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Who We Are

Swale is located on Kent County's north coast between Medway, Maidstone and Canterbury, around 45 miles from London, but set in rolling Kentish countryside, and less than 30 miles from the Channel Tunnel. With an area of 140 square miles and a population of 140,800, Swale includes the towns of Sittingbourne and Faversham, the Isle of Sheppey, and an extensive rural hinterland.

We provide a wide range of services, such as waste collection, recycling, street cleansing, parking, planning, leisure, homelessness support, recreation, housing benefit and environmental health.

Our Purpose

Our overarching purpose is making Swale a better place.

Our 2016/17 Corporate Priorities

A Borough to be Proud Of

This priority theme focuses on the Council's aspirations for Swale as a physical place.

A Community to be Proud Of

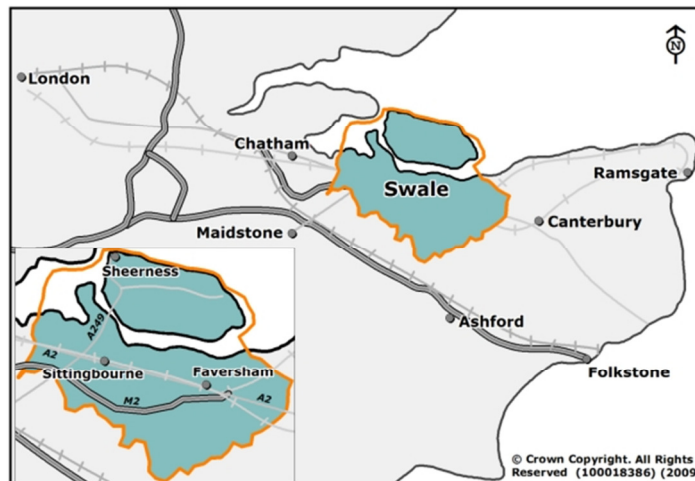
This priority theme focuses on the Council's aspirations for the people of Swale.

A Council to be Proud Of

This priority theme focuses on the Council's need to develop its own organisational capacity and culture as it continually re-assesses how it can best achieve the objectives of the other two priority themes.

Our Values – Swale FIRST

- Fairness - being objective to balance the needs of all those in our community
- Integrity - being open, honest and taking responsibility
- Respect - embracing and valuing the diversity of others
- Service - delivering high quality, cost effective public service
- Trust - delivering on our promises to each other, customers and our partners



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| Financial Overview |
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Reserves

Up by £2.8m compared to 2014/15

£17.9m**Business rates collection rate**

Up by 1.5% compared to 2014/15

98.8%

Council Tax

No change since 2010/11

Band D £159.93**Number of staff**

Up by 1.4 compared to 2014/15

277.4 (full time equivalents)

Council tax collection rate

Up by 0.2% compared to 2014/15

97.5%**Ratio of current assets to liabilities**

Up 0.3 compared to 2014/15

2.3

Foreword by Councillor Duncan Dewar-Whalley

The purpose of this Annual Report is to demonstrate our stewardship of the Council's finances for the financial year 2015/16. The Report provides a useful and important source of financial information for residents, council members and all other interested parties. I am pleased to report that the Council's finances remain sound as a result of our strong financial management. This must be seen against the background of the continuation of the Government's deficit reduction programme with the consequent decrease in the funds which the Council receives from Central Government. The challenge to the Council to continue to provide high quality services cannot be underestimated, and there are tough spending choices to make in this difficult financial climate. However, the Council remains ambitious and optimistic for the future, and will continue to make improvements whilst protecting services and protecting jobs.

I would like to thank the Head of Finance and his team whose hard work have helped to deliver this Annual Report.



Councillor Duncan Dewar-Whalley
Cabinet Member for Finance and Performance
30 June 2016

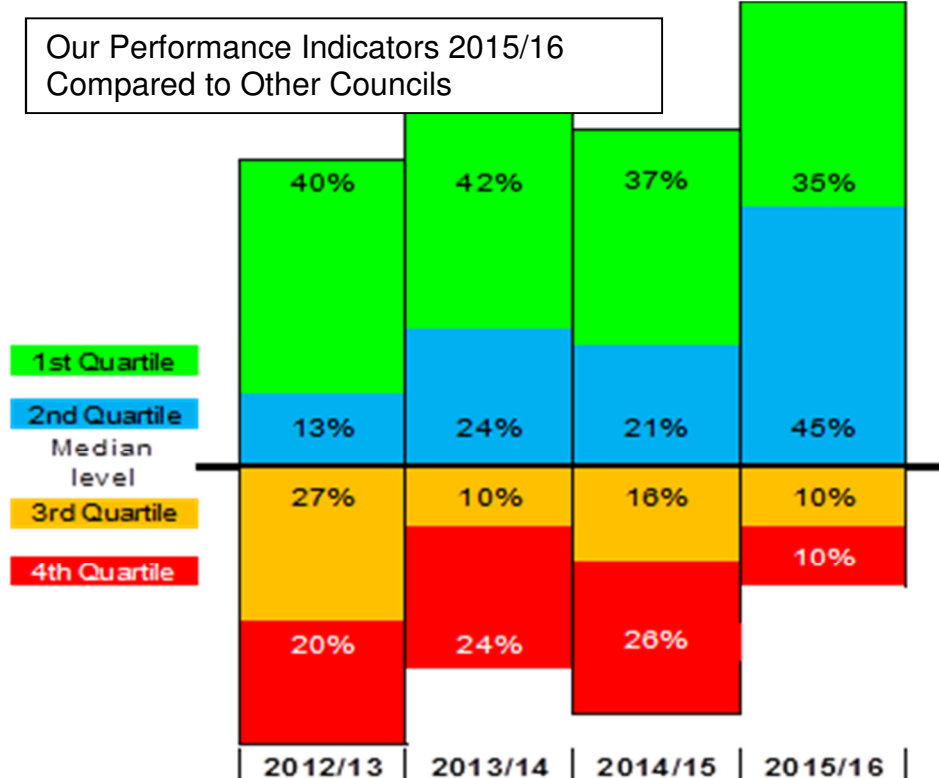
Reviewing Our Performance

The Conservatives retained control of the Council following the elections in May 2015, so that the new corporate plan adopted by the Council in February 2015 remained in operation for the whole of 2015/16 (see <http://www.swale.gov.uk/corporate-plan-2015-2018/>). The new plan represents an evolution from previous plans, containing 15 medium-term strategic objectives grouped under three headline 'priority themes' covering the Council's aspirations for the borough as a physical place, for the local community, and for its own organisational culture and development. The Council's Annual Report will set out in detail progress against the Corporate Plan.

The Council continues to monitor its performance against a range of key performance indicators and, where possible, to benchmark our performance with that of other local authorities. In addition to numerous indicators in use within specialist teams, Cabinet, Scrutiny and the management team monitor a set of 40 'corporate'

indicators on a regular basis. This set is balanced across services to ensure that taken as a whole it is representative of Council performance across the board. When minor changes are excluded, performance improved on 43 percent of these indicators in 2015/16 compared to 2014/15, while it deteriorated on 26 percent of indicators.

Approximately half of these 'corporate' performance indicators are based on externally defined measures such as best value indicators or national indicators (NI), and are thus comparable with other councils. When compared to the latest available national datasets, 80 percent of



Swale's comparable indicators performed above the median in 2015/16, including 35 percent of indicators in the best quartile. The remaining 20 percent was split equally between indicators in the third and worst quartiles. This is Swale's best ever result in terms of national benchmarking, as illustrated in the figure above.

The Council publishes a summary performance report each month on our website at <http://www.swale.gov.uk/managing-performance/>

Our Sustainability and Environmental Impact

The Council is committed to tackling the causes and effects of climate change and in January 2013 became one of the first lower-tier authorities in the country to sign up to Climate Local, the revised version of the Nottingham Declaration. In this, we have set out our targets and commitments for tackling climate change, including a year-on-year reduction in carbon emissions of 2.6 percent across the borough and measures to monitor and improve water use, biodiversity, flood protection and the green economy. To date we remain on track to meet these targets. Each year the Council also produces a greenhouse gas report, which continues to show progress in reducing carbon emissions from our own estate. The Kent Environment Strategy has recently been revised and has been adopted by Swale and other Kent districts. We work closely with Kent County Council (KCC) and other districts on climate-related issues, and will continue to do so to deliver the objectives of the new strategy.

Reviewing Our Performance

The new household waste contract in operation across the Mid-Kent area is already leading to higher levels of recycling and reduced emissions from collection lorries. In 2015/16 Swale's performance against NI 192 (proportion of household waste recycled, composted or reused) increased by almost one-fifth over the previous year, and delivered over 40 percent, putting Swale above the national median on this measure for the first time. The Council's procurement strategy requires that sustainability issues are considered in all contracts, and where feasible we ask developers to incorporate renewable energy and other sustainable measures into new developments.

Our People

The Council recognises that its success is built on the knowledge, expertise and commitment of its workforce and we therefore place great emphasis on the management and development of this valuable resource.

There are well-established performance and development processes for all staff, which ensures that all team members have a development plan. The Council has developed our values to clearly describe how we do things – FIRST (Fairness, Integrity, Respect, Service and Trust) and all employees should be aware how we expect them to work so that they behave in ways that are consistent with these values. The Council has an engagement plan to ensure that staff know where they fit in and the importance of their role in delivering the priorities of the Council. An important part of the engagement plan is the approach to communications which are multi-channel and regular, including a monthly Team Talk for manager led team briefs, three all staff briefings annually and weekly, monthly and quarterly management meetings. These processes are supplemented by a voluntary staff group with direct access to the Strategic Management Team (SMT).

The support to staff and the approach to employee engagement was recognised in February 2016 with the award of the Investors in People (IIP) Gold Standard which has only been achieved by twenty-five organisations in Kent. The award recognises the investment in our staff in the approach to leadership, development opportunities, reward and recognition, wellbeing and engagement. This has been further developed through the updated Workforce Strategy which reflects the revised Council priorities and the possible opportunities and challenges in the future; the strategy has three themes, Culture of the organisation, Recruitment and retention and Developing for the future.

SMT reviews the workforce information on a quarterly basis, which includes recruitment, retention, headcount, turnover, equalities profile, and sickness information. This attention to workforce data has prompted several strands of action, for example, the age profile of the Council meant that action was taken to broaden the number of apprenticeships and therefore open up access to jobs in an age group that was under-represented. The Council employed six apprentices which equates to 2.2 % of the full time equivalent employees and they are in a variety of departments across the Council.

The monitoring of workforce information by SMT also ensures a focus on sickness absence; in 2015 we were awarded an 'excellence' rating in the Kent Healthy Business Awards for our approach to managing sickness. During 2015/16 the amount of time lost to sickness was an average of 5.42 days per employee which is significantly better than the average for the local government sector of 8.3 days (1,505 working days were lost to sickness absence, which equates to 2.3% of available working days). The Council takes a supportive approach to sickness management making use of an Occupational Health service and employee assistance programme with clear attendance expectations and monitoring. One other outcome of our strategy was demonstrated by the very positive results of the Health and Safety Executive's (HSE) Stress at Work survey which showed that employee stress is well managed. The proactive approach to sickness management is enhanced by an active programme of well-being initiatives to encourage staff to take responsibility for their own health.

How We Manage Risk

The Council continues to recognise the value in having robust and effective risk management processes. The Council seeks to identify and manage the risks that could impact on the delivery of its objectives. During 2015/16 the Council sought the opportunity to update and implement improved risk management arrangements across the Council. Work is still underway, but will result in creation of a comprehensive risk register which will collate in one place and on a common structure the risks facing the Council as it pursues its

Reviewing Our Performance

objectives as set out in the Corporate Plan. The register will include risks at the corporate, operational and project level. The Council has identified and updated the corporate level risks; the next stage is for these to be assessed in terms of likelihood and impact. The following risk themes have been identified:

- regeneration projects (including Sittingbourne Town Centre);
- infrastructure and planning;
- safeguarding;
- resource constraints (financial and workforce); and
- devolution and partnerships.

As we move into 2016/17, the comprehensive risk register will be collated, monitored and reported on a quarterly basis to SMT, and then on to Cabinet and Audit Committee. This will enable the Council to gain assurance that significant risks are being managed, and emerging risks, which could impede the Council achieving its objectives, are being identified. Meanwhile, the SMT and Cabinet report template requires information to be provided explaining the risk implications of decisions which enables them to keep risks under review.

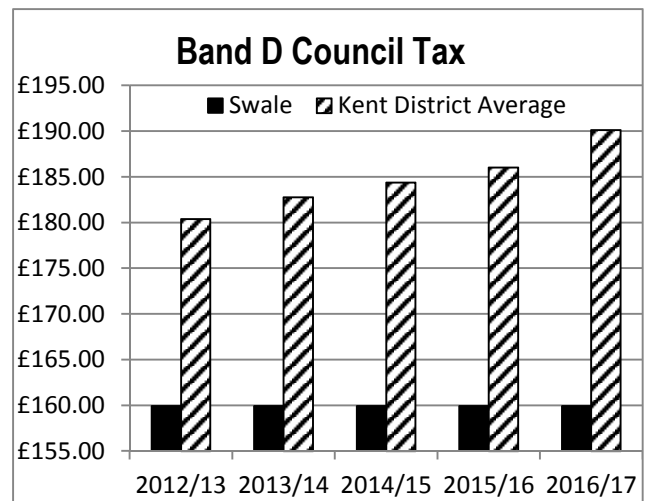
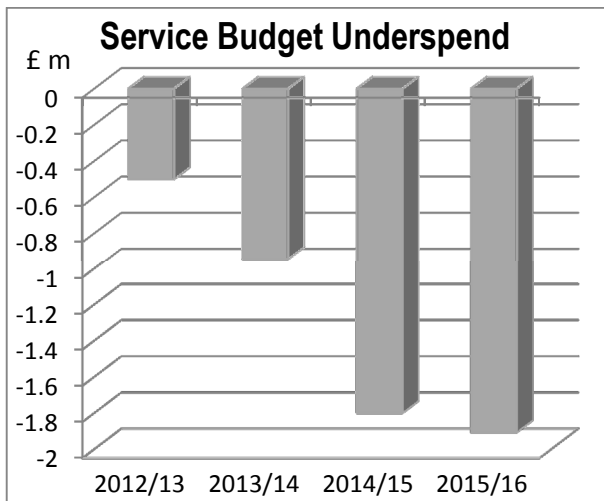
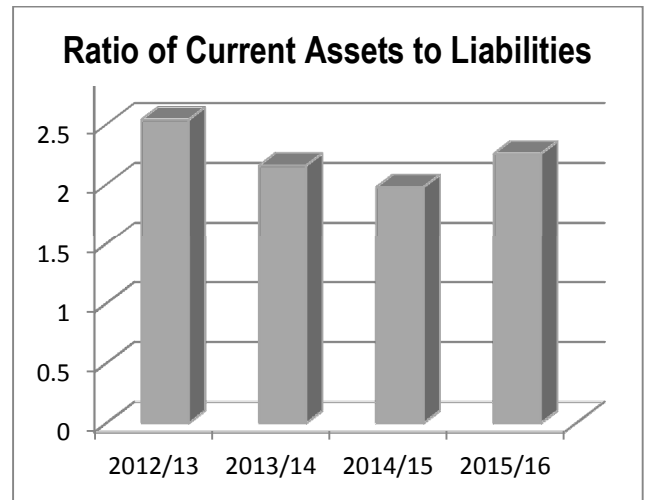
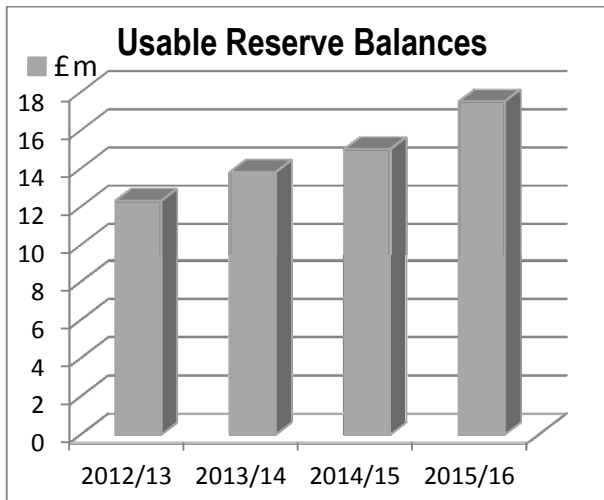
How We Manage Data

The Council has a responsibility to keep the personal data it holds securely. In 2015/16 there were eleven reported incidents which amounted to breaches of the Data Protection Act, none of which the Council's Senior Information Risk Owner considered necessary to report to the Information Commissioner. The decision was based on conclusions reached by the Information Commissioner in previous years and also demonstrated that the Council had taken effective and efficient action in minimising the impact of the breaches.

Reviewing Our Financial Performance

Our Financial Performance by Head of Finance Nick Vickers

Key Indicators of Financial Performance



Our Expenditure and Income for 2015/16

A detailed report on our expenditure and income compared against budget for 2015/16 will be considered by Cabinet on 13 July and Scrutiny on 20 July and can be found on the Council's website (<http://services.swale.gov.uk/meetings/ieListDocuments.aspx?CId=129&MId=1714&Ver=4>)

The Council has been able to achieve a significant underspend in the year of £1,958,000 (£1,435,000 underspend in 2014/15). This is primarily due to additional income and savings on contracts. With a well-known flightpath of reduced funding into the medium term, the Council has once again pre-empted future funding reductions by restricting expenditure in year. The capital underspend for the year was £69,400 (£249,000 underspend in 2014/15), and 97% of the planned capital expenditure was spent.

Our Revenue and Capital Monitoring reports are reviewed by our Strategic Management Team every month, and by our Cabinet and Scrutiny Committee every three months. This should make sure we are in a strong position to be able to meet the expected funding gap in future years. Copies of our monitoring reports to Cabinet are available on our website:

<http://services.swale.gov.uk/meetings/ieListMeetings.aspx?CId=129&Year=0>, or by contacting Democratic Services.

The Council's commitment to increasing the business base of the Borough is reflected in significant business rates growth, although for 2015/16 there has also been increases in rate reliefs, successful revaluation appeals and the revaluation of a major manufacturing site no longer trading.

Reviewing Our Financial Performance

The outturn position needs to be seen in the context of the Council's medium term financial position as set out in the February Council budget report. The Council currently has a funding gap of £966,000 in 2017/18 and £2,711,000 in 2018/19. The scope of management efficiency savings and for savings on major contracts is also much reduced. Balancing the budget therefore becomes much more about generating income, in particular business rates and New Homes Bonus.

The table below shows spend against budget for our service departments:

| Service | Budget 2015/16 £'000 | Actual Spending 2015/16 £'000 | Over/ (Under) spend 2015/16 £'000 |
|---|----------------------------|--|---|
| Commissioning & Customer Contact | 5,808 | 4,782 | (1,026) |
| Economy & Communities | 2,194 | 1,985 | (209) |
| Resident Services | 885 | 639 | (246) |
| Planning | 883 | 911 | 28 |
| Environmental Health | 473 | 434 | (39) |
| Support Services | 4,538 | 4,221 | (317) |
| Strategic Management and Policy | 863 | 752 | (111) |
| Other Services | 2,282 | 2,244 | (38) |
| Total Service Expenditure in Cabinet Report | 17,926 | 15,968 | (1,958) |
| Adjustments between accounting and funding basis not included in above services | (31) | 2,342 | 2,373 |
| Cost of Services in Comprehensive Income & Expenditure Statement (CI&ES) (see page 23) | 17,895 | 18,310 | 415 |
| Operating expenditure | 1,245 | 3,879 | 2,634 |
| Financing and investment | (255) | 1,374 | 1,629 |
| Revenue support grant | (2,929) | (2,929) | 0 |
| Business rates | (5,053) | (6,650) | (1,597) |
| New homes bonus | (2,823) | (2,823) | 0 |
| Council tax freeze grant | (158) | (158) | 0 |
| Council tax | (7,032) | (7,032) | 0 |
| Other taxation & non-specific grants | (953) | (909) | 44 |
| (Surplus)/Deficit on Provision of Services in CI&ES (see page 23) | (63) | 3,062 | 3,125 |
| Transfers (to)/from earmarked reserves | (439) | 2,341 | 2,780 |
| Adjustments between accounting and funding basis | 444 | (5,644) | (6,088) |
| (Increase)/Decrease in General Fund | (58) | (241) | (183) |
| General Fund brought forward 1 April 2015 | (5,124) | (5,124) | 0 |
| General Fund carried forward 31 March 2016 | (5,182) | (5,365) | (183) |

The above table shows how the increase in the General Fund of £241,000 shown in the Movement in Reserves (page 22) compared to the budget. Our policy is to maintain a balance of at least £1.5 million in the General Fund. The balance of £5.4 million represents 30% of the cost of services budget for 2015/16, and is therefore at an adequate level.

The table below explains the major differences between the budget forecasts and the actual money spent and income received:

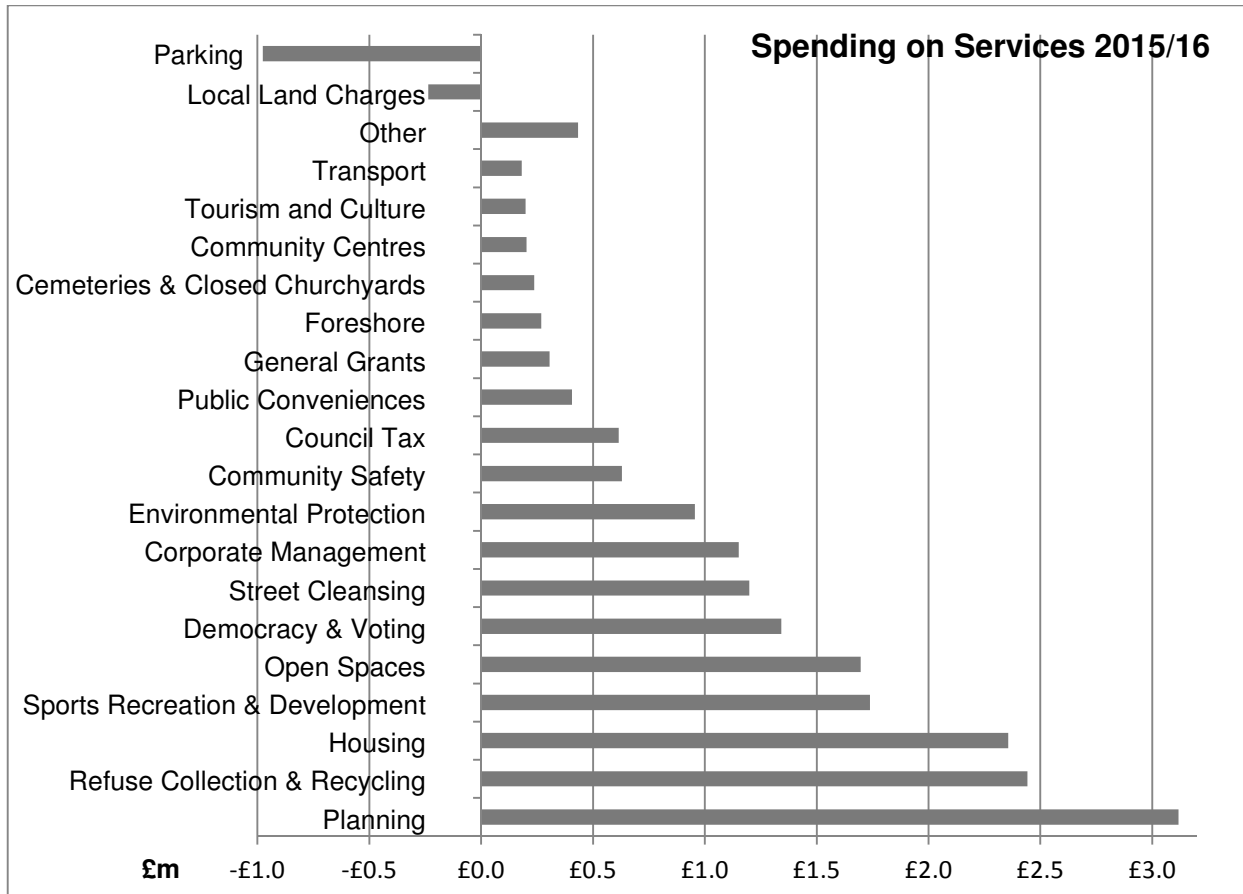
| Reason for Budget Variance | £'000 |
|------------------------------------|---------|
| Additional Income | (1,155) |
| Procurement/Shared Service Savings | (435) |
| Staff Vacancies | (279) |
| Delayed Projects | (232) |

Reviewing Our Financial Performance

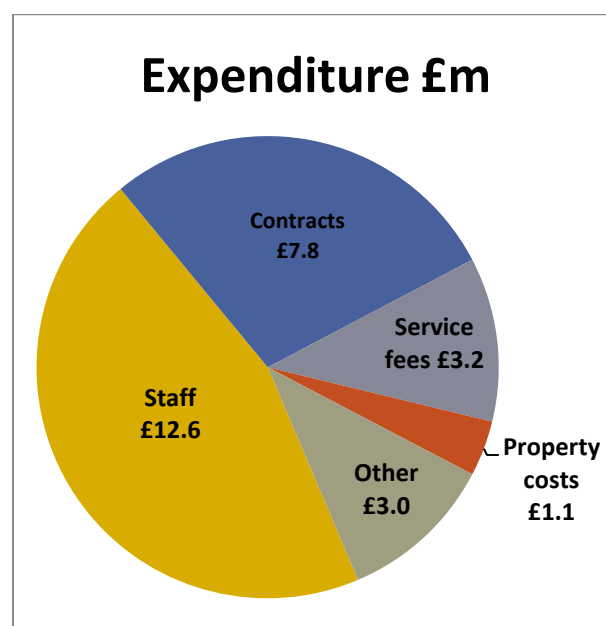
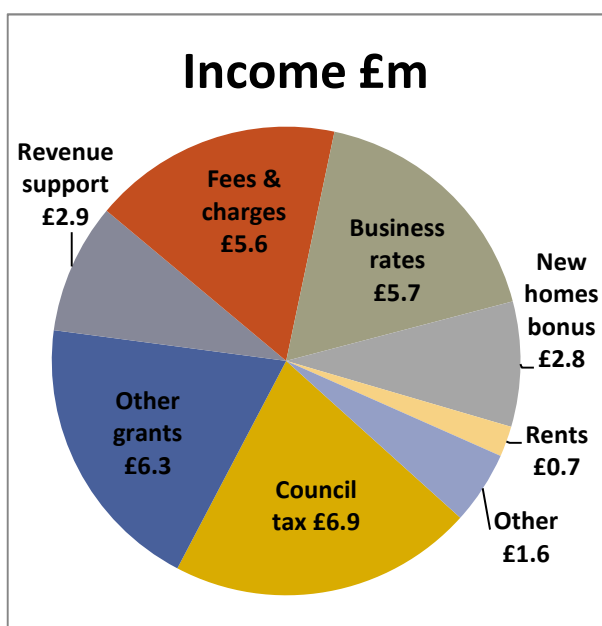
| Reason for Budget Variance | £'000 |
|------------------------------|----------------|
| Overspends | 302 |
| Other Net Underspends | (159) |
| Total Budget Variance | (1,958) |

Where We Spent the Money and Our Income

We show the cost of running our services in our revenue account known as the Comprehensive Income and Expenditure Statement. This account shows you the costs in 2015/16 of the Council's priorities and the amount left to be financed from local and national tax income. Service costs are shown below:



The two pie charts below show what we spent the money on and how we raised our income.



Reviewing Our Financial Performance

In addition we:

collected **£65.8m** of council tax for Police, Fire, KCC, Parish Councils and ourselves (£63.2m in 2014/15)

collected **£45.8m** of business rates for Central Government, Fire, KCC, and ourselves (£46.4m in 2014/15)

paid out **£54.7m** on benefits and received **£54.5m** in grant (£55.5m paid, £55.2m received in 2014/15)

How We Pay for Pensions

In 2015/16 the Council's contributions to pension costs was £2.7 million (£2.6 million in 2014/15). We are a member of the Local Government Pension Scheme (LGPS), which KCC runs on our behalf. In the Statement of Accounts pension costs are based on a forecast by an actuary (a professionally qualified independent person appointed to value the pension fund and therefore set contribution rates) of the cost of providing retirement benefits rather than the payments made to the pension fund. The pension deficit has decreased from £64.0 million at 31 March 2015 to £58.3 million at 31 March 2016, mainly because of an increase in the discount rate assumption, which is dependent on bond yields, which have increased.

The level of our contributions to the pension fund is set by our actuary every three years and is based on the pension fund's investment strategy. See note 10 for more information. Reports on the Kent Pension Fund are available from: Kent County Council, Treasury and Investments, Room 2.53, Sessions House, County Hall, Maidstone, Kent ME14 1XQ or by using the following link: www.kentpensionfund.co.uk

How We Manage Our Surplus Funds and Our Cash Flows

The approach we take to invest our surplus funds and manage our day-to-day cash flow is called treasury management. Our total investment averaged £36 million during 2015/16 (£28 million for 2014/15) and closed at £27 million at 31 March 2016 (see note 44, Table 5). We achieved a return of 0.65% for 2015/16 (0.45% for 2014/15), amounting to £232,000 (£127,000 in 2014/15). The increase compared with the previous year is due mainly to an increase in cash flow and improved returns on our investments almost entirely due to investing in the Church Charities and Local Authorities (CCLA) Mutual Investment Property Fund.

We meet Government and accounting requirements on treasury management which emphasise the security of funds. The policy is to avoid unnecessary risk, so we only put money with the safest and most secure financial institutions and a number of very large, wide-ranging money market funds (these are well rated, highly diversified pooled investment vehicles).

The Council does not have any external borrowing as at 31 March 2016. However, at the Council meeting on 16 March 2016, members approved a change to the budget framework to allow for funding to be provided up to a maximum borrowing of £30 million (minute 607/03/2016). The Council's cash flow movements for 2015/16 are detailed in the Cash Flow Statement on page 26.

How We Collect Tax

We collect council tax on behalf of KCC, Police, Fire and Rescue, and Parishes, and business rates for the Government, KCC, and Fire and Rescue, which is recorded in the Collection Fund. At the year-end, this account had a deficit balance of £581,182, compared with the estimate in January 2016 of £1,225,816, which we took into account when setting the council tax for 2016/17. The difference is mainly due to an increase in collection rates resulting in decreases in outstanding arrears and allowance for debt impairment.

Our Capital Spending for 2015/16

Where spending is on an asset which will benefit us over a number of years, it is called capital. It is funded mainly by Government grants and capital receipts (money from selling land and other assets). The largest element of our capital spend was on our Disabled Facilities Grants (DFG).

The tables below show the main areas of capital spending and how they were funded. More details are shown in note 33.

Reviewing Our Financial Performance

| Capital Spending | Budget 2015/16 £'000 | Actual Spending 2015/16 £'000 | Over/ (Under) spend £'000 | Level of Approved Rollover £'000 |
|---|----------------------------|--|------------------------------------|---|
| DFG – Partnership funding | 1,132 | 854 | (278) | 278 |
| The Meads Community Centre | 498 | 480 | (18) | 18 |
| Sheppey & Swallows Leisure Centre | 0 | 356 | 356 | 0 |
| Wylie Court slabbing over gas main | 120 | 120 | 0 | 0 |
| Emergency accommodation, house purchase | 200 | 174 | (26) | 0 |
| lwade play area | 92 | 0 | (92) | 92 |
| Other services | 336 | 325 | (11) | 85 |
| Total | 2,378 | 2,309 | (69) | 473 |

| Capital Funding | 2015/16 £'000 |
|--|------------------|
| Total Capital Spending | 2,309 |
| Source of Funding: | |
| Capital receipts | 125 |
| Capital grants and other contributions | 1,833 |
| Earmarked reserves | 351 |
| Total Capital Funding | 2,309 |

We plan to spend £2.8 million in the future on capital of which £60,000 will be funded from our own resources with the rest being paid for from external contributions.

Transparency of Our Spending

The Government has promoted how local authorities make information on senior staff salaries and payments to our suppliers available to the public. This information can be found on our website at:

<http://www.swale.gov.uk/transparency/>.

By law, all Councillors must fill in a Declaration of Members' Interest form to register their financial or other interests. The Monitoring Officer maintains the full Register. The public can make an appointment to inspect it during normal office hours, or can see it on our website at: <http://www.swale.gov.uk/register-of-interests/>.

Our Future Performance

There are a number of trends and factors which are likely to affect the future development and performance of the Council and these are:

- the regeneration of Sittingbourne Town Centre;
- the growing dependence on business rates income;
- the national target for eliminating the deficit, which will mean continuing financial pressure on local authorities; and
- the sizeable workforce 'skills gap' in the Swale area.

Our Future Financial Strategy

For Swale, the Government's 2016/17 Local Government Finance Settlement reductions in funding were in line with our assumptions for 2016/17 and then significantly worse for 2017/18 and 2018/19. Our Settlement Funding Assessment fell from £7.034 million in 2015/16 to £6.012 million in 2016/17 and is forecast to fall to £4.367 million by 2019/20.

The budget for 2016/17 reflects the continuation of the Government's deficit reduction programme with a consequent significant further reduction in the funding which the Council receives from Central Government as local government is moving towards being wholly self-financing.

Reviewing Our Financial Performance

We are in a period of transition between fundamentally different approaches to funding local authorities. Beyond the 2016/17 Finance Settlement, there are major new issues which will fundamentally impact on the Council's financial future:

- steeper than expected reductions in Revenue Support Grant and a local authority funding model where the Government assume Council Tax base growth and increases in Council Tax;
- a consultation on major changes to how New Homes Bonus operates with the central proposition being that funding for each property is received for four years rather than six. But New Homes Bonus is then built into the funding model permanently; and
- the launch of a major consultation exercise on the full localisation of business rates by 2020.

In-year monitoring does indicate significant growth in the business rates income. Council has previously agreed that any additional income over the level budgeted for will go into the business rates volatility reserve. The Department for Communities and Local Government have confirmed agreement to a business rate pool for 2016/17 consisting of KCC and all Kent district/borough councils except for Sevenoaks and Dover.

For the sixth year running the Council did not increase its council tax for 2016/17.

The Medium Term Financial Plan (MTFP) is a forecast of the financial position over the next three years to aid the Council in meeting its objectives as set out in the Corporate Plan. The MTFP is underpinned by the following principles:

- achieving a balanced budget position with the base budget requirement being met from core income;
- reserves being used to fund one-off cost pressures; and
- a prudent forecast for business rates.

The principle of the management of reserves moving forward should be:

- maintain a prudent level of reserves to allow the Council to deal with unexpected one-off events; and
- fund one-off items of expenditure against the Council's highest priorities, as determined by members.

The Council's priorities for the use of available capital funds will be:

- projects which support the Council's corporate priorities;
- earmarked receipts related to specific projects e.g. Section 106 monies;
- minimum fulfilment of legal duties;
- essential life and death maintenance work e.g. health & safety; and
- essential remedial expenditure on the Council's IT systems.

The 2016/17 Budget Book can be obtained from our website using the following link:

<http://www.swale.gov.uk/revenue-budget-and-capital-programme/>

On 23 June the UK voted to leave the European Union in the referendum. The impact on local government finance is unclear at this very early stage and therefore no changes have been made to these accounts.

Our Annual Financial Report

Swale Borough Council's Annual Financial Report for 2015/16 provides a record of how we have used our financial resources during the year. Our accounts and all relevant documents are subject to review by Grant Thornton UK LLP – our external auditors.

The Annual Financial Report has the following sections:

- this review of our performance, which gives a background to our financial performance;
- an Annual Governance Statement showing how we meet set standards when carrying out our responsibilities;
- a report from Grant Thornton after they have reviewed the Council's accounts;
- the Statement of Accounts – see below; and,

- a glossary to explain any technical terms used in the report.

The Statement of Accounts

The Statement of Accounts provides a record of the Council's financial position and performance for the year ended 31 March 2016. It has been prepared in line with the Accounts and Audit Regulations 2015. The format meets the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts appears on pages 22 to 65. Our 'core financial statements' are listed below along with a brief explanation of their purpose:

Movement in Reserves Statement (page 22) - shows the movement on all our reserves (funds set aside) due to the increase or decrease in our net worth as a result of our spending, the income we received, and changes in the value of our assets.

Comprehensive Income & Expenditure Statement (CI&ES) (page 23) - shows all of our spending, income and changes in value in providing our services during the year.

Balance Sheet (page 24) - summarises our financial position at 31 March each year. It shows the assets (what we own) we hold and our liabilities (what we owe) to other parties, and our reserves, separated into those we can use for future spending (usable reserves) and those created to reconcile the technical aspects of accounting (unusable reserves).

Cash Flow Statement (page 26) - summarises the cash that moved into and out of our bank accounts over the financial year.

Accounting Policies (page 27) - sets out the policies we adopted for drawing up the various accounting statements.

New Accounting Policies in 2015/16

There has been one significant change to our accounting policies for 2015/16 as a result of the introduction of the concept and definition of current value for the measurement of property, plant and equipment. This concept requires that local authorities measure the service potential and thus operating capacity used to deliver local authority goods and services inherent in the assets. The Code requires that non-operational property, plant and equipment classified as surplus assets and investment assets are measured at fair value. This has been applied only from 2015/16. Our accounting policies provide more detail on the implications of this change.

Further Information

You can get more information about the accounts by emailing the Swale Finance Department at finance@swale.gov.uk.

You have the right in law to inspect the accounts from 1 July 2016 to 11 August 2016 inclusive. During this period, if you live in the Borough of Swale, you (or a representative for you) may object to the Council's accounts asking that the auditor issue a report in the public interest and/or apply to the court for a declaration

that an item in the accounts is contrary to law. Written notice of a proposed objection and the grounds on which it is made must be sent to the auditor at their address – Grant Thornton UK LLP, Grant Thornton House, Melton Street, London NW1 2EP - and copied to myself at the Council.

The availability of accounts for inspection has been advertised in the local press, the Council website and Council offices. More details are available from the Council website: <http://www.swale.gov.uk/statement-of-accounts/>.



Nick Vickers B.Sc (Econ), CPFA
Head of Finance
30 June 2016

Scope of Responsibility

Swale Borough Council is responsible for ensuring that:

- its business is conducted in accordance with the law and proper standards;
- public money is safeguarded and properly accounted for; and
- public money is used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure 'Best Value' in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In meeting this obligation, the Council has a responsibility for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. A schematic summarising how the Council meets this obligation is set out below.

The Council has adopted a local code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework 'Delivering Good Governance in Local Government'.

This Statement explains how Swale Borough Council has complied with the principles of good governance and reviews the effectiveness of these arrangements. It also meets the requirements of the Accounts and Audit Regulations 2015.

The Purpose of the Governance Framework

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

The system of internal control is a significant part of that framework, and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and therefore can only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of Council's policies, aims and objectives;
- evaluate the likelihood of those risks being realised and the impact should they be realised; and
- manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2016, and up to the date of approval of the Statement of Accounts.

The Council's Governance Framework

A brief description of the key elements of the Council's governance framework is described below.

Communicating the Council's Vision

The Council's Corporate Plan, Making Swale a Better Place, sets out an overarching statement of the Council's strategic objectives for the period April 2015 to March 2018. The Plan is structured around three high level priorities, each containing a number of specific objectives. The three themes are:

- A Borough to be Proud Of
- A Community to be Proud Of
- A Council to be Proud Of

This is the Council's third corporate plan, and the latest is very much an evolution based upon what has preceded it. In governance terms it is the document that sets out the Council's priority outcomes in terms of sustainable economic, social, and environmental outcomes.

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The Council has a range of performance indicators it uses to monitor the quality of its services and measure progress against its objectives. These are set out in the performance reports considered by the Strategic Management Team on a monthly basis, and by Cabinet and Scrutiny Committee on a quarterly basis.

Management of Resources

The Council seeks to use its resources efficiently and obtains value for money via a number of arrangements. These include:

- a medium term financial strategy and annual budget process that ensures that financial resources are directed to the Council's priorities;
- partnership working with a range of organisations where there are shared objectives and clear benefits from joint working. The most significant of the partnership arrangements is the Mid Kent Improvement Partnership (MKIP) with Maidstone and Tunbridge Wells Borough Councils; and
- a co-ordinated and structured approach to better procurement practices across the Council. Whilst significant improvements have taken place across the board in the Council's procurement of goods and services, the joint waste and street cleansing contract with Kent County Council and Maidstone and Ashford Borough Councils stands out, both for service improvement and the very substantial cost savings achieved.

Member and Officer Working Arrangements

Roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. The Cabinet is the main decision-making body of the Council, and for 2015/16 it was made up of nine members who have responsibility for particular portfolios.

The Council also appoints a number of committees to discharge the Council's regulatory and scrutiny responsibilities. These arrangements, and the delegated responsibilities of officers, are fully set out in the Council's Constitution.

The Constitution also includes both a Member and an Officer Code of Conduct, which describe and regulate the way in which members and officers should interact to work effectively together.

The Council's overview and scrutiny arrangements have continued to evolve. Since March 2014 there has been a Scrutiny Committee which scrutinises decision-making and performance, and holds Cabinet to account for these; and a Policy Development and Review Committee, which does not have formal scrutiny powers but which provides a mechanism for members to consider and feed into policy proposals before formal decisions are taken.

The Council's Audit Committee has a remit consistent with those identified in the CIPFA publication 'Audit Committees – Practical Guidance for Local Authorities'. It provides assurance to the Council on the effectiveness of its governance arrangements, risk management framework and internal control environment. The Committee regularly reviews the internal audit work programme, the results of internal audit work, and management's implementation of audit recommendations.

A central role on governance issues is undertaken by the Council's three statutory officers; the Head of Paid Service, the Monitoring Officer/Proper Officer, and the Chief Financial Officer (CFO).

The Chief Executive (and Head of Paid Service) is accountable for the delivery of the Council's services, its budget, the work of the Council's employees and the work undertaken for the Council by a variety of partners and contractors who deliver a wide range of services to the community. The role of Chief Executive is a permanent appointment, which requires the approval of the full Council following the recommendation of a candidate for the role by the Appointments Sub Committee of General Purposes Committee.

Section 5 of the Local Government and Housing Act 1989, as amended by paragraph 24 of schedule 5 Local Government Act 2000, requires the Council to designate one of its senior officers as the Monitoring Officer.

This role is undertaken by the Director of Corporate Services, who is responsible for:

- ensuring that the Council acts and operates within the law. He or she has a duty to report to the whole Council if the Council has broken or may have broken the law;

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- maintaining arrangements to support the Council's functions and activities, including regular reviews of the Council's Constitution;
- supporting the Council's Standards Committee, and helping to promote and maintain high standards of conduct by Council members, officers, partners and contractors;
- establishing and maintaining a register of interests (including receipts of gifts and hospitality); and
- receiving reports and taking action under the Council's Confidential Reporting Code, which supports whistleblowing by staff.

The Director of Corporate Services is a direct report to the Chief Executive.

The Head of Finance, as the Section 151 Officer appointed under the 1972 Local Government Act, is the Council's CFO, who carries overall responsibility for the financial administration of the Council. The Council's governance arrangements relating to the role of the CFO comply with those arrangements set out in the CIPFA statement on the role of the CFO in Local Government (2010).

The role of Head of Internal Audit is assigned to the post of the Head of Audit Partnership, an arrangement covering the three MKIP Councils and Ashford Borough Council. This role is responsible for the Council's internal audit service, including drawing up the Internal Audit Strategy and related annual plan, and giving the annual Audit Opinion. The Council's arrangements conform to Public Sector International Audit Standards, as independently assessed by the Institute of Internal Audit. The Standards are the "proper practices in relation to internal control" referenced in the "Public Sector Internal Auditing Standards or Guidance". The Head of Audit Partnership's operational responsibilities are set out in the Internal Audit Charter, and are consistent with the independence requirements set out in the Standards. The Head of Audit Partnership role also conforms to the principles set out in the CIPFA statement on the role of the Head of Internal Audit in Public Service Organisations (2010). Swale Borough Council is in the position of being the only Council covered by the partnership with no weak/poor reports in 2015/16.

The Council has clearly set out terms and conditions for the remuneration of members and officers, and there is an effective structure for managing the process of review. A Scheme of Members' Allowances has been set by the Council, having regard to a report of an Independent Panel made up of non-Councillors. The Council sets and publishes a 'Pay Policy Statement' which provides transparency with regard to the Council's approach to setting the pay of its employees. The 'Pay Policy Statement' is reviewed annually.

All employees have clear conditions of employment, and job descriptions which set out their roles and responsibilities.

Promoting Values and Upholding High Standards of Conduct and Behaviour

The Council has a Standards Committee to promote high standards of member conduct. Elected members have to agree to follow a Code of Conduct to ensure high standards in the way they undertake their duties.

In the last two years the Committee has met once a year to receive an annual report from the Director of Corporate Services in his role as Monitoring Officer.

Officer behaviour is governed by the Officer Code of Conduct. The Code has been formulated to provide a set of standards of conduct expected of employees at work and the link between that work and their private lives.

The Council takes fraud, corruption and maladministration seriously, and as such has established policies and processes which aim to prevent or deal with such occurrences. These include:

- an Anti-Fraud and Anti-Corruption Strategy;
- a Whistleblowing Policy;
- various HR policies regarding discipline of staff involved in such incidents;
- various procurement policies; and
- a corporate complaints procedure exists to receive and respond to any complaints received.

Arrangements exist to ensure that members and employees are not influenced in their decision-making by prejudice, bias or conflicts of interest in dealing with different stakeholders. These include:

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- registers of disclosable pecuniary interests and disclosable other interests;
- declarations of disclosable pecuniary interests and disclosable other interests at the start of each meeting in which discussions involve a matter in which a member has an interest;
- registers of gifts and hospitality for Officers;
- an Equalities Scheme and Equal Opportunities Policies; and
- comprehensive member induction.

Taking Informed and Transparent Decisions and Managing Risk

The Council's decision-making processes are clear, open and transparent. The Council's Constitution sets out how the Council operates and the processes for policy and decision-making. Key decisions are published in the Council's Forward Plan. Agendas and minutes of all meetings are published on the Council's website.

The Council provides decision-makers with full and timely access to relevant information. The Cabinet report template requires information to be provided explaining the legal, financial and risk implications of decisions, as well as inter alia implications for each of the corporate priorities, and any equality and diversity implications.

During the year the Council reviewed and updated its approach to Risk management. Previously there were five high level strategic risks, and a large number of operational risks identified at service unit level. Work is currently underway on a new approach which will result in a comprehensive risk register bringing together risk across the Council. This approach has identified five major themes:

- regeneration projects (including Sittingbourne Town Centre);
- infrastructure and planning;
- safeguarding;
- resource constraints (both financial and workforce); and
- devolution and partnerships.

Developing the Capacity and Capability of Members and Officers

The Council recognises that the success of its business is built upon the knowledge, expertise and commitment of its workforce. Development and retention of staff therefore remains a priority for the Council.

The Council continues to put great emphasis on the management and development of its key resource - the people who work for the Council. There are well-established performance appraisal and development processes for all staff. The Council has developed its values - Fairness, Integrity, Respect, Service and Trust (FIRST) - to clearly describe how we do things, and all employees have been engaged in activities to help them be aware of how we expect them to work so that they behave in ways which are consistent with these values.

The Council also has a Staff Engagement Strategy. Communications with staff are paramount, with a monthly Team Talk document, three all staff briefings a year led by the Chief Executive, weekly Strategic Management Team meetings, monthly Corporate Leadership Team meetings, monthly team meetings, and quarterly of third tier managers. These processes are supplemented by a staff group with direct access to SMT. During 2015/16 the strength of the processes was verified by the award of the Investors in People Gold standard.

The cross-party Member Development Working Group takes an overview of the approach to member development. It continues to operate to the principles which underpin the Member Development Charter.

Engagement with Local People and Other Stakeholders to Ensure Robust Public Accountability

The Council has reviewed its approach to engagement with residents, and in particular the roles played by the three Local Engagement Forums and the Rural Forum. A report was brought to Council in March 2016 recommending that the four bodies should be abolished as they were not providing a fit-for-purpose approach in an age of social media. The recommendation was agreed.

In their place the Council will arrange for public meetings to be organised on an ad hoc but timely basis where there is a significant or contentious local issue that requires discussion. Greater reliance will also be placed on the quarterly Inside Swale magazine, more use of direct mail on specific issues, and use of more immediate

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communication routes such as Twitter and Facebook. There are also well-established processes for formal consultation where required on specific policy issues.

The Council also engages with partners and stakeholders through various partnerships such as the Public Services Board, the Community Safety Partnership, the Swale Economy and Regeneration Partnership, the local Health and Wellbeing Boards, and the Green Grid Partnership, to ensure collaboration on strategic issues and joint responsibility for working together for the benefit of the residents of Swale.

The Council also engages with the voluntary, community and business sectors, working closely with Swale Community & Voluntary Services and communicating through the Swale Community Empowerment Network. It also disseminates and incorporates information about the Council within various e-bulletins and newsletters that go to these groups e.g. the Business Bulletin and Active Swale Bulletin.

Review of Effectiveness

The Council annually reviews the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, through the work of internal audit, and by comments made by the external auditors and other inspection agencies.

The processes applied in maintaining and reviewing the effectiveness of the system of governance include:

- the work of the Audit Committee;
- the work of the Standards Committee;
- the role of the Scrutiny Committee in holding the Cabinet to account;
- the operation of the Council's performance management frameworks, including an Annual Report and the wider approach to risk management;
- the work of Internal Audit as an assurance function that provides an independent and objective opinion to the Council on its control environment;
- the external auditor's opinion report on the Council's financial statements, and his conclusion on whether the Council has put in place proper arrangements to secure efficiency and effectiveness in its use of resources (the Value for Money conclusion);
- the roles of the Council's Statutory Officers;
- the corporate complaints procedure; and
- the anti-fraud and corruption and whistleblowing framework.

In the 2014/15 Annual Governance Statement three main areas for attention moving forward were identified. The latest position on these is as follows:

| Issue | Updated position |
|---|--|
| Updating the Fraud and Corruption Policy, and embedding it within the Council. | Following movement of much of the Council's external facing counter fraud work to the Department of Work and Pension's (DWP) Single Fraud Investigation Service in early 2016, the Council has been considering a way forward on its counter fraud and corruption approach. This will include amendments to the Internal Audit Charter in March 2016, which clarifies how Internal Audit can take a more active role in Counter Fraud (including ownership of corporate policies) in a way that is consistent with the Public Sector Internal Audit Standards. Following this clarification we expect progress on refreshing the Fraud and Corruption Policy in 2016/17, but the existing policy remains in place until updated. |
| Revising the Council's approach to prioritisation of resources and meeting the financial challenge in the new political environment in the Council. | 2016/17 budget balanced without any reductions in front line services. |

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| Issue | Updated position |
|---|--|
| Updating the approach to strategic and operational risk management. | Substantial progress has been made, and will be reported to Audit Committee. |

Significant Governance Issues

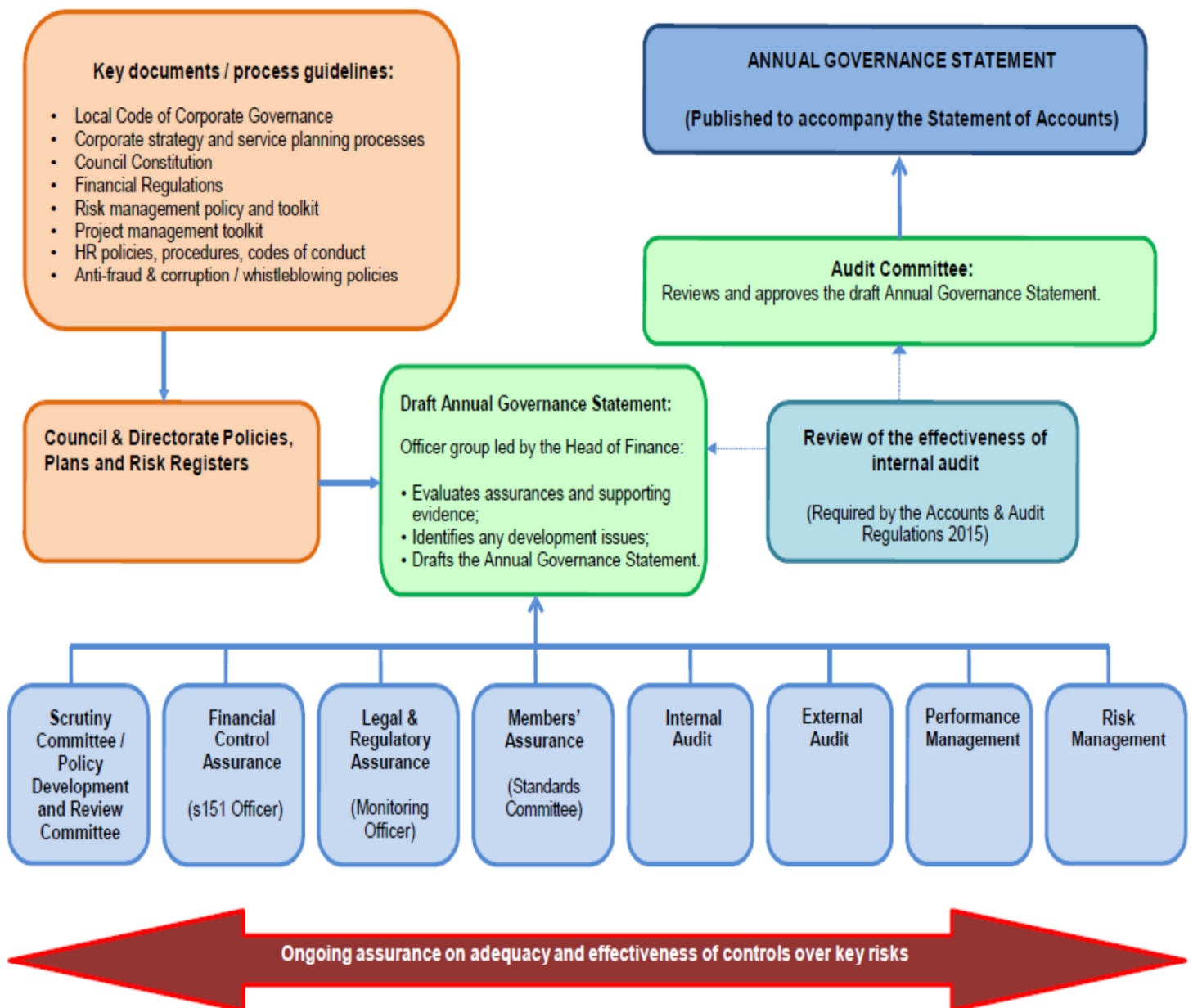
The main areas for member and senior management attention in the coming year are:

- managing the implications of becoming financially self-sustaining, and ensuring proper governance of new income generation opportunities;
- fully embedding the revised approach to risk management; and
- updating the Fraud and Corruption Policy, and embedding it in the Council.

Agreed by:

Leader of the Council Andrew Bowles

Chief Executive Abdool Kara



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SWALE
BOROUGH COUNCIL**

During July 2016, Grant Thornton UK LLP audited the accounting statements of Swale Borough Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. Grant Thornton will be presenting their opinion of the financial statements to the Council's Audit Committee on 14 September 2016 and the final certification will be included here when it has been issued.

Statement of Responsibilities

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Head of Finance's Responsibilities

As the Head of Finance, I am responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, I have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code;
- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that the accounts present a true and fair view of the financial position of the Authority at the reporting date and its income and expenditure for the year ended 31 March 2016.

Nick Vickers B.Sc (Econ), CPFA
Head of Finance

Date: 30 June 2016

Certification of the Chairman of the Audit Committee

I confirm that the adoption process for the 2015/16 Statement of Accounts has been formally completed and that the Statement of Accounts for the year ended 31 March 2016 was approved by Swale Borough Council in accordance with the Accounts and Audit Regulations (England) 2015 at the meeting of the Audit Committee on 14 September 2016.

Councillor Nicholas Hampshire
Chairman of the Audit Committee
14 September 2016

Movement In Reserves Statement – The Change In The Council’s Resources

| | General Fund Balance £'000 | Revenue Ear-marked Reserves £'000 Note 19 | Capital Receipts Reserve £'000 Note 17 | Capital Grants Un-applied £'000 Note 18 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Authority Reserves £'000 |
|---|-------------------------------|---|--|---|--------------------------------|----------------------------|-----------------------------------|
| Balance as at 31 March 2014 | (4,618) | (7,564) | (1,331) | (243) | (13,756) | 7,703 | (6,053) |
| Surplus on provision of services 2014/15 (page 23) | (2,005) | 0 | 0 | 0 | (2,005) | 0 | (2,005) |
| Other comprehensive expenditure or income 2014/15 (page 23) | 0 | 0 | 0 | (15) | (15) | 7,014 | 6,999 |
| Total Comprehensive Expenditure and Income 2014/15 | (2,005) | 0 | 0 | (15) | (2,020) | 7,014 | 4,994 |
| Adjustments between accounting basis and funding basis (note 47) 2014/15 | 350 | 0 | 420 | (11) | 759 | (759) | 0 |
| Net (Increase)/Decrease Before Transfers to Earmarked Reserves 2014/15 | (1,655) | 0 | 420 | (26) | (1,261) | 6,255 | 4,994 |
| Transfers (to)/from earmarked reserves 2014/15 (note 19) | 1,149 | (1,149) | 0 | 0 | 0 | 0 | 0 |
| (Increase)/Decrease in 2014/15 | (506) | (1,149) | 420 | (26) | (1,261) | 6,255 | 4,994 |
| Balance as at 31 March 2015 | (5,124) | (8,713) | (911) | (269) | (15,017) | 13,958 | (1,059) |
| Deficit on provision of services 2015/16 (page 23) | 3,062 | 0 | 0 | 0 | 3,062 | 0 | 3,062 |
| Other comprehensive expenditure or income 2015/16 (page 23) | 0 | 0 | 0 | 0 | 0 | (14,068) | (14,068) |
| Total Comprehensive Expenditure and Income 2015/16 | 3,062 | 0 | 0 | 0 | 3,062 | (14,068) | (11,006) |
| Adjustments between accounting basis and funding basis (note 47) 2015/16 | (5,644) | 0 | (216) | (43) | (5,903) | 5,903 | 0 |
| Net (Increase)/Decrease Before Transfers to Earmarked Reserves 2015/16 | (2,582) | 0 | (216) | (43) | (2,841) | (8,165) | (11,006) |
| Transfers (to)/from earmarked reserves 2015/16 (note 19) | 2,341 | (2,341) | 0 | 0 | 0 | 0 | 0 |
| (Increase) in 2015/16 | (241) | (2,341) | (216) | (43) | (2,841) | (8,165) | (11,006) |
| Balance as at 31 March 2016 | (5,365) | (11,054) | (1,127) | (312) | (17,858) | 5,793 | (12,065) |

On an accounting basis the Council made a deficit of £3.062m for 2015/16, due mainly to the value of an asset removed from the Council's accounts (as a result of a Community Asset Transfer) being charged to services. However, this cost is reversed as an adjustment between the accounting basis and funding basis as it is not one that is borne by the Council's taxpayers, resulting in an overall increase in the reserves of £2.8m which are available for future funding of services. The details of the deficit on an accounting basis on the Council's services can be seen in the next statement the Comprehensive Income and Expenditure as the Deficit on the Provision of Services.

**Comprehensive Income & Expenditure Statement –
Why The Council's Resources Changed**

| | 2015/16 Gross Expenditure £'000 | 2015/16 Income £'000 | 2015/16 Net Expenditure £'000 | 2014/15 Net Expenditure £'000 |
|--|---|----------------------------|--|--|
| Central Services (including Public Health) | 2,484 | (1,314) | 1,170 | 1,182 |
| Corporate & Democratic Core | 3,559 | (1,271) | 2,288 | 2,177 |
| Cultural & Related Services | 5,015 | (908) | 4,107 | 1,512 |
| Environmental & Regulatory Services | 8,205 | (2,315) | 5,890 | 5,515 |
| Highways & Transport Services | 1,650 | (2,444) | (794) | (792) |
| Housing Services | 61,269 | (58,912) | 2,357 | 2,559 |
| Planning Services | 4,351 | (1,233) | 3,118 | 2,387 |
| Non Distributed Costs | 174 | 0 | 174 | 18 |
| Cost of Services | 86,707 | (68,397) | 18,310 | 14,558 |
| Other Operating Expenditure | | | | |
| Parish precepts | 929 | 0 | 929 | 865 |
| Drainage board levy | 326 | 0 | 326 | 320 |
| Housing capital receipts pool | 1 | 0 | 1 | 1 |
| Losses on disposal of non-current assets (note 16) | 2,980 | (357) | 2,623 | 436 |
| Financing and Investment Income and Expenditure | | | | |
| Interest payable & similar charges | 75 | 0 | 75 | 68 |
| Net interest on the net defined pension liability | 2,066 | 0 | 2,066 | 2,228 |
| Interest receivable & similar income | 5 | (235) | (230) | (118) |
| Gains on Trading Undertakings | 259 | (407) | (148) | (168) |
| Income & expenditure - investment properties (note 30) | 35 | (205) | (170) | (148) |
| Gains in relation to investment properties and changes in their fair value (note 30) | 6 | (225) | (219) | (133) |
| Taxation and Non-Specific Grant Income and Expenditure | | | | |
| Council tax | 0 | (7,966) | (7,966) | (7,749) |
| Business rate income | 0 | (17,956) | (17,956) | (17,434) |
| Tariff & levy for business rates paid to Government | 11,711 | 0 | 11,711 | 12,473 |
| Contribution paid to Business Rates Pool | 1,092 | 0 | 1,092 | 0 |
| Income received from Business Rates Pool | 0 | (658) | (658) | 0 |
| Recognised capital grants and contributions | 0 | (615) | (615) | (329) |
| Council Tax freeze grant | 0 | (158) | (158) | (79) |
| Revenue support grant | 0 | (2,929) | (2,929) | (4,297) |
| New homes bonus | 0 | (2,823) | (2,823) | (2,269) |
| Other non-ring-fenced Government grants | 0 | (74) | (74) | (105) |
| Preceptors council tax support grant | 0 | (125) | (125) | (125) |
| (Surplus)/Deficit on Provision of Services | | | 3,062 | (2,005) |
| Net Surplus on revaluation of non-current assets (note 20) | These will not be reclassified to Provision of Services | | (6,548) | (3,670) |
| Re-measurement of net defined pension liability (note 10) | | | (7,501) | 10,521 |
| Receipts from long-term debtors | | | 66 | 66 |
| (Surplus)/Deficit on revaluation of available for sale assets (may be reclassified to Provision of Services) | | | (85) | 82 |
| Other Comprehensive Income & Expenditure | | | (14,068) | 6,999 |
| Total Comprehensive Income & Expenditure | | | (11,006) | 4,994 |

The CI&ES shows how the deficit on the Provision of Services of £3.062m was achieved. In addition, it also shows the total change in the value of the Council with an increase in the valuation of its assets being offset by a reduction in the accounting value of its forecast future pension costs. The £11.006m total shows the gains in the value of the assets and liabilities of the Council and is the total of the movement on the Balance Sheet below.

Balance Sheet – The Council's Resources

| | Note | 31 March 2016 | | 31 March 2015 | |
|---|----------|---------------|-----------------|---------------|-----------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Total Property, Plant and Equipment | 26 | | 52,198 | | 49,300 |
| Heritage Assets | 29 | 579 | | 579 | |
| Investment Property | 30 | 3,075 | | 2,753 | |
| Intangible Assets | | 128 | | 132 | |
| Long-Term Investments | 23 | 1,504 | | 1,420 | |
| Long-Term Debtors | 40 | 2,669 | | 2,511 | |
| | | | 7,955 | | 7,395 |
| Total Long-Term Assets | | | 60,153 | | 56,695 |
| Current Assets | | | | | |
| Short-Term Investments | 44 T5 | 12,989 | | 13,000 | |
| Inventories | | 10 | | 4 | |
| Cash and Cash Equivalents | 42 | 11,891 | | 10,851 | |
| Short-Term Debtors | 41 | 3,814 | | 3,849 | |
| Total Current Assets | | | 28,704 | | 27,704 |
| Total Assets | | | 88,857 | | 84,399 |
| Current Liabilities | | | | | |
| Short-Term Creditors | 35 | (11,465) | | (12,045) | |
| S106 Deferred Revenue Receipts | 36 | (200) | | (170) | |
| Revenue Grant Receipts in Advance | 13 | (99) | | (175) | |
| Provisions | 39 | (804) | | (1,623) | |
| Total Current Liabilities | | | (12,568) | | (14,013) |
| Total Assets less Current Liabilities | | | 76,289 | | 70,386 |
| Long-Term Liabilities | | | | | |
| Long-Term Creditors | 34 | (60) | | 0 | |
| Deferred Liabilities | 37 | (550) | | (753) | |
| Liability Related to Defined Benefit Pension Scheme | 10(f) | (58,297) | | (64,037) | |
| Capital Grant Receipts in Advance | 38 | (2,060) | | (3,129) | |
| S106 Deferred Revenue Receipts | 36 | (695) | | (597) | |
| Provisions | 39 | (2,562) | | (811) | |
| Total Long-Term Liabilities | | | (64,224) | | (69,327) |
| Net Assets | | | 12,065 | | 1,059 |

Balance Sheet – The Council’s Resources

| | Note | 31 March 2016 | | 31 March 2015 | |
|--|------|---------------|-----------------|---------------|-----------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Financing: | | | | | |
| Unusable Reserves | | | | | |
| Revaluation Reserve | 20 | (16,712) | | (11,915) | |
| Deferred Capital Receipts Reserve | | (20) | | (6) | |
| Accumulated Absences Account | 24 | 122 | | 142 | |
| Capital Adjustment Account | 21 | (36,667) | | (38,292) | |
| Collection Fund Adjustment Account | 22 | 787 | | (91) | |
| Pensions Reserve | 25 | 58,297 | | 64,037 | |
| Financial Instruments Adjustment Account | | (10) | | 1 | |
| Available for Sale Reserve | 23 | (4) | | 82 | |
| Total Unusable Reserves | | | 5,793 | | 13,958 |
| Total Usable Reserves | MIRS | | (17,858) | | (15,017) |
| Total Reserves | | | (12,065) | | (1,059) |

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

The usable reserves are detailed on the Movement in Reserves Statement and can be used to fund expenditure or reduce local taxation. The movement in cash that resulted in the Cash and Cash Equivalents balances of £11.891m shown above is detailed in the Cash Flow Statement.

As the responsible financial officer for Swale Borough Council, I hereby certify that these unaudited accounts give a true and fair view of the Authority’s financial position and financial performance in advance of approval.

Nick Vickers B.Sc (Econ), CPFA
Head of Finance

Date: 30 June 2016

Cash Flow Statement – Movement In Council’s Resources In Cash

| | 2015/16 | | 2014/15 |
|---|---------|----------------|-----------------|
| | £'000 | £'000 | £'000 |
| Net (Deficit)/Surplus on the Provision of Services (see CI&ES) | | (3,062) | 2,005 |
| Depreciation | 1,258 | | 1,579 |
| Impairment & downward valuations | 456 | | (2,874) |
| Movement in market value of investment property and upward revaluation | (219) | | (133) |
| (Decrease)/Increase in creditors | (2,329) | | 3,090 |
| (Increase) in debtors | (167) | | (723) |
| (Decrease)/Increase in impairment for bad debts | (77) | | 415 |
| Movement in provisions | 932 | | 1,388 |
| Movement in pension liability | 1,760 | | 1,590 |
| Carrying amount of non-current assets and current assets held for sale, sold or derecognised | 2,981 | | 538 |
| Other movements | (6) | | (12) |
| Adjustment to Net Surplus on the Provision of Services for Non-Cash Movements | | 4,589 | 4,858 |
| Adjustment for items included in the net surplus on the provision of services that are investing and financing activities | | (1,878) | (1,282) |
| Net Cash (Outflows)/Inflows from Operating Activities | | (351) | 5,581 |
| Purchase of property, plant and equipment, investment property and intangible assets | (1,176) | | (863) |
| Net Movements of short-term and long-term investments | 11 | | (14,501) |
| Other payments for investing activities | (273) | | (461) |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 357 | | 109 |
| Other receipts from investing activities | 2,483 | | 1,609 |
| Net Cash (Outflows)/Inflows from Investing Activities | | 1,402 | (14,107) |
| Council tax and business rates adjustments | 163 | | (235) |
| Cash payments for the reduction of outstanding liabilities relating to finance leases | (174) | | (189) |
| Net Cash (Outflows) from Financing Activities | | (11) | (424) |
| Net (Decrease)/Increase in Cash or Cash Equivalents | | 1,040 | (8,950) |
| Cash and cash equivalents as at 1 April (note 42) | | 10,851 | 19,801 |
| Cash and cash equivalents at 31 March (note 42) | | 11,891 | 10,851 |
| Net (Decrease)/Increase in Cash or Cash Equivalents During Year | | 1,040 | (8,950) |

The Cash Flow Statement shows the changes in cash and cash equivalents during the reporting period and how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services. Investing activities represent the extent to which cash outflows have been made for resources that are intended to contribute to the Council's future service delivery. Financing activities represent the cash effect of the collection of local taxes, i.e. council tax and business rates.

The cash flow for operating activities includes £230,000 for interest received (£118,000 in 2014/15) and £75,000 for interest paid (£68,000 in 2014/15).

1. Accounting Policies – General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code and the Service Reporting Code of Practice 2015/16, supported by IFRS. However, where there is no corresponding entry for 2015/16, the relevant accounting policy has been omitted.

Accounting Convention

The accounting convention adopted in the Statement of Accounts for the basis of measurement is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts are prepared on a going concern basis, i.e. on the assumption that the Council will continue to operate for the foreseeable future. The accounting concepts are supported by the fundamental qualitative characteristics of relevance, faithful representation and materiality and four enhancing qualitative characteristics of comparability, verifiability, timeliness and understandability. Where a particular accounting treatment is prescribed by legislation, then the treatment prevails even if it conflicts with one or other of the above accounting concepts. In the unlikely event of this arising, a note to that effect will be included in the accounts.

Accruals and Revenue Recognition

Expenditure and Income is accounted for in the year that it takes place, not simply when cash payments are made or received and relates to activity on all of the Council's functions including non-exchange transactions e.g. council tax and business rates. In particular:

- revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- expenses in relation to services received, including those from employees, are recorded as expenditure when the services are received rather than when payments are made;
- revenue relating to such things as council tax, business rates, etc. shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates;
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- where revenue 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. Exceptions to this are utility bills, insurance premiums and income from car parking, which are, in the main, charged or credited to the year in which billed, rather than be apportioned between years as the effect of adjusting for opening and closing balances would not be material to the total of transactions for the year.

2. Accounting Policies

Capital Receipts

Income from the sale of capital assets is categorised as capital receipts and credited to the Usable Capital Receipts Reserve. After deductions the usable element can then only be used for new capital investment or set aside to reduce the Council's borrowing requirement.

Cash and Cash Equivalents

Cash and Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of change in value and are shown on the Balance Sheet at their nominal value. The Council has defined cash equivalents as investments that do not require notice for withdrawal.

Credit Sale Arrangement

A credit sale arrangement is where the Council enters into an agreement that has the features of a finance lease, but where some of the assets may be received in the future. Assets are capitalised and depreciated over their useful economic life.

The sum shown in the Balance Sheet (under Deferred Liabilities) is the outstanding principal element in respect of capital expenditure both provided and yet to be provided under the contract. Where capital expenditure is due to be provided in future years, payments in advance are recognised in the Balance Sheet as appropriate.

Employee Benefits – Costs

The Code requires that the Council identifies the costs of any employee benefits accrued but untaken at the Balance Sheet date. These costs primarily consist of any untaken leave and time in lieu. The accrual is charged to Surplus or Deficit on the Provision of Services on the CI&ES, but then reversed out through the Movement in Reserves Statement.

Termination benefits are amounts payable due to a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the CI&ES at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end.

Employee Benefits – Retirement Benefits

The liabilities of the KCC Pension Fund 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 projections of projected earnings for current employees. The value of the KCC Pension Fund liabilities has been assessed by Barnett Waddingham, an independent firm of actuaries.

Liabilities are discounted to their value at current prices, using a discount rate of 3.6%. The discount rate is the annualised yield at the 18-year point on the Merrill Lynch AA-rated corporate bond curve, chosen to meet the requirements of International Accounting Standard (IAS) 19 and with consideration of the estimated duration of employer's liabilities.

The assets of the KCC Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate of fair value;
- unitised securities – current bid price; and

Notes to the Core Financial Statements

- property – market value.

The change in the net pension's liability is analysed into the following components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated to the revenue accounts of services for whom the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services as part of Non Distributed Costs;
- net interest on the net defined benefit liability – this is made up of two elements: (1) the value of the liabilities increases as a year's worth of interest is added on; and (2) the increase in assets used to fund pensions in line with the discount rate. This is charged to the Financing and Investment Income and Expenditure line of the CI&ES;
- return on plan assets – the funds that are built up to finance the pension payments are the plan assets and this shows the return on them excluding amounts included in net interest on the net defined benefit liability. This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- changes in financial/demographic assumptions, loss of defined benefit obligation, other losses and return on assets less interest – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- contributions by scheme participants – cash paid by staff as employee contributions to the KCC Pension Fund;
- employer contributions – cash paid by the Council to the KCC Pension Fund; and
- benefits paid – payments made directly to pensioners from the KCC Pension Fund.

The negative balance that arises on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Fund's Actuary determines employers' contributions to the pension scheme on a triennial basis. The last actuarial valuation took place on 31 March 2013 and the change in contribution rates as a result of that valuation took effect from 1 April 2014.

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 have been used are contained in the relevant note to the Accounts. Where a change in an estimation technique is material, an explanation is also provided of the change and its effect on the results for the current period.

Financial Instruments

Financial instruments are recognised on the Balance Sheet only when the Council becomes a party to the contractual provisions of the instrument. Trade receivables are an exception as they are not recognised when the Council becomes committed to supply the goods or service but when the ordered goods or services have been delivered or rendered. Similarly, trade payables are recognised when the ordered goods or services have been received.

Financial assets are classified as one of:

- available-for-sale – this category includes;
 - Money Market Funds (MMFs) and are initially measured and carried at fair value;
 - British Government Stocks which are shown in the Balance Sheet at cost; and
 - Investment in CCLA Property Fund carried at fair value.

Notes to the Core Financial Statements

- loans and receivables – this category includes fixed term deposits, call accounts and trade receivables (debtors) and are initially measured at fair value and carried at their amortised cost.

Financial liabilities are classified as financial liabilities measured at amortised cost.

The fair value of a financial instrument on initial recognition is generally the market price.

The reconciliation of amounts based on accounting regulations charged to the CI&ES to the net charge required by statute against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

The Council has made loans with nil interest charged (soft loans). The interest rate used to calculate the fair value of soft loans is calculated by taking the Council's effective loss on interest receivable over the life of the loan. No allowance for the risk that the loan might not be repaid has been applied as a charge is placed on each property for Housing Interest Loans. The fair value of soft loans is only calculated where the value of the outstanding advance is over £100,000. For accounting purposes a charge based on an appropriate rate of interest is charged to the CI&ES, but this is then reversed out through a transfer to the Financial Instruments Adjustment Account, via the Movement in Reserves Statement so this is not borne by the local taxpayer.

Government Grants and Other External Contributions

Receipts defined as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, grants specific to a service will be shown against that service expenditure line. General grants, e.g. Revenue Support Grant and the Council's share of business rates from the Collection Fund are credited and disclosed separately in the CI&ES under Taxation and Non-Specific Grant Income.

Capital grants and contributions received will be credited in full to the CI&ES on receipt where there are no conditions attached to their use, and in the year that the capital expenditure is incurred where there are conditions attached to their use.

Heritage Assets

A Heritage Asset is a tangible or intangible asset that is intended to be preserved in trust for future generations because of its historical, artistic, scientific, technological, geophysical or environmental qualities and is held and maintained principally for its contribution to knowledge and culture.

Heritage assets are carried at valuation (e.g. insurance valuation) rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon.

Intangible Assets

These are non-current assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights.

An intangible asset is initially measured at cost and is not subject to revaluation. It is, however, subject to amortisation, which for computer software has been assessed, as up to a maximum of seven years.

Interests in Companies

The Council has identified interests in a company (as an associate) and another entity (as a subsidiary) that would require it to prepare group accounts. The value of these two interests is not material and the Council has not prepared group accounts for this reason. The interests are recorded in the Council's own single-entity accounts in accordance with proper accounting practices.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. They are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between parties at arm's length (i.e. market value, the amount that would be paid for the asset in its highest and best use). Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Joint Operations

Joint operations are activities undertaken by the Council in conjunction with other bodies that involve the use of the assets and resources of the bodies rather than the establishment of a separate entity.

The Council maintains 'shared service' operations in respect of its Human Resources, Parking, Internal Audit, Legal, Information Technology, Planning Support, Local Land Charges, Environmental Health, Fraud Investigation, Debt Recovery and Building Control services. The shared service arrangements have been assessed against the definitions within the Code and the Council has decided that the MKIP Board is a non-decision making body (decisions to enter into a shared service and the level of involvement and consequent cost, lie with each authority via its own decision making mechanism) and there is then a collaboration agreement in place for each shared service. The arrangements do not allow a position where two authorities can compel a third to do something. Operational management is via the relevant Shared Service Board, which is comparable to a contract monitoring meeting. The Council's level of 'control' is therefore no more than in any other contractual arrangement and accordingly all expenditure and income of these services is accounted for within the CI&ES.

Leases

Finance Leases – the Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. This also applies where the IFRS reporting arrangements require the Council to determine whether it benefits from the exclusive use of property, plant or equipment within any of its contract arrangements with third parties. If the Council decides that this is the case it has to decide whether the arrangement is to be considered a lease in accordance with International Financial Reporting Interpretations Committee (IFRIC) 12. The Council has determined that the contract for provision of service vehicles falls within these requirements and the costs associated with this are reported as part of the notes to the Core Financial Statements.

Operating Leases – leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease on an accruals basis, generally meaning that rentals are charged when they become payable.

Long-Term Liabilities

The portion of any long-term liabilities due to be settled within 12 months after the Balance Sheet date are included within current liabilities.

Material Items of Income and Expense

Material items of income and expense are to be shown separately on the face of the CI&ES. For this purpose an item is judged to be material if in excess of £0.5m.

Non-Current Assets – Property, Plant and Equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as PPE. Assets which are not being used to deliver services, but which do not meet the criteria to be classified as either Investment properties or non-current assets Held for Sale assets, are accommodated in the Surplus Assets class of PPE.

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council operates a de-minimus level of £10,000 for non-current assets. Any expenditure below this level is charged to revenue in the year of acquisition.

Each of the PPE asset classifications are revalued periodically in stages on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS), as follows:

- infrastructure, assets under construction and community assets are valued at historic cost, net of

Notes to the Core Financial Statements

depreciation; and

- other land and buildings, vehicles, plant, furniture, equipment, leased and surplus assets are valued at current value.

For assets which are carried in the Balance Sheet at Current Value, the measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date. The Current Value measurement bases include:

- Existing Use Value defined in accordance with RICS Valuation – Professional Standards (RICS, January 2014) for assets providing service potential to the authority where an active market exists;
- Depreciated Replacement Cost, for assets where there is no market and/or the asset is specialised; and
- Fair Value, for surplus assets not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale.

The value of any surplus property is measured at its fair value with the purpose being to return the highest possible valuation, the estimated use of the property being taken as that which best supports this highest value (i.e. the valuation is not limited with regard to assuming the current use will continue). Surplus property valuations are based on using pricing information derived from an accessible market with the highest volume and level of activity for property transactions available. The valuer will use one or several measurements and/or factors to determine the value of the property, some of which may be more significant in assessing the valuation than others. Examples of such inputs into the valuation process are size, current market rental and sale values, location, condition and other relevant information for assets in the local authority area. Many of these inputs are observable, e.g. they can be seen, measured or found from existing data and records. Other inputs however may not be observable, e.g. an input based solely on the judgement of the valuer or where data is not available and assumptions are made. Each input has a level of significance towards determining the final valuation. The inputs used in valuations are classified into separate hierarchies, which hierarchies are a guide in assessing the risk of the valuation being more based on subjective interpretation than fact. For building and land valuations, observable inputs are classed as Level 2 and unobservable inputs are classed as Level 3. It is possible to use a mixture of Level 2 and Level 3 inputs, however, it is the significance of the inputs that is the determining factor in what level is applied to the whole valuation and any valuation that uses a Level 3 input that is significant will be classed as Level 3. Level 3 valuations will require more disclosure notes than Level 2 valuations.

The Council's approach to revaluation is to have a rolling programme of revaluations over five years. Assets which have a significant value, are revalued annually even if they are not scheduled to be so according to the five-year programme.

As the Council's principal assets are revalued, any gains arising from revaluation are reflected in the Revaluation Reserve or, where previous losses have occurred, are credited to the CI&ES to the limit of the previous loss. A loss is charged to the Revaluation Reserve to the limit of that fund and thereafter is charged to the CI&ES. The programme of revaluations is continuing on this cyclical basis although material changes to asset valuations will be adjusted in the interim period, as they occur. Where assets are valued at Depreciated Replacement Cost, this has only been undertaken where there is no active market for that asset.

The Council applies the principles of component accounting where an asset has a gross book value in excess of £1m and a residual life of over 25 years. In addition to this, any expenditure on the eligible asset must be in excess of £100,000.

Impairment – assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where impairment losses are identified, they are charged against the Revaluation Reserve up to the amount attributable to each specific asset held in that Reserve. Any excess of this amount is then chargeable to the CI&ES. Any charges to the CI&ES are reversed out to the Capital Adjustment Account via the Movement in Reserves Statement.

Depreciation – depreciation is provided for on all property, plant and equipment assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

- newly acquired assets are not depreciated in the year of acquisition where this does not have a material effect upon the accounts; and

Notes to the Core Financial Statements

- depreciation is calculated using the straight-line method.

The standard useful lives for each category of asset are as follows:

| Asset | Depreciation Methodology |
|--------------------------------|--|
| Land | Depreciation is not normally provided for freehold land |
| Infrastructure assets | 20 to 50 years |
| IT equipment | 3 to 7 years depending on the nature of the asset |
| Non IT furniture and equipment | 10 to 20 years |
| Non-operational buildings | 40 to 60 years depending on the individual asset |
| Operational buildings | Usually 50, although this can vary according to the individual asset |
| Operational land | 30 to 50 years (usually relating to car parks) |
| Vehicles | Up to 10 years depending on the type of vehicle |
| Community assets | According to whether it is land, building or equipment as above |

Provision for depreciation is made by allocating the cost (or revalued amount) less estimated residual value of the assets, as fairly as possible over their useful lives

Where an asset has major components with different estimated useful lives, these are depreciated separately, but only if the asset has been enhanced recently. If there is a change in the depreciation because of impairment which is material, full year depreciation is charged in the year of impairment.

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

Disposals – when an asset is disposed of, the carrying amount of the asset in the Balance Sheet is written off to the CI&ES as part of the gain or loss on disposal. Receipts from disposals are also credited to the CI&ES as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Proceeds from disposals and other receipts are categorised as capital receipts whenever possible. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve. Receipts from disposals are appropriated to the Usable Capital Receipts Reserve from the CI&ES.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the CI&ES. The costs of disposal up to 4% of the capital receipts are met from the sale proceeds; if costs are incurred in years before the capital receipt then the costs are met from the Capital Receipts Reserve with unused capital receipts from other disposals.

Non-Current Assets – Charges to Revenue

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the non-current assets used by the relevant service;
- revaluation and impairment losses, where they are in excess of the sum available in the Revaluation Reserve, are chargeable to the CI&ES; and
- amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (normally equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the CI&ES by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the principles of the CIPFA Service Reporting Code of Practice 2015/16. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of Corporate and Democratic Core and Non Distributed costs. These two cost categories are accounted for as separate headings in the CI&ES as part of Cost of Services.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Reserves

The Council maintains general and earmarked reserves, with the latter being set up for a specific purpose, whilst the former are not. No expenditure is charged directly to a reserve, but is charged to the service revenue account within the CI&ES, this is then offset by a reserve appropriation within the Movement in Reserves Statement.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Legislation in England 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 non-current asset. The expenditure is charged to the relevant service in the CI&ES and then reversed out through the MIRS.

Value Added Tax (VAT)

VAT is accounted for separately and is included in income and expenditure accounts to the extent that it is not recoverable. The Council's partial exemption status is reviewed on an annual basis.

3. Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

For 2015/16 the Council needs to be aware of the following accounting policy changes. These come into effect from the 2016/17 Financial Statements:

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendment to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)

Notes to the Core Financial Statements

- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

There are no new standards that have been issued but not yet adopted which, when adopted, are expected to have a material impact on the Council's financial statements.

2016/17 will see the implementation of a change in the Code for accounting for Highways Network Assets (HNA) which are a network of components such as carriageways, footways, bridges, street furniture, etc. However, whilst the Council does own individual components of HNA, such as footways, they are not part of a Council owned network and therefore do not meet the definition of HNA and so these assets will not be recognised as HNA.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are below:

| Item | Uncertainties | Effect if Actual Result Differs from Assumptions |
|--|--|--|
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The current value of Land & Building assets (operational only) as at 31 March 2016 is £43.774m. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for operational buildings would increase by £25,200 should the useful life of each property be reduced by one year. |
| Fair Value Measurements | There are assets valued at fair value. Where possible, the inputs to these valuations are based on observable data, but where this is not possible, judgement is required in establishing fair values. Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in the accounting policies. The fair value of assets (surplus and investment) as at 31 March 2016 is £3.691m. | Significant changes in any of the judgements made on fair values could result in a significantly lower or higher fair value measurement for these assets. If the value of the Council's non-operational and investment assets were to reduce by 10% this would result in £0.4m being charged to the CI&ES. |
| Debtor Arrears (including Housing Benefit Overpayments) | At 31 March 2016 the Council had a gross balance for sundry debtors of £3.4m. A review of significant balances suggested that an impairment for doubtful debts of 53% (£1.8m) was appropriate. However, in the current economic climate it is not certain that this would be sufficient. | If collection rates were to fall the cost of covering the impairment of doubtful debts would require an additional £18,000 to be set aside for every 1% reduction in collection rates. |
| Business Rate Appeals | As at 31 March 2016 a provision for business rates appeals relating to the Collection Fund has been set aside of £8.1m (the Council's share is £3.2m). Business rates appeals are particularly difficult to forecast and the outcome of appeals and their financial impact on the Council are monitored regularly. | If the number of properties under appeal changes, the provision for appeals would require an additional £81,000 for every 1% increase in total rateable value under appeal. |

Pension Assumptions and Uncertainty – The table in note 10 details the effect if the actual result differs from the assumptions.

Notes to the Core Financial Statements

Financial Instruments Market Risk – Note 44 details the effect if the actual result differs from the assumptions.

5. Critical Judgements in Applying Accounting Policies

In applying the accounting policies (note 2), the Council has made the following critical judgements about complex transactions or those involving uncertainty about future events:

- there is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. The Council is satisfied that its financial management procedures are robust and that it has sufficient reserves to mitigate any adverse economic trends;
- business rates – valuation appeals. The changes from April 2013 regarding the retention of business rates give rise to the Council being liable for losses on business rates arising from valuation appeals in respect of 2015/16 and earlier years. The total estimated value for these appeals on 1 April 2016 is £8.1m of which the Council's share is £3.2m; (£5.6m and £2.2m respectively at 1 April 2015); and
- group accounts have not been prepared for the Faversham Swimming Pool Committee or for Opportunities for Sittingbourne on the grounds of materiality. Details are in the note on Group Accounts.

6. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Head of Finance on 30 June 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date have provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted if material to reflect the impact of this information. The financial statements and notes have not been adjusted for any events which took place after 31 March 2016.

7. Authorisation of Accounts for Issue

The Statement of Accounts was authorised for issue by N. Vickers, the Head of Finance on 30 June 2016.

Pay and Pensions

8. Officers' Remuneration and Termination Benefits

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more, in bands of £5,000, was:

| Remuneration Band | 2015/16 Number of Employees | 2014/15 Number of Employees |
|---------------------|--------------------------------|--------------------------------|
| £50,000 - £54,999 | 14 | 13 |
| £55,000 - £59,999 | 3 | 3 |
| £60,000 - £64,999 | 0 | 1 |
| £65,000 - £69,999 | 1 | 0 |
| £75,000 - £79,999 | 5 | 5 |
| £90,000 - £94,999 | 0 | 1 |
| £95,000 - £99,999 | 1 | 0 |
| £145,000 - £150,000 | 1 | 1 |
| Total | 25 | 24 |

These remuneration bands include senior employees – this has been applied consistently to both years. Remuneration comprises:

- all sums paid to or receivable by an employee including non-taxable termination payments, redundancy pay and pay in lieu of notice. In 2015/16 one employee is included in the above table as a result of this;
- expense allowances chargeable to tax i.e. the profit element of car allowances; and,
- the monetary value of any other benefits.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Notes to the Core Financial Statements

| Exit Package Cost Band (Including Special Payments) | Number of Compulsory Redundancies | | Number of Other Departures Agreed | | Total Number of Exit Packages by Cost Band | | Total Cost of Exit Packages in Each Band £ | |
|--|-----------------------------------|----------|-----------------------------------|----------|--|----------|--|---------------|
| | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 |
| £0 – £20,000 | 6 | 5 | 0 | 0 | 6 | 5 | 17,100 | 52,000 |
| £20,001– £40,000 | 2 | 0 | 0 | 0 | 2 | 0 | 63,700 | 0 |
| £40,001- £60,001 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 47,100 |
| Total | 8 | 6 | 0 | 0 | 8 | 6 | 80,800 | 99,100 |
| Total paid to employees | | | | | | | 45,000 | 87,800 |
| Total paid to KCC for contracted payments for pension scheme | | | | | | | 35,800 | 11,300 |
| Total | | | | | | | 80,800 | 99,100 |

In 2014/15, £32,700 was paid by the Council for legal and planning Mid Kent shared service staff exit packages not employed by the Council as per the shared services contracts. These costs are included in the CI&ES for 2014/15.

a) Disclosure of remuneration for senior employees whose salary is £150,000, or more per year.

| (a) Post holder Information (Post title and name) | Point | 2015/16 Salary, Fees & Allowances £'000 | 2015/16 Pension Contributions £'000 | 2015/16 Total Remuneration £'000 | 2014/15 Total Remuneration £'000 |
|---|-------|--|--|---|---|
| Chief Executive Mr Abdool Kara | 1 | 151 | 47 | 198 | 195 |

Point 1: Includes Returning Officer fees for Parliamentary Elections.

b) Senior Officers whose emoluments/salary is between £50,000 and £150,000 per year.

| (b) Post holder Information (Post title) | Point | 2015/16 Salary, Fees & Allowances £'000 | 2015/16 Pension Contributions £'000 | 2015/16 Total Remuneration £'000 | 2014/15 Total Remuneration £'000 |
|--|-------|--|--|---|---|
| Director of Corporate Services | 1 | 98 | 31 | 129 | 125 |
| Head of Legal Services | | 79 | 25 | 104 | 102 |
| Director of Regeneration | 1/2 | 38 | 12 | 50 | 75 |
| Director of Regeneration | 3 | 38 | 12 | 50 | 0 |
| Head of Service Delivery | 4 | 0 | 0 | 0 | 47 |
| Head of Development Services | | 78 | 25 | 103 | 101 |
| Head of Economic Development & Cultural Services | | 78 | 25 | 103 | 101 |
| Head of Commissioning & Customer Contact | | 79 | 25 | 104 | 103 |
| Policy & Performance Manager | 1 | 54 | 17 | 71 | 70 |
| Head of Housing Services | | 78 | 25 | 103 | 101 |
| Chief Executive Thames Gateway Kent Partnership | | 53 | 17 | 70 | 84 |
| Head of Audit Partnership | 5 | 0 | 0 | 0 | 0 |
| Head of Human Resources (HR) Partnership | 6 | 0 | 0 | 0 | 0 |
| Head of Finance | 7 | 0 | 0 | 0 | 0 |
| Total | | 673 | 214 | 887 | 909 |

Point 1: Includes election fees for Parliamentary Elections.

Point 2: Post holder worked part time in 2015/16 and left October 2015

Point 3: Post holder started November 2015

Point 4: Post holder left March 2015

Notes to the Core Financial Statements

Point 5: The Head of Audit Partnership. Disclosure covering this post will be made by Maidstone Borough Council.

Point 6: The Head of HR is shared with Maidstone Borough Council. Disclosure covering this post will be made by Maidstone Borough Council.

Point 7: The Head of Finance works across both Swale and KCC. Disclosure covering this post will be made by KCC.

More details on the cost of shared services can be seen on note 12.

9. Members' Allowances

| | 2015/16 £'000 | 2014/15 £'000 |
|--|------------------|------------------|
| Basic allowance | 226 | 220 |
| Special responsibility allowance | 135 | 133 |
| Members travel, subsistence and IT allowance | 28 | 27 |
| Total | 389 | 380 |

The Members' Allowances Scheme can be inspected on the Council website <http://www.swale.gov.uk/members-allowances/> or during normal office hours at the Council offices, Swale House, East Street, Sittingbourne ME10 3HT.

10. Defined Benefit Pension Scheme

a) Nature of Benefits of Defined Benefit Pension Schemes.

The Council is a member of the LGPS which is a national scheme that is administered locally on its behalf by KCC – all employees have the right to join the scheme. This is a funded defined benefit scheme, so that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions' liabilities with investment assets. The fund provides index linked pensions and other retirement benefits based upon employees' pay and length of service. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. Employee contribution rates are set by Government and range from 5.5% to 12.5%. The fund actuary, Barnett Waddingham, sets the employer contribution rate.

b) Regulatory Framework of Defined Benefit Pension Schemes

The KCC pension scheme is operated under the regulatory framework for the LGPS and the governance of the scheme is the responsibility of the Superannuation Committee of KCC. This committee is responsible for setting investment strategy, appointing professional fund managers, carrying out regular reviews, monitoring of investments, monitoring the administration of the pension scheme and determining pension fund policy with regard to employer admission arrangements. The committee consists of 12 members with voting rights (nine from KCC and three from district councils) and five other members without voting rights. Policy is determined in accordance with the Pensions Fund Regulations.

c) Risks of Defined Benefit Pension Schemes

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

d) Other Factors Affecting Pension Payments

The Council has arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

e) Revenue Transactions Relating to Retirement Benefits

The costs of retirement benefits are recognised in the Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be

Notes to the Core Financial Statements

made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the CI&ES and General Fund Balance via the Movement in Reserves Statement:

| | 2015/16 £'000 | 2014/15 £'000 |
|--|------------------|------------------|
| Comprehensive Income & Expenditure Statement (CI&ES) | | |
| Cost of Services comprising: | | |
| Current service cost | 2,310 | 1,739 |
| Past service cost | 74 | 180 |
| Administration expenses | 44 | 43 |
| Net interest on the net defined benefit liability | 2,066 | 2,228 |
| Total Retirement Benefits Charged to the (Surplus)/Deficit on the Provision of Services | 4,494 | 4,190 |
| Other Retirement Benefits Charged to Other Comprehensive Income and Expenditure: | | |
| Return on plan assets in excess of interest | 1,394 | (3,883) |
| Change in financial assumptions | (8,970) | 14,528 |
| Experience (gain)/loss on defined benefit obligation | 75 | (124) |
| Total Re-measurements Recognised in Other Comprehensive Income and Expenditure | (7,501) | 10,521 |
| Total Retirement Benefits Charged to the CI&ES | (3,007) | 14,711 |
| Movement in Reserves Statement | | |
| Reduction of charges made to the (surplus)/deficit on the Provision of Services for retirement benefits to equal actual payments in accordance with the Code | (1,881) | (1,590) |
| Employers' Contributions Payable to the Scheme | 2,733 | 2,600 |
| Actual Return on Scheme Assets less Interest | (1,394) | 3,883 |

f) Pension Assets and Liabilities Recognised in the Balance Sheet

The amounts included in the Balance Sheet arising from the Council's obligation in respect of its defined benefits plans is as follows:

| | 2015/16 £'000 | 2014/15 £'000 |
|---|------------------|------------------|
| Present value of the defined benefit obligation | 118,348 | 123,863 |
| Fair value of plan assets | (63,219) | (63,177) |
| Sub total | 55,129 | 60,686 |
| Present value of unfunded obligation | 3,168 | 3,351 |
| Net liability in Balance Sheet | 58,297 | 64,037 |

g) Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets and Liabilities (Defined Benefit Obligation)

The Pensions Reserve figure in the Balance Sheet consists of the total assets plus liabilities detailed below:

| Reconciliation of present value of the scheme liabilities | 2015/16 £'000 | 2014/15 £'000 |
|---|--------------------------|--------------------------|
| Opening balance as at 1 April – defined benefit obligation | (127,214) | (109,715) |
| Current service cost | (2,310) | (1,739) |
| Interest cost | (4,144) | (4,754) |
| Contributions by scheme participants | (540) | (501) |
| Changes in financial assumptions | 8,970 | (14,528) |
| Past service costs | (74) | (180) |

Notes to the Core Financial Statements

| Reconciliation of present value of the scheme liabilities | 2015/16 £'000 | 2014/15 £'000 |
|--|------------------|------------------|
| Experience loss on defined benefit obligation | (75) | 124 |
| Benefits paid including unfunded pension payments | 3,871 | 4,079 |
| Closing balance at as 31 March – defined benefit obligation | (121,516) | (127,214) |

| Reconciliation of fair value of the scheme assets | 2015/16 £'000 | 2014/15 £'000 |
|---|------------------|------------------|
| Opening balance as at 1 April – fair value of scheme assets | 63,177 | 57,789 |
| Interest on assets | 2,078 | 2,526 |
| Return on assets less interest | (1,394) | 3,883 |
| Administration expenses | (44) | (43) |
| Employer contributions | 2,733 | 2,600 |
| Contributions by scheme participants | 540 | 501 |
| Benefits paid including unfunded pension payments | (3,871) | (4,079) |
| Closing balance as at 31 March – fair value of scheme assets | 63,219 | 63,177 |

h) Pension Scheme Assets

The Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

| | 31 March 2016 | | 31 March 2015 | |
|-------------------------|---------------|------------|---------------|------------|
| | £'000 | % | £'000 | % |
| Equity investments | 42,190 | 67 | 43,247 | 69 |
| Gilts | 560 | 1 | 662 | 1 |
| Bonds | 6,947 | 11 | 7,039 | 11 |
| Property | 9,190 | 15 | 7,861 | 12 |
| Cash | 1,583 | 2 | 1,624 | 3 |
| Target return portfolio | 2,749 | 4 | 2,744 | 4 |
| Total | 63,219 | 100 | 63,177 | 100 |

| Asset Category | 31 March 2016 | | | | 31 March 2015 | | | |
|---|--|--|----------------|-------------------------|--|--|----------------|-------------------------|
| | Quoted Prices in Active Markets £'000 | Quoted Prices not in Active Markets £'000 | Total £'000 | % of Total Assets | Quoted Prices in Active Markets £'000 | Quoted Prices not in Active Markets £'000 | Total £'000 | % of Total Assets |
| Equity Securities (All UK unless stated) | | | | | | | | |
| Consumer | 6,906 | 0 | 6,906 | 10.9% | 6,771 | 0 | 6,771 | 10.7% |
| Manufacturing | 4,182 | 0 | 4,182 | 6.6% | 3,607 | 0 | 3,607 | 5.7% |
| Materials, energy and utilities | 4,148 | 0 | 4,148 | 6.6% | 3,101 | 0 | 3,101 | 4.9% |
| Financial services | 4,241 | 0 | 4,241 | 6.7% | 6,835 | 0 | 6,835 | 10.8% |
| Health and care | 2,144 | 0 | 2,144 | 3.4% | 1,709 | 0 | 1,709 | 2.7% |
| Information technology | 2,698 | 0 | 2,698 | 4.3% | 2,278 | 0 | 2,278 | 3.6% |
| Other | 16,363 | 0 | 16,363 | 25.9% | 17,655 | 0 | 17,655 | 28.0% |
| Private equity/ infrastructure (overseas) | 0 | 1,508 | 1,508 | 2.4% | 0 | 1,266 | 1,266 | 2.0% |
| Corporate Bonds | | | | | | | | |
| UK | 3,454 | 0 | 3,454 | 5.5% | 3,734 | 0 | 3,734 | 5.9% |
| Overseas | 3,493 | 0 | 3,493 | 5.5% | 3,354 | 0 | 3,354 | 5.3% |
| Overseas fixed interest Government securities | 560 | 0 | 560 | 0.9% | 633 | 0 | 633 | 1.0% |

Notes to the Core Financial Statements

| Asset Category | 31 March 2016 | | | | 31 March 2015 | | | |
|-----------------------------|---------------------------------------|---|---------------|-------------------|---------------------------------------|---|---------------|-------------------|
| | Quoted Prices in Active Markets £'000 | Quoted Prices not in Active Markets £'000 | Total £'000 | % of Total Assets | Quoted Prices in Active Markets £'000 | Quoted Prices not in Active Markets £'000 | Total £'000 | % of Total Assets |
| Property | | | | | | | | |
| Retail | 0 | 3,315 | 3,315 | 5.2% | 0 | 3,038 | 3,038 | 4.8% |
| Offices | 0 | 1,525 | 1,525 | 2.4% | 0 | 1,518 | 1,518 | 2.4% |
| Industrial | 0 | 1,217 | 1,217 | 1.9% | 0 | 1,076 | 1,076 | 1.7% |
| Other | 0 | 3,133 | 3,133 | 5.0% | 0 | 2,278 | 2,278 | 3.6% |
| Others | | | | | | | | |
| Absolute return portfolio | 0 | 2,749 | 2,749 | 4.4% | 0 | 2,718 | 2,718 | 4.3% |
| Cash/ temporary investments | 0 | 1,136 | 1,136 | 1.7% | 0 | 1,226 | 1,226 | 2.0% |
| Net debtors/ creditors | 0 | 447 | 447 | 0.7% | 0 | 380 | 380 | 0.6% |
| TOTALS | 48,189 | 15,030 | 63,219 | 100% | 49,677 | 13,500 | 63,177 | 100% |

i) Basis for Estimating Assets and Liabilities

Estimates of the liability are based on the rolled forward value of the employer's liabilities calculated for the triennial valuation of the scheme as at 31 March 2013, allowing for the different assumptions required under IAS 19.

| | 31 March 2016 | 31 March 2015 |
|---|---------------|---------------|
| Mortality assumptions: | Years | Years |
| Longevity at 65 if retiring today : | | |
| Men | 22.9 | 22.8 |
| Women | 25.3 | 25.2 |
| Longevity at 65 if retiring in 20 years: | | |
| Men | 25.2 | 25.1 |
| Women | 27.7 | 27.6 |
| Rate of inflation (RPI increases) | 3.2% | 3.2% |
| Rate of inflation (CPI Increases) | 2.3% | 2.4% |
| Rate of increase in salaries | 4.1% | 4.2% |
| Rate of increase in pensions | 2.3% | 2.4% |
| Rate of discounting scheme liabilities | 3.6% | 3.3% |
| Take-up option to convert annual pension into retirement lump sum | 50.0% | 50.0% |

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2016 is estimated to be 1%. The actual return on Fund assets over the year may be different.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases 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 below did not change from those used in the previous period.

Notes to the Core Financial Statements

| Uncertainty | Sensitivity Analysis | | |
|--|----------------------|---------|---------|
| | £'000 | £'000 | £'000 |
| Adjustment to discount rate | 0.1% | 0.0% | -0.1% |
| Present value of total obligation | 119,402 | 121,516 | 123,670 |
| Projected service cost | 1,993 | 2,043 | 2,094 |
| Adjustment to long term salary increase | 0.1% | 0.0% | -0.1% |
| Present value of total obligation | 121,777 | 121,516 | 121,257 |
| Projected service cost | 2,044 | 2,043 | 2,042 |
| Adjustment to pension increases and deferred revaluation | 0.1% | 0.0% | -0.1% |
| Present value of total obligation | 123,434 | 121,516 | 119,633 |
| Projected service cost | 2,094 | 2,043 | 1,993 |
| Adjustment to life expectancy assumptions | +1 Year | None | -1 Year |
| Present value of total obligation | 125,287 | 121,516 | 117,863 |
| Projected service cost | 2,095 | 2,043 | 1,992 |

j) Funding and Investment Strategy

KCC as administering authority for the Kent Pension Fund maintains a Funding and Investment Strategy as required by the pensions and (where relevant) investment regulations. The funding objectives are to ensure the long-term solvency of the Fund, ensure that sufficient funds are available to meet all benefits as they fall due for payment and enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to taxpayers. The aim of its investment strategy is to minimise the risk of an overall reduction in the Fund's value and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Funding and Investment Strategy is reviewed annually or more frequently if necessary.

k) Impact of Pension Scheme on Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Funding levels are monitored on an annual basis. The Fund is valued once every three years and the latest valuation was at 31 March 2013 which disclosed a net deficit of £24.2m i.e. projected liabilities exceed assets and the change in contribution rates as a result of that valuation took effect from 1 April 2014. All local authority funds are in deficit and all local authority employers in the Kent Fund are in deficit. The employer's contribution has been agreed with the Actuary and is based on the aim of eliminating the deficit over 18 years.

The LGPS is a defined benefit salary scheme where the retirement benefits are determined independently from investments of the scheme, and employers have obligations to make contributions where assets are insufficient to meet employee benefits. The LGPS is now a career average scheme for benefits built up from 1 April 2014 meaning that the employer and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. Policy is determined in accordance with the LGPS Regulations.

The total contributions expected to be made to the LGPS by the Council in 2016/17 is £2.043m.

The weighted average duration of the defined benefit obligation for scheme members remains at 18 years for 2015/16 (2014/15, 18 years).

Notes to the Core Financial Statements

Day to Day Spending - Revenue

11. Segmental Reporting – Amounts Reported for Resource Allocation Decisions

The income and expenditure of the Council's departments recorded in the monitoring reports for the year is below. This reconciliation shows how the figures in the analysis of departments' income and expenditure relate to the Cost of Services and the Surplus or Deficit on the Provision of Services included in the CI&ES.

| | 2015/16 | | | | | 2014/15 |
|--|----------------------|---------------------------------|----------------------------|---|----------------|-----------------------------------|
| | Staff Costs £'000 | Other Service Expenses £'000 | Government Grants £'000 | Fees, Charges & Service Income £'000 | Total £'000 | Restated Net Expenditure £'000 |
| Commissioning & Customer Contact | 1,387 | 7,864 | (11) | (4,458) | 4,782 | 5,131 |
| Economy & Communities | 1,138 | 1,269 | (206) | (216) | 1,985 | 1,930 |
| Resident Services | 2,767 | 55,984 | (56,278) | (1,834) | 639 | 1,405 |
| Planning | 1,295 | 644 | 0 | (1,028) | 911 | 704 |
| Environmental Health | 400 | 108 | (13) | (61) | 434 | 398 |
| Support Services | 2,852 | 3,133 | (38) | (1,726) | 4,221 | 4,041 |
| Strategic Management and Policy | 1,027 | 379 | (272) | (382) | 752 | 669 |
| Other Services | 1,735 | 1,006 | (175) | (322) | 2,244 | 1,802 |
| Total Service Expenditure | 12,601 | 70,387 | (56,993) | (10,027) | 15,968 | 16,080 |
| Revenue rollover specific grants | 0 | 0 | 99 | 0 | 99 | 174 |
| Net revenue rollover non-specific grants and transfer to Business Rates Volatility Reserve | 0 | 0 | 1,669 | 0 | 1,669 | 553 |
| Net Expenditure | 12,601 | 70,387 | (55,225) | (10,027) | 17,736 | 16,807 |
| Financed by: | | | | | | |
| Government grants | 0 | 0 | (11,617) | 0 | (11,617) | (10,557) |
| Council tax | 0 | 0 | 0 | (7,961) | (7,961) | (7,749) |
| Net Service Expenditure Reported to Management | 12,601 | 70,387 | (66,842) | (17,988) | (1,842) | (1,499) |
| Net revenue rollover – non-specific grants | 0 | 0 | (76) | 0 | (76) | (362) |
| Net Service Expenditure | | | | | (1,918) | (1,861) |
| Amounts in the CI&ES not reported in the departmental monitoring reports | | | | | 1,636 | 1,356 |
| Amounts in the departmental monitoring reports not in the CI&ES | | | | | 18,592 | 15,063 |
| Cost of Services in CI&ES | | | | | 18,310 | 14,558 |
| Corporate Amounts | | | | | (15,248) | (16,563) |
| (Surplus)/Deficit on the Provision of Services | | | | | 3,062 | (2,005) |

The 2014/15 figures have been restated to conform with the change in format.

12. Shared Services

The Council participates in a number of shared service arrangements which are included in the CI&ES but which are detailed below:

| | 2015/16 Expenditure Other £'000 | 2015/16 Expenditure on Partners £'000 | 2015/16 Income Other £'000 | 2015/16 Income from Partners £'000 | 2015/16 Net Expenditure £'000 | 2014/15 Net Expenditure £'000 |
|----------------------|--|--|-------------------------------------|---|--|--|
| Planning Support | 5 | 236 | 0 | 0 | 241 | 352 |
| Local Land Charges | 20 | 83 | (359) | 0 | (256) | (30) |
| Environmental Health | 587 | 1 | (50) | (12) | 526 | 478 |

Notes to the Core Financial Statements

| | 2015/16 Expenditure Other £'000 | 2015/16 Expenditure on Partners £'000 | 2015/16 Income Other £'000 | 2015/16 Income from Partners £'000 | 2015/16 Net Expenditure £'000 | 2014/15 Net Expenditure £'000 |
|------------------------|--|--|-------------------------------------|---|--|--|
| Information Technology | 762 | 431 | 0 | 0 | 1,193 | 1,054 |
| Human Resources | 126 | 248 | (7) | 0 | 367 | 382 |
| Internal Audit | 0 | 140 | 0 | 0 | 140 | 155 |
| Legal | 1,548 | 21 | (44) | (1,021) | 504 | 450 |
| Parking | 1,125 | 55 | (2,416) | (20) | (1,256) | (1,173) |
| Building Control | 0 | 78 | 0 | 0 | 78 | 82 |
| Fraud Investigation | 80 | 18 | 0 | 0 | 98 | 0 |
| Debt Recovery | 0 | 14 | 0 | 0 | 14 | 0 |
| Total | 4,253 | 1,325 | (2,876) | (1,053) | 1,649 | 1,750 |

In 2015/16 it was unanimously decided by Swale, Maidstone and Tunbridge Wells Borough Councils that Tunbridge Wells would withdraw from the Planning Support partnership, and that Maidstone and Swale would continue to deliver a shared service based at Maidstone. It was also unanimously agreed that all three councils would continue the shared Local Land Charges service, based at Maidstone. These decisions will be implemented in 2016/17.

In 2015/16 the Council contributed £63,330 towards shared IT capital expenditure (£12,473 in 2014/15). The Council has accrued its funding share to Maidstone as revenue expenditure funded from capital under statute.

13. Grant Income

Grants Credited to Taxation and Non Specific Grant Income

These are detailed in the CI&ES.

Grants Credited to Services

| Grant Area | Provider | 2015/16 £'000 | 2014/15 £'000 |
|---|---|------------------|------------------|
| Housing benefit grant | Department for Work & Pensions | (54,522) | (55,155) |
| Revenue expenditure funded by capital under statute | Various Contributors | (906) | (952) |
| Housing benefit admin subsidy | Department for Work & Pensions | (663) | (727) |
| Communities living sustainability | Big Lottery Fund | (272) | (202) |
| Discretionary housing payment | Department for Work & Pensions | (244) | (346) |
| Localising council tax support administration subsidy grant | Department for Communities and Local Government | (179) | (194) |
| Open spaces and play areas – commuted sums | Various Contributors | (175) | (384) |
| Troubled families grant | Kent County Council | (92) | (119) |
| Localising council tax – new burdens funding | Department for Communities and Local Government | (35) | (100) |
| Local Land Charges New Burdens Grant | Department for Communities and Local Government | (137) | 0 |
| Other grants | Various Contributors | (554) | (657) |
| Total Grant Income Credited to Cost of Services | | (57,779) | (58,836) |

Revenue Grants – Receipts in Advance

The revenue grants receipts in advance for 2015/16 were £98,634 (£174,840 in 2014/15).

Notes to the Core Financial Statements

Capital Grants - Receipts in Advance

Please see note 38 for a breakdown of Capital Grants Receipts in Advance.

14. External Audit Fees

The Council's auditors are Grant Thornton UK LLP who are one of the world's leading providers of independent assurance. Included in 2015/16 is £15,000 for the cost of the certification of grant claims for 2014/15.

| | 2015/16 £'000 | 2014/15 £'000 |
|--|------------------|------------------|
| Fees payable for external audit service | 61 | 80 |
| Fees payable for the certification of grant claims and returns | 36 | 38 |
| Audit Commission refund for prior years | 0 | (7) |
| Fees for other services: Investors in people assessment | 9 | 0 |
| Total | 106 | 111 |

15. Private Finance Initiative

The Council belongs to a partnership with KCC and other Kent District Councils, to deliver new homes for vulnerable people in Kent using £72m approved Private Finance Initiative credits. KCC is procuring and managing the project on behalf of the partners, so there are no further accounting implications for the Council.

16. Gains and Losses on Disposal of Non-Current Assets

The Council has a Community Asset Transfer (CAT) policy whereby the Council will agree to transfer land or buildings into the ownership or management of a Voluntary or Community Sector organisation. Such transfers are often facilitated by a long-term lease of the assets. Therefore, to reflect the lease and the diminished immediate value of the asset to the council, assets subject to such a transfer have been removed from the Asset Register and the removal of their value is recorded under this note as a loss. In 2015/16 the value of properties subject to a CAT and removed from the Asset Register was £2,882,000, the largest of these being the Faversham Gymnastics and Activity Centre, value £2,052,000. The gross loss of other properties was £98,000. Net losses of £2,623,000 were incurred for 2015/16 (net loss of £436,200 in 2014/15). Gains and losses on investment properties are shown under Financing and Investment Income and Expenditure in the CI&ES.

Council Resources - Reserves

17. Usable Capital Receipts Reserve

This reserve holds the proceeds from the disposal of land and other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied at year-end.

| | 2015/16 £'000 | 2014/15 £'000 |
|---|------------------|------------------|
| Balance as at 1 April | (911) | (1,331) |
| Capital receipts in year from sale of assets | (259) | 0 |
| Capital receipts in year from repayment of grant & mortgages | (98) | (102) |
| Capital receipts applied during the year – financing fixed assets | 63 | 268 |
| Capital receipts applied during the year – financing REFCUS | 63 | 92 |
| Capital receipts applied during the year – financing loans | 0 | 168 |
| Other movements | 15 | (6) |
| Balance as at 31 March | (1,127) | (911) |

18. Capital Grants Unapplied Account

This reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Notes to the Core Financial Statements

19. Revenue Earmarked Reserves

This note sets out the amounts set aside from the General Fund to earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

| | Balance 31 March 2014 £'000 | Transfers out 2014/15 £'000 | Transfers in 2014/15 £'000 | Balance 31 March 2015 £'000 | Transfers out 2015/16 £'000 | Transfers in 2015/16 £'000 | Balance 31 March 2016 £'000 |
|-----------------------------------|--------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
| General Reserve | (3,291) | 204 | 0 | (3,087) | 136 | (137) | (3,088) |
| Business Rates Volatility | 0 | 49 | (1,282) | (1,233) | 42 | (1,458) | (2,649) |
| Performance | (905) | 158 | 0 | (747) | 210 | 0 | (537) |
| Building Maintenance | (519) | 4 | (112) | (627) | 0 | (191) | (818) |
| Regeneration | (355) | 299 | (254) | (310) | 201 | (253) | (362) |
| Business Rates Pool (Economic) | 0 | 0 | 0 | 0 | 0 | (328) | (328) |
| Repairs & Renewals | (225) | 46 | (98) | (277) | 81 | (93) | (289) |
| Housing Benefits | (428) | 93 | (53) | (388) | 111 | 0 | (277) |
| Commuted Sums | 0 | 0 | 0 | 0 | 0 | (259) | (259) |
| Local Loan Fund | (250) | 0 | 0 | (250) | 0 | 0 | (250) |
| Preceptors Council Tax Support | 0 | 0 | (125) | (125) | 0 | (125) | (250) |
| Housing | (238) | 57 | 0 | (181) | 5 | (22) | (198) |
| Transformation | (252) | 111 | (52) | (193) | 81 | (100) | (212) |
| Local Development Framework | (171) | 0 | (62) | (233) | 163 | 0 | (70) |
| Stay Put Grants | (146) | 0 | (12) | (158) | 6 | 0 | (152) |
| Emergency Accommodation | 0 | 0 | 0 | 0 | 183 | (218) | (35) |
| Development Control | (72) | 39 | (89) | (122) | 208 | (86) | 0 |
| Miscellaneous | (712) | 509 | (579) | (782) | 424 | (922) | (1,280) |
| Total | (7,564) | 1,569 | (2,718) | (8,713) | 1,851 | (4,192) | (11,054) |

| | |
|-----------------------------------|---|
| General Reserve | Its use is subject to the approval of members. |
| Business Rates Volatility | To assist the Council in managing the volatility of business rate income as a result of business rate localisation. |
| Performance | To improve overall performance. Officers are invited to submit a bidding list of proposals. |
| Building Maintenance | To meet items of backlog building maintenance as identified in the Council's medium term maintenance plan as well as urgent or unexpected items. Each year the reserve is topped up by any underspend on the building maintenance revenue budget. |
| Regeneration | To fund regeneration projects in the Borough. Officers can submit bids to this reserve. |
| Business Rates Pool (Economic) | This fund has been established as a result of the Council joining the Kent Business Rates Pool. It is to fund economic development as agreed by the Council and KCC. |
| Repairs & Renewals | Regular contributions are made to this fund from the General Fund. Large items of expenditure are then charged to the service and funded from this reserve. |
| Housing Benefits | Savings made in the Benefits section, including unspent grants were transferred to this reserve. This was used to cover the shortfall in grant in 2015/16 and will continue to be used to offset the deficit in future years. |
| Commuted Sums | Set up to meet Grant Thornton UK LLP recommendations on accounting treatment. This reserve will be used to fund play area and open space maintenance in future years. |

Notes to the Core Financial Statements

| | |
|--------------------------------|--|
| Local Loan Fund | To support voluntary, community or not-for-profit organisations and town and parish councils in Swale to enable management and delivery of local services and facilities. |
| Preceptors Council Tax Support | Paid by KCC, Police and Fire to reflect the costs of council tax support localisation. |
| Housing | This is made up of a number of housing reserves, including Rent Deposit Scheme Bond Reserve, Empty Property Reserve and the Supporting People Reserve. All these reserves will help to fund the homelessness service in future years. |
| Transformation | To meet the cost of releasing the Pension Fund benefits to staff who have taken early retirement and to fund all other redundancy costs. |
| Local Development Framework | Any underspend or overspend on this service on the General Fund will be transferred to this fund and used solely to fund Local Development Framework associated work. |
| Stay Put Grants | Ring-fenced external funding for health grants and supporting people grants. |
| Emergency Accommodation | Set up to meet the cost of a new homeless property in Sheerness. The reserve has been topped up by unused funds from the Sittingbourne homeless property. It will continue to be used to fund any costs of maintaining our three emergency accommodation houses. |
| Development Control | This reserve was used in 2015/16 to meet the cost of additional agency staff and consultants to help clear the backlog of major planning applications. |
| Miscellaneous | This is made up of the earmarked reserves that are less than £100,000. A full list of these reserves is available upon request. |

20. Revaluation Reserve

This contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment, Heritage and Intangible assets.

The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date the reserve was created. Accumulated gains arising before that date were consolidated into the balance on the Capital Adjustment Account.

| | 2015/16 £'000 | 2014/15 £'000 |
|--|------------------|------------------|
| Balance as at 1 April | (11,915) | (8,572) |
| Upward revaluation of assets | (6,837) | (3,938) |
| Downward revaluation of assets and impairment losses not charged to the (surplus)/deficit on the provision of services | 289 | 268 |
| Write down re gains derived from depreciation differences, between historic costs and current value. | 254 | 327 |
| Write down of accumulated gains on disposed assets | 1,487 | 0 |
| Write down frozen balance following Investment asset reclassified to PPE Land and Building asset | 10 | 0 |
| Balance as at 31 March | (16,712) | (11,915) |

21. Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. It is debited with the cost of acquisition/enhancement as depreciation, impairment losses and amortisations are charged to the CI&ES. It is credited with the amounts set aside to finance the costs of acquisition/enhancement. The account also contains accumulated gains/losses on assets pre-dating 1 April 2007.

Notes to the Core Financial Statements

| | 2015/16 £'000 | 2014/15 £'000 |
|---|------------------|------------------|
| Balance as at 1 April | (38,292) | (35,690) |
| Reversal of items relating to capital expenditure debited or credited to the CI&ES: | | |
| Depreciation of tangible non-current assets | 1,234 | 1,536 |
| Amortisation of intangible assets | 24 | 43 |
| Write down Revenue Expenditure Funded by Capital Under Statute (REFCUS) | 1,123 | 1,133 |
| Revaluation Losses – impairment to CI&ES – other assets | 568 | 29 |
| Revaluation Losses – impairment to CI&ES – investment assets | 323 | 168 |
| Revaluation – reversal of prior losses or impairments – other assets | (112) | (2,903) |
| Revaluation - reversal of prior losses or impairments – investment assets | (324) | 0 |
| Revaluation (gain) to CI&ES – investment assets | (218) | (301) |
| Disposal and Derecognition of assets – write out of notional gross book value | 3,669 | 632 |
| Disposal and Derecognition of assets – write out of accumulated depreciation | (688) | (94) |
| Write down of Revaluation Reserve: | | |
| Write down of Revaluation Reserve depreciation (gains) | (254) | (327) |
| Write down of Revaluation Reserve accumulated gains on disposed assets | (1,487) | 0 |
| Write down of frozen Revaluation Reserve balance following investment asset reclassified to PPE Land and Building asset | (10) | 0 |
| Capital financing applied in the year: | | |
| Capital financing – capital receipts | (126) | (528) |
| Capital financing – capital reserves | (349) | (421) |
| Capital financing – Government grants and external contributions | (1,478) | (1,270) |
| Minimum revenue provision | (336) | (369) |
| Write down of financing long-term debtors | 66 | 81 |
| Adjustment to prior year | 0 | (11) |
| Balance as at 31 March | (36,667) | (38,292) |

22. Collection Fund Adjustment Account

This manages the differences arising from the recognition of council tax and business rates income in the CI&ES as it falls due from council taxpayers and business ratepayers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. The balance effectively shows the Council's share of the overall Collection Fund deficit and the surplus for renewable energy income retained by the Council. The total movement in 2015/16 was a deficit of £878,000 (£12,000 surplus in 2014/15).

23. Available for Sale Reserve

The movement in year represents the change in fair value of the Council's investment in the CCLA Local Authorities' Mutual Investment Trust (LAMIT) Property Fund. The fair value is based on public price quotations in an active market for this financial instrument and without this investment counting as capital expenditure.

24. Accumulated Absences Account

This absorbs the differences that would otherwise arise on the General Fund from accruing for compensated absences earned but not taken in the year, e.g. annual leave due carried forward at 31 March 2016. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to or from the Account. The movement on this reserve in 2015/16 was a decrease of £20,000 (£22,000 increase in 2014/15).

25. Pensions Reserve

This absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CI&ES as the benefits are earned by employees. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve

Notes to the Core Financial Statements

therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Details on the movement in 2015/16 is shown on note 10 under Pension Assets and Liabilities Recognised in the Balance Sheet.

Long Term Spending - Capital

26. Property, Plant and Equipment Assets

| Classification | Operational Assets | | | | | Non-Operational Assets | | Total Property, Plant & Equipment Assets £'000 |
|---|---------------------------|-------------------------------|--------------------------|---------------------|-----------------|-------------------------------------|-----------------------------------|---|
| | Land & Buildings £'000 | Vehicles & Equipment £'000 | Infra-structure £'000 | Comm-unity £'000 | Leased £'000 | Assets Under Construc-tion £'000 | Surplus Land & Buildings £'000 | |
| Cost or Valuation | | | | | | | | |
| At 1 April 2014 | 32,398 | 6,101 | 4,105 | 3,426 | 1,146 | 0 | 4,816 | 51,992 |
| Additions – capital spend | 404 | 298 | 0 | 81 | 107 | 38 | 0 | 928 |
| Revaluations | 4,289 | 0 | 0 | 0 | 0 | 0 | 298 | 4,587 |
| Derecognition | (125) | (62) | (128) | (246) | (8) | (63) | 0 | (632) |
| Reclassifications | (105) | 0 | (1,903) | 1,919 | 0 | 63 | 400 | 374 |
| At 31 March 2015 | 36,861 | 6,337 | 2,074 | 5,180 | 1,245 | 38 | 5,514 | 57,249 |
| Accumulated Depreciation and Impairments | | | | | | | | |
| At 1 April 2014 | (1,555) | (4,740) | (715) | (208) | (1,002) | 0 | (240) | (8,460) |
| Depreciation | (872) | (333) | (56) | (53) | (146) | 0 | (76) | (1,536) |
| Impairment losses/(reversals) | 1,796 | 0 | 0 | 0 | 0 | 0 | 157 | 1,953 |
| Derecognition | 19 | 19 | 2 | 42 | 8 | 4 | 0 | 94 |
| Reclassifications | 6 | 0 | 130 | (132) | 0 | (4) | 0 | 0 |
| At 31 March 2015 | (606) | (5,054) | (639) | (351) | (1,140) | 0 | (159) | (7,949) |
| Net Book Value at 31 March 2015 | 36,255 | 1,283 | 1,435 | 4,829 | 105 | 38 | 5,355 | 49,300 |
| Net Book Value at 31 March 2014 | 30,843 | 1,361 | 3,390 | 3,218 | 144 | 0 | 4,576 | 43,532 |

| Classification | Operational Assets | | | | | Non-Operational Assets | | Total Property, Plant & Equipment Assets £'000 |
|---------------------------|---------------------------|-------------------------------|--------------------------|---------------------|-----------------|-------------------------------------|-----------------------------------|---|
| | Land & Buildings £'000 | Vehicles & Equipment £'000 | Infra-structure £'000 | Comm-unity £'000 | Leased £'000 | Assets Under Construc-tion £'000 | Surplus Land & Buildings £'000 | |
| Cost or Valuation | | | | | | | | |
| At 1 April 2015 | 36,861 | 6,337 | 2,074 | 5,180 | 1,245 | 38 | 5,514 | 57,249 |
| Additions – capital spend | 766 | 250 | 0 | 41 | 0 | 67 | 0 | 1,124 |
| Revaluations | 5,824 | 0 | 0 | 0 | 0 | 0 | 62 | 5,886 |
| Derecognition | (2,627) | (404) | 0 | 0 | (4) | 0 | (403) | (3,438) |
| Reclassifications | 3,868 | 472 | 0 | 47 | 0 | (31) | (4,557) | (201) |
| At 31 March 2016 | 44,692 | 6,655 | 2,074 | 5,268 | 1,241 | 74 | 616 | 60,620 |

Notes to the Core Financial Statements

| Classification | Operational Assets | | | | | Non-Operational Assets | | Total Property, Plant & Equipment Assets £'000 |
|---|---------------------------|-------------------------------|--------------------------|---------------------|-----------------|-------------------------------------|-----------------------------------|---|
| | Land & Buildings £'000 | Vehicles & Equipment £'000 | Infra-structure £'000 | Comm-unity £'000 | Leased £'000 | Assets Under Construc-tion £'000 | Surplus Land & Buildings £'000 | |
| Accumulated Depreciation and Impairments | | | | | | | | |
| At 1 April 2015 | (606) | (5,054) | (639) | (351) | (1,140) | 0 | (159) | (7,949) |
| Depreciation | (795) | (302) | (37) | (63) | (24) | 0 | (13) | (1,234) |
| Impairment losses/(reversals) | 194 | 0 | 0 | 0 | 0 | 0 | 12 | 206 |
| Derecognition | 94 | 404 | 0 | 0 | 4 | 0 | 53 | 555 |
| Reclassifications | 195 | (302) | 0 | 0 | 0 | 0 | 107 | 0 |
| At 31 March 2016 | (918) | (5,254) | (676) | (414) | (1,160) | 0 | 0 | (8,422) |
| Net Book Value at 31 March 2016 | 43,774 | 1,401 | 1,398 | 4,854 | 81 | 74 | 616 | 52,198 |
| Net Book Value at 31 March 2015 | 36,255 | 1,283 | 1,435 | 4,829 | 105 | 38 | 5,355 | 49,300 |

Surplus Land & Buildings

Following a review of the use made of the properties and with reference to the Council's Corporate Plan, the Council has reclassified Surplus assets with a net book value of £4,450,000 of which, £4,239,000 to Land and Buildings, £114,000 to Investment Properties and £97,000 to Assets Held for Sale.

All of the Council's remaining surplus assets have been revalued this year and the inputs used to measure their value have been assessed as being within hierarchy Level 2 for valuation purposes (see accounting policies note for explanation of fair value valuation input levels).

This confirms that no significant unobservable inputs have been used in the valuation of the Council's surplus assets and that they are all valued to their highest and best value.

27. Non-Current Asset Valuation

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment which is required to be measured at fair value is revalued at least every five years. The freehold and leasehold properties which comprise the Council's property portfolio have, for this and past years, been valued by Wilks, Head and Eve Chartered Surveyors and by the Valuation Office Agency.

In 2015/16 Wilks, Head and Eve valued total assets to a gross value of £41,602,351, including Investment properties. Valuations dated 1 January 2016 totalled £38,526,959 and, as at 31 March 2016, £3,075,392.

An impairment review was also carried out by Wilks, Head and Eve as part of the valuation contract. The impairment review considered if there were material differences to the valuations performed at 1 January 2016 which would require these to be updated at 31 March 2016, but the result was that there were no material changes to the valuations advised. Mr K Parker, a member of the Royal Institution of Chartered Surveyors (MRICS) and an employee of the Council, reviewed both tasks.

Wilks, Head & Eve is a long established independent partnership of Chartered Surveyors and Town Planners providing a full range of property services to clients in both the public and private sectors. The Valuation Office Agency is an executive agency which provides statutory and non-statutory property valuation services.

The table below shows the progress of the rolling programme of revaluation of the Council's non-current assets:

Notes to the Core Financial Statements

| Date Valued (or Acquired) at or up to: | Land & Buildings £'000 | Vehicles & Equipment £'000 | Infra-structure £'000 | Community £'000 | Leased £'000 | Assets Under Construction £'000 | Surplus Land & Buildings £'000 | Total Property, Plant & Equipment Assets £'000 |
|--|---------------------------|-------------------------------|--------------------------|--------------------|-----------------|------------------------------------|-----------------------------------|---|
| Historic cost | 0 | 0 | 1,398 | 4,854 | 0 | 74 | 0 | 6,326 |
| Previous years | 0 | 727 | 0 | 0 | 16 | 0 | 0 | 743 |
| 01/04/2011 | 806 | 16 | 0 | 0 | 0 | 0 | 0 | 822 |
| 01/04/2012 | 1,235 | 0 | 0 | 0 | 65 | 0 | 0 | 1,300 |
| 01/04/2013 | 1,198 | 163 | 0 | 0 | 0 | 0 | 0 | 1,361 |
| 31/03/2014 | 24 | 0 | 0 | 0 | 0 | 0 | 0 | 24 |
| 01/04/2014 | 884 | 0 | 0 | 0 | 0 | 0 | 0 | 884 |
| 31/03/2015 | 1,757 | 245 | 0 | 0 | 0 | 0 | 0 | 2,002 |
| 01/01/2016 | 37,696 | 250 | 0 | 0 | 0 | 0 | 616 | 38,562 |
| 22/01/2016 | 174 | 0 | 0 | 0 | 0 | 0 | 0 | 174 |
| Net Book Value at 31 March 2016 | 43,774 | 1,401 | 1,398 | 4,854 | 81 | 74 | 616 | 52,198 |

The Council has undertaken a review of all assets that were valued before 2015/16 to ensure that their carrying value does not differ materially from current value.

28. Impairment Losses

The Code requires disclosure by class of assets of the amounts for losses and impairments, and subsequent reversals, charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income & Expenditure (net total reversals being credited to the Surplus or Deficit). These disclosures are consolidated in notes 26 and 27, reconciling the movement over the year in the asset balances for Property, Plant and Equipment and Investment Properties.

During 2015/16 the Council has recognised a net total loss of £(238,000) in respect of its non-current assets (£3,006,900 reversal of previous losses in 2014/15).

| | Property, Plant & Equipment Assets £'000 | Investment Assets £'000 | 2015/16 Total £'000 | 2014/15 Total £'000 |
|--|---|----------------------------|------------------------|------------------------|
| Revaluation – increase recognised in (surplus)/deficit on Provision of Services (reversal prior loss/impairment) | 109 | 5 | 114 | 1,723 |
| Depreciation written out to the (surplus)/deficit on Provision of Services (reversal prior loss/impairment) | 2 | 0 | 2 | 1,180 |
| Total Reversal Prior Loss/Impairment | 111 | 5 | 116 | 2,903 |
| Revaluation – decrease recognised in the (surplus)/deficit on Provision of Services | (648) | (6) | (654) | (197) |
| Depreciation written out to the (surplus)/deficit on Provision of Services | 80 | 0 | 80 | 0 |
| Total Losses and Impairments | (568) | (6) | (574) | (197) |
| Revaluation – increase recognised in (surplus)/deficit on Provision of Services (gain) | 0 | 220 | 220 | 301 |
| Net Total Reversal/(Loss) Credited/(Debited) to (Surplus)/Deficit on Provision of Services | (457) | 219 | (238) | 3,007 |

The two greatest revaluation reversals of previous losses were against the vacant land at Minster Cliffs and the Sheerness Leisure Centre (roof component), incurring a reversal increase of £28,990 and £18,790 respectively. Eighteen other assets incurred an average reversal increase of £3,540.

Eight assets incurred direct gains totalling £220,220, the greatest gain being £150,010 to the land at Lappel Bank,

Notes to the Core Financial Statements

West Minster.

The greatest reduced valuations were incurred by four assets, Swale House (heating component), Swallows Leisure Centre (lift component), Rose Street Market, Sheerness and the car park at Trinity Road, Sheerness, the losses being £165,910, £143,900, £130,000 and £31,340 respectively. Eighteen other assets incurred reduced valuations, an average reduction of £5,380 per property.

29. Heritage Assets

Reconciliation of the carrying value of Heritage Assets held by the Council:

| | War Memorials & Public Statues £'000 | Civic Regalia £'000 | Historical Items of Cultural Interest £'000 | Total £'000 |
|---------------------------------|--|------------------------|---|----------------|
| At 1 April 2014 | 112 | 356 | 108 | 576 |
| Revaluations | 0 | 0 | 3 | 3 |
| Balance at 31 March 2015 | 112 | 356 | 111 | 579 |
| Balance at 31 March 2016 | 112 | 356 | 111 | 579 |

30. Investment Properties

The following items of income and expense have been accounted for as Financing and Investment Income and Expenditure in the CI&ES:

| | 2015/16 £'000 | 2014/15 £'000 |
|--|------------------|------------------|
| Rental income from investment properties | (205) | (220) |
| Direct operating expenses arising from investment properties | 35 | 72 |
| Net (Gain) | (170) | (148) |

The net gain on revaluation for investment properties in the year was £219,000 (£133,000 gain in 2014/15). No investment properties were sold in 2015/16.

Assets to the value of £114,000 were transferred to investment properties from surplus properties, being the New Road Industrial Estate, phases I and II. Vacant land at Minster Drive, value £11,000, was transferred out of investment properties to operational land and buildings, giving a net reclassification movement to investment properties of £103,000.

All of the Council's investment property portfolio has been assessed as input hierarchy Level 2 for valuation purposes (see accounting policies note for explanation of fair value valuation input levels).

The fair value of investment properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions for these assets are such that the level of observable inputs are significant with no significant Level 3 inputs used, leading to the properties being categorised as Level 2 in the fair value hierarchy. In estimating the fair value of the authority's investment properties, the highest and best use of the properties has been applied.

31. Revenue Expenditure Funded from Capital under Statute (REFCUS)

REFCUS relates to capital expenditure for which there will be no non-current assets held by the Council (for example, grants paid to external organisations). As there is no continuing benefit derived from this expenditure, it is treated as revenue expenditure and allocated in the CI&ES in the same year that it was incurred.

| Grant Area | Provider | Expenditure 2015/16 £'000 | Restated Expenditure 2014/15 £'000 |
|------------------------|---|---------------------------------|---|
| Home Renovation Grants | Swale Borough Council | 11 | 183 |
| Home Renovation Grants | Department for Communities & Local Government | 854 | 927 |

Notes to the Core Financial Statements

| Grant Area | Provider | Expenditure 2015/16 £'000 | Restated Expenditure 2014/15 £'000 |
|---------------------------------------|-----------------------|---------------------------------|---|
| Wylie Court utilities protection | Swale Borough Council | 120 | 0 |
| Shared Information Technology service | Swale Borough Council | 63 | 12 |
| Coastal Monitoring | Environment Agency | 41 | 0 |
| Coast Protection | Swale Borough Council | 34 | 0 |
| Other | | 0 | 11 |
| Total | | 1,123 | 1,133 |

The 2014/15 figures have been restated to match the categories shown above.

32. Commitments under Capital Contracts

The contractual commitments at 31 March 2016 totalled £514,330 (£nil in 2014/15).

33. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement, a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

| | 2015/16 £'000 | 2014/15 £'000 |
|---|------------------|------------------|
| Opening Capital Financing Requirement | 5,106 | 5,475 |
| Total Capital Investment | 2,268 | 1,988 |
| Add Long-Term Debtors – Loans | 41 | 231 |
| Sources of Finance: | | |
| Capital Receipts (see note 17) | (127) | (528) |
| Government Grants & External Contributions | (1,478) | (1,270) |
| Sums set aside from revenue: | | |
| Direct Revenue Funding | (704) | (421) |
| Minimum Revenue Provision | (336) | (369) |
| Total Sources of Finance | (2,645) | (2,588) |
| Closing Capital Financing Requirement | 4,770 | 5,106 |
| Explanation of Movements in Capital Financing Requirement in Year: | | |
| (Reduction) in underlying need to borrow (unsupported by governmental financial assistance) | (313) | (332) |
| (Reduction) relating to assets acquired under Embedded Leases | (23) | (37) |
| Total (Decrease) in Capital Financing Requirement | (336) | (369) |

The Council's Creditors and Debtors

34. Long-Term Creditors and Receipts in Advance

As consideration for the extension of a current lease of 99 years, the tenants have paid the Council a premium of £60,000. A premium paid on entry into an operating lease must be accounted for as a prepayment of rent. The prepayment is amortised over the lease term in accordance with the pattern of benefits provided. Therefore this premium, being consideration for the extended term of 69 years from 24 March 2070 to 24 June 2139, will start to be amortised in 2070/71 (assuming all current conditions remain unaltered).

Notes to the Core Financial Statements

35. Short-Term Creditors and Receipts in Advance

| | 31 March 2016 £'000 | 31 March 2015 £'000 |
|---------------------------------------|------------------------|------------------------|
| Central Government bodies | (4,156) | (5,450) |
| Other local authorities | (3,972) | (2,566) |
| Bodies external to Central Government | (3,149) | (3,851) |
| Other receipts in advance | (188) | (178) |
| Total | (11,465) | (12,045) |

36. S106 Revenue Receipts in Advance

Section 106 (S106) of the Town and Country Planning Act 1990 and Section 278 of The Highways Act 1980 permits local planning authorities to enter into enforceable 'planning obligations' with landowners and/or developers. Each agreement has a deed setting out its purpose. Each agreement has been examined to determine when assets and liabilities need to be recognised on the Balance Sheet or income should be recognised. These sums represent monies received from developers as part of an agreement to maintain a designated piece of land, typically for leisure/recreation purposes, split between short and long-term use.

37. Deferred Liabilities

Deferred liabilities relate to three items:

- a) an arrangement with the Council's contractor for leisure management who has agreed to provide phased capital expenditure of £1.826m at the leisure centres over the 15-year life of the contract. The Council is committed to make regular monthly payments for 15 years to cover repayment of this sum together with associated financing costs. The sum shown in the Balance Sheet includes the outstanding principal element in respect of capital expenditure both provided and yet to be provided under the contract. The contract is due to end in 2019/20;
- b) a credit sale agreement was taken out for £250,000 in 2009/10 to purchase various equipment for the Swallows Leisure Centre. Under the terms of the agreement, the Council is committed to make regular monthly payments for ten years to cover this sum together with associated financing costs. The sum shown in the Balance Sheet is the outstanding principal element in respect of capital expenditure; and,
- c) the deferred liabilities for embedded leases i.e. finance leases, representing the value of Vehicles, Plant, and Equipment that are deemed to be for the exclusive use of the Council by its grounds maintenance contractors.

| | 31 March 2016 £'000 | 31 March 2015 £'000 |
|--|------------------------|------------------------|
| Due within one year (Short-Term Creditors - bodies external to Central Government) | (179) | (151) |
| Due after more than one year (Long-Term Liabilities) | (550) | (753) |
| Total | (729) | (904) |

38. Capital Grant Receipts in Advance

The Capital Grants Receipts in Advance account is a creditor account used for grants and contributions where conditions are outstanding. It is used for the funding of future capital expenditure. This includes monies received for S106 purposes (see note 36) to fund new facilities provided as part of an agreement with developers.

| | 1 April 2015 £'000 | Expenditure £'000 | Income £'000 | 31 March 2016 £'000 |
|------------------------------|-----------------------|----------------------|-----------------|------------------------|
| Disabled facilities grants | 0 | 854 | (1,040) | (186) |
| Other | (220) | 90 | (115) | (245) |
| S106 held for third parties | (949) | 736 | (830) | (1,043) |
| S106 Capital Funding: | | | | |
| Housing | (200) | 0 | 0 | (200) |
| Play areas | (277) | 0 | (271) | (548) |
| The Meads Community Centre | (317) | 410 | (103) | (10) |
| Open spaces | (604) | 3 | (4) | (605) |

Notes to the Core Financial Statements

| | 1 April 2015 £'000 | Expenditure £'000 | Income £'000 | 31 March 2016 £'000 |
|------------------------------|-----------------------|----------------------|-----------------|------------------------|
| Town centre improvements | (184) | 0 | 0 | (184) |
| Easthall Farm Community Hall | (1,014) | 67 | 0 | (947) |
| Other | (65) | 1 | 0 | (64) |
| Total | (3,830) | 2,161 | (2,363) | (4,032) |

| | 31 March 2016 £'000 | 31 March 2015 £'000 |
|--|------------------------|------------------------|
| Due to spend within one year (Short-Term Liabilities) | (1,972) | (701) |
| Due to spend in more than one year (Long-Term Liabilities) | (2,060) | (3,129) |
| Total | (4,032) | (3,830) |

In 2015/16, the Council did not repay any S106 grants to developers (£92,300 was repaid in 2014/15).

39. Provisions

In 1992 the Council's previous insurer, Municipal Mutual Insurance (MMI) declared that it would be going into "run off" which is similar to a company going into administration. Control of MMI has now passed to a Scheme Administrator who has implemented a "Scheme of Arrangement". The provision for future claims has been calculated as £83,000 as at 31 March 2016. This sum can be revised in future years as further information becomes available.

A settlement has been reached with a group of Property Search Companies and a provision has been established for the claimants' costs.

The Council has made a provision of £3,238,000 for business rate appeals based on its best estimates of the actual liability as at 31 March 2016. £2,503,100 has been identified as a long-term provision. See Note 52 for further details.

40. Long-Term Debtors – Other

Long-term debtors are those that fall due after a period of at least one year. They include advances to private individuals for refurbishment of their homes including disabled adaptations, car loans to employees, advances to private sector tenants to assist with their housing needs and interest free loans, (classified as 'soft loans'). More details on soft loans, are contained in Financial Instruments note 44, table 2.

| | 31 March 2016 £'000 | 31 March 2015 £'000 |
|---|------------------------|------------------------|
| Housing repair loans | 2,162 | 2,103 |
| Rent deposit scheme – gross debt | 188 | 232 |
| Rent deposit scheme – allowance for bad debts | (151) | (228) |
| Assisted car purchase loans | 256 | 200 |
| Queenborough Harbour Trust | 42 | 47 |
| Opportunities For Sittingbourne | 118 | 118 |
| Other long term loans | 54 | 39 |
| Total | 2,669 | 2,511 |

41. Short-Term Debtors and Payments in Advance

| | 31 March 2016 £'000 | 31 March 2015 £'000 |
|---------------------------------------|------------------------|------------------------|
| Central Government bodies | 393 | 218 |
| Other local authorities | 944 | 919 |
| NHS bodies | 0 | 2 |
| Bodies external to general Government | 2,287 | 2,455 |
| Payments in advance | 190 | 255 |
| Total | 3,814 | 3,849 |

Notes to the Core Financial Statements

42. Cash and Cash Equivalents

| | 31 March 2016 £'000 | 31 March 2015 £'000 |
|--|------------------------|------------------------|
| Cash (overdrawn)/held by the Council | (485) | 1,551 |
| Same day (instant) access accounts | 6,000 | 6,000 |
| Money Market Funds | 6,376 | 3,300 |
| Total Cash and Cash Equivalents | 11,891 | 10,851 |

Leases

43. Leases

Disclosures in Relation to Operating Leases – Council as Lessee

Plant and equipment – as at 31 March 2016 the Council had eleven vehicles on a contract hire-operating lease basis. During 2015/16 the Council commenced leasing three new vehicles including an Electric vehicle. The Council is committed to making payments of £16,000 in 2016/17 and the next two financial years. The commitments are expected to fully expire in 2018/19.

The expenditure charged to the Net Cost of Services in the CI&ES during 2015/16 in relation to these leases was £31,500 (£29,500 in 2014/15).

Disclosures in Relation to Operating Leases – Council as Lessor

The Council holds a number of operating leases with third parties. The following table details the main classifications of usage within the portfolio:

| Asset | Rentals Payable 2015/16 £'000 | Rentals Payable 2014/15 £'000 |
|-------------------|-------------------------------------|-------------------------------------|
| Business premises | 312 | 383 |
| Industrial units | 106 | 133 |
| Other | 78 | 73 |
| Total | 496 | 589 |

The future minimum lease payments receivable under non-cancellable leases in future years are:

| | 2015/16 £'000 | 2014/15 £'000 |
|--|------------------|------------------|
| Not later than 1 year | 92 | 201 |
| Later than 1 year and not later than 5 years | 39 | 56 |
| Later than 5 years | 365 | 332 |
| Total | 496 | 589 |

Disclosures in Relation to Embedded Leases – Council as Lessee

Vehicles used within the grounds maintenance contract are accounted for as 'embedded leases'.

The assets, net of depreciation, are therefore shown within non-current assets and the notional liability within long-term liabilities. The asset value is depreciated over the life of the vehicles equivalent to the calculated notional lease repayment.

The value of the embedded lease assets net of depreciation in 2015/16 was £81,000 (£105,000 in 2014/15).

Financial Instruments

44. Financial Instruments

The use of these notes are primarily for those with whom the Council invests rather than the lay reader and therefore if you require further details please contact the Finance Department directly on finance@swale.gov.uk.

Notes to the Core Financial Statements

a) Financial Instruments – Classifications

A financial instrument is: “Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity”.

b) Financial Instruments – Balances

Financial instruments have a specific definition and exclude some items which are included on the Balance Sheet and therefore the figures below differ from those shown on the Balance Sheet. A reconciliation is available on request to the Finance Department on finance@swale.gov.uk.

Table 1

| Financial Liabilities | Long-Term | | Current | |
|------------------------------------|------------------|------------------|------------------|------------------------------|
| | 2015/16 £'000 | 2014/15 £'000 | 2015/16 £'000 | Restated 2014/15 £'000 |
| Trade creditors | 0 | 0 | (3,491) | (2,996) |
| Lease liabilities | (492) | (648) | (155) | (151) |
| Total Financial Liabilities | (492) | (648) | (3,646) | (3,147) |

Table 2

| Financial Assets | Long-Term | | Current | |
|---|------------------|------------------------------|------------------|------------------------------|
| | 2015/16 £'000 | Restated 2014/15 £'000 | 2015/16 £'000 | Restated 2014/15 £'000 |
| Loans and Receivables | | | | |
| Trade debtors | 199 | 246 | 689 | 923 |
| Soft loans | 2,162 | 2,103 | 0 | 82 |
| Car loans | 256 | 200 | 0 | 0 |
| Mortgages | 5 | 5 | 0 | 0 |
| Cash and cash equivalents | 0 | 0 | 5,515 | 7,551 |
| Long-term loans | 184 | 175 | 2 | 2 |
| Short-term Investments | 0 | 0 | 12,989 | 13,000 |
| Available-for-Sale | | | | |
| Cash and cash equivalents | 0 | 0 | 6,376 | 3,300 |
| Bond investment at cost – British Government Stocks | 0 | 2 | 0 | 0 |
| CCLA property fund* | 1,500 | 1,500 | 0 | 0 |
| Total Financial Assets | 4,306 | 4,231 | 25,571 | 24,858 |

The 2014/15 figures have been restated to include the effect of shared services.

*The Council invested £1.5m in the CCLA LAMIT Property Fund which is carried in the Balance Sheet at its fair value of £1.504m, the difference being posted to the Available For Sale Reserve.

c) Material Soft Loans Made by the Council – Housing Interest Free Loans

Loans for private sector housing home adaptations – landlords and owner-occupiers can apply for a loan for adaptations that will enable them to stay in their own homes. Loans to landlords are repayable after five years whilst owner-occupier loans are repayable when a property is sold.

Table 3

| | 2015/16 £'000 | Restated 2014/15 £'000 |
|---|------------------|------------------------------|
| Opening Carrying Amount of Soft Loans on 1 April | 2,185 | 2,166 |
| Nominal Value of new loans granted during the year | 41 | 59 |
| Loans repaid during the period | (64) | (81) |

Notes to the Core Financial Statements

| | 2015/16 £'000 | Restated 2014/15 £'000 |
|--|------------------|------------------------------|
| Other movements | 0 | 41 |
| Closing Carrying Amount of Soft Loans at 31 March | 2,162 | 2,185 |
| Nominal Value at 31 March | 2,123 | 2,187 |

The 2014/15 figures have been restated to match the categories shown above.

d) Gains and Losses on Financial Instruments

The gains and losses recognised in the CI&ES under Financing and Investment Income and Expenditure are as follows:

Table 4

| | 2015/16 £'000 | 2014/15 £'000 |
|--|------------------|------------------|
| Financial Liabilities | | |
| Interest costs | 75 | 68 |
| Financial Assets – Interest Income: | | |
| Loans and receivables: fixed term deposits and call accounts | (112) | (80) |
| Available-for-sale: money market funds | (118) | (38) |
| Total Interest | (230) | (118) |
| Net (Gain) for the Year | (155) | (50) |

e) Fair Value of Assets and Liabilities

Fair Value is defined in IAS 39 as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

In the case of the Council's investments for 2015/16, these consisted of call accounts, short-term investments, money market funds and the CCLA Property Fund. None of the investments have been impaired (i.e. are at risk of default). Fair values in respect of impairment have therefore been assessed as being the same as the carrying amount on the Balance Sheet. To note:

- the Council currently has no long-term borrowings by way of loans;
- where an instrument matures within 12 months, the carrying value is assumed to be an approximation of fair value; and,
- the fair value of trade creditors/debtors is taken to be the invoiced or billed amount.

f) Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The Council's overall risk management programme takes account of the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out under policies approved by the Council in the annual Treasury Management Strategy.

The Treasury Management Strategy requires frequent review of interest rate exposure that feeds into the setting and monitoring of the annual budget. This allows any adverse changes to be accommodated. The analysis will also advise as to whether new borrowing taken out should be at fixed or variable rates. It is the aim of the Council to minimise interest paid on borrowing and maximise the interest earned on investments but, in the case of investments, protection of the capital sum must take precedence over the rate of return.

The Treasury Management Strategy can be obtained from the Council's website using the following link:
<http://www.swale.gov.uk/financial-strategies-documents/>.

The Council provides written principles for overall risk management as well as written policies within its Treasury Management Strategy covering the following risks and the investment of surplus cash balances:

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

Notes to the Core Financial Statements

- Liquidity Risk – the possibility that the Council might not have the funds available to meet its payment commitments; and,
- Market Risk – the possibility that a financial gain or loss might arise for the Council due to movements in interest rates, market prices, foreign currency exchange rates, etc. The Council's investment in the CCLA is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments of £1.5m. A 5% fall in commercial property prices would result in a £75,000 charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

Credit Risk

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments), and complies with the Prudential Code for Capital Finance in Local Authorities.

Credit risk arises from deposits with banks and financial institutions (counterparties), as well as credit exposure to the Council's customers. The Council protects the security of the cash it deposits with counterparties using a number of risk management techniques. Principal among these is the evaluation of counterparty risk, which uses a combination of credit ratings and limits on the term and maximum value of any deposits.

The Council seeks to reduce counterparty risk by adjusting the maximum amounts that may be invested with institutions. The details can be found in the Council's Treasury Management Strategy.

The table below summarises the Council's investment portfolio at 31 March 2016. All investments made were in line with the Council's approved credit rating criteria at the time of placing the investment, and still met those criteria at 31 March 2016.

Table 5

| Counterparty (MMF = Money Market Funds) | Long-Term Rating | Balance Invested at 31 March 2016 £'000 | | | | Balance Invested at 31 March 2015 £'000 |
|--|------------------|---|---|-----------------------|---------------|---|
| | | Up to 1 month | Greater than 1 month and up to 3 months | Greater than 3 months | Total | |
| Svenska Handelsbanken* | Aa2 | 3,000 | | | 3,000 | 3,000 |
| Santander Bank* | A1 | 3,000 | | | 3,000 | 3,000 |
| Barclays Bank | A2 | | | | 0 | 3,000 |
| Lloyds Bank | A1 | | | | 0 | 3,000 |
| Standard Chartered Bank | A1 | 3,000 | | | 3,000 | 3,000 |
| Nationwide Building Society | A1 | | | | 0 | 3,000 |
| HSBC Bank | Aa2 | 3,000 | | | 3,000 | 0 |
| Debt Management Office (T-Bills) | | 5,989 | | | 5,989 | 0 |
| Leeds Building Society | A2 | | | | 0 | 1,000 |
| Close Brothers | Aa3 | | 1,000 | | 1,000 | 0 |
| BNP Paribas MMF* | Aaa-mf | 3,000 | | | 3,000 | 1,500 |
| Goldman Sachs MMF* | Aaa-mf | | | | 0 | 1,500 |
| Morgan Stanley MMF* | Aaa-mf | 376 | | | 376 | 300 |
| Black Rock MMF* | Aaa-mf | 3,000 | | | 3,000 | 0 |
| CCLA Property Fund | | | | 1,504 | 1,504 | 1,418 |
| Total | | 24,365 | 1,000 | 1,504 | 26,869 | 23,718 |

*These investments are cash and cash equivalents in the Balance Sheet. The rest are short-term investments, except for the CCLA Property Fund investment.

The ratings above are from Moody's credit rating agency. The long-term rating is the benchmark measure of probability of default. The default based on the experience gathered over the last five financial years is nil and the default adjusted for current market conditions is nil. Therefore, the estimated maximum exposure to default is nil as at 31 March 2016 (nil as at 31 March 2015).

A description of the grading is provided below:

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- Aaa-mf – Money market funds rated Aaa-mf have very strong ability to meet the dual objectives of providing liquidity and preserving capital.
- Aa3, Aa2 – Investments rated Aa3 and Aa2 are judged to be of a high quality and are subject to very low credit risk.
- A1, A2 – Investments rated A1 and A2 are considered upper-medium grade and are subject to low credit risk.

The Council's Relationship With Other Organisations

45. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, providing 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, business rates, housing benefits). Unring-fenced grants received from Government departments are set out in the CI&ES and the total grants received from Government are shown in note 11.

Members and Officers

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2015/16 is shown on note 9. During 2015/16, no works or services were commissioned from companies in which members had an interest. No grants were made to organisations whose senior management included close members of the families of members. The Council maintains a "Register of Members' Interests", which is open to public inspection at the Council offices during office hours.

There has been an approach to elected members and senior management seeking from them a declaration that neither they, nor close family nor anyone in the same household have been involved in any material transactions with the Council. Returns were received in respect of the 2015/16 financial year from all members and senior officers and there were no transactions considered of material significance to warrant separate disclosure in the Annual Accounts.

During 2015/16, no officers declared a pecuniary interest in accordance with section 117 of the Local Government Act 1972.

Entities Controlled or Significantly Influenced by the Council

Payment of a subsidy of £80,000 was made to Faversham Pool in 2015/16 (revenue grant of £80,000). The Trust is deemed to be influenced significantly by the Council through its representation on the Trust board.

It is our opinion that none of the above transactions have the ability to influence the Council's decisions or priorities. We have therefore considered these not to be material.

46. Group Accounts

The Code contains detailed requirements for the production of group accounts and a review was undertaken to identify any subsidiaries, associates, or joint ventures, which would establish whether a group relationship exists for the purposes of the Council's Statement of Accounts. Two interests were identified and details of these are set out below:

- Faversham Swimming Pool Management Committee (FSPMC) – the Council appoints the majority of the governing body to this entity and under the revised arrangements this then falls within the definition of a subsidiary. The FSPMC is a charitable trust, which operates a swimming pool complex for the benefit of

Notes to the Core Financial Statements

local residents, with a financial turnover of approximately £700,000 per annum. Included within this figure for 2015/16 is a grant of £80,000 from the Council to FSPMC. It is considered that both the value of the FSPMC turnover and the Council's grant is not material in comparison to the Council's net cost of services of £18.3m. The FSPMC accounts for 2015/16 are due to be approved in August 2016. The latest accounts of the Committee can be obtained from the Charity Commission as follows:

by post – the Charity Commission, P.O. Box 1227, Liverpool L69 3UG (telephone 0845 3000 218)

online – website www.charitycommission.gov.uk.

- Opportunities for Sittingbourne Ltd – is a company set up between the Council and Spirit of Sittingbourne LLP (Spirit of Sittingbourne being a venture between the Council and a number of local developers), with an overall aim of regenerating Sittingbourne Town Centre. The Council's interest in the entity has been assessed to be non-controlling but having a significant influence and so needs to be accounted for as an Associate. During 2014/15 the Council made a loan advance to Opportunities for Sittingbourne Ltd of £118,000 being half the purchase price of a property in the town centre. This payment was accounted for as capital expenditure within 2014/15 and will appear on the balance sheet within Long-Term Debtors and the corresponding entry in Deferred Capital Receipts. Opportunities for Sittingbourne Ltd was incorporated in January 2015 (No. 09400214). It is not required to submit accounts to Companies House until October 2016. Further information on the Company can be found on the Companies House website <https://www.gov.uk/government/organisations/companies-house>.

As at the end of 2015/16 the total investment in these two entities has been assessed as immaterial and the Council has decided that group accounts are not required.

Adjustments Between Accounting Basis and Funding Basis Under Regulations

These financial statements are based on accounting regulations, but there are changes required by law that affect what is eventually charged to the council tax payer. These are complex and are detailed below.

47. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total CI&ES recognised by the Council in the year in accordance with proper accounting practices, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

| | 2015/16 Usable Reserves | | | 2015/16 Unusable Reserves £'000 | 2014/15 Unusable Reserves £'000 |
|---|-------------------------------------|---|---|--|--|
| | General Fund Balance £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | | |
| Adjustments to the Revenue Resources | | | | | |
| Pension costs transferred to/(from) the Pensions Reserve | (1,761) | | | 1,761 | 1,590 |
| Financial Instruments (transferred to the Financial Instruments Adjustment Account) | 11 | | | (11) | (10) |
| Council tax and business rates (transfers to or from Collection Fund) | (878) | | | 878 | (12) |
| Holiday pay (transferred to/(from) the Accumulated Absences Reserve) | 20 | | | (20) | 22 |
| Capital Grants Received in year transferred to Capital Grants Unapplied | 54 | | (54) | 0 | 0 |
| Reversal of entries in the (Surplus)/Deficit on the Provision of Services for capital expenditure | (5,599) | | | 5,599 | 232 |
| Total Adjustment to Revenue Resources | (8,153) | | (54) | 8,207 | 1,822 |
| Adjustments Between Revenue and Capital Resources | | | | | |
| Transfer of cash sale proceeds from non-current assets to Capital Receipts Reserve (CRR) | 357 | (357) | | 0 | 0 |

Notes to the Core Financial Statements

| | 2015/16 Usable Reserves | | | 2015/16 Unusable Reserves £'000 | 2014/15 Unusable Reserves £'000 |
|---|-------------------------------|-----------------------------------|-----------------------------------|------------------------------------|------------------------------------|
| | General Fund Balance £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | | |
| Statutory provision for the financing of capital investment | 336 | | | (336) | (369) |
| Capital expenditure charged to the General Fund | 349 | | | (349) | (421) |
| Total Adjustment between Revenue and Capital Resources | 1,042 | (357) | 0 | (685) | (790) |
| Adjustments to Capital Resources | | | | | |
| Use of the CRR to finance capital expenditure | | 127 | | (127) | (528) |
| Application of Capital Grants to finance capital expenditure | 1,467 | | 11 | (1,478) | (1,270) |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&ES | | 14 | | (14) | 7 |
| Total Adjustment to Capital Resources | 1,467 | 141 | 11 | (1,619) | (1,791) |
| Total Adjustments | (5,644) | (216) | (43) | 5,903 | (759) |

Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of Swale Borough Council in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and business rates. The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund, therefore, is to isolate the income and expenditure relating to council tax and business rates.

The amount credited to the General Fund under statute is the Council's precept or demand for the year, plus or minus the Council's share of the (surplus)/deficit on the Collection Fund for the previous year.

Surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

The council tax and business rate income included in the CI&ES is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. The Council collects council tax on behalf of the major precepting authorities – KCC, Kent Police and Crime Commissioner, Kent Fire and Rescue Service – and collects business rates on behalf of the Government, KCC and Kent Fire and Rescue Service. Parish precepts are paid from the Council's General Fund and are disclosed on the face of the CI&ES.

| Collection Fund 2015/16 | Note | Business Rates £'000 | Council Tax £'000 | Total £'000 |
|-------------------------------|------|-------------------------|----------------------|------------------|
| Income | | | | |
| Council tax receivable | 49 | 0 | (65,753) | (65,753) |
| Business rates receivable | 50 | (45,837) | 0 | (45,837) |
| Total Income | | (45,837) | (65,753) | (111,590) |
| Expenditure | | | | |
| Precepts, demands and shares: | | | | |
| Central Government | | 21,645 | 0 | 21,645 |
| Swale Borough Council | | 17,316 | 7,785 | 25,101 |
| Kent County Council | | 4,072 | 46,727 | 50,799 |
| Kent Fire and Rescue Service | | 433 | 3,029 | 3,462 |

Notes to the Core Financial Statements

| Collection Fund 2015/16 | Note | Business Rates £'000 | Council Tax £'000 | Total £'000 |
|---|------|-------------------------|----------------------|----------------|
| Kent Police and Crime Commissioner | | 0 | 6,308 | 6,308 |
| Kent County Council (Renewables share) | | 249 | 0 | 249 |
| Sub total | | 43,715 | 63,849 | 107,564 |
| Cost of collection | | 181 | 0 | 181 |
| Transitional protection payments payable | | 145 | 0 | 145 |
| Other transfers to General Fund | | 88 | 0 | 88 |
| Debt write offs | 51 | 1,335 | 423 | 1,758 |
| Allowance for debt impairment | 51 | (1,569) | 3 | (1,566) |
| Charge to appeals provision | 52 | 1,147 | 0 | 1,147 |
| Allowance for appeals impairment | 52 | 2,480 | 0 | 2,480 |
| Sub total | | 3,807 | 426 | 4,233 |
| Contribution towards previous year's Collection Fund surplus – | | | | |
| Central Government | | 212 | 0 | 212 |
| Swale Borough Council | | 170 | 176 | 346 |
| Kent County Council | | 38 | 1,042 | 1,080 |
| Kent Fire and Rescue Service | | 4 | 68 | 72 |
| Kent Police and Crime Commissioner | | 0 | 141 | 141 |
| Sub total | | 424 | 1,427 | 1,851 |
| Total Expenditure | | 47,946 | 65,702 | 113,648 |
| (Surplus)/Deficit Movement for the Year | 48 | 2,109 | (51) | 2,058 |
| (Surplus)/Deficit at 1 April 2015 | 48 | 492 | (1,969) | (1,477) |
| (Surplus)/Deficit at 31 March 2016 | 48 | 2,601 | (2,020) | 581 |

| Collection Fund 2014/15 | Note | Business Rates £'000 | Council Tax £'000 | Total £'000 |
|---|------|-------------------------|----------------------|------------------|
| Income | | | | |
| Council tax receivable | 49 | 0 | (63,200) | (63,200) |
| Business rates receivable | 50 | (46,356) | 0 | (46,356) |
| Transitional protection payments receivable | | (6) | 0 | (6) |
| Total Income | | (46,362) | (63,200) | (109,562) |
| Expenditure | | | | |
| Precepts, demands and shares: | | | | |
| Central Government | | 20,539 | 0 | 20,539 |
| Swale Borough Council | | 16,432 | 7,554 | 23,986 |
| Kent County Council | | 3,697 | 44,700 | 48,397 |
| Kent Fire and Rescue Service | | 411 | 2,899 | 3,310 |
| Kent Police and Crime Commissioner | | 0 | 6,035 | 6,035 |
| Sub total | | 41,079 | 61,188 | 102,267 |
| Cost of collection | | 181 | 0 | 181 |
| Other transfers to General Fund | | 70 | 0 | 70 |
| Debt write offs | 51 | 192 | 223 | 415 |
| Allowance for debt impairment | 51 | 478 | 202 | 680 |
| Charge to appeals provision | 52 | 1,287 | 0 | 1,287 |
| Allowance for appeals impairment | 52 | 3,201 | 0 | 3,201 |
| Sub total | | 5,409 | 425 | 5,834 |
| Contribution towards previous year's Collection Fund surplus – | | | | |
| Central Government | | 101 | 0 | 101 |
| Swale Borough Council | | 81 | 97 | 178 |

Notes to the Core Financial Statements

| Collection Fund 2014/15 | Note | Business Rates £'000 | Council Tax £'000 | Total £'000 |
|--|------|-------------------------|----------------------|----------------|
| Kent County Council | | 18 | 576 | 594 |
| Kent Fire and Rescue Service | | 2 | 37 | 39 |
| Kent Police and Crime Commissioner | | 0 | 78 | 78 |
| Sub total | | 202 | 788 | 990 |
| Total Expenditure | | 46,690 | 62,401 | 109,091 |
| (Surplus)/Deficit Movement for the Year | 48 | 328 | (799) | (471) |
| (Surplus)/Deficit at 1 April 2014 | 48 | 164 | (1,170) | (1,006) |
| (Surplus)/Deficit at 31 March 2015 | 48 | 492 | (1,969) | (1,477) |

48. Collection Fund Surplus/Agency Arrangements

Swale Borough Council's element of the Collection Fund deficit is £793,000 as at 31 March 2016 (£46,000 surplus in 2014/15) and is shown in the Balance Sheet within the Collection Fund Adjustment Account (note 22). Amounts relating to precepting authorities and Government are shown in the Balance Sheet as a net debtor or creditor. This reflects that billing authorities are acting as agents of the precepting authorities and Government.

The following table shows the collection fund balance at 31 March 2016 split into its attributable parts:

| | 2015/16 Business Rates £'000 | 2015/16 Council Tax £'000 | 2015/16 Total £'000 | 2014/15 Total £'000 |
|------------------------------------|------------------------------------|---------------------------------|---------------------------|---------------------------|
| Central Government | 1,301 | 0 | 1,301 | 246 |
| Swale Borough Council | 1,040 | (247) | 793 | (46) |
| Kent County Council | 234 | (1,478) | (1,244) | (1,395) |
| Kent Fire and Rescue Service | 26 | (96) | (70) | (88) |
| Kent Police and Crime Commissioner | 0 | (199) | (199) | (194) |
| Balance at 31 March 2016 | 2,601 | (2,020) | 581 | (1,477) |

49. The Calculation of the Council Tax Base

The council tax is primarily a property based tax and is calculated for an average Band D property by dividing the net expenditure (to be met by the tax) of KCC, Kent Police and Crime Commissioner, Kent Fire and Rescue Service and Swale Borough Council by the tax base for Swale which is 42,869.49 (41,828.25 in 2014/15). This figure is the equivalent number of Band D properties in the area after allowing for the relative proportions payable by all other bands and the fact that some of those properties may pay a reduced amount because of discounts.

The basic council tax payable for each band in 2015/16 is listed below:

| Band | Basic Tax £ | Proportion of Band D Charge | Number of Band D Equivalent Dwellings |
|--------------|----------------|--------------------------------|--|
| A | 978.48 | 6/9 | 3,587.41 |
| B | 1,141.56 | 7/9 | 8,337.15 |
| C | 1,304.64 | 8/9 | 11,258.05 |
| D | 1,467.72 | 9/9 | 8,835.72 |
| E | 1,793.88 | 11/9 | 5,725.21 |
| F | 2,120.04 | 13/9 | 3,122.63 |
| G | 2,446.20 | 15/9 | 1,821.56 |
| H | 2,935.44 | 18/9 | 181.76 |
| Total | | | 42,869.49 |

The detail to the calculation of the council tax base can be found in the report to Council on 21 January 2015 by using the following link: <http://services.swale.gov.uk/meetings/ieListDocuments.aspx?CId=128&Mid=1289&Ver=4>

Additional amounts are payable for precepts levied by the Parish and Town Councils within the Borough.

Notes to the Core Financial Statements

The level of non-payment provided for in 2015/16 was 1.23% (1.05% in 2014/15). The original anticipated income = 42,869.49 x £1,489.12 (Band D plus average parish precept) = £63,837,815. The actual income was £65,753,050. The difference is attributable to an increase in the number of properties in the Borough, combined with a reduction in both Council Tax Support and empty property discounts.

50. Income Collectable from Business Ratepayers

The Council retains 40% of business rates collected during the year, after deductions for mandatory and discretionary reliefs, the cost of income collections including losses and for the cost of changes to rateable values resulting from appeals. The remaining amount is paid to the Government (50%), KCC (9%) and Kent Fire and Rescue Service (1%).

The business rate income after reliefs was £45,837,020 for 2015/16 (£46,361,680 for 2014/15). The reduction in 2015/16 over 2014/15 is attributable to an increase in business rate reliefs, a reduction in rateable values due to successful revaluation appeals for doctors' surgeries and the revaluation of a manufacturing site no longer trading.

The rateable value for the Council's area at the end of the financial year 2015/16 was £114,072,705 (£112,445,482 for 2014/15). The rate poundage set for 2015/16 was 49.3p (2014/15 was 48.2p). Small businesses have a lower rate poundage of 48.0p (2014/15 was 47.1p).

51. Debt Impairment

The following provisions have been made against the possible non-collection of Collection Fund debt:

| | 2015/16 Business Rates £'000 | 2014/15 Business Rates £'000 | 2015/16 Council Tax £'000 | 2014/15 Council Tax £'000 |
|------------------------------------|---------------------------------------|---------------------------------------|------------------------------------|------------------------------------|
| Balance brought forward 1 April | (2,398) | (1,920) | (1,414) | (1,212) |
| Less amounts written off | 1,335 | 192 | 423 | 223 |
| Decrease/(Increase) in provision | 234 | (670) | (426) | (425) |
| Balance at 31 March | (829) | (2,398) | (1,417) | (1,414) |
| Swale Borough Council's proportion | (332) | (959) | (169) | (172) |

Council tax bad debt provision is based on an analysis of the age of the debt and their recovery stage. At 31 March 2016, the total council tax outstanding debt was £4.3m (£4.5m in 2014/15) of which debt one year old was £1.8m, debt between two to five years old was £2.0m and debt over five years old was £0.5m.

The provision for business rate debt is based on an assessment of each debt in respect of each financial year since 2003/04. The bad debt provision takes into account the recovery action, receivership/administration arrangements and potential absconders. At 31 March 2016, the total business rates outstanding debt was £1.1m (£2.7m in 2014/15) of which debt one year old was £0.5m, debt between two to five years old was £0.5m and debt over five years old was £0.1m. The high level of amounts written off in 2015/16, were as a result of a major manufacturing site no longer trading. These losses had been fully provided for in previous years.

52. Provision for Business Rate Valuation Appeals

| | 2015/16 Business Rates £'000 | 2014/15 Business Rates £'000 |
|------------------------------------|------------------------------------|------------------------------------|
| Balance brought forward 1 April | (5,615) | (2,414) |
| Less amounts charged to appeals | 1,147 | 1,287 |
| (Increase) in provision | (3,628) | (4,488) |
| Balance at 31 March | (8,096) | (5,615) |
| Swale Borough Council's proportion | (3,238) | (2,246) |

This provision is based on the latest ratings list of outstanding appeals provided by the Valuation Office.

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

Glossary

| | |
|---|---|
| Accounting Policies | Accounting policies define the process whereby transactions and other events are reflected in financial statements. |
| Accruals | The inclusion of outstanding debtors and creditors in the year's income, expenditure and capital expenditure. |
| Asset | An item having value measurable in monetary terms. A non-current asset has use and value for more than one year; a current asset can readily be converted into cash. |
| Balance Sheet | A summary of all the assets, liabilities, funds, reserves, etc. of the Council. |
| Service Reporting Code Of Practice (SeRCOP) | This provides guidance on the content and presentation of the costs of services. |
| Billing Council | A local council charged by statute with the responsibility for the collection of and accounting for council tax, business rates and residual community charge. Swale Borough Council is a billing council. |
| Budget | The Council's aims and policies set out in financial terms against which performance is measured. Both capital and revenue budgets are prepared. |
| Capital Expenditure | Expenditure on the acquisition of a non-current asset or expenditure, which adds to and not merely maintains the value of an existing non-current asset. |
| Capital Financing | The raising of money to pay for capital expenditure, including borrowing, revenue financing, usable capital receipts, capital grants and capital contributions. |
| Capital Receipts | The proceeds of the sale of capital assets. |
| Cash & Cash Equivalents | The most liquid assets found within the asset portion of the Balance Sheet. |
| Code of Practice on Local Council Accounting in the UK 2015/16 (The Code) | This specifies the principles and practices of accounting required to prepare a Statement of Accounts which presents "a true and fair view" of the financial position and transactions of the Council. |
| Collection Fund | A separate fund maintained by a billing council which records the expenditure and income relating to council tax and business rates. |
| Community Assets | Non-current assets that the local council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. |
| Comprehensive Income & Expenditure Statement | This records all the income the Council has received to fund the day-to-day expenditure on the services it has provided during the financial year. |
| Council Tax | A local tax set by local authorities in order to finance their budget requirement. |
| Creditor | Amounts owed by the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been made by the end of that accounting period. |
| Debtor | Amounts due to the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been received by the end of that accounting period. |
| Depreciation | The measure of the cost or revalued amount of the benefits of the non-current assets that have been consumed during the period. |
| Estimation Techniques | The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves. |
| Fair Value | The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. |
| Finance Lease | A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee. |
| General Fund | This is the main reserve account for the Council. |
| Government Grants | Assistance by Government and inter-government agencies and similar bodies, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council. |
| Impairment | A reduction in the value of an asset below its carrying amount on the Balance Sheet. |

Glossary

| | |
|--|---|
| Income | Monies received or due from rents, fees and charges for services, specific grants and investment interest. |
| Infrastructure Assets | Non-current assets whose life is of indefinite length and which are not usually capable of being sold, such as highways and footpaths. |
| Intangible Assets | These are non-financial assets that do not have physical substance but are identifiable and controlled by the Council through custom legal rights (e.g. software). |
| International Financial Reporting Standards | Guidelines and rules set by the International Accounting Standards Board (IASB) that companies and organisations can follow when compiling financial statements. |
| Investment Properties | Interest in land and/or buildings in respect of which construction work and development have been completed; and, which is held for its investment potential, with any rental income being negotiated at arm's length. |
| Liabilities | Amounts which will become payable by the Council in the short or long-term. |
| Materiality | A threshold quality ensuring that information is of such significance as to justify its inclusion in the Statement. |
| Net Expenditure | Gross expenditure for a service less directly related income. |
| Non-Operational Assets | Non-current assets held by a local council but not used or consumed in the delivery of services or for the service or strategic objective of the Council. |
| Operating Lease | A lease where the ownership of the long-term asset remains with the lessor. |
| Operational Assets | Non-current assets held and occupied, used or consumed by the local council in the direct delivery of those services for which it has either a statutory or a discretionary responsibility or for the service or strategic objectives of the Council. |
| Outturn | The actual results for the financial year in question. |
| Precept | The levy made by those authorities which do not run the local taxation system, e.g. county councils, on those authorities which do so, e.g. districts, requiring them to collect the required income from local taxpayers on their behalf. |
| Property, Plant, Furniture and Equipment | An asset that is vital to business operations but cannot be easily liquidated. The value is depreciated over the estimated life of the asset as even the longest-term assets become obsolete or useless after a period of time. |
| Provision | An amount set aside for liabilities or losses that are certain to arise but owing to their inherent nature cannot be quantified with any certainty. |
| Recharge | An internal charge made by one service in respect of services provided for another. |
| Reserves | The accumulation of surpluses and deficits over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. |
| Revenue Expenditure Funded From Capital Under Statute (REFCUS) | Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in a non-current asset on the Balance Sheet. Such expenditure is charged to the Comprehensive Income & Expenditure Statement. |
| Soft Loans | Loans made below prevailing interest rates and which include loans made to organisations that undertake activities that the Council considers benefit the local population. |
| Useful Economic Life | The period over which the Council derives benefits from the use of a non-current asset. |

Acronyms Used:

| | |
|-------|---|
| CCLA | Church Charities and Local Authorities |
| CFO | Chief Financial Officer |
| CI&ES | Comprehensive Income & Expenditure Statement |
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| CPI | Consumer Price Index |
| CRR | Capital Receipts Reserve |

| | |
|-------|--|
| DFG | Disabled Facilities Grant |
| FSPMC | Faversham Swimming Pool Management Committee |
| IAS | International Accounting Standard |
| IFRS | International Financial Reporting Standards |
| KCC | Kent County Council |

Glossary

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|-------|--|
| LAMIT | Local Authorities' Mutual Investment Trust |
| LGPS | Local Government Pension Scheme |
| MKIP | Mid Kent Improvement Partnership |
| MMF | Money Market Funds |
| NI | National Indicator |
| PPE | Property Plant and Equipment |

| | |
|--------|---|
| REFCUS | Revenue Expenditure Funded from Capital Under Statute |
| RICS | Royal Institution of Chartered Surveyors |
| RPI | Retail Price Index |
| S106 | Section 106 - See note 36 |
| SeRCOP | Service Reporting Code of Practice |
| SMT | Strategic Management Team |