011) | (340) |
| Depreciation written out - Revaluation Reserve | 24 | 1,499 | 0 | 0 | 8 | 0 | 0 | 1,531 | |
| Depreciation written out - Provision of Services | 5,343 | 901 | 0 | 0 | 0 | 0 | 0 | 6,244 | 340 |
| Impairment recognised in the Revaluation Reserve | (24) | (1,708) | 0 | 0 | 0 | 0 | 0 | (1,732) | |
| Impairment recognised in the Provision of Services | (11,847) | (277) | 0 | 0 | 0 | 0 | 0 | (12,124) | (3) |
| Derecognition - disposals | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 3 | |
| 31 March 2016 | (93,299) | (11,221) | (379) | 0 | (229) | 0 | 0 | (105,128) | (22) |
| <i>Net book value</i> | | | | | | | | | |
| 31 March 2016 | 231,861 | 94,434 | 1,008 | 2,199 | 1,487 | 2,512 | 2,068 | 335,569 | 14,542 |
| 31 March 2015 | 233,000 | 72,135 | 791 | 2,181 | 816 | 968 | 5,400 | 315,291 | 14,586 |

Surplus Assets

During the year land and buildings that the Council owns as part of the Commercial Quarter redevelopment has been reclassified as Surplus as at this time it is non-operational, this treatment is set out in the Code of Practice on Local Authority Accounting and is an interim classification until the project commences.

The surplus assets have been valued using IFRS13 fair value level 2 as there are significant observable inputs using land prices in the local authority area.

| 2015/16 | | 2016/17 |
|--------------|--------------------------------------|--------------|
| £'000 | | £'000 |
| 1,875 | Land at Elwick Road | 1,950 |
| 0 | Commercial Quarter & associated land | 817 |
| 607 | Land at Coneybeare, Torrington Road | 607 |
| 31 | Various other land sites | 30 |
| <u>2,513</u> | | <u>3,404</u> |

| Movement of Surplus Assets | 1st April | Additions & disposals | Transfer between classes of assets | Revaluation gains/ losses | 31st March |
|----------------------------|-----------|-----------------------|------------------------------------|---------------------------|------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| 2016/17 | 2,513 | 0 | 1,255 | (364) | 3,404 |
| 2015/16 | 969 | 384 | (368) | 1,528 | 2,513 |
| 2014/15 | 968 | 0 | 0 | 1 | 969 |

Asset Valuation

A valuation exercise and impairment review was completed by external qualified (RICS) valuers, Wilkes Head and Eve LLP, in accordance with the relevant guidance.

Depreciation

The useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – the useful life of 50 years (previously used the Major Repairs Allowance as a proxy for depreciation between 25-60 years)
- Other Land and Buildings – the useful life estimated by a qualified valuer between 15-60 years
- Vehicles, Plant, Furniture & Equipment – subject to professional view on life between 5-15 years.
- Infrastructure – the useful life estimated between 15-60 years

15. Revaluation Gains and Impairments

There have been valuation movements of the HRA Dwellings. Please see the HRA supplementary statement, note 7 on page 73.

General Fund land and buildings were revalued as at 31st March 2017 there have been upward valuations of £6,342,207 recognised through the Revaluation Reserve and downward revaluation movements of £1,171,520 written out through the Consolidated Income and Expenditure Statement.

Assets were valued using information available at 31 January 2017 based on expected valuations as at 31 March 2017. The valuers have reported that there are no further material changes required.

16. Investment Properties (Group Accounts)

Investment properties are wholly owned with the A Better Choice for Property Ltd. Property valuations were made by an independent valuer TaylorRiley Stafford, external qualified (RICS) valuers and are reflected in the group statement and the tables below.

The accuracy of the fair value measurement is classified by 'fair value levels' which are shown under financial instruments at note 20, the valuation of the property portfolio are assessed at level 2.

The cashflow statement has the movements to reflect these purchases.

| Group Position 2015/16 £'000 | | Group Position 2016/17 £'000 |
|------------------------------------|---|------------------------------------|
| 3,227 | Property Portfolio - Dwellings (A Better Choice for Property) | 4,043 |
| <u>3,227</u> | | <u>4,043</u> |

| Movements in Investment Property (A Better Choice for Property) | 1st April £'000 | Additions & disposals £'000 | Revaluation gains/ losses £'000 | 31st March £'000 |
|---|--------------------|-----------------------------------|--|---------------------|
| 2016/17 | 3,227 | 567 | 249 | 4,043 |
| 2015/16 | 1,096 | 2,019 | 112 | 3,227 |
| 2014/15 | 0 | 1,113 | (17) | 1,096 |

17. Heritage Assets

Following the adoption of FRS30 Heritage assets have been identified and disclosed in these accounts, the following assets are disclosed in the Balance Sheet:

| 2015/16 | | 2016/17 |
|--------------|--|--------------|
| £'000 | | £'000 |
| 1,001 | Windmills at Woodchurch & Willesborough | 1,001 |
| 403 | Doctor Wilkes Hall | 422 |
| 750 | Hubert Fountain (Victoria Park) | 750 |
| 261 | Mayor's regalia, including mace and badges | 273 |
| <u>2,415</u> | | <u>2,446</u> |

During 2016/17 insurance valuations on the above assets were sought and this resulted in Doctor Wilkes Hall increased in value by £21,000 and the Major's regalia increased by £13,000.

18. Capital Expenditure and Capital Financing

This year the Capital Financing Requirement has reduced, this is mainly due to the repayment of Housing Revenue Account Debt of £2m. The approved HRA business plan does intend to re-borrow during the next few years.

| 2015/16 | | 2016/17 |
|----------------|--|-----------------|
| £'000 | | £'000 |
| 156,021 | <i>Opening Capital Financing Requirement</i> | 157,942 |
| | <i>Capital investment:</i> | |
| 18,567 | Property, Plant and Equipment | 16,098 |
| 3 | Intangible Assets | 0 |
| 1,021 | Revenue Expenditure funded from Capital under Statute | 944 |
| <u>19,591</u> | | <u>17,042</u> |
| | <i>Sources of Finance:</i> | |
| (1,280) | Capital Receipts | (411) |
| (1,828) | Government grants and contributions (received in year) | (1,351) |
| (80) | Government grants and contributions (brought forward) | (1,198) |
| <u>(4,816)</u> | Major Repairs Reserve | <u>(4,184)</u> |
| <u>(8,004)</u> | | <u>(7,144)</u> |
| | Sums set aside from revenue | |
| (8,722) | - Direct revenue contributions | (7,825) |
| <u>(944)</u> | - Minimum revenue provision (MRP) | <u>(2,739)</u> |
| <u>(9,666)</u> | | <u>(10,564)</u> |
| <u>157,942</u> | <i>Closing Capital Financing Requirement</i> | <u>157,276</u> |
| | <i>Explanation of movements in year</i> | |
| 2,864 | Increase in underlying need to borrowing (unsupported by government financial assistance) | 2,074 |
| <u>(944)</u> | Provision for the repayment of debt | <u>(2,739)</u> |
| <u>1,920</u> | | <u>(665)</u> |

19. Capital Commitments

At 31 March 2017, the Council has an approved capital programme for future years budgeted to cost £16m. The major capital commitments are:

| 2015/16 | | 2016/17 |
|---------|---|---------|
| £'000 | | £'000 |
| 605 | Spearpoint pavilion | 0 |
| | Repton Park | 1,280 |
| | Brisley Farm | 110 |
| | <i>Housing Revenue Account - Major Projects</i> | |
| 0 | Danemore Sheltered Housing Redevelopment | 290 |
| 6,600 | Farrow Court Sheltered Housing Redevelopment | 1,800 |
| 0 | New Build Programme | 7,170 |

20. Financial Instruments

| Long-term | Current | | Long-term | Current |
|------------------|----------------|---|------------------|----------------|
| 31 March 2016 | | | 31 March 2017 | |
| £'000 | £'000 | | £'000 | £'000 |
| | <u>4,278</u> | <i>Cash and Cash Equivalents</i> | | <u>7,300</u> |
| | | <i>Investments</i> | | |
| 5,500 | 3,047 | Loans and receivables | 3,000 | 2,541 |
| 11,242 | | Available-for-sale financial assets | 11,865 | |
| <u>16,742</u> | <u>3,047</u> | <i>Total Investments</i> | <u>14,865</u> | <u>2,541</u> |
| | | <i>Debtors</i> | | |
| | 1,550 | Trade Debtors | | 1,422 |
| 4,600 | | Financial assets carried at contract amounts | 9,509 | |
| <u>4,600</u> | <u>1,550</u> | <i>Total included in Debtors</i> | <u>9,509</u> | <u>1,422</u> |
| | | <i>Borrowings</i> | | |
| (117,664) | (2,038) | Financial liabilities at amortised cost | (114,664) | (3,039) |
| <u>(117,664)</u> | <u>(2,038)</u> | <i>Total included in Borrowings</i> | <u>(114,664)</u> | <u>(3,039)</u> |
| | | <i>Other Long-term Liabilities</i> | | |
| (22,439) | (626) | PFI and finance lease liabilities | (21,623) | (816) |
| <u>(22,439)</u> | <u>(626)</u> | <i>Total Other Long-term Liabilities</i> | <u>(21,623)</u> | <u>(816)</u> |
| | | <i>Creditors</i> | | |
| | (7,695) | Financial liabilities at amortised cost | | (7,359) |
| (119) | | Financial liabilities carried at contract amounts | (119) | |
| <u>(119)</u> | <u>(7,695)</u> | <i>Total Creditors</i> | <u>(119)</u> | <u>(7,359)</u> |

Financial assets carried at contract amounts include loans to the Council's property company, A Better Choice Property Ltd amounting to £3,606,476 as at 31 March 2017 (£3,063,072 as at 31 March 2016). These loans are secured against charges on the properties acquired by the Property Company.

| 2015/16 | | 2016/17 |
|--------------|--|--------------|
| £'000 | | £'000 |
| 4,922 | Interest payable | 4,991 |
| (713) | Interest Income | (951) |
| (380) | Surplus arising from the revaluation of financial assets | (620) |
| <u>3,829</u> | Net gains/loss for the year | <u>3,420</u> |

Fair Values of Assets and Liabilities

Not all of the Financial Instruments are carried in the Balance Sheet at fair value. In particular, long-term loans, receivables and financial liabilities are carried at amortised cost.

Balance sheet and fair values are shown in the tables below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities
- Level 2 – fair value is calculated from inputs other than those quoted prices that are observable for the asset or liability
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated credit worthiness

| Balance Sheet | Fair Value | | Fair Value Level | Balance Sheet | Fair Value |
|------------------|------------------|---|------------------|------------------|------------------|
| 31 March 2016 | 31 March 2016 | | | 31 March 2017 | 31 March 2017 |
| £'000 | £'000 | | | £'000 | £'000 |
| | | Financial Liabilities held at Amortised Cost: | | | |
| (117,664) | (128,783) | Long Term loans from PWLB | 2 | (114,664) | (137,320) |
| (23,065) | (29,822) | PFI Liabilities | 3 | (22,439) | (30,707) |
| (119) | (346) | Lease Payables | 3 | (119) | (390) |
| <u>(140,848)</u> | <u>(158,951)</u> | TOTAL | | <u>(137,222)</u> | <u>(168,417)</u> |
| (11,730) | | Liabilities for which fair value is not disclosed * | | (7,028) | |
| <u>(152,578)</u> | | TOTAL FINANCIAL LIABILITIES | | <u>(144,250)</u> | |
| | | *Recorded on balance sheet as: | | | |
| (9,692) | | Short-term creditors | | (3,989) | |
| (2,038) | | Short-term borrowing | | (3,039) | |
| <u>(11,730)</u> | | | | <u>(7,028)</u> | |

| Balance Sheet | Fair Value | | Fair Value Level | Balance Sheet | Fair Value |
|---------------|---------------|---|------------------|---------------|---------------|
| 31 March 2016 | 31 March 2016 | | | 31 March 2017 | 31 March 2017 |
| £'000 | £'000 | | | £'000 | £'000 |
| | | Financial assets held at fair value: | | | |
| | 2,503 | Money market funds | 1 | | 6,801 |
| | 3,982 | Equity funds | 1 | | 4,475 |
| | 7,160 | Property fund | 1 | | 7,048 |
| | 100 | Shares in A Better Choice for Property Ltd. | 3 | | 343 |
| | | <i>Financial assets held at amortised cost:</i> | | | |
| 5,500 | | Long-term loans to local authorities | 2 | 3,000 | |
| <u>5,500</u> | <u>13,745</u> | TOTAL | | <u>3,000</u> | <u>18,667</u> |
| <u>12,687</u> | | Assets for which fair value is not disclosed * | | <u>13,972</u> | |
| <u>18,187</u> | | TOTAL FINANCIAL ASSETS | | <u>16,972</u> | |
| | | * Recorded on balance sheet as: | | | |
| 1,550 | | Short-term debtors | | 1,699 | |
| 3,047 | | Short-term investments | | 2,541 | |
| 4,600 | | Long-term debtors | | 9,509 | |
| 3,490 | | Cash and Cash Equivalents | | <u>223</u> | |
| <u>12,687</u> | | | | <u>13,972</u> | |

* The fair value of trade and other receivables (e.g. debtors) is taken to be the invoiced or billed amount.

Fair values have been determined with reference to Arlingclose or Bloomberg where applicable.

The fair value of shares in the Council's wholly owned subsidiary 'A Better Choice for Property Ltd. are equal to the total equity of the company, as the Council is the sole shareholder.

Long term debtors are carried at amortised cost.

Short term debtors and creditors are carried at cost, as this is a fair approximation of their value.

21. Nature and Extent of Risks Arising from Financial Instruments

Risk management in this area is carried out by a central treasury team (supported by specialist external advisors) under policies approved by the Council in the Annual Treasury Management Strategy. The Council provides written principles for risk management, has adopted the CIPFA Treasury Management Code of Practice, and has set Treasury Management indicators to control key Financial Instrument risks in accordance with CIPFA's Prudential Code.

The Council's investment portfolio as at 31 March 2017 was as follows:

Credit Risk

| <i>Counter party</i> | <i>Maturity date</i> | <i>Amount</i> £'000 | <i>Credit rating</i> |
|---|----------------------|------------------------|----------------------|
| <i>Deposit with other local authorities/government</i> | | | |
| Blaenau Gwent | 27 Oct 2019 | 3,026 | AA |
| Newport City Council | 10 Jul 2017 | 2,514 | AA |
| <i>Deposits/investments with other financial institutions</i> | | | |
| Santander | Instant | 3 | A |
| Goldman Sachs | Instant | 51 | A |
| National Westminster Bank | Instant | 220 | BBB+ |
| Payden & Rygel | | 3,000 | AAA |
| Invesco MMF | | 3,750 | AAA |
| City Financial Multi Asset Diversified Fund | 2 Days Notice | 1,002 | NA |
| UBS Multi Asset Income Fund | 2 Days Notice | 1,003 | NA |
| M&G Global Dividend Fund | 2 Days Notice | 1,407 | NA |
| Schroder Income Maximiser Fund | 2 Days Notice | 1,063 | NA |
| Local Authority Mutual Investment Trust | Variable | 7,048 | NA |
| A Better Choice for Property Ltd. | Variable | 343 | NA |

Credit ratings are assigned to each investment using the lowest rating from the 3 main ratings agencies, Standard and Poor's, Moody's and Fitch Group, or where formal ratings are not provided ratings are applied, where possible, based on the characteristics of the investment, such as money market funds. AAA, AA, A and BBB are considered investment grade products with AAA being the highest level, any investments below BBB would be considered non-investment grade and would not be entered into directly, with the exception of National Westminster Bank who the Council banks with.

The Code requires the Council to estimate the potential maximum exposure to credit risk, based on experience of defaults and collection rates over recent years. However, as the Council has not experienced any defaults on investments, the Council is unable to quantify its exposure with any degree of accuracy.

Credit risk arises from investments, some of the Council's customers commercial rent and trade debtors, excluding Council Tax and Business Rate debts.

The Council has not experienced any losses from default by counterparties in the past in relation to investments. The Council's investments are such that it does not expect any losses by any of its counterparties in relation to investments.

The table below compares the percentage of the Council's investment portfolio that was invested at each credit level at the beginning and at the end of the year.

| 31 March 2016 | | 31 March 2017 |
|---------------|-------------------------|---------------|
| | % | % |
| 65 | AAA | 28 |
| 3 | AA or Local Authority's | 23 |
| 13 | A or A+ | 0 |
| 2 | BBB | 1 |
| 17 | Unrated pooled Funds | 47 |
| 0 | Unrated Company | 1 |

The overdue amount of debt held within the Council's systems can be analysed by age as follows:

| 31 March 2016 | | 31 March 2017 |
|---------------|----------------------|---------------|
| | £'000 | £'000 |
| 269 | Less than 30 days | 451 |
| 252 | 31 days to 90 days | 34 |
| 181 | 91 days to 364 days | 116 |
| 929 | More than 1 year | 353 |
| <u>1,631</u> | | <u>954</u> |
| (444) | Impairment allowance | (498) |

Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loan Board (PWLB), there is no significant risk that it will be unable to raise funds to meet its commitments. Instead, the risk is that the Council may have to re-invest a significant proportion of its investments at a time of unfavourable interest rates.

The future of the PWLB has been subject to consultation and it is recommended that it be abolished with its powers transferred to the Treasury to strengthen its governance arrangements. These proposals are still to be laid before parliament although any change is not anticipated to have any impact over the operational aspects of accessing money, and therefore will not have an impact on the Council's liquidity risk.

All trade and other payable creditors are due to be paid in less than one year.

Market Risk interest rates/prices/exchange rates

The council is exposed to interest rate risk on some of its borrowing and if interest rates had been 1% higher or lower during the year, this would have resulted in an increase or decrease in variable investment income of £207,000 and an increase or decrease in variable loan payments of £70,000. The Council's long-term borrowing is predominantly fixed rate and therefore a material movement is not anticipated.

22. Debtors

These amounts were due to the Council:

| 31 March 2016 | | | 31 March 2017 | |
|---------------|--------------|---------------------------------|---------------|--------------|
| £'000 | £'000 | | £'000 | £'000 |
| | 1,355 | Central government bodies | | 2,339 |
| | 0 | Other Local Authorities | | 160 |
| | | Other entities and individuals: | | |
| 1,054 | | - Housing Tenants | 1,252 | |
| (728) | 326 | Less: Impairment Allowance | (620) | 632 |
| 1,616 | | - Local Taxpayers/ratepayers | 1,360 | |
| (699) | 917 | Less: Impairment Allowance | (349) | 1,011 |
| 5,395 | | - Other | 5,122 | |
| (1,652) | 3,743 | Less: Impairment Allowance | (1,756) | 3,366 |
| | <u>6,341</u> | Balance at 31st March | | <u>7,508</u> |

Movement in Debtors is mainly due to:

| 2015/16 | | 2016/17 |
|------------|--|--------------|
| £'000 | | £'000 |
| 47 | Benefit Subsidy owed by government | 756 |
| 48 | Other amounts owed by government | 228 |
| (212) | Amounts owed by housing tenants | 198 |
| 869 | Amounts owed by local taxpayers/ratepayers | (256) |
| 1,063 | Movement in payments in advance | 112 |
| (2,276) | Amounts owed by Sundry Debtors | (225) |
| 1,391 | Change in Impairment Allowance | 354 |
| <u>930</u> | Movement in the year | <u>1,167</u> |

Debtors have increased this year this is partly due to additional Government (housing benefits) debtors raised near the end of the financial year.

The bad debt provision has decreased overall, this is due to aged debt write-offs and newer debt being more certain of recovery, i.e. no provision against government debt.

23. Creditors

These amounts were due to be paid by the Council at 31 March 2017

| 31 March 2016 £'000 | | 31 March 2017 £'000 |
|------------------------|---------------------------------|------------------------|
| (1,122) | Central government bodies | (533) |
| (3,234) | Other Local Authorities | (3,691) |
| | Other entities and individuals: | |
| (611) | - Housing Tenants | (891) |
| (182) | - Local Taxpayers | (192) |
| (481) | - Business Rate Payers | (646) |
| (833) | - Developer contributions | (2,639) |
| (6,595) | - Sundry Creditors | (5,987) |
| <u>(13,058)</u> | | <u>(14,579)</u> |

Movement in Creditors is mainly due to:

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---|------------------|
| (860) | NNDR liability | (518) |
| 1,875 | Other amounts owed to government | 1,107 |
| (1,395) | Amounts owed to Other Local Authorities | (457) |
| 175 | Amounts owed by housing tenants | (280) |
| (10) | Amounts owed by local taxpayers | (10) |
| 427 | Amounts owed by Business Rate payers | (165) |
| (471) | Change in Developer contributions | (1,806) |
| 130 | Amounts owed to Sundry Creditors | 608 |
| <u>(129)</u> | Movement in the year | <u>(1,521)</u> |

Creditors have increased significantly this year this is due to a number of movements including:

- contributions received from developers that will either pass on to other authorities or where spend has not been identified, or approved internally,
- following the closure of the Collection Fund an increase in the amounts owed to preceptors (other local authorities).
- The increase in the sundry creditors figure is as a result of the Council receiving and accounting for invoices that are not yet due for payment.

24. Unusable Reserves

This category of reserves are held for statutory and accounting purposes, i.e. they are not available for the Council to finance expenditure. They are held for the following purpose:

- *Revaluation Reserve (see note (a))* - Store of gains on revaluation of Property Plant and Equipment not yet realised through sales.
- *Available-for -Sale Financial Instruments Reserve* - Store of gains on revaluation of investments not yet realised through sales.
- *Capital Adjustment Account* - Store of capital resources set aside to meet past expenditure.
- *Financial Instruments Adjustment Account* - Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments.
- *Deferred Capital Receipts* - Recognises that amounts included in long term Debtors will produce capital receipts in the future.
- *Pensions Reserve* - Balancing account to allow inclusion of Pensions Liability in the Balance Sheet.
- *Collection Fund Adjustment Account (see note (b))* - Holds the balance owing to/from the Council at Balance Sheet date.
- *Accumulated Absences Reserve* - The Accumulated Absences Account absorbs the differences between leave accrued but not taken.

| Unusable Reserves 2016/17 | Revaluation balances | | | Adjustment accounts | | | | Total Unusable Reserves £'000 |
|---|-----------------------|--|------------------------------|---------------------------|------------------|-------------------------|------------------------|----------------------------------|
| | Revaluation Reserve * | Available for Sale Financial Instruments | Capital Adjustment Account * | Deferred Capital Receipts | Pensions Reserve | Collection Fund Adj Acc | Accum -ulated Absences | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Balance at 31st March 2016 | (38,078) | (1,164) | (142,741) | (1,537) | 65,715 | 1,005 | 186 | (116,614) |
| <i>Movements in Reserves during the year</i> | | | | | | | | |
| Other comprehensive income & expenditure | (36,899) | (620) | | | 13,415 | | | (24,104) |
| Total comprehensive income & expenditure | (36,899) | (620) | 0 | 0 | 13,415 | 0 | 0 | (24,104) |
| Adj between accounting and funding basis | | | (4,677) | (1,333) | 1,957 | (189) | 1 | (4,241) |
| Net movement before transfers to other reserves | (36,899) | (620) | (4,677) | (1,333) | 15,372 | (189) | 1 | (28,345) |
| Transfers to/from other Unusable reserves | 5,061 | | (5,061) | 0 | | | | 0 |
| Increase or decrease during the year | (31,838) | (620) | (9,738) | (1,333) | 15,372 | (189) | 1 | (28,345) |
| Balance at 31st March 2017 | (69,916) | (1,784) | (152,479) | (2,870) | 81,087 | 816 | 187 | (144,959) |

* Analysed in tables (a) and (b)

| Unusable Reserves 2015/16 | Revaluation balances | | | Adjustment accounts | | | | Total Unusable Reserves £'000 |
|---|-----------------------|--|------------------------------|---------------------------|------------------|-------------------------|------------------------|----------------------------------|
| | Revaluation Reserve * | Available for Sale Financial Instruments | Capital Adjustment Account * | Deferred Capital Receipts | Pensions Reserve | Collection Fund Adj Acc | Accum -ulated Absences | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Balance at 31st March 2015 | (24,430) | (784) | (137,859) | (1,596) | 71,983 | 850 | 119 | (91,717) |
| <i>Movements in Reserves during the year</i> | | | | | | | | |
| Other comprehensive income & expenditure | (14,107) | (380) | | | (8,519) | | | (23,006) |
| Total comprehensive income & expenditure | (14,107) | (380) | 0 | 0 | (8,519) | 0 | 0 | (23,006) |
| Adj between accounting and funding basis | | | (4,423) | 59 | 2,251 | 155 | 67 | (1,891) |
| Net movement before transfers to other reserves | (14,107) | (380) | (4,423) | 59 | (6,268) | 155 | 67 | (24,897) |
| Transfers to/from other Unusable reserves | 459 | | (459) | | | | | 0 |
| Increase or decrease during the year | (13,648) | (380) | (4,882) | 59 | (6,268) | 155 | 67 | (24,897) |
| Balance at 31st March 2016 | (38,078) | (1,164) | (142,741) | (1,537) | 65,715 | 1,005 | 186 | (116,614) |

(a) Revaluation Reserve:

| 2015/16 £'000 | | | 2016/17 £'000 |
|------------------|---|----------|------------------|
| | <i>Comprehensive Income and Expenditure Statement</i> | | |
| (14,877) | Revaluation increases/(decreases) recognised in the Revaluation Reserve | (36,890) | |
| (1,531) | Depreciation written out to the Revaluation Reserve | (9) | |
| 2,301 | Impairment losses/(reversals) recognised in the Revaluation Reserve | 0 | |
| (14,107) | (Surplus) or deficit on revaluation of non-current assets not posted to the (Surplus) or Deficit on the Provision of Services | | (36,899) |
| | <i>Transfers to/from Capital Adjustment Account</i> | | |
| 459 | Difference between fair value depreciation and historical cost depreciation | 334 | |
| 0 | Adjustment to opening balance between the reserves | 3,831 | |
| 0 | Accumulated gains on assets sold or scrapped | 896 | |
| | Amount written off to the Capital Adjustment Account | | 5,061 |
| (13,648) | Increase or decrease during year | | (31,838) |

(b) Capital Adjustment Account

| 2015/16 £'000 | | | 2016/17 £'000 |
|------------------|--|--|------------------|
| (8,005) | Sources of Finance | | (7,145) |
| (9,666) | Sums set-a-side for capital purposes | | (10,564) |
| 1,021 | Revenue expenditure met from capital under statute | | 944 |
| 12,227 | Removal of items not chargeable to Fund Balances | | 12,054 |
| (4,423) | Total accounting adjustments between funding basis under statute | | (4,711) |
| (459) | Adjustment with Revaluation Reserve | | (5,061) |
| | Other Adjustment | | 34 |
| (4,882) | Increase or decrease during year | | (9,738) |

25. Leases

Council as a Lessee - Operating Leases

The Council has contracts for lease cars, ground maintenance vehicles and photocopier/printer devices as operating leases. The Council was committed as at 31 March 2017 to make the lease payments as per the following table:

| 2015/16 £'000 | | | 2016/17 £'000 |
|------------------|---------------|--|------------------|
| 156 | Within 1 year | | 225 |
| 191 | 2 - 5 years | | 420 |
| 347 | | | 645 |

Council as a Lessor - Finance Leases

The Council has leased the Ashford Indoor Bowls Centre to the Ashford Indoor Bowls Centre Ltd; the lease is for the majority of the asset's life and therefore is to be treated as a finance lease. The remaining life of this lease is 37 years. The table below shows the income due on this lease:

| | Principal receivable £'000 | Interest £'000 | Total lease payment £'000 |
|--------------------|----------------------------------|-------------------|---------------------------------|
| Within 1 year | 19 | 23 | 42 |
| 2 - 5 years | 100 | 110 | 210 |
| Later than 5 years | 936 | 366 | 1,302 |
| | <u>1,055</u> | <u>499</u> | <u>1,554</u> |

This balance is held within the long-term debtor's line on the balance sheet

Council as a Lessor - Operating Leases

The Council leases out property under operating leases for the different purposes. These include sports facilities, shops, and community assets. The income from these leases, over remaining life of the contracts, calculated at current levels, are detailed in the tables below.

Park Mall Shopping Complex was purchased during 2015/16. The expected future income from the current shop leases are detailed below, the figures include Wilko:

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------------|------------------|
| 544 | Within 1 year | 570 |
| 1,699 | 2 - 5 years | 1,604 |
| <u>2,080</u> | Later than 5 years | <u>1,389</u> |
| <u>4,323</u> | | <u>3,563</u> |

The Council owns International House, which is Town Centre office space. The future income receivable for these leases are detailed below:

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------------|------------------|
| 1,154 | Within 1 year | 1,101 |
| 1,522 | 2 - 5 years | 2,181 |
| <u>241</u> | Later than 5 years | <u>179</u> |
| <u>2,917</u> | | <u>3,461</u> |

The Council owns, and rents out, a number of industrial units on short-term leases. The future income receivable for leases relating to industrial units are detailed below:

| 2015/16 | | 2016/17 |
|------------|---------------|------------|
| £'000 | | £'000 |
| 173 | Within 1 year | 323 |
| 117 | 2 - 5 years | 263 |
| <u>290</u> | | <u>586</u> |

The Council also owns various smaller leases including estate shops and other small units, details of future income is detailed in the table below:

| 2015/16 | | 2016/17 |
|--------------|--------------------|--------------|
| £'000 | | £'000 |
| 253 | Within 1 year | 282 |
| 716 | 2 - 5 years | 687 |
| 1,026 | Later than 5 years | 1,882 |
| <u>1,995</u> | | <u>2,851</u> |

26. Provisions

| 2015/16 | | 2016/17 |
|----------------|----------------------------|----------------|
| £'000 | | £'000 |
| (1,384) | Business Rates Appeals | (1,318) |
| (40) | Municipal Mutual Insurance | (40) |
| <u>(1,424)</u> | | <u>(1,358)</u> |

The reasons for movement in provisions are:

| 2015/16 | | 2016/17 |
|------------|-----------------------------------|-----------|
| £'000 | | £'000 |
| (1,265) | Additional provision made in year | (1,515) |
| 1,385 | Amounts used in year | 1,581 |
| 255 | Unused amounts reversed in year | 0 |
| <u>375</u> | Movement in the year | <u>66</u> |

27. PFI and Similar Contracts

Stanhope PFI

On the 13 April 2007 the Council entered into a design, build, finance, and operate contract with the Chrysalis Consortium (the Contractor) for the provision of the regeneration of the Stanhope Estate and housing management services for the duration of the contract. The contract is for 30 years.

The total value of the contract (assuming an annual inflationary increase of 2.5%) was £140m, which included construction costs of £28m net of a capital contribution by the authority. The contract was benchmarked and reduced to

£127m in 2011/12. Details of the PFI assets held on the balance sheet are included in note 1.

Under the terms of the contract the Council is required to make the following payments to the Contractor:

- An annual unitary charge net of deductions for performance
- Capital contributions to infrastructure costs
- Pass through costs e.g. Disabled Facilities Grants.

These payments will be met from:

- The Council's existing revenue budget for the services, rental income and housing subsidy
- PFI Special Grant from Central Government.

The payments to the Provider will be subject to indexation RPIX, and may vary by virtue of certain provisions within the contract. These primarily relate to the following:

- Performance and availability deductions
- changes in law which affect the costs of the service
- variations to the contract which are approved by the Council
- benchmarking of non-property related costs at agreed intervals (undertaken February 2012).

Analysis of minimum forecast Unitary Charge assuming 0% inflation

| | Service cost £'000 | Life Cycle Costs | Repayment of liability £'000 | Interest cost £'000 | Total payment £'000 |
|---------------|-----------------------|---------------------|------------------------------------|------------------------|---------------------------|
| Within 1 year | 1,194 | 284 | 816 | 1,331 | 3,625 |
| 2 - 5 years | 4,648 | 1,101 | 3,847 | 4,808 | 14,404 |
| 6 - 10 years | 5,824 | 2,276 | 5,023 | 4,650 | 17,773 |
| 11 - 15 years | 5,963 | 2,649 | 5,700 | 3,182 | 17,494 |
| 16 - 20 years | 6,050 | 2,864 | 7,062 | 1,214 | 17,190 |
| 21 - 25 years | 51 | 118 | (9) | (1) | 159 |
| | <u>23,730</u> | <u>9,292</u> | <u>22,439</u> | <u>15,184</u> | <u>70,645</u> |

The PFI contract transfers risks from the Council to the contractor, as the Council retains ownership of the assets the risk to the Council in event of a contractor default is low. The Council monitors performance of the contractor against a range of Key Performance Indicators and can deduct money from the unitary payment in the event that these measures are not achieved. A ratchet mechanism in the contract allows penalties to increase in the event of continued performance issues.

Extra Care Housing PFI

During 2007/08, the Council entered into a partnership arrangement with Kent County Council and nine other district councils within Kent to provide new homes for vulnerable people. The overall scheme is being funded by Public Finance Initiative credits over a 30-year period. In the event of the scheme ceasing the Council will be liable for:-

1. Contractor default, £4.275m in year 10, £4.125m in year 20

2. Force Majeure, £4.950m in year 10, £3.675m in year 20

Other Service Contracts

The Council has a refuse collection and street cleansing contract that was entered into on 1 April 2014 and covers three Councils, the equipment can be used in any of the three areas, and therefore as the Council does not have exclusive use of the assets there will not be an embedded finance lease for the new contract. The total value of the contract is estimated to be £97m over 10 years to be allocated between the three contracting authorities.

28. Defined Benefit Pension Schemes

Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the Cost of Services, when employees earn these, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the difference is reversed out. The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year.

| 2015/16 £'000 | Local Government Pension Scheme | 2016/17 £'000 |
|------------------|---|------------------|
| | Comprehensive Income & Expenditure Statement | |
| | <i>Service cost comprising:</i> | |
| 3,269 | - current service cost | 2,969 |
| 0 | - past service costs | 138 |
| 58 | Administration expenses | 53 |
| | <i>Financing and Investment Income and Expenditure</i> | |
| 2,319 | - net interest expense | 2,305 |
| <u>5,646</u> | <i>Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services</i> | <u>5,465</u> |
| | <i>Other Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i> | |
| | Remeasurement of the net defined benefit liability comprising: | |
| 1,833 | - return on plan assets (excluding the amount included in net interest expense) | (14,242) |
| 0 | - actuarial gains and losses arising on changes in demographic assumptions | (2,590) |
| (10,364) | - actuarial gains and losses arising on changes in financial assumptions | 33,898 |
| 12 | - other | (3,651) |
| <u>(8,519)</u> | <i>Total Other Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i> | <u>13,415</u> |
| <u>(2,873)</u> | <i>Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i> | <u>18,880</u> |
| | Movement in Reserves Statement | |
| (5,646) | - reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code | (5,465) |
| | - actual amount charged against the General Fund Balance for pensions in the year: | |
| 3,395 | employers' contributions payable to scheme | 3,508 |
| <u>(2,251)</u> | | <u>(1,957)</u> |

Pension Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

| 2015/16 £'000 | Local Government Pension Scheme | 2016/17 £'000 |
|------------------|--|------------------|
| (145,549) | Present value of the defined benefit obligation | (176,875) |
| 82,993 | Fair value of plan assets | 99,059 |
| (62,556) | | (77,816) |
| (3,159) | Other movements in the liability (asset) | (3,271) |
| (65,715) | Net liability arising from defined benefit liability | (81,087) |

The liability shows the Council's underlying long-term commitment to pay retirement benefits. Although the liability has a negative impact on the Council's equity position, statutory arrangements for the funding of the deficit mean that the financial position of the Council remains healthy.

The deficit on the Local Government Pension Scheme will be made good by increased contributions, as assessed by the scheme actuary.

Assets and liabilities in relation to retirement benefits

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets:

| 2015/16 £'000 | Local Government Pension Scheme | 2016/17 £'000 |
|------------------|--|------------------|
| 83,527 | Opening fair value of scheme assets | 82,993 |
| 2,734 | Interest income | 2,963 |
| | Remeasurement gain/(loss) | |
| (1,833) | - return on plan assets, excluding the amount included in net interest expense | 14,242 |
| 3,395 | Contributions from employer | 3,508 |
| 768 | Contributions from employees into the scheme | 760 |
| (5,278) | Benefits paid - funded | (5,423) |
| (262) | Benefits paid - unfunded | (254) |
| 0 | Other remeasurement | 323 |
| (58) | Administration expenses | (53) |
| 82,993 | Closing fair value of scheme assets | 99,059 |

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):

| 2015/16 £'000 | Local Government Pension Scheme | 2016/17 £'000 |
|------------------|--|------------------|
| (155,510) | Opening balance at 1st April | (148,708) |
| (3,269) | Current service cost | (2,969) |
| (5,053) | Interest cost | (5,268) |
| (768) | Contributions from scheme participants | (760) |
| | Remeasurement (gains)/loss | |
| 0 | - actuarial gains/losses arising from changes in demographic assumptions | 2,590 |
| 10,364 | - actuarial gains/losses arising from changes in financial assumptions | (33,898) |
| 0 | Past service cost | (138) |
| 5,278 | Benefits paid - funded | 5,423 |
| 262 | Benefits paid - unfunded | 254 |
| (12) | Experience loss/(gain) on defined benefit obligation | 3,328 |
| <u>(148,708)</u> | Closing balance at 31st March | <u>(180,146)</u> |

The Pension Fund's assets consist of the following categories, by value of the total assets held:

| 2015/16 £'000 | | | 2016/17 £'000 |
|------------------|---------------------------|-------|------------------|
| 2,137 | Cash and cash equivalents | 2.6% | 2,531 |
| 55,345 | Equity instruments: | 70.6% | 69,910 |
| | Bonds | | |
| 735 | - gilts | 0.7% | 739 |
| 9,113 | - other | 9.7% | <u>9,650</u> |
| 12,056 | Property | 12.5% | 12,344 |
| 3,607 | Target return portfolio | 3.9% | 3,885 |
| <u>82,993</u> | Total assets | | <u>99,059</u> |

Basis for estimating assets and liabilities

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 about mortality rates, salary levels etc. The Pension Fund's liabilities were assessed by Barnett Waddingham, an independent firm of actuaries; the last full valuation of the scheme was as at 31 March 2016, the results of this will be implemented from April 2017.

The significant assumptions used by the actuary have been:

| 2015/16 | | | 2016/17 |
|---|--|--|---------|
| Assumed life expectations from age 65 are: | | | |
| Retiring today | | | |
| 22.9 | - Men | | 23.0 |
| 25.3 | - Women | | 25.0 |
| Retiring in 20 years | | | |
| 25.2 | - Men | | 25.1 |
| 27.7 | - Women | | 27.4 |
| Additional assumptions | | | |
| - Members will exchange half of their commutable pension for cash at retirement | | | |
| - Active members will retire one year later than they are first able to do so without reduction | | | |
| 3.2% | Rate of inflation - Retail price index (RPI) | | 3.6% |
| 2.3% | Rate of inflation - Consumer price index (CPI) | | 2.7% |
| 4.1% | Rate of increase in salaries | | 4.2% |
| 2.3% | Rate of increase in pensions | | 2.7% |
| 3.6% | Rate for discounting scheme liabilities | | 2.7% |

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonable changes to the assumptions made above occurring at the end of the reporting period and assumes for each change that the assumptions analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy may increase or decrease for men and women. In practice, this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis did not change from those used in the previous period.

| 2015/16 | | | 2016/17 | |
|--|------------------------|-------------------------------------|------------------------|------------------------|
| Increase in assumption | Decrease in assumption | | Increase in assumption | Decrease in assumption |
| £'000 | £'000 | Local Government Pension Scheme | £'000 | £'000 |
| Longevity (increase or decrease in 1 year) | | | | |
| 153,384 | 144,178 | - Present value of total obligation | 183,338 | 177,013 |
| 2,989 | 2,842 | - Projected service cost | 4,349 | 4,140 |
| Rate for discounting scheme liabilities inflation (increase or decrease by 0.1%) | | | | |
| 146,175 | 151,287 | - Present value of total obligation | 177,013 | 183,338 |
| 2,848 | 2,984 | - Projected service cost | 4,140 | 4,349 |
| Rate of increase in salaries (increase or decrease by 0.1%) | | | | |
| 148,698 | 148,450 | - Present value of total obligation | 180,629 | 179,667 |
| 2,916 | 2,914 | - Projected service cost | 4,243 | 4,243 |
| Rate of increase in pensions (increase or decrease by 1%) | | | | |
| 151,058 | 146,399 | - Present value of total obligation | 182,852 | 177,488 |
| 2,983 | 2,849 | - Projected service cost | 4,349 | 4,139 |

The projected pension expense for the year ended 31 March 2017 are:

| | Year to 31 Mar 2017 |
|---|---------------------|
| | £'000 |
| Service Cost | 4,243 |
| Net Interest on the defined liability (asset) | 2,144 |
| Administration Expenses | 63 |
| | <hr/> |
| | 6,450 |
| | <hr/> |
| Employer contributions | 3,120 |
| | <hr/> |

29. Related Parties

Under the Accounting Standard IAS24 'Related Party Transactions' the Council must declare any Related Party Transactions between the Council and elected Members, Senior Officers of the Council or any of their close relatives.

United Kingdom Central Government

United Kingdom Central Government has significant influence over the general operations of the Council, it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits).

Members and Senior Officers

All Members and Senior Managers were written to requesting details of any relationships that could result in a related party transaction, for 2016/17, 5 forms were not returned, 2 current Councillors, 1 ex-counsellor, 1 Councillor that passed away in service and 1 ex-staff member. The register of Members interests and the declaration of interests for staff were examined to see whether any declaration was necessary, no material declarations were made.

There is a standing item on each Committee agenda requiring Members to declare any interest in any item to be discussed. The Democratic Services Manager keeps a record of all declarations made at meetings and a Register of Members' Interests, which is available for public inspection.

30. Interest in Companies

The council has two wholly owned subsidiaries, A Better Choice for Property Limited and A Better Choice for Building Consultancy Limited.

There are no significant restrictions on the Council's ability to access or use assets and settle liabilities of the Group.

A Better Choice for Property Limited

The property company has a Facilities Agreement with the Council that enables it to drawdown loans to the value of £10m during the first five years, in £2m tranches, based on sound business plans, that require Council approval.

As at 31 March 2017 the Company has approved drawdown facilities of £6m with £3.645m actually drawn down by way of loans which are at market rates.

The Facilities Agreement does not provide liquidity issues for the Council as drawdowns by the Company can be matched against borrowing by the Council.

In terms of security of loans, the Facilities Agreement has certain financial covenants, which must be reported on an annual basis, one covenant being the ratio of all outstanding loans under the facilities agreements to the market value of the properties not exceeding 1:1. On the 31 March 2017 this ratio was 1.12:1, complying with the agreement. The Council also has charges on all the properties acquired by the property company, these act as security over the loans taken by the Company.

In 2015/16 the Council purchased 100,000 shares in the company with a nominal value of £1 per share. The Council is the sole shareholder of the company which had equity of £343,000 as at 31 March 2017. A further issue of 75,000 shares with a nominal value of £1 per share are accessible to the Council.

A Better Choice for Building Consultancy Limited

The Building Consultancy Company is not considered to represent a material impact on the Council's accounts and therefore is not included within group accounts. 2016/17 was a difficult year for the company losing key members of staff, this has resulted in the Company to making a small loss of around £2,200 in 2016/17. The company had income and expenditure of £75,530 and £77,730 respectively, based on company reporting.

31. Contingent Liabilities

The Council is acting as a guarantor for the Pension Liabilities of Ashford Leisure Trust to permit its entry into the Kent County Council Pension Fund. In the event that the Trust fails to meet its obligations to the Fund the Council will be called upon to cover these liabilities. This cannot be quantified, as these will depend on the strength of the fund at the time and the actuarial assumptions for the valuation of future liabilities.

The Council has entered into two agreements with Kent County Council and South East England Development Agency (SEEDA), now transferred to Homes and Communities Agency (HCA), which includes provision for the repayment of Regional Infrastructure Funding (RIF), used to pay for works to the Drovers Roundabout and the M20 junction 9 and footbridge. Region Infrastructure Funding was paid to KCC for the schemes by SEEDA. A condition of these agreements is that, money collected from developers in respect of these works through the planning process, by Ashford Borough Council, will be paid to HCA. However, the Council's liability is limited to the total amount received in each case.

The Council has entered into an agreement with Homes and Communities Agency (HCA), which include the provision for the repayment of funding used to pay for works relating to the construction of Junction 10A. A condition of these agreements is that, money collected from developers, in respect of these works

through the planning process by Ashford Borough Council, will be paid to HCA. However, the Council's liability is limited to the total amount received in each case.

The Council has agreed to underwrite the rental income and service charge for 24,000 square foot of the new Commercial Quarter building, located in Dover Place car park. Should the areas not be leased the Council will be required to cover the lost income which could amount to a maximum of £600,000

On 7th April the Council is party to an Asset Projection Agreement with Stanhope PLC and High Speed 1 (HS1). This agreement resulted in the Council undertaking to give a commitment to HS1 to underwrite the costs of remedying any incidents that effect the High Speed line as a result of the construction activity on the Elwick site. Under the development agreements this obligation has been passed to the developer and they have provided adequate insurance for this obligation, however the Council would be liable for a payment in the event that the developer and the insurance fail to cover these liabilities.

32. Events after the Balance Sheet Date

The Council has entered into a Development Funding Agreement for the regeneration of the Elwick Road site. The funding agreement is conditional of a number of events which have now been met. The Council will be liable to pay the developer for at least 80% of the capitalised value of target rents of the facility, this is approximately £33.6m this will however be offset with the rents receivable and the Council is estimating to make a significant surplus over the life of the project.

33. Cash Flow Statement – Adjustment to Net Deficit on the Provision of Services for Non Cash Movement

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---|------------------|
| | <i>Adjustment for items that are operating activities</i> | |
| (7,013) | Depreciation | (6,290) |
| (1,878) | Impairment and downward valuations | (2,255) |
| (67) | Amortisation | (12) |
| (8,958) | Items relating to Capital Adjustment Account | (8,557) |
| (12) | Deferred sale proceeds | |
| (12) | (Increase)/decrease in inventories | 0 |
| 1,391 | Increase/(decrease) in impairment for bad debts | 354 |
| (461) | (Increase)/decrease in debtors | 813 |
| (103) | Increase/(decrease) in creditors | (1,253) |
| (2,250) | Movement in pension liability | (1,957) |
| (3,270) | Carrying amount of non-currents and Held for Sale sold or derecognised | (3,496) |
| 375 | Contributions to/from Provisions | 67 |
| 1,827 | Other non-cash items charged to the net surplus of deficit on the provision of services | 4,950 |
| (11,461) | <i>Total non-cash adjustments of operating activities</i> | (9,079) |

34. Cash Flow Statement - Adjustment to Net Deficit on the Provision of Services for Investing & Financing Activities

| 2015/16 | | 2016/17 |
|--------------|--|--------------|
| £'000 | | £'000 |
| | <i>Adjustment for items that are investing and financing activities</i> | |
| 4,372 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 6,011 |
| 1,154 | Capital grants and contributions applied | 3 |
| 0 | Other items for which cash effects are investing or financing cash flows | (32) |
| <u>5,526</u> | <i>Total non-cash adjustments of investing and financing activities</i> | <u>5,982</u> |

35. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

| 2015/16 | | 2016/17 |
|--------------|-------------------|--------------|
| £'000 | | £'000 |
| 3,660 | Interest paid | 3,651 |
| (297) | Interest received | (398) |
| (422) | Dividend received | (511) |
| <u>2,941</u> | | <u>2,742</u> |

36. Cash Flow Statement - Investing Activities

| 2015/16 | | | 2016/17 | |
|---------------|---------------|--|--------------|--------------|
| ABC | Group | | ABC | Group |
| £'000 | £'000 | | £'000 | £'000 |
| 18,542 | 20,562 | Purchase of property, plant and equipment, investment property and intangible assets | 15,828 | 16,395 |
| 8,018 | 8,018 | Purchase of short-term and long-term investments | 6,000 | 6,000 |
| (4,372) | (4,372) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (6,011) | (6,011) |
| (5,931) | (5,931) | Proceeds from short-term and long-term investments | (9,047) | (9,047) |
| (1,154) | (1,154) | Other receipts from investing activities | (3) | (3) |
| <u>15,103</u> | <u>17,123</u> | <i>Net cash flows from investing activities</i> | <u>6,767</u> | <u>7,334</u> |

37. Cash Flow Statement - Financing Activities

| 2015/16 | | | 2016/17 | |
|------------|----------------|--|--------------|--------------|
| ABC | Group | | ABC | Group |
| £'000 | £'000 | | £'000 | £'000 |
| 773 | (1,267) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts | 626 | (529) |
| 38 | 0 | Repayments of short- and long-term borrowing | 2,038 | 0 |
| | 0 | Other payments for financing activities | 0 | 0 |
| <u>811</u> | <u>(1,267)</u> | <i>Net cash flows from financing activities</i> | <u>2,664</u> | <u>(529)</u> |

38. Cash Flow Statement - Makeup of Cash and Cash Equivalents

| 31 March 2016 | | 31 March 2017 |
|---------------|--|---------------|
| <i>£'000</i> | | <i>£'000</i> |
| 57 | Cash held by the Council | 66 |
| 617 | Bank Current Accounts | 210 |
| 3,604 | Bank Call Accounts | 7,024 |
| <u>4,278</u> | Cash and cash equivalents at the end of the reporting period | <u>7,300</u> |

Supplementary Single Entity Statements

Housing Revenue Account

The Housing Revenue Account (HRA) is a record of the revenue expenditure and income relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants; the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa).

| 2015/16 £'000 | | 2016/17 £'000 | £'000 |
|------------------|--|------------------|----------|
| | <i>Expenditure</i> | | |
| 3,708 | Repairs and maintenance | 3,805 | |
| 5,178 | Supervision and management | 4,895 | |
| 63 | Rents, rates, taxes and other charges | 15 | |
| 1,997 | Special services | 2,186 | |
| 5,400 | Depreciation | 4,636 | |
| 6,899 | Impairment of non-current assets | 1,066 | |
| 179 | Debt management costs | 82 | |
| (34) | Movement in the allowance for bad debts | 53 | |
| 23,390 | <i>Total Expenditure</i> | | 16,738 |
| | <i>Income</i> | | |
| (23,985) | Dwelling rents | (23,921) | |
| (30) | Non-dwelling rents | (25) | |
| (759) | Charges for services and facilities | (883) | |
| (165) | Leaseholder charges for services and facilities | (121) | |
| (578) | Contributions towards expenditure | (1,203) | |
| 0 | Sale of land | (90) | |
| (3,000) | PFI Subsidy receivable | (3,000) | |
| (28,517) | <i>Total Income</i> | | (29,243) |
| (5,127) | Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement | | (12,505) |
| 516 | HRA services' share of Corporate and Democratic Core | | 524 |
| 348 | HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services | | 368 |
| (4,263) | <i>Net Cost for HRA Services</i> | | (11,613) |
| | <i>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</i> | | |
| (1,025) | Gain or (loss) on sale of HRA non-current assets | | (2,167) |
| | Other capital receipts | | |
| | Payment to Housing Capital Receipts Pool | | |
| 3,745 | Interest payable and similar charges | | 3,746 |
| 1,414 | Interest payable on PFI contracts and Finance Leases | | 1,368 |
| (113) | Interest and investment income | | (31) |
| 441 | Net interest on the net defined benefit liability (asset) | | 386 |
| (2,546) | Capital grants and contributions receivable | | (110) |
| (2,347) | <i>(Surplus) or deficit for the year on HRA services</i> | | (8,421) |

Movement on the HRA Statement

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---|------------------|
| (5,725) | Balance on the HRA at the end of the previous year | (7,868) |
| (2,347) | (Surplus) or deficit for the year on the HRA Income and Expenditure Statement | (8,421) |
| 206 | Adjustments between accounting basis and funding basis under statute | 9,536 |
| (2,141) | Net (increase) or decrease before transfers to or from reserves | 1,115 |
| (7,868) | Balance on the HRA at the end of the current year | (6,753) |

Notes to the Housing Revenue Account

1. Number and type of Housing Stock, Balance Sheet Opening and Closing Values

The breakdown of the numbers and types of HRA dwellings at 31 March 2017 is given in the table below:

| 31 March 2016 | | 31 March 2017 |
|---------------|--|---------------|
| <i>Units</i> | <i>Dwellings by type</i> | <i>Units</i> |
| 3,543 | Houses and bungalows | 3,490 |
| 1,487 | Flats, bedsits and maisonettes | 1,446 |
| 5,030 | | 4,936 |
| (318) | Less properties managed under Stanhope PFI | (316) |
| 4,712 | | 4,620 |

the opening and closing Balance Sheet values of HRA assets are shown below:

| 31 March 2016 £'000 | | 31 March 2017 £'000 |
|------------------------|--|------------------------|
| 234,047 | Operational assets - dwellings, land and buildings | 261,323 |
| 3 | Non-Operational assets | 3 |
| 1,084 | Assets Under Construction | 7,893 |
| 235,134 | | 269,219 |

2. Vacant Possession Value of Dwellings

The vacant possession value of dwellings within the Council's HRA as at 1 April 2016 was £724,566,000 (£704,319,000 as at 1 April 2015). The difference between this and the Balance Sheet value shows the economic cost to Government of providing council housing at less than open market rents.

The valuation exercise was completed by an external valuer, Wilks Head and Eve.

3. Major Repairs Reserve

| 2015/16 £'000 | Movements in year | 2016/17 £'000 |
|------------------|--|------------------|
| (82) | Balance at the end of the previous year | (449) |
| (5,400) | Amount transferred to the Reserve during the year | (5,190) |
| 4,816 | Debits to the Reserve in respect of capital expenditure on HRA land, houses and other property | 4,184 |
| 217 | Reversal of depreciation (other than Council Dwellings) | 16 |
| <u>(449)</u> | Balance at the end of the financial year | <u>(1,439)</u> |

4. Summary of Capital Expenditure and Financing

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---|------------------|
| | <i>Capital investment:</i> | |
| 4,862 | Expenditure on Existing Dwellings | 4,184 |
| 3,274 | Expenditure on New Stock Purchases | 0 |
| 3,915 | Expenditure on new developments (including Assets Under Construction) | 6,809 |
| 0 | Expenditure on Purchases of Land | 0 |
| <u>12,051</u> | | <u>10,993</u> |
| | <i>Sources of Finance:</i> | |
| (982) | Capital Receipts | (56) |
| (4,816) | Major Repairs Reserve | (4,184) |
| (1,392) | External Contributions - HCA Grant | (1,264) |
| (1,435) | Borrowing | 0 |
| (3,426) | Revenue Contribution from the Housing Revenue Account | (5,489) |
| <u>(12,051)</u> | | <u>(10,993)</u> |

5. Capital Receipts from Disposal of Assets

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--|------------------|
| (2,997) | Receipts from Right-to-buy sales | (4,340) |
| 0 | Receipts from Repairment of Discounts | 0 |
| (251) | Receipts from the sale of Housing land | (264) |
| (1,058) | Other non right-to-buy sales | (241) |
| <u>(4,306)</u> | Total receipts | <u>(4,845)</u> |
| 59 | Costs of disposal | 43 |
| <u>(4,247)</u> | | <u>(4,802)</u> |

6. Depreciation

The Housing Revenue Account for the year includes charges for depreciation of £4,636,000 (2015/16, £5,384,000), as summarised below, it should be noted that up until this financial year the Council used the assumed Major Repairs Allowance within the Housing Revenue Account buyout calculation as a proxy for depreciation for Council Dwellings. This year the Council reverted to using calculated depreciation.

| 2015/16 | | 2016/17 |
|--------------|-------------------|--------------|
| £'000 | | £'000 |
| 5,367 | Council dwellings | 4,620 |
| 15 | Council garages | 14 |
| 2 | PV panels | 2 |
| <u>5,384</u> | | <u>4,636</u> |

7. Valuations

Land and Buildings are held individually and the total housing stock (including land and garages) had increases and decreases in valuation. A total downward valuation of £48,000, of which £23,000 was charged to the Housing Revenue Account with the remainder being written to the Revaluation Reserve.

The value of the housing stock total increased were £30,574,000, all being credited to the Revaluation Reserve Account.

8. Pensions

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when benefits are eventually paid as pensions. However, the charge the Council is required to make against the Housing Revenue Account is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the Housing Revenue Account Balance. The following transactions have been made in the Income and Expenditure Account and the Statement Movement.

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---|------------------|
| | Comprehensive Income & Expenditure Statement | |
| | <i>Cost of Services:</i> | |
| 621 | - current service cost | 498 |
| 0 | - past service costs | 23 |
| 11 | - administration expenses | 9 |
| | <i>Financing and Investment Income and Expenditure</i> | |
| 441 | - net interest expense cost | 386 |
| 1,073 | <i>Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i> | 916 |
| | Movement in Reserves Statement | |
| (1,073) | - reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code | (916) |
| | - actual amount charged against the General Fund Balance for pensions in the year: | |
| 646 | employers' contributions payable to scheme | 588 |

9. Rent Arrears

During the year 2016/17 arrears totalling £161,000 (£88,000 - 2015/16) were written off to the impairment allowance for bad debts held outside the HRA as they were considered to be uncollectable. The balance on the provision at 31 March 2017 was £620,000 (£728,000 at 31 March 2016).

| 31 March 2016 £'000 | | 31 March 2017 £'000 |
|------------------------|-------------------------|------------------------|
| 815 | Gross arrears | 666 |
| (728) | Provision for Bad Debts | (620) |

The majority of this debt (£566,000) is over 26 weeks old and is assumed unrecoverable for accounting purposes, the debt will still be actively pursued.

Collection Fund

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund; it shows the transactions in relation to non-domestic rates, including distribution to government; and council tax, illustrating the way this has been distributed to precepting authorities and the General Fund.

| 2015/16 | | | 2016/17 | |
|-----------------|-----------------|---|-----------------|-----------------|
| Business Rates | Council Tax | | Business Rates | Council Tax |
| £'000 | £'000 | | £'000 | £'000 |
| | | <i>Income</i> | | |
| | (64,105) | - Council Tax | | (68,384) |
| (45,687) | | - Business Rates | (47,204) | |
| | | - Transitional Protection Payments | | |
| <u>(45,687)</u> | <u>(64,105)</u> | <i>Total Income</i> | <u>(47,204)</u> | <u>(68,384)</u> |
| | | <i>Expenditure</i> | | |
| | | <i>Precepts, Demand & Shares</i> | | |
| 4,188 | 46,173 | - Kent County Council | 4,324 | 49,592 |
| | 6,234 | - Kent Police Authority | | 6,657 |
| 465 | 2,993 | - Kent and Medway Fire Authority | 480 | 3,150 |
| 18,611 | 7,396 | - Ashford Borough Council (including Parish Precepts) | 19,216 | 7,957 |
| 23,264 | | - Central Government | 24,020 | |
| <u>46,528</u> | <u>62,796</u> | | <u>48,040</u> | <u>67,356</u> |
| | | <i>Charges to the Collection Fund</i> | | |
| 0 | 0 | - Write-Offs of uncollectable amounts | | |
| 42 | 553 | - (Increase)/Decrease in Bad Debt Provisions | (236) | (1,169) |
| (380) | | - (Increase)/Decrease in Provision for Appeals | (167) | |
| 57 | | - Disregarded amounts | 101 | |
| 182 | | - Costs of Collection Allowance | 181 | |
| 460 | | - Transitional Protection Payments | 39 | |
| <u>361</u> | <u>553</u> | | <u>(82)</u> | <u>(1,169)</u> |
| | | <i>Contributions</i> | | |
| (590) | | - Towards previous year's estimated Collection Fund Surpl | (746) | 422 |
| <u>46,299</u> | <u>63,349</u> | <i>Total Expenditure</i> | <u>47,212</u> | <u>66,609</u> |
| 612 | (756) | Deficit/(Surplus) in Year | 8 | (1,775) |
| 2,247 | (414) | Balance at 1st April | 2,859 | (1,170) |
| <u>2,859</u> | <u>(1,170)</u> | Balance at 31st March | <u>2,867</u> | <u>(2,945)</u> |
| | | <i>Apportionment of Balance to Preceptors/Borough Council</i> | | |
| 257 | (860) | - Kent County Council | 258 | (2,168) |
| | (116) | - Kent Police Authority | | (291) |
| 29 | (56) | - Kent and Medway Fire Authority | 29 | (138) |
| 1,144 | (138) | - Ashford Borough Council | 1,147 | (348) |
| 1,429 | | - Central Government | 1,433 | |
| <u>2,859</u> | <u>(1,170)</u> | | <u>2,867</u> | <u>(2,945)</u> |

Notes to the Collection Fund

1. NNDR Rateable Value

Under the arrangements for Uniform Business Rates, the Council collects Non-Domestic Rates for its area, which is based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool; the NNDR pool managed by Central Government, which in turn pays back to authorities their share of the pool, based on a standard amount per head of local population.

| 2015/16 | | 2016/17 |
|----------------|---|------------|
| £'000 | | £'000 |
| | <i>Total Non-Domestic Rateable Values at:</i> | |
| 115,994 | - 1st April | 114,851 |
| 114,851 | - 31st March | 115,779 |
| <u>(1,143)</u> | Increase/(decrease) in year | <u>928</u> |

| 2015/16 | | 2016/17 |
|---------|--|---------|
| p | | p |
| | Uniform rate (multiplier) set by the government: | |
| 48.0 | For rateable values below £18,000 | 48.4 |
| 49.3 | For rateable values £18,000 and above | 49.7 |

2. Band D Council Tax

The band D level of council tax is the average level of tax charged as prescribed in legislation. When calculating the tax base, the number of properties is converted into band D equivalents and this is used when authorities set their council tax. If a property is within a parished area an additional charge will be made for the Parish Council.

| 2015/16 | | 2016/17 |
|-----------------|--------------------------------|-----------------|
| £ | | £ |
| 1,089.99 | Kent County Council | 1,133.55 |
| 147.15 | Kent Police Authority | 152.15 |
| 70.65 | Kent and Medway Fire Authority | 72.00 |
| 145.45 | Ashford Borough Council | 150.00 |
| <u>1,453.24</u> | Council Tax - basic amount | <u>1,507.70</u> |
| 29.12 | (including Parish Precepts) | 31.88 |
| <u>1,482.36</u> | Council Tax - Borough average | <u>1,539.58</u> |

3. Council Tax Base

The number of chargeable dwellings in each valuation band (adjusted where discounts apply) converted into an equivalent number of Band D dwellings, was calculated has follows:

| Band | 2015/16 | | | 2016/17 | | |
|-------------------------------------|--|------------------------|--|--|------------------------|--|
| | <i>Estimated Number of properties (Net of exemptions, discounts & reliefs) (a)</i> | <i>Multipliers (b)</i> | <i>Band D equivalents properties (a x b)</i> | <i>Estimated Number of properties (Net of exemptions, discounts & reliefs) (c)</i> | <i>Multipliers (d)</i> | <i>Band D equivalents properties (c x d)</i> |
| A with disabled relief | 13.30 | 5 /9 | 7.40 | 12.20 | 5 /9 | 6.80 |
| A | 3,869.30 | 6 /9 | 2,579.52 | 3,881.10 | 6 /9 | 2,587.40 |
| B | 11,428.80 | 7 /9 | 8,889.10 | 11,316.20 | 7 /9 | 8,801.45 |
| C | 11,513.80 | 8 /9 | 10,234.50 | 11,647.70 | 8 /9 | 10,353.49 |
| D | 7,908.70 | 9 /9 | 7,908.67 | 8,158.20 | 9 /9 | 8,158.21 |
| E | 5,828.70 | 11 /9 | 7,123.94 | 5,847.50 | 11 /9 | 7,146.92 |
| F | 4,804.70 | 13 /9 | 6,940.09 | 4,851.90 | 13 /9 | 7,008.31 |
| G | 2,845.10 | 15 /9 | 4,741.83 | 2,877.60 | 15 /9 | 4,795.97 |
| H | 159.50 | 18 /9 | 319.00 | 162.50 | 18 /9 | 325.00 |
| Tax Base before Council Tax Support | | | 48,744.05 | | | 49,183.55 |
| Less Council Tax Support | | | (5,951.12) | | | (4,991.63) |
| Tax Base after Council Tax Support | | | 42,792.93 | | | 44,191.92 |
| Estimated Collection Rate | | | 99.0% | | | 99.0% |
| Council Tax Base | | | 42,365.00 | | | 43,750.00 |

4. Precepts

Ashford Borough Council made a significant precept or demand on the Collection Fund:

| 2015/16 | | 2016/17 |
|--------------|---------------------------|--------------|
| £'000 | | £'000 |
| | Demand | |
| 6,162 | - Ashford Borough Council | 6,562 |
| 1,234 | - Parish Precepts | 1,395 |
| <u>7,396</u> | | <u>7,957</u> |

There are 39 Parish Councils that levy precepts within the Borough, the most significant of which were:

| 2015/16 | | 2016/17 |
|---------|----------------------------|---------|
| £'000 | | £'000 |
| 303 | Tenterden Town Council | 368 |
| 136 | Kingsnorth | 142 |
| 137 | Great Chart with Singleton | 153 |
| 58 | Wye with Hinxhill | 85 |
| 74 | Charing | 80 |

Independent Auditor's report to the Members of Ashford Borough Council

Glossary

Agency Services – services which are performed for another Authority or public body, where the principal Authority responsible for the service reimburses the agent Authority doing the work for the cost of the work carried out.

Amortised – the deduction of capital expenses over a specific period. Similar to depreciation, it is a method of measuring the consumption of the value of long-term assets like equipment or buildings and intangible assets e.g. software.

Appointed Auditors – external auditors of Local Authorities appointed by the Public Sector Audit Appointments Ltd, previously the Audit Commission, in Ashford's case, Grant Thornton carries out this function.

Budget – a statement defining the Council's policies for a year in terms of finance.

Budget Requirement – the estimated revenue expenditure on General Fund services that needs to be financed from Council Tax, after deducting income from fees and charges, certain specific grants and any funding reserves.

Capital Expenditure – spending on the acquisition, construction, enhancement or replacement of tangible assets such as land, buildings or major items of equipment, which will be used to provide services for a number of years. Under statutory determination expenditure on assets not belonging to the council can be treated as capital expenditure.

Capital Financing – funds used to pay for capital expenditure.

Capital Receipts – the proceeds from the disposal of land or other assets. Capital receipts can be used to finance new capital expenditure within the rules set down by the Government, but they cannot be used to finance revenue expenditure. Capital Receipts can be used for debt repayment.

CIPFA – The Chartered Institute of Public Finance and Accountancy is the leading professional accountancy body for public services in the UK. CIPFA has responsibility for setting good practice accounting standards for Local Government.

Collection Fund – a statutory fund maintained by a Billing Authority, which is used to record local taxes and non-domestic rates collected by the Authority, along with payments to major precepting authorities, the national pool of non-domestic rates and its own general fund.

Componentisation – An accounting term that covers the practice of splitting an asset into its component parts (e.g. Walls, Roof, Lift, Boiler) to determine the appropriate value and depreciation basis for each component.

Contingent Liability – a potential liability at the Balance Sheet date. If the liability cannot be estimated reasonably accurately, it must be disclosed as a note to the Statement of Accounts.

Council Tax – the main source of local taxation to Local Authorities. Council Tax is levied on all domestic households within the Council's area.

Council Tax Support – assistance provided to adults on low incomes to help them pay their Council Tax bill. A resident that qualify for this are entitled to a discount on their council tax bill. At its inception, this was 90% funded by Government.

Credit Risk - the possibility that other parties might fail to pay amounts due to the Council

Creditors – money owed by the Council to others.

Debtors – money owed to the Council by others.

Fair Value - is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Assets – is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

Force Majeure – is a common clause in contracts which essentially frees both parties from liability or obligation when an extraordinary event or circumstance beyond the control of the parties, such as war, strike, riot, crime, act of nature e.g. flooding, earthquake, volcano, prevents one or both parties from fulfilling their obligations under the contract.

General Fund – the main revenue fund of the Authority. Day-to-day spending on services is met from the fund. Spending on the provision of housing, however, must be charged to a separate Housing Revenue Account.

Gross Expenditure – the total cost of providing the Council's services before taking into account income from Government grants and fees and charges for services.

Housing Benefit – the allowance to persons on low income or unable to meet, in whole or part, their rent. Benefit paid to the Authority's own tenant is known as **rent rebate** and that paid to private sector tenants as **rent allowance**.

Housing Revenue Account HRA – account which sets out the expenditure and income arising from the provision of housing. The HRA is funded by specific housing grants and rents payable by the Council's tenants.

Impairment – An accounting term that covers the loss in value of an asset either through consumption of its economic life or a change in its usefulness. For example, fire damage.

Internal Audit – a specialist section of the Council that examines, evaluates and reports on the adequacy of internal control systems and the proper, economic, efficient and effective use of resources.

International Financial Reporting Standards – The accounting standards that have been produced and adopted to govern accounting and move to a globally similar basis.

Liquidity Risk - the possibility that the Council might not have funds available to meet its commitments

Market Risk - the possibility that losses may arise due to changes in interest rates and market prices.

MRP – Minimum Revenue Provision. This is the calculation that Councils make for the repayment of debt.

National Non-Domestic Rate NNDR – a levy on businesses, based on a national rate in the pound set by the Government multiplied by the 'rateable value' of the premises they occupy. Since the localisation of Business rates was introduced, NNDR is collected by Billing Authorities and distributed to Central Government, County and Fire Authorities on the basis of a pre-set formula.

Net Expenditure – gross expenditure minus specific service income and grants, but before deduction of Revenue Support Grant and reallocated NNDR receipts.

Outturn – actual income and expenditure in a financial year.

Partial Exemption– a VAT term which ensures that a Local Authority does not recover VAT on Inputs that relate to the generation of exempt income more than the 5% of the total VAT recovered.

Pension Fund – an employees' pension fund maintained by an Authority, or group of Authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing Authority, the employee and investment income. Ashford participates in a pension fund that covers all Kent Authorities.

Precept – the levy made by precepting authorities on Billing Authorities, requiring the latter to collect income from Council taxpayers on their behalf. County councils, police authorities, fire and rescue authorities are major precepting authorities and Parish Councils are local precepting authorities.

Private Finance Initiative PFI – a Central Government initiative which aims to increase the levels of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage Authorities' participation.

Provisions – amounts set aside for specific liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain. The value of the Provision must be the best estimate of the likely liability or loss.

Reserves – amounts set aside to meet general, rather than specific future expenditure. These include “other reserves” to be spent on specific services or functions and “general reserves” or 'balances' which every Authority must maintain as a matter of prudence. Sums may be put into or taken from reserves at the Council’s discretion. The Council also maintains unusable reserves that are established by the code of practice to offset non-current assets.

Revenue Expenditure – the day-to-day running costs of providing services.

Revenue Expenditure Funded from Capital Under Statute – expenditure that does not result in the creation of a Property Plant and Equipment but is classified as capital expenditure for Capital Control purposes.

Revenue Support Grant RSG – a grant paid by Central Government to aid Local Authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

Specific Grants – grants from Central Government which may only be used for a specific purpose.

Treasury Management – management of the Council’s cash balances on a daily basis, to obtain the best return while maintaining an acceptable level of risk

Appendix C – Letter of Representation to the Appointed Auditor

Cllr C Waters

Ask For: Cllr Waters



ASHFORD
BOROUGH COUNCIL

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

Civic Centre
Tannery Lane
Ashford, Kent
TN23 1PL
(01233) 331111
www.ashford.gov.uk
Twitter: @ashfordcouncil

Email: chris.waters@ashford.gov.uk

Date: 15 July 2017

Dear Sirs

Ashford Borough Council Group Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the group financial statements of Ashford Borough Council and its subsidiary undertaking, as shown in Appendix 1 of this letter, for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the group and parent Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the group and parent Council financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ("the Code") which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the

group and parent Council financial statements in the event of non-compliance.

- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the group and parent Council financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the group or parent Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the group and parent Council financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the group and parent Council financial statements for the misstatement brought to our attention as it is immaterial to the results of the group and parent Council and the group and parent Council's financial position at the year-end. The group and parent Council financial statements are free of material misstatements, including omissions.

- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council

financial statements.

- xiv We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.
- xv We confirm that the group and parent Council's asset register represents a complete record of the group and parent Council's property, plant and equipment assets.

Information Provided

- xvi We have provided you with:
 - a access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
 - b additional information that you have requested from us for the purpose of your audit; and
 - c unrestricted access to persons within the group and parent Council from whom you determined it necessary to obtain audit evidence.
- xvii We have communicated to you all deficiencies in internal control of which management is aware.
- xviii All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- xix We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
- xx We have disclosed to you all our knowledge of fraud or suspected fraud affecting the group and parent Council involving:
 - d management;
 - e employees who have significant roles in internal control; or
 - f others where the fraud could have a material effect on the group and parent Council financial statements.
- xxi We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, regulators or others.
- xxii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the group and parent Council's financial statements.
- xxiii We have disclosed to you the identity of all the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

xxv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvi The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 11 July 2017.

Yours faithfully

Name Cllr Christopher Waters...
Position Chairman Audit Committee
Date

Name Benjamin Lockwood
Position Head of Finance & IT
Date

Signed on behalf of the Council

Unadjusted Misstatements Schedule

| Detail | Statement of Comprehensive Net Expenditure £'000 | Balance Sheet £'000 | Reason for not adjusting |
|---|---|--------------------------------|---|
| Creditors (note 23): The creditors balance includes £264k in respect of non-domestic rates deferrals which are no longer valid. DR Creditors CR Non-domestic rates income and expenditure | 264 | 264 | Immaterial to the group's financial position at the year end. |
| Overall impact | £264 | £264 | |