

AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 25 November 2020

Time: 7.00pm

Venue: Virtual Meeting Via Skype* - the public proceedings of the meeting will be broadcast live and recorded for playback on the Swale Borough Council website.

Link: [Click here for webcast channel](#)

Membership:

Councillors Derek Carnell, Simon Clark (Chairman), Simon Fowle, James Hall (Vice-Chairman), Ann Hampshire, Nicholas Hampshire, Denise Knights, Peter Macdonald and Julian Saunders.

Quorum = 3

Pages

Information for the Public

*Members of the press and public can listen to this meeting live. Details of how to join the meeting will be added the website after 4pm on Tuesday 24 November 2020.

Privacy Statement

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1. Apologies for Absence and Confirmation of Substitutes
2. Minutes

To approve the [Minutes](#) of the Meeting held on 30 September 2020 (Minute Nos. 140 - 149) as a correct record.

3. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves or their spouse, civil partner or person with whom they are living with as a spouse or civil partner. They must declare and resolve any interests and relationships.

The Chairman will ask Members if they have any interests to declare in respect of items on this agenda, under the following headings:

(a) Disclosable Pecuniary Interests (DPI) under the Localism Act 2011. The nature as well as the existence of any such interest must be declared. After declaring a DPI, the Member must leave the meeting and not take part in the discussion or vote. This applies even if there is provision for public speaking.

(b) Disclosable Non Pecuniary (DNPI) under the Code of Conduct adopted by the Council in May 2012. The nature as well as the existence of any such interest must be declared. After declaring a DNPI interest, the Member may stay, speak and vote on the matter.

Advice to Members: If any Councillor has any doubt about the existence or nature of any DPI or DNPI which he/she may have in any item on this agenda, he/she should seek advice from the Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.

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Part B Reports for decision by the Committee

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Issued on Tuesday, 17 November 2020

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEMOCRATIC SERVICES on 01795 417330**. To find out more about the work of the Audit Committee, please visit www.swale.gov.uk

Chief Executive, Swale Borough Council,
Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Agenda Item 4

Audit Committee	Agenda Item:
Meeting Date	25 November 2020
Report Title	Treasury Management Half Year Report 2020/21
Cabinet Member	Cllr Roger Truelove, Leader and Cabinet Member for Finance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Nick Vickers, Chief Financial Officer
Lead Officer	Phil Wilson, Financial Services Manager & Olga Cole, Management Accountant
Key Decision	No
Classification	Open
Recommendations	<ol style="list-style-type: none">1. To note the performance information in this report.2. To approve the prudential and treasury management indicators within the report.

1. Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to review the mid-year outturn position on treasury management transactions for 2020/21, including compliance with treasury limits and Prudential and Treasury Performance Indicators. The report will go to Council on 6 January 2021.
- 1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services, which requires the Council to approve treasury management half-year and annual reports.
- 1.3 The Council's treasury management strategy for 2020/21 was approved at a meeting on 26 February 2020. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.

2. Background

Market Environment

- 2.1 Economic background: The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again.

- 2.2 The Bank of England (BoE) maintained Bank Rate at 0.1%. The potential use of negative interest rates was not ruled in or out by BoE policymakers.
- 2.3 Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses.
- 2.4 Gross Domestic Product (GDP) growth contracted by 19.8% in Q2 2020 (April to June) according to the Office for National Statistics, pushing the annual growth rate down to -21.5%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.
- 2.5 There are other alternatives to the use of the PWLB, such as borrowing from other councils, which is what we have done.

Borrowing

- 2.6 On 1 April 2020, the Council had 5 loans from other local authorities, totalling £25m. During the year, the Council borrowed an additional five loans from other local authorities for short-term cash flow purposes and repaid six loans. On 30 September 2020, the Council's external borrowing stood at £20 million. Further details of can be found in Appendix I.

Investments

- 2.7 The counterparties agreed by Cabinet and Council earlier this year, when the 2020/21 Treasury Strategy was approved are:

Counterparty	Cash Limits
Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Local Authorities	£3m
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m
Svenska Handelsbanken unsecured deposits	£3m
Leeds Building Society unsecured deposits	£1.5m
Close Brothers unsecured deposits	£1.5m
Money Market Funds	£3m each
Pooled Funds e.g. Absolute return, Equity income, Corporate Bond Funds	£3m each
CCLA Property Fund	£3m
Supranational Bonds	£3m in aggregate
Corporate Bonds	£3m in aggregate

Counterparty	Cash Limits
Non treasury investments	To be agreed on a case by case basis
Covered Bonds	£3m in aggregate with £1m limit per bank

- 2.8 Investments of £24.7m held at 30 September 2020 and further details can be found in Appendix I.
- 2.9 Interest income received for the first half of 2020/21 was £88,494.41.
- 2.10 For the six months to 30 September 2020, the Council maintained an average sum invested of £41.4m compared with an original budget of £26m, and an average rate of return of 0.43% compared to a budget of 0.77%.
- 2.11 The results for the six months to 30 September 2020 show that the Council achieved 0.48% average return above the average 7 day London Interbank Bid Rate (LIBID) and 0.33% average return rate above the average Bank of England Base Rate.
- 2.12 The Council has £3m invested in an externally managed property fund which is the CCLA property fund which generated an average total return of 3.97%, comprising a £59,596.03 income return. Since this fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. In light of its performance and the Council's latest cash flow forecasts, investment in this fund has been maintained.

Compliance with Prudential Indicators

- 2.13 The Council can confirm that it has complied with its Prudential Indicators for 2020/21 which were set in February 2020 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with members. The indicators are based on approved commitments and the current budget.
- 2.14 Prudential and Treasury Management Indicators are set out in Appendix II.

3. Proposals

- 3.1 No changes are proposed at this stage.

4. Alternative Options

- 4.1 The Chief Financial Officer will consider changes to the counterparty criteria with reference to the Council's agreed policy with regard to risk.

5. Consultation Undertaken

5.1 Consultation has been undertaken with Arlingclose.

6. Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report.
Legal, Statutory and Procurement	Need to comply with MHCLG guidance on treasury management.
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Environment and Sustainability	The Council does not own any shares or corporate bonds so there are no ethical investment consideration to be met.
Health and Wellbeing	Not relevant to this report
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	Not relevant to this report
Privacy and Data Protection	Not relevant to this report

7. Appendices

7.1 The following documents are to be published with this report and form part of the report.

- Appendix I: Investments and Borrowing as at 30 September 2020
- Appendix II: Prudential and Treasury Management Indicators

8. Background Papers

None

Investments and Borrowings as at 30 September 2020

Counterparty	Long-Term Rating	Balance Invested & Borrowed at 30 September 2020 £'000
<u>Money Market Funds</u>		
Invesco Money Market Fund	AAAmmf	3,000
Deutsche Money Market Fund	AAAmmf	3,000
Goldman Sachs Money Market Fund	AAAmmf	3,000
Aberdeen Money Market Fund	AAAmmf	3,000
Black Rock Money Market Fund	AAAmmf	3,000
JP Morgan Money Market Fund	AAAmmf	3,000
Morgan Stanley Money Market Fund	AAAmmf	3,000
SSGA Money Market Fund	AAAmmf	670
CCLA Property Fund		3,000
Total Money Market and Property Funds		24,670
TOTAL INVESTMENTS	Maturity Date	£'000
Greater London Authority	17/12/2020	-5,000
Brighton and Hove City Council	20/07/2021	-5,000
London Borough of Havering	24/08/2021	-5,000
London Borough of Islington	01/03/2021	-5,000
TOTAL BORROWING		-20,000

The Ratings above are from Fitch credit rating agency. The Long-Term Rating is the benchmark measure of probability of default. These ratings are shown for illustrative purposes only, as the Council uses the lowest rating across three agencies on which to base its decisions.

AAAmmf: Fund have very strong ability to meet the dual objective of providing liquidity and preserving capital

Investments and Borrowings as at 30 September 2020

Investment Activity in 2020/21

Investments	Balance on 01/04/2020	Investments Made	Investments Repaid	Balance on 30/09/2020	Average Rate
	£'000	£'000	£'000	£'000	%
Short Term Investments and Cash and Cash Equivalents	21,238	138,980	(138,548)	21,670	0.43
Long Term Investments	3,000	0	0	3,000	3.97
TOTAL INVESTMENTS	24,238	138,980	(138,548)	24,670	

Borrowing Activity in 2020/21

Borrowing	Balance on 01/04/2020	Borrowing Made	Borrowing Repaid	Balance on 30/09/2020	Average Rate
	£'000	£'000	£'000	£'000	%
External Borrowing	25,000	30,000	(35,000)	20,000	0.95
Total Borrowing	25,000	30,000	(35,000)	20,000	

Non-Treasury Investments

The definition of investments covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. The Council holds £3.6m of a long-standing portfolio of 13 investment properties within the borough. These investments are expected to generate £0.2m of investment income for the Council after taking account of direct costs, representing a rate of return of 6%.

Prudential and Treasury Management Indicators

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in local authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

Capital Financing Requirement	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£'000	£'000	£'000	£'000
Capital Financing Requirements	41,961	43,736	42,859	41,981
External Borrowing	(25,000)	(5,000)	0	0
Cumulative External Borrowing Requirements	16,961	38,736	42,859	41,981

External Borrowing: as at 30 September 2020 the Council had £20 million of external borrowing – please see Appendix I for further details.

3. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure and Financing	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£'000	£'000	£'000	£'000
Total Expenditure	19,099	8,849	2,697	2,303
Revenue contributions	873	640	409	63
Capital receipts	298	848	0	0
Grants and other contributions	3,098	4,699	2,288	2,240
Internal/ External borrowing	14,830	2,662	0	0
Total Financing	19,099	8,849	2,697	2,303

Prudential and Treasury Management Indicators

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %
Total	2.78	4.41	4.23	4.13

5. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 30/09/2020	£'000
Borrowing	20,000
Other Long-term Liabilities	0
Total	20,000

6. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long- and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management strategy and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Prudential and Treasury Management Indicators

Authorised Limit for External Debt	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	55,000	55,000	55,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	57,000	57,000	57,000

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	45,000	45,000	45,000
Other Long-term Liabilities	500	500	500
Total Debt	45,500	45,500	45,500

The Chief Financial Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2020.

Prudential and Treasury Management Indicators

7. Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums (i.e. fixed rate debt net of fixed rate investments).

Upper Limit for Interest Rate Exposure	Existing level at 30/09/20	2020/21 Approved Limit	2021/22 Approved Limit	2022/23 Approved Limit
Interest on fixed rate borrowing	100%	100%	100%	100%
Interest on fixed rate investments	0%	-100%	-100%	-100%
Upper Limit for Fixed Interest Rate Exposure	100%	0%	0%	0%
Interest on variable rate borrowing	0%	100%	100%	100%
Interest on variable rate investments	-100%	-100%	-100%	-100%
Upper Limit for Variable Interest Rate Exposure	-100%	0%	0%	0%

8. Maturity Structure of Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Maturity structure of fixed rate borrowing	Existing level at 30/09/20	Lower Limit for 2020/21	Upper Limit for 2020/21	Complied
	%	%	%	
Under 12 months	50	0	100	✓
12 months and within 24 months	50	0	100	✓
24 months and within 5 years	0	0	100	✓
5 years and within 10 years	0	0	100	✓
10 years and above	0	0	100	✓

Prudential and Treasury Management Indicators

9. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country's net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Chief Financial Officer confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

10. Principal Sums Invested for Periods Longer than over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Total Principal Sums Invested Over 364 Days	2020/21 £'000
Upper Limit Estimate	10,000
Actual	3,000
Complied?	✓

Prudential and Treasury Management Indicators

11. Investment Benchmarking for the six months to 30 September 2020

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Base Rate	Average 7 day LIBID Rate
0.43%	0.77%	0.10%	(0.05%)

Audit Committee	
Meeting Date	25 November 2020
Report Title	Annual Financial Report 2019/20 and Audit Findings Report
Cabinet Member	Cllr Roger Truelove, Leader and Cabinet Member for Finance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Nick Vickers, Chief Financial Officer
Lead Officer	Phil Wilson, Financial Services Manager
Classification	Open
Recommendations	<p>Members are asked to:</p> <ol style="list-style-type: none"> 1. Note the external auditor's Audit Findings Report (Appendix I); 2. Approve the Letter of Representation (Appendix II) on behalf of the Council; 3. Approve the Annual Financial Report for the year ended 31 March 2020 including the Annual Governance Statement (Appendix III) including the adjustments set out in the Audit Findings Report; 4. Approve that the Chairman of this Committee signs and dates the Annual Financial Report for the year ended 31 March 2020.

1. Purpose of Report and Executive Summary

- 1.1 This report seeks the Audit Committee's approval of the Council's Annual Financial Report for 2019/20 and includes the external auditor's Audit Findings Report for their consideration.

2. Background

Audit Findings Report

- 2.1 Grant Thornton UK LLP has been the Council's external auditors since 1 September 2012. Their audit of the financial statements began in August 2020.
- 2.2 The Audit Findings Report highlights the key matters arising from the audit of the Council's Annual Financial Report for the year ended 31 March 2020. It is also used to report the audit findings to management and those charged with governance. Grant Thornton are required to report whether the Council's Annual Financial Report presents a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared. They are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure value for money.

- 2.3 The Audit Findings Report is Appendix I. Grant Thornton will present this report to the Committee on 25 November and it will be a “to follow” item.

Letter of Representation

- 2.4 The letter sets out assurances from the Council to Grant Thornton that relevant accounting standards have been complied with and gives further assurances that the Council has disclosed information where to withhold it would have undermined the accuracy and reliability of the Annual Financial Report. The letter also covers the responsibilities of the Chief Financial Officer and those of the Council in producing the Annual Financial Report for the Council. Grant Thornton require the Audit Committee to approve the Letter of Representation before they can issue their opinion and conclusion on the Council’s accounts for 2019/20.
- 2.5 The Letter of Representation is Appendix II. Grant Thornton will present this to the Committee on 25 November and it will be a “to follow” item.

Annual Financial Report 2019/20

- 2.6 Appendix III is the Annual Financial Report for the year ended 31 March 2020. This is the version published in June 2020 and Grant Thornton will detail any proposed amendments to the Annual Financial Report in their Audit Findings report (Appendix I).
- 2.7 There has been a change in the timetable for publication and approval of the Annual Accounts for 2019/20. The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404) states that unaudited draft accounts for 2019/20 had to be published by 31 August 2020 and that the audited accounts for 2019/20 have to be approved by Audit Committee and published by 30 November 2020.
- 2.8 The 2019/20 Annual Accounts were prepared against the background of the coronavirus and the first national lockdown which began 17 March 2020.
- 2.9 In early April the Chartered Institute of Public Finance and Accountancy (CIPFA) considered proposals to streamline the 2019/20 accounts, in an effort to alleviate the pressure on budget holders and finance teams that had been diverted from their normal duties as: “COVID-19 represents the greatest challenge faced by public services in a generation, placing local government under greater pressure than ever before”. However, the proposed simplification and reduction proved unacceptable to regulators and auditors. Therefore, CIPFA resolved that in the absence of regulator and audit support, the accounts would be prepared on the basis of the full application of the 2019/20 Code.
- 2.10 The Finance Team prepared the Annual Accounts at a time when it was also dealing with the issues arising from the coronavirus such as continued delivery of its services in lockdown, forecasting the financial implications of the pandemic and how it could be addressed, financial management support on coronavirus services provided by other departments, reduction in its staffing resources, etc.

3. Proposals

- 3.1 The Annual Financial Report for the year ended 31 March 2020 is attached as Appendix III.

3.2 The Chief Financial Officer and Financial Services Manager would like to express their thanks to Grant Thornton for their efforts in completing the required audit work in time for reporting to this Committee. As in the past, the Chief Financial Officer and Financial Services Manager will work with the external auditors to review the accounts and to continue to maintain and improve them in the future.

4. Alternative Options

4.1 The Annual Financial Report has been prepared in accordance with statutory accounting principles. No other options have been considered as it is a legal requirement that the financial statements are prepared and signed by the person presiding at this meeting no later than 30 November 2020.

5. Consultation Undertaken or Proposed

5.1 Consultation has taken place with Grant Thornton throughout this process.

6. Implications

Issue	Implications
Corporate Plan	Good financial management is key to supporting the Corporate Plan objectives.
Financial, Resource and Property	The External Auditor's opinion is that the Council's accounting statements give a true and fair view of the financial position of the Council as at 31 March 2020 and its income and expenditure for the year then ended.
Legal, Statutory and Procurement	The production of the financial statements is a legal requirement under the 2015 Accounts and Audit regulations as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.
Crime and Disorder	No direct issues
Environment and Sustainability	No direct issues
Health and Wellbeing	No direct issues
Risk Management and Health and Safety	No direct issues
Equality and Diversity	No direct issues
Privacy and Data Protection	No direct issues

7. Appendices

7.1 The following documents are to be published with this report and form part of the report:

7.1.1 Appendix I: Audit Findings Report

7.1.2 Appendix II: Letter of Representation

7.1.3 Appendix III: Annual Financial Report for the year ended 31 March 2020

8. Background Papers

8.1 Detailed working papers are held in the Finance Department.

Annual **Financial Report**

including the Statement of Accounts
for year ended 31 March 2020

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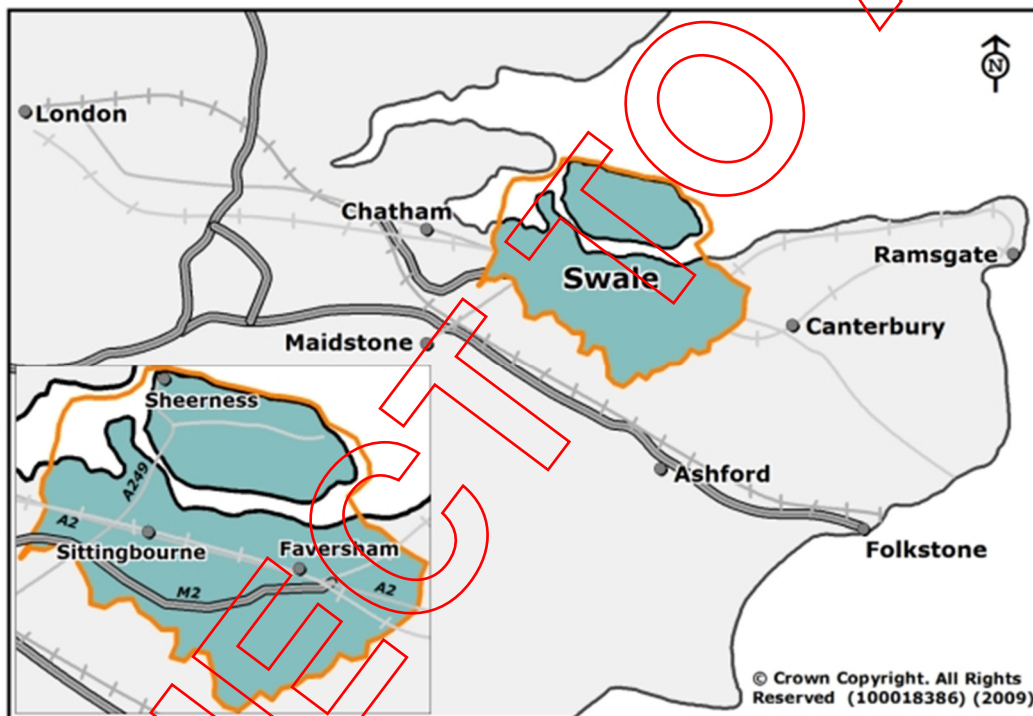
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The Council

Swale Borough Council 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 148,500, Swale includes the towns of Sittingbourne and Faversham, the Isle of Sheppey, and an extensive rural hinterland.

The Council provides a wide range of services, such as waste collection, recycling, street cleansing, parking, planning, leisure, homelessness support, housing benefit, public conveniences and environmental health.

The Council has 47 councillors (also known as 'Members') covering 24 wards. Each Councillor is elected for a term of four years, with the last election on 2 May 2019. Councillors are elected to represent their constituents and to take decisions upon Council services and policies. Swale is controlled by a Coalition under a Leader and a Cabinet. The Leader of the Council is Councillor Truelove. The Council's services are organised into Directorates and Departments.



Financial Performance by Chief Financial Officer Nick Vickers

The Council's Expenditure and Income for 2019/20

The table below shows spend against budget for the Council's service departments:

	Budget 2019/20 £'000	Actual Spending 2019/20 £'000	Over/ (Under) Spend 2019/20 £'000
Chief Executive Department	331	251	(80)
Policy, Communications & Customer Services	1,228	1,093	(135)
Democratic Services	1,159	1,007	(152)
Director of Regeneration	186	181	(5)
Housing, Economy & Community Services	3,166	3,502	336
Planning	1,103	1,305	202
Commissioning, Environment & Leisure	5,690	5,612	(78)
Finance	772	737	(35)
Revenues & Benefits	(192)	(355)	(163)
Property	672	677	5
Licensing & Resilience Planning	47	(2)	(49)
Environmental Health	593	510	(83)
Information Technology	1,223	1,101	(122)
Internal Audit	191	175	(16)
Human Resources	445	403	(42)
Legal	508	468	(40)
Corporate Items	1,818	2,211	393
Cost of Services	18,940	18,876	(64)
<u>Financed by:</u>			
Council Tax	(8,258)	(8,258)	0
Business Rates	(8,333)	(8,333)	0
New Homes Bonus Grant	(1,875)	(1,875)	0
Revenue Support Grant	(113)	(113)	0
Surplus in Year	361	297	(64)

	Budget 2019/20 £'000	Actual Spending 2019/20 £'000	(Under) spend 2019/20 £'000
General Fund balance as at 1 April 2019	(3,427)	(4,358)	(931)
Surplus in year	361	297	(64)
2018/19 approved rollovers	723	723	0
Sub Total movement in 2019/20	1,084	1,020	(64)
General Fund Balance as at 31 March 2020	(2,343)	(3,338)	(995)

Reviewing the Council's Performance

The local authority accounting year runs from 1 April to 31 March. Throughout the Accounts figures in brackets represent minus or negative figures. There are regular reports to Cabinet and senior management on the monitoring of spend against budget. In 2019/20 there was an underspend of £64,000 against the budget. The major reasons for the underspend are salaries and additional income. There will be a report to Cabinet on 8 July 2020 detailing how the Council spent its money against its budget and how this expenditure was financed, which can be found here:

<https://services.swale.gov.uk/meetings/ieListDocuments.aspx?CId=129&MId=2306&Ver=4>

The above table shows that there was a decrease in the General Fund of £1,020,000. The Council's policy is to maintain a balance of at least £1.5 million in the General Fund. The balance of £3.3 million at 31 March 2020 represents 18% of the Cost of Services for 2019/20 and is therefore deemed to be at an adequate level by the Chief Financial Officer.

In addition, the Council:

- collected £85m of Council Tax for Police, Fire, Kent County Council (KCC), Parish Councils and itself (£79m in 2018/19);
- collected £54m of Business Rates for the Government, Fire, KCC, and itself (£51m in 2018/19);
- paid out £37m on benefits and received £37m in grant (£43m paid, £43m received in 2018/19).

Capital Spending for 2019/20

Where spending is on an asset which will benefit the Council over a number of years, it is called capital. It is funded mainly by Government grants, borrowing and capital receipts (money from selling land and other assets). The largest elements of capital spend were on Sittingbourne Town Centre Regeneration and on Disabled Facilities Grants.

The tables below show capital spending and how they were funded.

Capital Spending	Revised Budget 2019/20 £'000	Actual Spending 2019/20 £'000	Over/ (Under) Spending £'000
Sittingbourne Town Centre Regeneration	15,251	13,906	(1,345)
Disabled Facilities Grants	3,677	1,530	(2,147)
Faversham Recreation Ground Improvement	1,379	1,469	90
Leisure Centres	1,079	785	(294)
Sittingbourne Skate Park	216	235	19
Other Services	2,433	1,174	(1,259)
Total	24,035	19,099	(4,936)

Capital Funding	2019/20
	£'000
Total Capital Spending	19,099
Source of Funding	
Borrowing	14,830
Capital grants and other contributions	3,098
Earmarked reserves	873
Capital receipts	298
Total Capital Funding	19,099

Pensions

The Council is a member of the Local Government Pension Scheme (LGPS), which KCC administers on the Council's behalf. Every three years the value of this fund is valued by a firm of actuaries (professionally qualified independent consultants). This valuation estimates how much money will be needed to pay pensions in the future and compares this to the expected income. These forecasts are based on assumptions on factors such as future inflation, pay increases, pension growth, interest rate movements, investment returns, mortality estimates, retirement ages, etc. To arrive at the valuation, the actuary must convert the cost of future pension payments (liabilities) to a present day value (using a method called discounting). If the liabilities are more than the assets then the Pension Fund is in deficit. The higher the deficit of the Pension Fund valuation, the higher the contribution that will have to be made by the Council to make up the difference. A valuation is carried out every three years and the result of the latest valuation was that the Council's share of the overall Kent Pension Fund deficit fell from £20 million in 2016 to £15 million in 2019 and the level of funding of the scheme rose from 76% in 2016 to 84% in 2019 (100% is a fully funded scheme). It is this three year valuation that sets the amount that the Council has to pay to the Kent Pension Fund.

However, the Pensions Note in the accounts (Note 9) is based upon a different method of valuing the Pension Fund from the one described above. Instead, the value of pensions in the accounts is based on an International Accounting Standard (IAS 19). This enables the comparison of the pension assets and liabilities between different councils. This too calculates a liabilities figure for the cost of future pension payments which is offset against a value of the Pension Fund assets, but it does so using different assumptions from the approach described above. In the accounts, the pension deficit according to IAS 19 has increased from £57.4 million at 31 March 2019 to £59.0 million at 31 March 2020. However, this IAS 19 approach does not affect the amount that the Council has to pay to the Kent Pension Fund which is set by the results of the three year valuation described above.

The table below compares these two differing methods of valuation for the past few years.

Year	IAS 19 Review Pension Deficit £'000	3 Year Review Pension Deficit £'000
2017/18	62,713	20,067
2018/19	57,367	20,067
2019/20	59,027	15,453

The reasons for the contrast in the valuations between the two methods are the different methods and assumptions underlying their calculations.

Reports on the Kent Pension Fund are available from: KCC, Treasury and Investments, County Hall, Maidstone, Kent ME14 1XQ or by using the following link:

<https://www.kentpensionfund.co.uk/>

How the Council Manages its Surplus Funds

The Council's total investment averaged £33 million during 2019/20 (£28 million for 2018/19) and closed at £24 million at 31 March 2020 (see Note 42, Table 4) (£21 million at 31 March 2019). The Council achieved a return of 0.95% for 2019/20 (0.90% for 2018/19), amounting to £314,000 (£289,000 in 2018/19). The increase compared with the previous year is due to an improved return on the Council's investments which was mainly as a result of the investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund and the improvement in the rates paid on the Council's deposits.

The Council meets Government and accounting requirements on treasury management which emphasise the security of funds. The policy is to avoid unnecessary risk, so the Council only puts 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).

At 31 March 2020, the Council had five loans of £5 million each, from other local authorities. The rates ranged from 0.95% to 1.25%.

How the Council Collects Tax

The Council collects Council Tax on behalf of KCC, Police, Fire, and Parishes, and Business Rates for the Government, KCC, and Fire, which is recorded in the Collection Fund which can be seen on page 75. At the year-end, this account had a surplus balance of £0.593 million.

Transparency of the Council's Spending

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 the Council's website at <http://www.swale.gov.uk/register-of-interests/>.

The Government has promoted how local authorities make information on senior staff salaries and payments to the Council's suppliers available to the public. This information can be found on the Council's website at: <http://www.swale.gov.uk/transparency/>.

New Accounting Policies in 2019/20

There were no new significant accounting changes or policies that were adopted for the 2019/20 Accounts.

Future Accounting Policies

In 2021/22 International Financial Reporting Standard (IFRS) 16 on Leases will be implemented which will require a review of the Council's existing lease arrangements to determine what effect the new standard will have on their value in future accounts.

Future Financial Strategy

Medium Term Financial Plan

The whole system of local government finance was due to change from 1 April 2020. This was put back because of the impact of Brexit on the legislative process and the Government have announced that these changes will not be implemented in April 2021 as originally planned. There is no clarity whatsoever about the funding regime which will apply from 1 April 2021. The Medium Term Financial Plan therefore assumes that major funding streams from 1 April 2021 continue as they are now. We have no other basis of forecasting at this point.

The coronavirus pandemic is an unprecedented financial challenge to the Council. The objectives of the Council in this context are:

- to maintain core services;
- the delivery of Council priorities – Special Project Fund/public realm, local plan, constitutional changes, affordable housing and Climate Change; and,
- ensuring the ongoing financial viability of the Council.

The Medium Term Financial Plan is detailed in the Council's Budget Book 2020/21 which can be found on the Council's website here: <http://www.swale.gov.uk/assets/Latest-Publications/Revenue-Budget-and-Capital-Programme/PDF995-CLR-Budget-Book-2020-21.pdf>

Capital Strategy

The Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services.

Councils are required to balance their revenue budget annually and cannot borrow to achieve a balanced position. However, they have very far reaching powers to borrow to fund capital expenditure. This has historically been funded from borrowing from the Public Works Loan Board, which is part of the Debt Management Office which is part of the Treasury. Borrowing can be for up to 50 years at rates which are below commercial rates.

Council borrowing has traditionally been to fund long-term assets such as roads and schools. The cuts to Council funding since 2010 have led to councils increasing their borrowing for capital for two main purposes for:

- regeneration or social benefits – this could be funding leisure or industrial assets, or housing related; and,
- generating new revenue streams to address revenue funding reductions.

Government has generally looked unfavourably on council borrowing solely to buy commercial property assets, often outside their geographical area. To reinforce just how unhappy Government is with borrowing to buy commercial assets the Chartered Institute of Public Finance and Accountancy (CIPFA) has published a guidance document on Prudential Property Investment.

IFRS 16 will come into effect for 2021/22, which will change the accounting treatment of leases. This may result in the Council having to recognise assets on its Balance Sheet which are currently being leased. Preparation work on the implementation of this accounting standard has begun and progress will be reported on in the 2020/21 Annual Accounts.

This Council has historically been debt free and had a very limited capital programme, restricted largely to the use of Disabled Facilities Grants for home improvements with these grants being provided 100% by Government.

In March 2016, Council agreed to a borrowing facility of up to £30 million subject to individual business cases and in November and December 2016 Cabinet agreed a business case for borrowing up to £28 million for Sittingbourne Town Centre (STC) regeneration. This facility was extended to £60 million in February 2017 with any additional borrowing being subject to business cases to Cabinet. The only business cases which have been agreed are for STC, the purchase of land adjoining Swale House and the Leisure Centre refurbishment. At 31 March 2020, the Council has five loans for periods of between 12 to 18 months from other councils which total £25 million. The details of any project funded from borrowing will be provided in future Cabinet reports.

The borrowing decisions set out above are historic. In future rather than announcing a borrowing facility with no linkage to a particular project, the specific project agreed by Cabinet will have a borrowing limit associated with it. This limit can be varied by Cabinet. In the December 2019 budget report Cabinet agreed that an additional £10 million could be borrowed to fund housing projects.

This administration takes the view that the Capital Strategy should reflect the following principles:

- investing in sustainable, affordable and social housing to increase overall supply;
- using the ability to borrow at low rates of interest for the benefit of the physical and social infrastructure of the borough and for broader social value; and,
- ensuring that the costs of borrowing are manageable long term within the revenue budget.

The Council has not made and will not make any direct commercial investments outside of the Borough. Capital funds will be used for the benefit of local residents.

In January 2020, it was announced that the Development Agreement with Spirit of Sittingbourne had been terminated. One of the implications of this is that the Council regains control of the Swale House site. It has long been acknowledged that the current Swale House (a 1980's build) is not fit for purpose. The Cabinet Member for Economy and Property brought a report to the Cabinet on 18 March 2020 which set out the options for a refurbishment which will create a carbon neutral building with much lower running costs, a modern fit for purpose work space which will allow for significantly more space to be let out on a commercial basis. The business case is being prepared.

Debt is only a temporary source of finance, since loans must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). MRP is a charge to the revenue budget which then accrues on the Balance Sheet; it is not an external payment. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

All organisations need to manage their cash flow. For most councils their cash flow level is much larger than their reserves as they take in funds through sources such as business rates and council tax which they hold before making payments to other bodies such as KCC. The Council's daily cash balances are typically £33 million. With short-term deposit rates continuing to be very low, where a council is investing in a capital project it can fund this capital investment from cash flow and this is known as internal borrowing. Internal borrowing defers the financial commitment to external borrowing, but MRP still has to be made. The Council has been using internal borrowing to fund expenditure on STC, the multi-storey car park, the purchase of land adjoining Swale House and the Leisure Centre refurbishment. The Chief Financial Officer closely monitors cash flow to ensure that there is no adverse impact.

For any significant investment the Council will supplement the knowledge of Members and Officers with appropriate external specialist expertise to ensure that proposals are fully tested and risks considered.

The Chief Financial Officer believes that the Capital Strategy and Capital Programme are sustainable.

CIPFA Financial Management Code

After 10 years of severe funding reductions it is noteworthy that to date only one local authority, Northamptonshire County Council, has failed financially. But clearly Government are concerned that other councils will fail. It is against this backdrop that CIPFA issued the Financial Management Code in October 2019. The Code is designed to support good practice in financial management and to assist councils in demonstrating their financial sustainability. It is advisory not statutory, but councils will have to show how they comply. Compliance is the responsibility of members, the Chief Financial Officer and the senior leadership team. The guidance suggests that 2020/21 should be a shadow year and full compliance will be from 1 April 2021. The Chief Financial Officer's view is that the Council performs well against the 17 financial management standards.

Reserves

The key principles for the management of reserves moving forward are:

- to maintain a prudent level of reserves to allow the Council to deal with unexpected one-off events;
- funding the Council's strategic priorities; and,
- to fund one-off items of expenditure to support service delivery.

When the Council is considering its budget requirement, it is the Chief Financial Officer's duty under S25 of the Local Government Act 2003 to report on the adequacy of reserves. These have been reviewed in line with guidance from CIPFA.

The Council seeks to maintain a minimum of £1.5m as its General Fund balance and there is no reason to change this – the balance at 31 March 2020 was £3.338m. The Council holds earmarked reserves for specific purposes. The remaining unallocated funds form the General Reserve. The Chief Financial Officer's view is that the level of reserves and balances held by the Council are at a reasonable level.

Coronavirus

The Coronavirus pandemic has enormous implications for the residents of the Borough. It has also made huge demands on the Council to provide at very short notice new services through the community hubs and almost all Council staff are working from home. It has also transformed the operation of the democratic processes within the Council with members holding meetings remotely.

This pandemic is the most serious crisis for the country since World War 2. It therefore has a huge potential impact on the Council's finances. Overall the total estimated impact is £4.1m. It must be made clear that this is an estimate that gives a base position which the Council will monitor against. To date £1.6m has been received from Government towards meeting the additional costs of the pandemic. A report on the most significant impacts on the Council finances went to Cabinet on 3 June 2020 and can be found here: <https://services.swale.gov.uk/meetings/ieListDocuments.aspx?CId=129&Mid=2305&Ver=4>

The coronavirus has affected the Council's services and how it provides them in many different ways. The details can be found here: <https://www.swale.gov.uk/service-updates/>

The coronavirus pandemic impacted at the very end of the 2019/20 financial year and therefore the full impact of this is not reflected in these Accounts. However, the Council are expecting significant challenges in the year ahead as it deals with the on-going crisis.

The Annual Financial Report includes details of the impact of the coronavirus on their preparation. Any prediction on the impact of this pandemic runs the risk of presenting an inaccurate set of accounts as there is little precedent for this situation. As the year progresses it is possible that more information will become available to analyse the impact on the accounts, but until then, as at time of writing, it is not possible to accurately predict the longevity and severity of the impact of the coronavirus and therefore the values used in these Accounts have been based on the best available at time of preparation.

Annual Financial Report

Swale Borough Council's Annual Financial Report for 2019/20 provides a record of how the Council has used its financial resources during the year. The Council's accounts and all relevant documents are subject to review by Grant Thornton UK LLP – the Council's external auditors.

The Annual Financial Report has the following sections:

- this review of the Council's performance, which gives a background to its financial performance;
- an Annual Governance Statement showing how the Council meets set standards when carrying out its 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 2020. It has been prepared in line with the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. The format meets the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts appears on pages 24 to 80 and includes changes where appropriate as required by 'the Code'. The Expenditure and Funding Analysis is not a core financial statement but has been included at this stage of the Statement of Accounts to assist readers with a logical path through the detailed financial reporting.

Expenditure and Funding Analysis page 24 – this shows the final net spend for each service for the year and their impact on the Council's resources and then converts these figures in accordance with accounting regulations so that they match those in the Comprehensive Income & Expenditure Statement.

The Council's core financial statements are listed below along with a brief explanation of their purpose.

Comprehensive Income & Expenditure Statement page 26 – shows all of the Council's spending, income and changes in value in providing its services during the year in accordance with generally accepted accounting practice.

Movement in Reserves Statement page 27 – shows the movement on all the Council's reserves (funds set aside) due to the increase or decrease in the Council's net worth as a result of its spending, the income it received, and changes in the value of its assets.

Balance Sheet page 28 – summarises the Council's financial position at 31 March each year. It shows the assets (what the Council owns) that the Council holds and its liabilities (what the Council owes) to other parties, and the Council's reserves, separated into those that can be used for future spending (usable reserves) and those created to reconcile the technical aspects of accounting (unusable reserves).

Cash Flow Statement page 30 – summarises the cash movements in and out of the Council's bank accounts over 2019/20.

Accounting Policies page 31 – sets out the policies the Council adopted for drawing up the various accounting statements.

Further Information

You can get more information about the accounts by emailing the Finance Department at finance@swale.gov.uk. This document is on the Council's website at: <https://www.swale.gov.uk/statement-of-accounts/>

Nick Vickers B.Sc. (Econ), CPFA

Date: 29 June 2020

Chief Financial Officer



Reviewing Performance

The Council's Performance

The Council continues to monitor its performance against a range of key performance indicators and, where possible, to benchmark its performance with those of other local authorities. In addition to numerous indicators in use within specialist teams, Cabinet, Scrutiny and the Strategic Management Team (SMT) monitor a set of 38 'corporate' indicators on a regular basis. This set is balanced across services to ensure that taken as a whole it is broadly representative of the Council's performance across the board. The combination of the new administration and the coronavirus crisis will mean that the Council will want to review these indicators once the response phase to the crisis is over. The Council publishes a summary performance report each month on its website at <http://www.swale.gov.uk/managing-performance/>.

The Council's People

The Council has developed its values to describe clearly how the Council does things and all employees should be aware how the Council expects them to work. 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 staff communications which are regular and made through a variety of communication channels.

The Workforce Strategy that was developed and implemented in 2019 includes new four key themes to reflect the Council's revised priorities and the possible opportunities and challenges in the future. This is available from the Council website at <https://www.swale.gov.uk/workforce-strategy-2019-to-2022/>.

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 monitoring of workforce information by SMT also ensures a focus on sickness absence. During 2019/20, the amount of time lost to sickness was an average of 9.6 days per employee, which is higher than the average for the local government sector of 8.5 days. The main reason for the increase in sickness figures was due to long-term absence. The Council has continued to provide a proactive approach to sickness management and has continually enhanced an active programme of well-being initiatives to encourage staff to take responsibility for their own health.

How the Council Manages Data

The Council has a responsibility to securely keep the personal data it holds. In 2019/20 there were 25 reported incidents which amounted to breaches of the Data Protection Act. Each case is investigated fully before the Council's Data Protection Officer decides on the appropriate response. In 2019/20 it was not necessary to report to the Information Commissioner. The decision in all cases was based on conclusions reached by the Information Commissioner in previous years and demonstrated that it had taken effective and efficient action in minimising the impact of the breaches reported.

How the Council Manages Risk

The Council has well-established risk management processes which are set out in its Risk Management Framework. The framework was reviewed and updated in early 2019. All of the Council's operational and corporate level risks are captured within a central risk register.

The risk register is reviewed annually in its entirety, as well as individual risks being reviewed routinely throughout the year. This includes adding or removing risks as circumstances change. The corporate risk register, in particular, is currently being reviewed following the identification of new corporate priorities.

The Council, like all local authorities, continues to work in a challenging environment. The key challenges documented in the risk register include authority funding, housing and infrastructure pressures and cyber security.

The Council works collectively to respond to risks. Existing controls have been identified for each risk and were considered when determining the impact and likelihood of the risk. Where the overall risk score was high actions were identified to reduce the risk down to an acceptable level. All corporate risks and all other high-level risks were monitored routinely by the Council through the year ensuring an effective response to risk events. The Audit Committee received an annual report on the Council's risk management arrangements on 11 March 2020 and it can be found here:

<https://services.swale.gov.uk/meetings/ieListDocuments.aspx?CId=142&MId=2222&Ver=4>

1. Scope of Responsibility

- 1.1 Swale Borough Council is responsible for ensuring that:
- (i) its business is conducted in accordance with the law and proper standards;
 - (ii) public money is safeguarded and properly accounted for; and
 - (iii) public money is used economically, efficiently and effectively.
- 1.2 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.
- 1.3 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.
- 1.4 In June 2017 the Cabinet agreed an updated Local Code of Corporate Governance based upon the late 2016 Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework 'Delivering Good Governance in Local Government'. There are no changes to the code for this year.
- 1.5 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 (Amended).
- 1.6 The May 2019 elections resulted in control of the Council passing to a five party coalition comprising the Labour, Swale Independent Alliance, Liberal Democrats, Green and Independent groups. The new administration has a very well defined programme which they will implement.
- 1.7 In March 2019 the Chief Executive started an extended period of absence due to ill health and tragically Mr Radford passed away in late May 2020. Mr Radford's role has been covered by the Director of Regeneration, the Head of Policy, Communications and Customer Services and the Chief Financial Officer, whilst continuing with their core responsibilities.
- 1.8 The Coronavirus pandemic hit the country in March 2020. It has had a huge impact on the Council and this impact will be reflected in the key priorities for the 2020/21 financial year.

2. The Purpose of the Governance Framework

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

2.2 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:

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

2.3 The governance framework has been in place at the Council for the year ended 31 March 2020, and up to the date of approval of the Statement of Accounts.

3. The Council's Governance Framework

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

Communicating the Council's vision

3.2 In March 2020 Cabinet agreed to recommend to Council a new Corporate Plan "Working Together for a Better Borough". The plan is structured around four high level priorities, each containing a number of specific objectives. The four priorities are:

- Building the right homes in the right places and supporting quality jobs for all;
- Investing in our environment and responding positively to global challenges;
- Tackling deprivation and creating equal opportunities for everyone; and,
- Renewing local democracy and making the council fit for the future.

3.3 One of the first actions of the new administration at Council in June 2019 was to declare a 'Climate and Ecological Emergency'. This has resulted in a far reaching and ambitious programme to address climate change and environmental issues across the borough, but with the Council leading the way in which it conducts its own business.

Management of resources

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

- (i) a medium term financial plan and annual budget process that ensures that financial resources are directed to the Council's priorities;
- (ii) a financial monitoring process which closely monitors expenditure and income with detailed monthly reporting to the Strategic Management Team (SMT) and quarterly reporting to Cabinet and Scrutiny Committee;
- (iii) the Special Project Fund created by the new administration to fund public realm projects and support the delivery of other administration priorities;

- (iv) a capital strategy again directed at administration priorities in particular increasing the supply of affordable housing; and,
- (v) an annual review of fees and charges.

Member and officer working arrangements

- 3.5 Roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. The new administration has at this stage maintained the Cabinet system and the Cabinet consists of seven members who have responsibility for particular portfolios. The Cabinet members are supported by Deputy roles.
- 3.6 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.
- 3.7 The administration is well advanced with proposals to introduce an Area Committee structure. This is still expected to be agreed by Council during this civic year but implementation may be affected by the Coronavirus lockdown.
- 3.8 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.
- 3.9 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 non-Cabinet members to consider and feed into policy proposals before formal decisions are taken.
- 3.10 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.
- 3.11 A central role on governance issues is undertaken by the Council's three statutory officers; the Head of Paid Service, the Monitoring Officer and the Chief Financial Officer.
- 3.12 The Chief Executive (and Head of Paid Service) is accountable for the delivery of the Council's services, 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. Paragraph 1.7 refers to how Mr Radford's responsibilities have been covered.

- 3.13 Section 5 of the Local Government and Housing Act 1989, as amended by paragraph 24 of schedule 5 to the Local Government Act 2000, requires the Council to designate one of its senior officers as the Monitoring Officer. The Head of Policy, Communications and Customer Services, Mr Clifford, took over this role in October 2018 and is responsible for:
- (i) ensuring that the Council acts and operates within the law. He has a duty to report to the whole Council if he believes any action or proposal has been or is likely to be contrary to the rule of law;
 - (ii) maintaining arrangements to support the Council's functions and activities, including regular reviews of the Council's Constitution;
 - (iii) dealing with complaints against members under the Code of Conduct, supporting the Council's Standards Committee, and helping to promote and maintain high standards of conduct by Council members, officers, partners and contractors;
 - (iv) establishing and maintaining a register of interests; and,
 - (v) receiving reports and taking action under the Council's Confidential Reporting Code, which supports whistleblowing by staff.
- 3.14 The Chief Financial Officer (CFO), as the Section 151 Officer appointed under the 1972 Local Government Act, 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 Chief Financial Officer in Local Government (2010). From 1 January 2020 Mr Vickers was employed by the Council ending the long-standing secondment arrangement with Kent County Council.
- 3.15 The role of Head of Internal Audit is assigned to the post of the Head of Audit Partnership, Mr Clarke, an arrangement covering the three Mid Kent Services 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 Accounts and Audit Regulations 2015. 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 new CIPFA Statement on the Role of Head of Internal Audit (2019).
- 3.16 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.
- 3.17 All employees should 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

- 3.18 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.
- 3.19 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.
- 3.20 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:
- (i) an Anti-Fraud and Anti-Corruption Strategy;
 - (ii) a Whistleblowing Policy;
 - (iii) various HR policies regarding discipline of staff involved in such incidents;
 - (iv) various procurement policies; and,
 - (v) a corporate complaints procedure exists to receive and respond to any complaints received.
- 3.21 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:
- (i) registers of disclosable pecuniary and non-pecuniary interests;
 - (ii) declarations of disclosable pecuniary and non-pecuniary interests at the start of each meeting in which discussions involve a matter in which a member has an interest;
 - (iii) registers of gifts and hospitality for Officers;
 - (iv) an Equalities Scheme and Equal Opportunities Policies; and,
 - (v) member induction and ongoing member training.

A recent audit found that these declaration processes, at least when it comes to declarations by officers, are not operating effectively. This is being followed up by the Monitoring Officer.

Taking informed and transparent decisions and managing risk

- 3.22 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.
- 3.23 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 the corporate priorities, and any equality and diversity implications.

3.24 The Council has a well embedded approach to the management of risk and this has been fully updated to reflect the priorities of the new administration. The Audit Committee maintains an oversight of the process.

Developing the capacity and capability of Officers and Members

3.25 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. There are well-established performance appraisal and development processes for all staff.

3.26 In the absence of the Chief Executive, SMT has reinvigorated its approach to ensuring there are effective communications processes with staff. SMT meets weekly and is supplemented for one meeting a month by a wider Corporate Leadership meeting, in addition there are monthly team meetings, and quarterly all staff briefings. The format of the latter has been changed with a wider spread of speakers and shorter more focussed sessions, pre lockdown these have been well received. The Council already had a thin senior management structure with one Director and five heads of service, the absence of the Chief Executive has significantly added to the demands made on all of these officers in 2019/20 and this continues.

3.27 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

3.28 The Council engages with partners and stakeholders through various partnerships to ensure collaboration on strategic issues and joint responsibility for working together for the benefit of the residents of Swale.

3.29 The Council also engages with the voluntary, community and business sectors, working closely with Swale Community and Voluntary Services (CVS) 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.

3.30 In addition, the Council uses a variety of corporate communications channels to engage with and inform local people about the work of the Council and its decisions including:

- (i) ensuring the Council provides an accessible website for delivering online services, providing a comprehensive information source and easy access to transparency data;
- (ii) transparent processes for undertaking consultations, public meetings, Council and Committee meetings with free public access to consultation documents and responses, meeting agendas, reports and minutes via the Council website;
- (iii) publishing and distributing 'Inside Swale' magazine to 60,000 households every quarter to provide a trusted source of Council news and information;

- (iv) comprehensive use of official social media and email bulletins to promote the Council services and engage with stakeholders, responding to local peoples' comments, questions and concerns online; and,
- (v) providing an 'Ask the leader' channel to enable any stakeholder the opportunity to engage directly with the leadership, with all questions and responses openly published on the Council website.

3.31 The proposal to put in place four Area Committees is a major development demonstrating the administration's commitment to greater engagement with local communities.

Outcomes and value for money

3.32 Much of this document is concerned with processes for governance and promoting internal control. But it is essential to consider to what extent do the organisation's governance arrangements support the achievement of outcomes and delivery of value for money.

3.33 From a financial perspective the 2019/20 outturn is likely to be a small underspend. This is a significant achievement given the cost pressures of a number of administration decisions and also reduced income in the key area of planning. Reserves have been well used to use one off money to support the achievement of administration priorities, this is particularly relevant for the newly created Special Project Fund.

3.34 The new administration only formed in May 2019 and this year was bound to be a year for establishing the basis for a far reaching achievement of administration priorities. A good start has been made with:

- Constitutional reform – the Area Committees (subject to final agreement by Council);
- Significant work on a new local plan;
- An agreed approach to increasing affordable housing with funding identified;
- More resources for prevention of homelessness and rough sleeping;
- Dedicated resource on health;
- Climate change emergency action plan;
- Improvements to public realm in the borough;
- Support to community projects across the borough;
- Close to completion of the Sittingbourne leisure development (practical completion delayed until June by Coronavirus);
- Cessation of the Development Agreement with Spirit of Sittingbourne; and,
- An agreed way forward for the refurbishment of Swale House to reduce its carbon footprint, improve space utilisation and generate income from new tenants.

Coronavirus

- 3.35 Since the Coronavirus lockdown started in March the Council has been in a radically different operational mode. All staff have been working from home, the Council took on new functions in-particular in-relation to the community hubs and member meetings have only taken place remotely. Given such fundamental changes the overall view at this point is that Council services have continued to run well.
- 3.36 Since May thoughts have started to turn much more to the recovery phase. Work is already underway on what this means for future service provision and the administration believes that the delivery of their priorities will be at the core of the recovery phase.
- 3.37 The financial impact of the lockdown is massive and there has already been a report to Cabinet quantifying the impact and the action necessary to maintain core services, the delivery of administration priorities and financial viability.
- 3.38 For a significant period the role of councils has been reduced as the proportion of Gross Domestic Product spent in the public sector has reduced. The recovery phase gives councils the potential to play an increasing role across many sectors, whether it is the economic recovery or measures to increase affordable housing supply. This Council is well placed to respond positively to these opportunities.

4. Review of Effectiveness

- 4.1 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.
- 4.2 The processes applied in maintaining and reviewing the effectiveness of the system of governance include:
- (i) the work of the Audit Committee;
 - (ii) the work of the Standards Committee;
 - (iii) the role of the Scrutiny Committee in holding the Cabinet to account;
 - (iv) the operation of the Council's performance management frameworks, including the Annual Report and the wider approach to risk management;
 - (v) the work of Internal Audit as an assurance function that provides an independent and objective opinion to the Council on its control environment;
 - (vi) 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);
 - (vii) the roles of the Council's Statutory Officers;
 - (viii) the corporate complaints procedure; and,
 - (ix) the anti-fraud and corruption and whistleblowing framework.

Annual Governance Statement

4.3 In the 2019/20 Annual Governance Statement three main areas for attention moving forward were identified. The latest position on these is as follows:

Issue	Updated position
Establishing effective working relationships with the new administration.	The most fundamental change for members and officers has been the challenge of working with an administration drawn from five parties rather than one. This is a fundamentally different way of working. The working arrangements continue to evolve and members and officers continue to work to improve arrangements. The absence of the Chief Executive at this key time has had a negative impact.
Constitutional review to re-establish a Committee system.	To date the priority has been the Area Committees. The next steps will be around a Cabinet Committee structure.
Setting a robust 2020/21 budget and Medium Term Financial Plan in light of the planned changes to local government finance from 1 April 2020.	The focus on Brexit meant that the planned changes to local government finance did not happen. The 2020/21 budget was well balanced without compromising core services, administration priorities or significant use of reserves.
Providing effective Officer leadership to the organisation in the extended absence due to ill health of the Chief Executive.	It has been challenging to not have the single leadership of the officer corps and to have three officer covering different aspects of the role but at the same time delivering their core roles.

5. Significant Governance Issues

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

- (i) delivery of the administration priorities;
- (ii) moving from the response phase to Coronavirus into the recovery phase. This links very strongly with the delivery of administration priorities; and,
- (iii) ensuring the financial viability of the Council in light of the increased costs and reduced income due to the Coronavirus pandemic and the lockdown period.

Agreed:

Leader of the Council

Director of Regeneration

Head of Policy, Communications and Customer Services

Chief Financial Officer

29 June 2020

Auditor's Report

Grant Thornton will be carrying out an audit on these accounts and reporting to the Audit Committee in November 2020.

SUBJECT TO AUDIT

The Council's Responsibilities

The Council 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 Council, that officer is the Chief Financial Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

As the Chief Financial Officer, I am responsible for the preparation of the Council'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 Council at the reporting date and its income and expenditure for the year ended 31 March 2020.

Nick Vickers B.Sc. (Econ), CPFA
Chief Financial Officer

Date: 29 June 2020

Certification of the Chairman of the Audit Committee

I confirm that the adoption process for the 2019/20 Statement of Accounts has been formally completed and that the Statement of Accounts for the year ended 31 March 2020 was approved by Swale Borough Council in accordance with the Accounts and Audit Regulations (England) 2015 as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 at the meeting of the Audit Committee on 25 November 2020.

Councillor Simon Clark
Chair of the Audit Committee

Date: 25 November 2020

**Explanatory Note to the Accounts: Expenditure and Funding Analysis –
Change in Spend Per Department from Reported Basis to Accounting Basis**

Service Departments	2019/20					Net Expenditure Accounting Basis £'000
	Net Expenditure Reported to Cabinet £'000	Capital £'000	Pension £'000	Budget Respon- sibility £'000	Other £'000	
Chief Executive	251	14	55	2	0	322
Policy, Communications & Customer Services	1,093	0	244	68	0	1,405
Democratic Services	1,007	14	82	21	0	1,124
Director of Regeneration	181	0	42	0	0	223
Housing, Economy & Community Services	3,502	53	495	26	30	4,106
Planning	1,305	0	403	133	0	1,841
Commissioning, Environment & Leisure	5,612	6,361	365	204	0	12,542
Finance	737	452	160	58	498	1,905
Revenues & Benefits	(355)	0	288	119	159	211
Property	677	70	116	(182)	425	1,106
Licensing & Resilience Planning	(2)	3	46	0	0	47
Environmental Health	510	9	0	1	0	520
Information Technology	1,101	57	0	(361)	0	797
Internal Audit	175	0	0	0	0	175
Human Resources	403	0	9	5	9	426
Legal	468	0	353	(101)	0	720
Corporate Items	2,211	23	4	7	(2,081)	164
Cost of Services	18,876	7,056	2,662	0	(960)	27,634
Financed by Council Tax, Business Rates & Grants	(18,579)					
Deficit in Year	297					
General Fund Balance at 1 April 2019	(4,358)					
Deficit in Year	297					
2018/19 Approved Rollovers	723					
General Fund Balance at 31 March 2020	(3,338)					

The left hand column shows the final spend for the year as reported to Cabinet. The middle columns show changes that have to be made in order to report the Council's expenditure on an accounting basis, which is shown in the column on the right, which then appears in the next statement – the Comprehensive Income & Expenditure Statement as the Cost of Services. The figures for 2018/19 can be seen in Note 46.

Column Explanation: Capital – includes the accounting cost of depreciation of assets or the change in valuation of assets as these are not charged to the taxpayer; **Pension** – shows the cost of pensions based on the accounting standard IAS 19 rather than the actual payments made to the Kent Pension Fund; **Budget Responsibility** – the Council reports the expenditure that services are directly responsible for, but this allocates them out to the services they were spent against; **Other** – taking out Corporate Items which are not in Comprehensive Income & Expenditure Statement Cost of Services, e.g. movement to/from reserves.

**Explanatory Note to the Accounts: Expenditure and Funding Analysis –
Change in Spend Per Department from Reported Basis to Accounting Basis**

The table below reconciles the Cost of Services to the Deficit on the Provision of Services on the 2019/20 Comprehensive Income & Expenditure Statement:

2019/20	Net Expenditure Reported to Cabinet			Budget Responsibility	Other	Net Expenditure Accounting Basis
	£'000	Capital £'000	Pension £'000			
Cost of Services	18,876	7,056	2,662	0	(960)	27,634
Other Income and Expenditure	(11,017)	(1,826)	1,341	0	(9,620)	(21,122)
Deficit on Provision of Services	7,859	5,230	4,003	0	(10,580)	6,512
Adjustments from Accounting Basis	(7,562)	(5,230)	(4,003)	0	10,580	(6,215)
Deficit in Year	297	0	0	0	0	297

SUBJECT TO AUDIT

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

	2019/20 Gross Expenditure £'000	2019/20 Gross Income £'000	2019/20 Net Expenditure £'000	2018/19 Net Expenditure £'000
Chief Executive	322	0	322	364
Policy, Communications & Customer Services	1,434	(29)	1,405	1,361
Democratic Services	1,190	(66)	1,124	943
Director of Regeneration	402	(179)	223	394
Housing, Economy & Community Services	7,779	(3,673)	4,106	3,670
Planning	3,110	(1,269)	1,841	1,268
Commissioning, Environment & Leisure	17,342	(4,800)	12,542	6,259
Finance	1,920	(15)	1,905	1,399
Revenues & Benefits	39,119	(38,908)	211	213
Property	1,233	(127)	1,106	991
Licensing & Resilience Planning	298	(251)	47	28
Environmental Health	572	(52)	520	510
Information Technology	798	(1)	797	771
Internal Audit	175	0	175	204
Human Resources	422	4	426	342
Legal	2,000	(1,280)	720	646
Corporate Items	182	(18)	164	101
Sub Total Cost of Services	78,298	(50,664)	27,634	19,464
Other Operating Expenditure				
Drainage Board levy	817	0	817	797
Parish and Town Council precepts	1,367	0	1,367	1,163
Revaluation of Held for Sale assets	0	(11)	(11)	12
Disposal of assets (gains)/losses (Note 15)	6	(242)	(236)	(507)
Write down of long-term leasing liability	0	(43)	(43)	0
Sub Total Other Operating Expenditure	2,190	(296)	1,894	1,465
Financing & Investment (Note 11)	1,823	(1,452)	371	2,607
Taxation and Non-Specific Grant Income and Expenditure				
Council Tax	0	(9,594)	(9,594)	(9,112)
Business Rates income	0	(23,118)	(23,118)	(23,887)
Tariff & levy Business Rates	12,161	0	12,161	11,068
Contribution paid to Business Rates pool	2,587	0	2,587	2,544
Income received from Business Rates pool	0	(1,616)	(1,616)	(1,573)
Revenue Support Grant	0	(113)	(113)	0
New Homes Bonus	0	(1,875)	(1,875)	(2,046)
Other grants and contributions	0	(1,819)	(1,819)	(595)
Sub Total Taxation and Non-Specific Grant	14,748	(38,135)	(23,387)	(23,601)
Sub Total Movement from Cost of Services			(21,122)	(19,529)
Deficit/(Surplus) on Provision of Services			6,512	(65)
Net deficit on revaluation of non-current assets (Note 19)			1,920	800
Re-measurement of net defined pension liability (Note 9)			(671)	(7,129)
Receipts from long-term debtors (Note 20)			98	89
Sub Total Other Comprehensive Income & Expenditure			1,347	(6,240)
Total Deficit/(Surplus) Comprehensive Income and Expenditure			7,859	(6,305)

This shows the cost of providing services on an accounting basis. There is a reduction of £7,859 million in the value of the Council's assets and this is the total of the movement on the Balance Sheet.

Movement in Reserves Statement – The Change in the Council’s Resources

	General Fund Balance £'000	Revenue Earmarked Reserves £'000 (Note 18)	Total General Fund £'000	Capital Receipts Reserve £'000 (Note 16)	Capital Grants Unapplied £'000 (Note 17)	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
2018/19								
Balance as at 31 March 2018	(4,695)	(13,774)	(18,469)	(1,081)	(326)	(19,876)	5,595	(14,281)
Total Comprehensive Expenditure and Income 2018/19	(65)	0	(65)	0	0	(65)	(6,240)	(6,305)
Adjustments between accounting basis and funding basis (Note 45) 2018/19	(3,655)	0	(3,655)	(284)	(3)	(3,942)	3,942	0
Transfers (to)/from earmarked reserves 2018/19 (Note 18)	4,057	(4,057)	0	0	0	0	0	0
(Increase)/Decrease in 2018/19	337	(4,057)	(3,720)	(284)	(3)	(4,007)	(2,298)	(6,305)
Balance as at 31 March 2019	(4,358)	(17,831)	(22,189)	(1,365)	(329)	(23,883)	3,297	(20,586)
2019/20								
Balance as at 31 March 2019	(4,358)	(17,831)	(22,189)	(1,365)	(329)	(23,883)	3,297	(20,586)
Total Comprehensive Expenditure and Income 2019/20	6,512	0	6,512	0	0	6,512	1,347	7,859
Adjustments between accounting basis and funding basis (Note 45) 2019/20	(6,008)	0	(6,008)	6	(80)	(6,082)	6,082	0
Transfers (to)/from earmarked reserves 2019/20 (Note 18)	516	(516)	0	0	0	0	0	0
(Increase)/Decrease in 2019/20	1,020	(516)	504	6	(80)	430	7,429	7,859
Balance as at 31 March 2020	(3,338)	(18,347)	(21,685)	(1,359)	(409)	(23,453)	10,726	(12,727)

The Movement in Reserves Statement (MIRS) shows the movements in the year for the Council’s usable reserves, (those that can be used for future funding of services), and unusable reserves (there to deal with accounting entries only). It begins by showing the effect of the previous statement – the Comprehensive Income & Expenditure Statement, and then reverses out accounting entries to show the balance on each of the reserves at the end of the financial year. In summary, there was a decrease in the Council’s usable reserves of £0.4 million resulting in a balance of £23.4 million.

Balance Sheet – The Council's Resources

	Note	31 March 2020		31 March 2019	
		£'000	£'000	£'000	£'000
Total Property, Plant and Equipment	24		83,310		74,864
Assets Held for Sale	28	100		0	
Heritage Assets		579		579	
Investment Properties	27	3,568		3,460	
Intangible Assets		111		135	
Long-Term Investments	42	2,938		3,046	
Long-Term Debtors	38	2,441		2,495	
			9,737		9,715
Total Long-Term Assets			93,047		84,579
Current Assets					
Assets Held for Sale	28	0		88	
Inventories		1		1	
Cash and Cash Equivalents	40	17,999		16,783	
Short-Term Debtors	39	10,936		10,966	
Total Current Assets			28,936		27,838
Total Assets			121,983		112,417
Current Liabilities					
Short-Term Creditors	33	(15,707)		(14,691)	
Short-Term Loans	42	(20,000)		(5,000)	
S106 Deferred Revenue Receipts	34	(92)		(89)	
Revenue Grant Receipts in Advance	13	(577)		(504)	
Provisions	37	(1,212)		(1,928)	
Total Current Liabilities			(37,588)		(22,212)
Total Assets less Current Liabilities			84,395		90,205
Long-Term Liabilities					
Long-Term Creditors	32	(60)		(60)	
Long-Term Loans	42	(5,000)		(5,000)	
Liability Related to Defined Benefit Pension Scheme	9(f)	(59,027)		(57,367)	
Capital Grants and Contributions	36	(4,384)		(4,687)	
S106 Deferred Revenue Receipts	34	(297)		(389)	
Provisions	37	(2,900)		(2,116)	
Total Long-Term Liabilities			(71,668)		(69,619)
Net Assets			12,727		20,586

Balance Sheet – The Council’s Resources

	Note	31 March 2020		31 March 2019	
		£'000	£'000	£'000	£'000
Financing:					
Unusable Reserves					
Revaluation Reserve	19	(17,052)		(19,280)	
Deferred Capital Receipts Reserve		(7)		(7)	
Capital Adjustment Account	20	(30,907)		(34,421)	
Collection Fund Adjustment Account	21	(397)		(315)	
Pensions Reserve	23	59,027		57,367	
Pooled Fund Adjustment Account	22	62		(47)	
Total Unusable Reserves			10,726	3,297	
Total Usable Reserves	MIRS page 27		(23,453)	(23,883)	
Total Reserves			(12,727)	(20,586)	

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.

There was a reduction in the value of the Council’s net assets in 2019/20 which was mainly due to the increase in the level of short-term loans offset by an increase in the value of the Council’s assets.

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 has resulted in the Cash and Cash Equivalents balance of £17.999m shown above is detailed in the Cash Flow Statement.

As the Responsible Financial Officer for Swale Borough Council, I hereby certify that these audited accounts give a true and fair view of the Council’s financial position and financial performance in advance of approval.

Nick Vickers B.Sc. (Econ), CPFA

Date: 29 June 2020

Chief Financial Officer

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

	2019/20	2018/19
	£'000	£'000
Net (Deficit)/Surplus on the Provision of Services (see Comprehensive Income & Expenditure Statement)	(6,512)	65
Depreciation	1,366	1,328
Impairment & downward valuations	5,327	2,175
Movement in market value of investment property and upward revaluation	(109)	(70)
Increase in creditors	2,666	2,605
Decrease/(Increase) in debtors	656	(1,980)
Increase in debt impairment	2	9
Movement in provisions	68	568
Movement in pension liability	2,331	1,783
Carrying amount of non-current assets and current assets held for sale, sold or derecognised	19	213
Other movements	108	(47)
Adjustment to Net Surplus on the Provision of Services for Non-Cash Movements	12,434	6,584
Adjustment for items included in the net surplus on the provision of services that are investing and financing activities	73,904	21,659
Net Cash Inflows from Operating Activities	79,826	28,308
Purchase of property, plant and equipment, investment property and intangible assets	(18,281)	(15,957)
Movements of short-term investments	(77,360)	(18,755)
Other payments for investing activities	(330)	(348)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	175	610
Other receipts from investing activities	3,260	4,218
Net Cash (Outflows) from Investing Activities	(92,536)	(30,232)
Short and long-term borrowing	20,000	10,000
Council tax and business rates adjustments	(934)	(503)
Repayment of short-term borrowing	(5,000)	0
Reduction of outstanding liabilities relating to finance leases	(140)	(183)
Net Cash Inflows from Financing Activities	13,926	9,314
Net Increase in Cash or Cash Equivalents	1,216	7,390
Cash and cash equivalents as at 1 April (Note 40)	16,783	9,393
Cash and cash equivalents at 31 March (Note 40)	17,999	16,783
Net Increase in Cash or Cash Equivalents During Year	1,216	7,390

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 cash flow for operating activities includes £317,000 for interest received (£295,000 in 2018/19) and £214,000 for interest paid (£63,000 in 2018/19).

Accounting Policies

1. Accounting Policies – General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code supported by IFRS and other guidance. The appropriate note details the critical judgements and estimation about the future made when applying the Accounting Policies.

(a) 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 reflecting the economic and statutory environment in which local authorities operate. These provisions confirm that as authorities cannot be created or dissolved without statutory prescription it is only appropriate for their financial statements to be prepared on a going concern basis. The going concern assumption under the Code is therefore drawn up to assume that a local authority's services will continue to operate for the foreseeable future. This is despite the impact of the coronavirus on local authority financial sustainability, because the going concern basis of reporting in the Code and the rationale behind it remains unchanged.

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. This Code only requires local authority financial statements to disclose information which is material.

(b) Accruals and Revenue Recognition

Activity 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:

- the Council recognises income when or as control over the goods or services is transferred to the customer or service recipient and the income reflects the consideration expected for those goods or services;
- 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;

Notes to the Core Financial Statements

- 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. are 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;
- accruals are recognised where the value exceeds £1,000;
- 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 Cost of Services for the income that might not be collected;
- exceptions 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. This policy also covers larger payments credited to the year in which they were billed and not apportioned between years; and,
- the annual review of the impairment allowance for non-payment of debt will take into account the prevailing economic climate.

2. Accounting Policies

(a) Capital Receipts

When an asset is disposed of or de-commissioned, the receipt from the sale is charged to the Comprehensive Income & Expenditure Statement. The receipt is required to be credited to the usable capital receipts reserve and can only be used to finance capital expenditure or set aside to reduce the Council's borrowing requirement.

(b) Cash and Cash Equivalents

Cash and Cash Equivalents are 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.

(c) Contingent Liabilities

Contingent liabilities are not accrued in the accounting statements, but are disclosed by way of notes if there is a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council, which may require a payment or a transfer of economic benefits.

(d) 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.

(e) Employee Benefits – Costs

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 Comprehensive Income & Expenditure Statement 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 that the General Fund is charged with the amount payable by the Council to the Kent 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 Kent Pension Fund and pensioners and any such amounts payable but unpaid at the year-end.

(f) Employee Benefits – Post-Employment Benefits

The liabilities of the Kent 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 Kent 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 2.35%. 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 IAS 19 and with consideration of the estimated duration of employer's liabilities.

The assets of the Kent 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
- 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 as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years;

Notes to the Core Financial Statements

- 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 Comprehensive Income & Expenditure Statement;
- 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, (gain)/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 Kent Pension Fund;
- employer contributions – cash paid by the Council to the Kent Pension Fund; and
- benefits paid – payments made directly to pensioners from the Kent 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 Fund on a triennial basis. The latest actuarial valuation took place on 31 March 2019 and the change in contribution rates as a result of that valuation took effect from 1 April 2020.

(g) 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. For 2019/20 there is a separate note on the estimation uncertainty as a result of the coronavirus.

(h) Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the instrument. However, “other debtors” 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, “other creditors” are recognised when the ordered goods or services have been received.

Financial assets are classified as one of:

- fair value through profit and loss – this category includes:
 - Money Market Funds (MMFs) and are initially measured and carried in the Balance Sheet at fair value; and
 - Investment in Church, Charities and Local Authorities (CCLA) Property Fund carried at fair value at 31 March 2020.
- amortised cost – this category includes fixed term deposits, call accounts and other debtors and are initially measured at fair value and carried in the Balance Sheet at their amortised cost.

The fair value of a financial instrument on initial recognition is generally the market price. Financial liabilities are measured in the Balance Sheet at amortised cost.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. No impairment is calculated for assets which are classified as fair value through profit and loss as the risk is reflected in the movement in their fair value.

The reconciliation of amounts based on accounting regulations charged to the Comprehensive Income & Expenditure Statement to the net charge required by statute against the General Fund balance, is accounted for by a transfer to or from the Pooled Fund Adjustment Account in the Movement in Reserves Statement.

(i) Government Grants and Other External Contributions

Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

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

Receipts defined as grants and contributions for which conditions have not been satisfied are included on the Balance Sheet as creditors. When conditions are satisfied, grants specific to a service will be credited 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 Comprehensive Income & Expenditure Statement under Taxation and Non-Specific Grant Income. Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account.

(j) 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.

(k) Intangible Assets

These are non-current assets that do not have physical substance but are identifiable and are controlled 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 over its 'useful' life, which for computer software has been assessed as up to a maximum of seven years.

(l) Investment Property

Investment properties are those that are used primarily 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 and any gains or losses on revaluation or disposal are taken to the Comprehensive Income & Expenditure Statement and are reversed out of the General Fund balance via the Movement in Reserves Statement and posted to the Capital Adjustment Account.

(m) 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.

(n) Long-Term Liabilities

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

(o) Material Items of Income and Expense

Material items of income and expense are required by the Code to be shown separately on the face of the Comprehensive Income & Expenditure Statement. The Council has decided that for this purpose an item is judged to be material if it is in excess of £0.5m.

(p) 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 Assets or Assets Held for Sale, are recorded as Surplus Assets.

Notes to the Core Financial Statements

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 depreciation (where applicable), and
- other land and buildings, vehicles, plant, furniture, equipment and surplus assets are valued at Current Value.

For assets that 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 for assets providing service potential to the Council 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 that are not being used to deliver services, but which do not meet the criteria to be classified as either Investment Assets or 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. 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.

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

Notes to the Core Financial Statements

The Council's principal assets are revalued regularly and any gains arising from revaluations are reflected in the Revaluation Reserve or, where previous losses have occurred, are credited to the Comprehensive Income & Expenditure Statement to the limit of the previous loss. A loss on valuation is charged to the Revaluation Reserve to the limit of that fund and thereafter is charged to the Comprehensive Income & Expenditure Statement. The programme of revaluations is continuing on this cyclical basis although material changes to asset valuations will be adjusted in the interim periods, 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.

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 Comprehensive Income & Expenditure Statement. Any charges to the Comprehensive Income & Expenditure Statement are reversed out to the Capital Adjustment Account via the Movement in Reserves Statement.

Depreciation – depreciation is provided for on all PPE 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
- 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, the components are depreciated separately. If there is a change in the depreciation charge because of an 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 Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income & Expenditure Statement 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.

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 transferred to the Capital Adjustment Account from the Comprehensive Income & Expenditure Statement. The costs of disposal up to 4% of the capital receipts are met from the sale proceeds.

The concept of materiality is fundamental to the preparation of the financial statements. In the public sector, as entities tend to be primarily 'spending' to provide public services rather than profit making or asset holding, it is common practice to use gross revenue expenditure as the appropriate financial reporting metric to apply materiality. However, for the purposes of disclosure requirements and adherence to relevant accounting principles and statutory requirements for non-current assets it is more appropriate to apply a materiality level of 2% of net non-current asset value which for 2019/20 is £1.8 million.

(q) Non-Current Assets – Charges to Revenue

Service revenue accounts and trading accounts are charged with the following amounts to record the 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; and,
- amortisation of intangible non-current assets attributable to the service.

These charges are reversed out of the Comprehensive Income & Expenditure Statement via the Movement in Reserves Statement to the Capital Adjustment Account.

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, the Minimum Revenue Provision (MRP) (normally equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance) and approved each year by Council.

(r) 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 Comprehensive Income & Expenditure Statement 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.

(s) Reserves

Expenditure is not charged directly to a reserve, but to the service revenue account within the Comprehensive Income & Expenditure Statement. This is then offset by a reserve appropriation within the Movement in Reserves Statement.

(t) Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure that may be capitalised under statutory provisions but which does not result in the creation of a non-current asset has been charged to the relevant service in the Comprehensive Income & Expenditure Statement. If the Council has decided to finance this expenditure from existing capital resources or by borrowing, then the cost is reversed out of the General Fund so there is no impact on the level of Council Tax, by a transfer in the Movement in Reserves Statement.

(u) Shared Services

The Council maintains 'shared service' operations for a number of services. The shared service arrangements have been assessed against the definitions within the Code and the Council has decided that the Mid Kent Services (MKS) 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 council via its own decision making mechanism) and there is then a collaboration agreement in place for each shared service. Accordingly, all expenditure and income of these services is included within the Comprehensive Income & Expenditure Statement.

(v) 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

Accounting standards that have been issued but not yet adopted are:

- amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- annual Improvements to IFRS Standards 2015–2017 Cycle; and,
- amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

None of the above are expected to have a material effect on the Council's finances in 2020/21. The CIPFA/LASAAC Local Authority Accounting Code Board has agreed to defer the implementation of IFRS 16 Leases for one year so the effective date for implementation is now 1 April 2021.

4. Estimation Uncertainty – Coronavirus Assumptions

The outbreak of the coronavirus (COVID-19) was declared by the World Health Organisation as a "global pandemic" on 11 March 2020 and the effects on the estimation uncertainty in the Statement of Accounts are as follows:

(a) Pension Scheme

Pension assets are valued at fair value, principally market value for investments. As a result of the volatility in the markets the values may be subject to change and, in turn, the net pension liability.

The return on assets has been affected by the volatile asset performance over the period to 31 March 2020, particularly as a result of the current coronavirus crisis. Since the valuation date, fund asset returns have fallen short of the assumed return leading to a reduction in the funding level. The ongoing impact of the coronavirus pandemic will leave uncertainty surrounding asset values and significant volatility in equity and credit markets. The Council, in conjunction with the actuary, will continue to monitor the position on a regular basis and take any necessary action.

(b) Financial Instruments

IFRS 13 Fair Value Measurement permits market prices to be adjusted where volatility or a lack of transactions means that published 31 March 2020 prices are not representative of fair value. However, the Accounts have been prepared on the basis that the UK financial markets were not disorderly on that date, and the fair values used in the preparation of the Council Accounts remain suitable for use. In addition, the Accounts have been prepared on the basis that there has not been a significant increase in the risk of default on long-term debtors and loans. However, this will be under regular review.

The CCLA Property Fund has been moved from level 1 to level 2 of the hierarchy for 2019/20 reflecting that there is no longer an active market in these instruments. Fund managers have suspended redemptions reflecting market conditions for underlying properties caused by the economic consequences of the coronavirus pandemic.

(c) Impairment Allowance for Non Payment of Debt

It is too early to determine the extent of any adverse impact of the coronavirus pandemic on the collectability of debt in the future.

(d) Non-Current Assets

The valuation of Council assets and the impairment review is reported in these accounts on the basis of 'material valuation uncertainty' as per Valuation technical and Performance Standards (VPS) 3 and Valuation Practice Guidance Applications (VPGA) 10 of the Royal Institution of Chartered Surveyors (RICS) Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case. Given the unknown future impact that the coronavirus might have on the real estate market, the Council will keep the valuation of its assets portfolio under frequent review.

5. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 29 June 2020. 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 2020, the figures in the financial statements and notes have been adjusted if material to reflect the impact of this information.

6. Authorisation of Accounts for Issue

The Statement of Accounts was authorised for issue by Mr Nick Vickers, the Chief Financial Officer, on 29 June 2020.

Pay and Pensions

7. 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	2019/20	2018/19
	Number of Employees	Number of Employees
£50,000 - £54,999	9	10
£55,000 - £59,999	9	8
£60,000 - £64,999	1	2
£65,000 - £69,999	0	1
£70,000 - £74,999	1	1
£75,000 - £79,999	1	1
£80,000 - £84,999	4	3
£85,000 - £89,999	1	0
£90,000 - £94,999	0	1
£95,000 - £99,999	1	0
£105,000 - £109,999	1	0
£140,000 - £144,999	0	1
Total	28	28

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;
- 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:

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 £	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
£0 - £20,000	0	1	1	7	1	8	6,689	90,200
£20,001 - £40,000	0	0	0	3	0	3	0	76,500
£60,001 - £80,000	0	3	0	0	0	3	0	202,400
Total	0	4	1	10	1	14	6,689	369,100
Total paid to employees							6,689	242,600
Total paid to KCC for contracted payments for pension scheme							0	126,500
Total							6,689	369,100

Notes to the Core Financial Statements

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

Post holder Information (Post title)	Point	2019/20 Salary, Fees & Allowances £'000	2019/20 Pension Contributions £'000	2019/20 Total Remuneration £'000	2018/19 Total Remuneration £'000
Chief Executive	1	105	37	142	186
Director of Regeneration		100	30	130	123
Policy & Performance Manager	2	82	24	106	82
Head of Legal Services	3	86	26	112	110
Chief Financial Officer	4	14	0	14	0
Monitoring Officer	5	0	0	0	66
Head of Development Services		83	25	108	106
Head of Housing, Economy and Community Services		81	24	105	100
Head of Commissioning, Environment & Leisure		78	23	101	96
Head of Housing Services	6	0	0	0	107
Chief Executive Thames Gateway Kent Partnership	7	83	0	83	82
Total		712	189	901	1,058

Point 1: Post holder was on sick leave for 2019/20 and sadly passed away in May 2020.

Point 2: Post holder appointed Monitoring Officer from October 2018. 2019/20 includes honorarium.

Point 3: Includes market supplement and mileage allowance;

Point 4: Post holder was appointed January 2020. Previously the Chief Financial Officer worked across both Swale and KCC and was directly employed by the latter.

Point 5: Post holder appointed Monitoring Officer from February 2017 on an interim basis until end of September 2018 when the Policy & Performance Manager took over the role. 2018/19 total includes fees for Parliamentary Elections, KCC Elections and Presiding Officer and honorarium.

Point 6: Post holder left September 2018. Included in total is pay-in-lieu of notice, redundancy and holiday pay. Post has been deleted in 2019/20.

Point 7: Includes mileage allowance.

8. Members' Allowances

	2019/20 £'000	2018/19 £'000
Basic allowance	242	240
Special responsibility allowance	145	142
Members' travel, subsistence and IT allowance	15	20
Total	402	402

The Members' Allowances Scheme can be inspected on the Council website
<http://www.swale.gov.uk/members-allowances/>.

9. Defined Benefit Pension Scheme

a) Nature of Benefits of Defined Benefit Pension Schemes

The Council is a member of the Local Government Pension Scheme (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 career average salary 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 and these benefits are determined independently from investments of the scheme. 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, currently 14.7%, plus an annual fixed sum.

b) Regulatory Framework of Defined Benefit Pension Schemes

The Kent Pension Fund 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 Fund 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 Post-Employment 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 made against council tax is based on the cash payable in the year, so the accounting based 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 Comprehensive Income & Expenditure Statement and the General Fund balance via the Movement in Reserves Statement:

Notes to the Core Financial Statements

	2019/20 £'000	2018/19 £'000
Comprehensive Income & Expenditure Statement		
Cost of Services comprising:		
Current service cost	3,792	3,080
Administration expenses	48	39
Net interest on the net defined benefit liability	1,341	1,563
Total Post-Employment Benefits Charged to the Deficit on the Provision of Services	5,181	4,682
Post-Employment Benefits Charged to Other Comprehensive Income and Expenditure:		
Return on plan assets in excess of interest	8,148	(4,061)
Change in demographic assumptions	(1,849)	(7,991)
Loss on defined benefit obligation	1,169	0
Change in financial assumptions	(10,237)	4,923
Other actuarial losses	2,098	0
Total Re-Measurements Recognised in Other Comprehensive Income and Expenditure	(671)	(7,129)
Total Post-Employment Benefits Charged to the Comprehensive Income & Expenditure Statement	4,510	(2,447)

	2019/20 £'000	2018/19 £'000
Movement in Reserves Statement		
Reduction of charges made to the deficit on the Provision of Services for post-employment benefits to equal actual payments in accordance with the Code	(2,331)	(1,783)
Employers' Contributions Payable to the Scheme	2,850	2,899
Actual Return on Scheme Assets less Interest	(8,148)	4,061

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 are as follows:

	2019/20 £'000	2018/19 £'000
Present value of the defined benefit obligation	130,433	137,745
Fair value of plan assets	(74,045)	(83,198)
Sub Total	56,388	54,547
Present value of unfunded obligation	2,639	2,820
Net Liability in Balance Sheet	59,027	57,367

Notes to the Core Financial Statements

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	2019/20 £'000	2018/19 £'000
Opening balance as at 1 April – defined benefit obligation	(140,565)	(140,269)
Current service cost	(2,931)	(2,919)
Past service cost	0	(161)
Past service cost – McCloud/Sargeant judgements (see Note I)	(861)	0
Interest cost	(3,329)	(3,537)
Contributions by scheme participants	(561)	(550)
Changes in financial assumptions	10,237	(4,923)
Experience loss on defined benefit obligation	(1,169)	0
Changes in demographic assumptions	1,849	7,991
Benefits paid including unfunded pension payments	4,258	3,803
Closing balance as at 31 March – defined benefit obligation	(133,072)	(140,565)

Reconciliation of fair value of the scheme assets	2019/20 £'000	2018/19 £'000
Opening balance as at 1 April – fair value of scheme assets	83,198	77,556
Interest on assets	1,988	1,974
Return on assets less interest	(8,148)	4,061
Other actuarial losses	(2,098)	0
Administration expenses	(48)	(39)
Employer contributions	2,850	2,899
Contributions by scheme participants	561	550
Benefits paid including unfunded pension payments	(4,258)	(3,803)
Closing balance as at 31 March – fair value of scheme assets	74,045	83,198

h) Pension Fund Assets

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

	31 March 2020 £'000	31 March 2020 %	31 March 2019 £'000	31 March 2019 %
Equity investments	45,588	62	57,074	69
Gilts	576	1	547	1
Bonds	9,659	13	7,579	9
Property	10,083	14	9,997	12
Cash	1,880	2	1,417	1
Absolute return fund	6,259	8	6,584	8
Total	74,045	100	83,198	100

Notes to the Core Financial Statements

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 2016, allowing for the different assumptions required under IAS 19.

	31 March 2020	31 March 2019
Mortality assumptions:		
Longevity at 65 if retiring today:		
Men	21.8 years	22 years
Women	23.7 years	24 years
Longevity at 65 if retiring in 20 years:		
Men	23.2 years	23.7 years
Women	25.2 years	25.8 years
Rate of inflation (Retail Price Index (RPI) increases)	2.65%	3.40%
Rate of inflation (Consumer Price Index (CPI) Increases)	1.85%	2.40%
Rate of increase in salaries	3.00%	3.90%
Rate of increase in pensions	2.00%	2.40%
Rate of discounting scheme liabilities	2.35%	2.40%
Take-up option to convert annual pension into retirement lump sum	50%	50%

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2020 is estimated to be -7% (8% for the year 31 March 2019).

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 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.

Uncertainty	Sensitivity Analysis		
	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	130,625	133,072	135,568
Projected service cost	2,713	2,784	2,857
Adjustment to long-term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	133,342	133,072	132,805
Projected service cost	2,785	2,784	2,783
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	135,304	133,072	130,882
Projected service cost	2,856	2,784	2,714
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
Present value of total obligation	138,858	133,072	127,548
Projected service cost	2,871	2,784	2,700

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 Fund on Council's Cash Flows

An objective of the scheme is to keep employers' contributions at as constant a rate as possible and funding levels are monitored on an annual basis. The Fund is valued once every three years and the latest valuation was at 31 March 2020 which disclosed a net deficit of £15.5m on Swale Borough Council's share of the fund, a reduction from the 2016 valuation deficit of £20.1m.

The movement in financial assumptions is due to the change in the discount rate and inflation forecasts.

The total contributions (not including unfunded) expected to be made to the Kent Pension Fund by the Council in 2020/21 is £2.688m (£2.85m, 2019/20).

The weighted average duration of the defined benefit obligation for scheme members is 19 years for 2019/20 (2018/19, 18 years).

l) Accounting for the McCloud and Sargeant Judgements in 2019/20

Two successful employment tribunal cases were brought against the Government in relation to discrimination on reforms to public sector pensions made in 2015. In June 2019, the Supreme Court upheld a previous decision that the changes made by the Government were unlawful, thus effectively bringing to an end the legal process on this issue. No allowance for these tribunal cases was made in the 2018/19 Annual Accounts. Therefore an allowance has been included in the 2019/20 Annual Accounts based on the Government Actuaries Department's (GAD's) analysis and the individual assumptions and membership profile of the Council. The effect on the Council's liabilities is shown as a past service cost in the year to 31 March 2020 as a value of £861,000. This approach is in accordance with the CIPFA Pensions Panel's guidance published in its briefing note of March 2020.

Day to Day Spending – Revenue**10. Expenditure and Income Analysed by Nature**

The Council's expenditure and income is analysed as follows:

	2019/20 Net Expenditure £'000	2018/19 Net Expenditure £'000
Benefit payments	37,164	43,747
Employee costs	17,501	15,248
Business rates paid to Government and pool	14,748	13,612
Other service expenses	17,469	12,847
Major contracts	7,210	7,011
Parish precepts	1,367	1,163
Drainage board levy	817	797
Trading undertakings (losses)	123	1,911
Investment properties	34	592
Other items	626	82
Total Expenditure	97,059	97,010
Benefit income	(36,663)	(43,292)
Business rates income	(24,734)	(25,460)
Fees, charges and other service income	(14,001)	(14,534)
Council tax	(9,594)	(9,112)
New homes bonus	(1,875)	(2,046)
Trading undertakings (gains)	(777)	(865)
Revenue support grant	(113)	0
Other grants and contributions	(1,819)	(595)
Other items	(971)	(1,171)
Total Income	(90,547)	(97,075)
Deficit/(Surplus) on Provision of Services	6,512	(65)

11. Financing and Investment Income and Expenditure

	2019/20 Net Expenditure £'000	2018/19 Net Expenditure £'000
Interest payable & similar charges	214	63
Net interest on the net defined pension liability (Note 9)	1,341	1,563
Interest receivable & similar income	(317)	(295)
(Gains)/losses on trading undertakings	(656)	1,046
Income & expenditure – investment properties (Note 27)	(211)	349
Revaluation gains to investment properties and changes in fair value (Note 27)	(109)	(70)
Disposal of investment property (gains) (Note 15)	0	(2)
Net (gains)/losses on financial assets through profit and loss (Note 42)	109	(47)
Total	371	2,607

12. Shared Services

The Council participates in a number of shared service arrangements which are included in the Comprehensive Income & Expenditure Statement and which are detailed below:

	2019/20 Expenditure on Partners £'000	2019/20 Income from Partners £'000	2019/20 Expenditure Other £'000	2019/20 Income Other £'000	2019/20 Net Expenditure £'000	2018/19 Net Expenditure £'000
Information Technology	549	0	636	(1)	1,184	1,096
Legal	0	(1,205)	2,000	(75)	720	437
Human Resources	228	0	101	0	329	315
Internal Audit	185	0	(15)	0	170	209
Local Land Charges	57	0	1	(160)	(102)	(85)
Environmental Health	497	0	77	(51)	523	507
Planning Support	167	0	24	0	191	220
Parking	121	(19)	1,293	(2,927)	(1,532)	(1,611)
Building Control	63	0	2	0	65	74
Fraud Investigation	18	0	0	0	18	19
Debt Recovery	0	0	0	(142)	(142)	(133)
Total	1,885	(1,224)	4,119	(3,356)	1,424	1,048

In 2019/20 the Council contributed £52,869 towards shared IT capital expenditure (£38,345 in 2018/19). The Council has accrued its funding share to Maidstone Borough Council 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 Comprehensive Income & Expenditure Statement.

Revenue Grants – Receipts in Advance

The revenue grants receipts in advance for 2019/20 were £576,687 (£504,651 in 2018/19).

Capital Grants – Receipts in Advance

Please see Note 36 for a breakdown of Capital Grants receipts in advance

Grants Credited to Services

Grant Area	Provider	2019/20 £'000	2018/19 £'000
Housing benefit grant	Department for Work & Pensions	(36,663)	(43,292)
Housing repair grants – disabled facilities	Ministry for Housing, Communities and Local Government	(1,530)	(1,545)
Housing benefit admin subsidy	Department for Work & Pensions	(400)	(451)
Discretionary housing payment	Department for Work & Pensions	(334)	(393)
Homelessness grant	Ministry for Housing, Communities and Local Government	(276)	(392)

Notes to the Core Financial Statements

Grant Area	Provider	2019/20 £'000	2018/19 £'000
Localising council tax support administration subsidy grant	Ministry for Housing, Communities and Local Government	(163)	(174)
Implementing welfare reform changes	Department for Work & Pensions	(151)	(230)
Rough Sleeper Initiative	Ministry for Housing, Communities and Local Government	(151)	0
Sittingbourne Town Centre road works	Kent County Council	(64)	(364)
Sittingbourne High Street Footpath	Private Developer	(40)	(70)
Open spaces and play areas – commuted sums	Various Contributors	(11)	(150)
Other grants	Various Contributors	(399)	(670)
Total Grant Income Credited to Cost of Services		(40,182)	(47,731)

14. External Audit Costs

The Council's auditors are Grant Thornton UK LLP.

	2019/20 £'000	2018/19 £'000
Fees payable for external audit service	58	47
Fees payable for the certification of grant claims and returns	28	24
Total	86	71

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

Property valued at £19,410 was disposed of in 2019/20. A total net gain of £241,620 was incurred for 2019/20 for all disposed assets (net gain of £509,490 in 2018/19). No investment assets were disposed of in 2019/20 (the net gain on investment assets in 2018/19 was £2,100). The largest gain in the year was £140,380 re the sale of land at Oak Road, Murston, Sittingbourne. Gains and losses on investment properties are shown within Financing and Investment in the Comprehensive Income & Expenditure Statement.

Council Resources – Reserves

16. Usable Capital Receipts Reserve

This reserve holds the income from the disposal of land and other assets, which can only be used to fund new capital expenditure or to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied at year-end.

	2019/20 £'000	2018/19 £'000
Balance as at 1 April	(1,365)	(1,081)
Capital receipts in year from sale of assets	(278)	(607)
Capital receipts in year from repayment of grants and mortgages	(14)	(115)
Capital receipts applied during the year – financing long-term assets	298	438
Balance as at 31 March	(1,359)	(1,365)

17. 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.

18. 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 2019/20 and 2018/19.

	Balance 31 March 2018 £'000	Transfers out 2018/19 £'000	Transfers in 2018/19 £'000	Balance 31 March 2019 £'000	Transfers out 2019/20 £'000	Transfers in 2019/20 £'000	Balance 31 March 2020 £'000
Business Rates Volatility	(3,549)	426	(1,812)	(4,935)	1,438	(446)	(3,943)
North Kent Housing & Commercial Growth Business Rates	0	0	(846)	(846)	0	(860)	(1,706)
Kent Pool Economic Development Business Rates	(1,346)	35	(754)	(2,065)	1,515	(776)	(1,326)
Preceptors Council Tax Support	(563)	0	(254)	(817)	0	(254)	(1,071)
Special Project Fund	0	0	0	0	171	(1,135)	(964)
Revenue and Benefits	(416)	0	(214)	(630)	0	(179)	(809)
Council Priorities	0	0	0	0	0	(800)	(800)
Building Maintenance	(824)	81	(154)	(897)	233	(42)	(706)
General Reserve	(3,015)	906	(77)	(2,186)	1,520	0	(666)
Communities Fund	(112)	66	(76)	(122)	67	(501)	(556)
Performance	(316)	122	(300)	(494)	62	0	(432)
STC Retail Park	0	0	(439)	(439)	22	0	(417)
Repairs & Renewals	(186)	61	(149)	(274)	73	(175)	(376)
Parking	(305)	43	(117)	(379)	73	(67)	(373)
Stay Put Fund	(183)	18	(67)	(232)	0	(51)	(283)
Commuted Sums	(258)	14	(22)	(266)	0	0	(266)
Heritage Strategy	0	0	0	0	0	(250)	(250)
Local Development Framework	(237)	29	0	(208)	0	(12)	(220)
Visitor Economic Framework	0	0	0	0	26	(215)	(189)
Financial Services	(184)	25	(25)	(184)	4	0	(180)
Local Loan Fund	(200)	25	0	(175)	0	0	(175)
Refuse and Recycling	(105)	9	(36)	(132)	4	(44)	(172)
Housing	(167)	30	0	(137)	14	(30)	(153)
Regeneration	(350)	213	(300)	(437)	285	0	(152)

Notes to the Core Financial Statements

	Balance 31 March 2018 £'000	Transfers out 2018/19 £'000	Transfers in 2018/19 £'000	Balance 31 March 2019 £'000	Transfers out 2019/20 £'000	Transfers in 2019/20 £'000	Balance 31 March 2020 £'000
Wheeled Bins	(146)	0	(35)	(181)	98	(35)	(118)
Electoral Registration	(89)	0	0	(89)	44	(62)	(107)
Environmental Initiatives	(49)	0	(28)	(77)	0	(24)	(101)
Pension & Redundancy	(205)	369	(250)	(86)	7	(15)	(94)
Disabled Facilities Grants (Revenue)	0	7	(92)	(85)	0	0	(85)
Insurance Funds	(91)	3	0	(88)	5	0	(83)
Milton Creek Access Road	(75)	0	0	(75)	0	0	(75)
Tree Survey and Works in Closed Churchyards	(38)	0	(25)	(63)	0	0	(63)
Cemeteries	(55)	10	(15)	(60)	0	0	(60)
Faversham Creek Footpath	(60)	0	0	(60)	0	0	(60)
ICT Reserve	(44)	0	(11)	(55)	0	0	(55)
Licensing	0	0	(21)	(21)	10	(43)	(54)
Sheppey Lower Road Improvements	0	0	0	0	200	(250)	(50)
Faversham Recreation HLF Bid	0	0	(80)	(80)	80	0	0
Miscellaneous	(606)	171	(521)	(956)	264	(465)	(1,157)
Total	(13,774)	2,663	(6,720)	(17,831)	6,215	(6,731)	(18,347)

Business Rates Volatility	To assist the Council in managing the volatility of business rate income as a result of business rate localisation.
North Kent Housing & Commercial Growth Business Rates	Under the Kent Business Rates 2018/19 Pilot there was an allocation of funds called the Housing and Commercial Growth Fund which was distributed among "clusters" of authorities for each cluster to determine the final allocation. The Council is in the "North Kent" cluster.
Kent Pool Economic Development Business Rates	This fund was 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.
Preceptors Council Tax Support	Paid by KCC, Police and Fire to reflect the costs of Council Tax support localisation.
Special Project Fund	At the Cabinet meeting on 10 July 2019, the proposal to set up a Special Project Fund was agreed. This fund focuses on projects which are a direct benefit to the residents of the Borough. Items include improvements to play areas, improving the public realm and funding new initiatives to promote social inclusion.
Revenues and Benefits	Savings made in the Revenues and Benefits section, including unspent grants were transferred to this reserve. This is used to cover the shortfall in Government grant.
Council Priorities	The £800k previously allocated to support M2 Junction 5 improvements will be now used to help achieve Council priorities.
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.
General Reserve	The use of this reserve is subject to the approval of Members.
Communities Fund	This is to support the Council's Localism Agenda.

Notes to the Core Financial Statements

Performance	To improve overall performance. Officers can submit a bidding list of proposals.
STC Retail Park	This reserve is for the accounting adjustment between the value of income received and the value included in the accounts.
Repairs & Renewals	Regular contributions are made to this fund from the General Fund for a number of services to fund the future cost of significant items of expenditure.
Parking	Any surplus from on-street parking is transferred to the ring fenced on-street parking account under Section 55 of the Road Traffic Act 1984.
Stay Put Fund	To support the Council's Stay Put service which offers advice, support and help to the elderly and disabled, who are owner occupiers or private tenants and who need practical assistance to repair, adapt or improve their homes.
Commuted Sums	To fund play area and open space maintenance in future years.
Heritage Strategy	The Heritage Strategy is a set of actions which centre around the review and appraisal of the Borough's existing conservation areas and associated heritage at risk. This reserve is to fund the priorities in the Action Plan over the first three years.
Local Development Framework	A Local Development Framework (LDF) was introduced under the Planning and Compulsory Purchase Act 2004. They are a set of documents prepared by a local planning authority which set out the spatial planning strategy for the local area, describing a vision for the area addressing the needs and opportunities in relation to housing, the economy, infrastructure and amenities. It also provides a basis for planning authorities to determine planning applications.
Visitor Economic Framework	The Cabinet meeting 7 Feb 2018 identified a budget of £250,000 from the shared business rates pool for the five-year Visitor Economy Framework (2018-2023). The Framework sets out six priorities to maximise the contribution of the visitor economy to Sittingbourne, Faversham and the Isle of Sheppey. This high level framework sees to increase the contribution of the visitor economy to Swale and support to the Council's Medium Term Financial Strategy through business growth and business rate retention.
Financial Services	To fund continuous system developments for the financial systems, and meeting the costs of the professional advice and staff development on accounting, taxation, payments, etc.
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.
Refuse and Recycling	To fund on-going review of additional roads from new developments to be added on to Biffa contract and services including clinical, bulky and weekly collections.
Housing	To fund the homelessness service in future years.
Regeneration	To fund regeneration projects in the Borough. Balance remaining is for approved but not yet spent bids.
Wheeled Bins	To fund the new wheeled bins purchases and replacements.
Electoral Registration	To fund the costs of Local Authority elections in future years.
Environmental Initiatives	Income from Fixed Penalty notices used to support various environmental initiatives. It is a requirement of the legislation that any money generated is used to create a cleaner and greener environment.
Pension & Redundancy	To meet the cost of releasing the Pension Fund benefits to staff who have taken early retirement and to fund all other redundancy costs.
Disabled Facilities Grants (Revenue)	This reserve is related to the Better Care Fund (BCF) incorporating Disabled Facilities Grants (DFG). Funding is from the Government and administered via KCC. The balance of the BCF to carry over as agreed by Strategic Management Team and used for new or committed work to support the DFG service.
Insurance Funds	The purpose of the reserve is to fund insurance claims that fall below £1,000 and to meet risk management training costs.
Milton Creek Access Road	To fund a new access road to Milton Country Park and increased security around the car park to stop unauthorised encampments.
Tree Survey and Works in Closed Churchyards	To fund tree condition surveys across the Council's Green Spaces and a rolling programme of tree works.

Notes to the Core Financial Statements

Cemeteries	To fund an electronic burial records system and costs at the Iwade burial site.
Faversham Creek Footpath	To fund the creation of a new footpath at Faversham Creek as part of the overall regeneration of the area.
Information and Communication Technology (ICT) Reserve	To fund IT equipment and software in future years.
Licensing	Any surplus or deficit from Licensing is transferred to this ring fenced Licensing reserve under the Local Government (Miscellaneous Provisions) Act 1982.
Sheppey Lower Road Improvements	To contribute towards the funding of the delivery by KCC of Lower Road Phase 2 between Cowstead Corner and Barton Hill Drive.
Faversham Recreation Heritage Lottery Fund (HLF) Bid	Following a successful bid to Heritage Fund for the £1.9m Parks for People improvement project, this bid provides the match funding for the ongoing capital improvements and subsequent community activity plan phases of the project. The capital phase makes extensive improvements to the two main buildings in the Recreation area, the Grade II listed Lodge and changing pavilion, as well as making significant hard and soft landscaping improvements to the grounds.
Miscellaneous	This is made up of the earmarked reserves that are less than £50,000. A full list of these reserves is available upon request.

19. Revaluation Reserve

This reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment assets, heritage assets and frozen gains re investment assets (incurred prior to the assets being classified as investment 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.

	2019/20	2018/19
	£'000	£'000
Balance as at 1 April	(19,280)	(20,511)
Upward revaluation of assets	(2,952)	(3,123)
Downward revaluation of assets and impairment losses not charged to the deficit on the provision of services in the Comprehensive Income & Expenditure Statement	4,873	3,923
Sub Total	1,921	800
Write down re gains derived from depreciation differences, between historic costs and current value	307	315
Write down of accumulated gains on disposed assets	0	116
Balance as at 31 March	(17,052)	(19,280)

20. 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, revaluation and impairment losses and amortisations are charged to the Comprehensive Income & Expenditure Statement. 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.

	2019/20	2018/19
	£'000	£'000
Balance as at 1 April	(34,421)	(36,287)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Depreciation of tangible non-current assets	1,339	1,288
Amortisation of intangible assets	27	40
Write down Revenue Expenditure Funded by Capital under Statute (REFCUS) (Note 29)	2,023	2,178
Revaluation losses taken to Comprehensive Income & Expenditure Statement – other assets	3,760	2,399
Revaluation losses taken to Comprehensive Income & Expenditure Statement – investment assets	14	32
Revaluation gains and reversal of prior losses taken to Comprehensive Income & Expenditure Statement – other assets	(376)	(224)
Revaluation gains taken to Comprehensive Income & Expenditure Statement – investment assets	(123)	(102)
Revaluation gains taken to Comprehensive Income & Expenditure Statement – held for sale assets	(11)	0
Impairment losses taken to Comprehensive Income & Expenditure Statement – other assets	1,954	0
Disposal & derecognition of assets – write out of notional net book value	19	213
Write down of Revaluation Reserve:		
Write down of Revaluation Reserve depreciation (gains) (Note 19)	(307)	(314)
Write down of Revaluation Reserve accumulated gains on disposed assets (Note 19)	0	(116)
Capital financing applied in the year:		
Capital financing – capital receipts (Note 31)	(298)	(438)
Capital financing – Government grants and external contributions (Note 31)	(3,098)	(2,382)
Capital financing – capital reserves (Note 31)	(873)	(359)
Minimum revenue provision (Note 31)	(634)	(438)
Write down of financing long-term debtors	98	89
Balance as at 31 March	(30,907)	(34,421)

21. Collection Fund Adjustment Account

This manages the differences arising from the recognition of council tax and business rates income in the Comprehensive Income & Expenditure Statement 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 surplus and the surplus for renewable energy income retained by the Council. The total movement in 2019/20 was an increase in surplus of £82,314 (£1,686 increase in surplus in 2018/19).

22. Pooled Fund Adjustment Account

The movement in year of £109,958 represents the loss in value of the CCLA 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.

23. Pensions Reserve

This Reserve 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 these benefits in the Comprehensive Income & Expenditure Statement as the benefits are earned by employees. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to the Kent Pension Fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve 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 under accounting regulations. 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 2019/20 are shown on Note 9 (f).

Long-Term Spending – Capital**24. Property, Plant and Equipment (PPE) Assets**

Movements in 2019/20:

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 Construction £'000	Surplus Land & Buildings £'000	
Cost or Valuation								
At 1 April 2019	49,366	6,434	2,674	5,690	661	16,839	1,419	83,083
Additions	1,764	718	5	1,479	0	12,594	503	17,063
Revaluations	(2,703)	(95)	0	0	0	0	(67)	(2,865)
Disposals	0	(121)	0	0	0	0	0	(121)
Reclassified	11,891	0	0	0	0	(12,220)	329	0
At 31 March 2020	60,318	6,936	2,679	7,169	661	17,213	2,184	97,160
Accumulated Depreciation and Impairment								
At 1 April 2019	(1,006)	(5,110)	(796)	(646)	(661)	0	0	(8,219)
Depreciation charge	(857)	(326)	(39)	(112)	0	0	(5)	(1,339)
Depreciation written out on revaluations	810	95	0	0	0	0	6	911
Impairment written out on loss	(5,305)	0	0	0	0	0	0	(5,305)
Disposals	0	102	0	0	0	0	0	102
Reclassified	6	0	0	0	0	0	(6)	0
At 31 March 2020	(6,352)	(5,239)	(835)	(758)	(661)	0	(5)	(13,850)
Net Book Value at 31 March 2020	53,966	1,697	1,844	6,411	0	17,213	2,179	83,310
Net Book Value at 31 March 2019	48,360	1,324	1,878	5,044	0	16,839	1,419	74,864

Notes to the Core Financial Statements

Comparative movements in 2018/19:

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 Construction £'000	Surplus Land & Buildings £'000	
Cost or Valuation								
At 31 March 2018	46,973	6,574	2,244	5,506	667	8,297	499	70,760
Additions	3,526	266	430	180	0	12,191	0	16,593
Revaluations	(3,891)	(94)	0	0	0	0	94	(3,891)
Disposals	(61)	(312)	0	0	(6)	0	0	(379)
Reclassified	2,819	0	0	4	0	(3,649)	826	0
At 31 March 2019	49,366	6,434	2,674	5,690	661	16,839	1,419	83,083
Accumulated Depreciation and Impairments								
At 31 March 2018	(997)	(5,188)	(755)	(565)	(667)	0	0	(8,172)
Depreciation charge	(842)	(324)	(41)	(81)	0	0	0	(1,288)
Depreciation written out on revaluations	833	94	0	0	0	0	0	927
Disposals	0	308	0	0	6	0	0	314
At 31 March 2019	(1,006)	(5,110)	(796)	(646)	(661)	0	0	(8,219)
Net Book Value at 31 March 2019	48,360	1,324	1,878	5,044	0	16,839	1,419	74,864
Net Book Value at 31 March 2018	45,976	1,386	1,489	4,941	0	8,297	499	62,588

The increase in Assets Under Construction is due to the cinema, hotel and restaurants, and other works undertaken as part of the Sittingbourne Town Centre regeneration project. The revaluation movements are described further in the Losses and Impairments Note 26 and Revaluation Reserve Note 19.

The movement from 'Assets Under Construction' to 'Land and Buildings' as a result of reclassification is due to the multi-storey car park and the new town centre hotel becoming operational in 2019/20, at a value of £4,368,020, and £7,592,470 respectively.

The 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. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for operational buildings would increase by £22,880 should the useful life of each property be reduced by one year.

Surplus Land & Buildings

The Council's surplus assets have been revalued this year and the inputs used to measure their fair 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).

Notes to the Core Financial Statements

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.

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 surplus assets were to reduce by 10% this would result in £21,790 being charged to the Comprehensive Income & Expenditure Statement.

25. 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 current 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.

In 2019/20 Wilks, Head and Eve valued property assets (which do not include vehicles & equipment) to a total value of £57,554,670, including investment and held for sale properties. This total value comprises of valuations carried out on the following dates: 01 January 2020 totalling £28,804,750 and 31 March 2020 totalling £28,749,920.

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 2020 which would require these to be updated at 31 March 2020, 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 (RICS) and an employee of the Council, reviewed both tasks.

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

	Land & Buildings £'000	Vehicles & Equipment £'000	Infra-structure £'000	Comm-unity £'000	Leased £'000	Assets Under Construction £'000	Surplus Land & Buildings £'000	Total Property, Plant & Equipment Assets £'000
Carried at historical cost	0	0	2,679	7,169	0	17,213	0	27,061
Carried at cost model (depreciated historical cost)		6,936	0	0	661	0	0	7,597
Valued at current value as at:								
Previous years	0	0	0	0	0	0	0	0
2015/16	3,608	0	0	0	0	0	0	3,608
2016/17	1,817	0	0	0	0	0	0	1,817
2017/18	1,599	0	0	0	0	0	0	1,599
2018/19	1,589	0	0	0	0	0	0	1,589
2019/20	51,705	0	0	0	0	0	2,184	53,889
Total Cost/Valuation at 31 March 2020	60,318	6,936	2,679	7,169	661	17,213	2,184	97,160

The Council has undertaken a review of all assets that were valued before 2019/20 to ensure that their carrying value does not differ materially from current value.

Notes to the Core Financial Statements

As previously advised, 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 RICS. In order to ensure consistency in the valuation of the varying types of property within the different asset classifications, all assets of the same type are valued at the same time, using the same valuation technique. One exception to this in 2019/20 was the multi-storey car park in Sittingbourne. This asset became operational in 2019/20 and the 'income approach' valuation technique applied to 'pay and display' car parks was not used. As full-year income data was not available and the town centre on-going construction works and the coronavirus pandemic have minimalised receipts from this new car park, the Council's valuers have reverted to using rental value per space to assess the value of this asset.

26. Losses and Impairments on Non-Current Assets

The Code requires disclosure by class of assets of the amounts for losses and impairments, and subsequent reversals, charged to the deficit on the Provision of Services and to Other Comprehensive Income & Expenditure (net total reversals being credited to the deficit). These disclosures are consolidated in Notes 24 and 27, reconciling the movement over the year in the asset balances for property, plant and equipment and investment properties.

During 2019/20 the Council has recognised a net total loss/impairment of £5,218,790 in respect of its non-current assets (£2,105,120 recognition of losses in 2018/19).

	PPE Assets £'000	Investment Assets £'000	Held for Sale Assets (non-current) £'000	2019/20 Total £'000	2018/19 Total £'000
Revaluation – increase recognised in deficit on Provision of Services (gain – reversal prior loss)	338	0	0	338	93
Depreciation written out to the deficit on Provision of Services (gain – reversal prior loss)	38	0	0	38	132
Total Reversal Prior Loss (credit to deficit)	376	0	0	376	225
Revaluation – increase recognised in deficit on Provision of Services (gain)	0	122	11	133	101
Total Gain (credit to deficit)	376	122	11	509	326
Revaluation – decrease recognised in the deficit on Provision of Services (loss)	(4,383)	0	0	(4,383)	(2,449)
Depreciation written out to the deficit on Provision of Services (loss)	623	0	0	623	50
Revaluation – decrease recognised in deficit on Provision of Services (loss)	0	(14)	0	(14)	(32)
Total Losses (debit to deficit)	(3,760)	(14)	0	(3,774)	(2,431)
Revaluation – decrease recognised in the deficit on Provision of Services (impairment)	(2,233)	0	0	(2,233)	0
Depreciation written out to the deficit on Provision of Services (impairment)	279	0	0	279	0
Total Impairments (debit to deficit)	(1,954)	0	0	(1,954)	0
Net Total (Loss)/Reversal-Gain Debited/Credited to Deficit on Provision of Services	(5,338)	108	11	(5,219)	(2,105)

Notes to the Core Financial Statements

The greatest revaluation gains or reversals of previous losses on PPE assets (£20,000 and over) were incurred on four properties (six assets), the gains being Princes Street Retail Park, Sittingbourne £147,980 (including the roof, heating and electrical components), Sheerness Swimming Pool (land component) £99,000, vacant land at Park Avenue, Leysdown £42,400 and vacant land at North Road, Queenborough £22,500. 13 other properties (18 assets) incurred reversed losses, averaging £4,920 per property.

One investment property at Lappel Bank, West Minster, incurred gains totalling £115,700. Three other properties (five assets) incurred gains being vacant land at Frognal Gardens, Teynham £11,300, Kent Auto Salvage at Gas Road, Church Marshes, Milton Regis £3,900 and the Old Fire Station House, Court Street, Faversham £3,200.

The greatest revaluation losses on PPE assets (losses of (£20,000) and over) were incurred on ten properties (12 assets), the losses being the multi-storey car park, St. Michael's Road, Sittingbourne (£2,623,400) with the lower valuation reflecting the fact that the car park had been open for only a short time before having to be closed due to the coronavirus, Fountain Street, Sittingbourne (£460,210), Cockleshell Walk car park, Sittingbourne (£276,140), Spring Street car park, Sittingbourne (£155,620), Princes Street Retail Park, Sittingbourne (£85,440) (including the structure and external components), Sheerness Swimming Pool (structure and roof components) (£40,890), Swale House (structure component) (£32,830), Sheerness Leisure Complex (roof component) (£25,100), grazing land at Sheppey Court Marshes (£20,950) and The Mill Project Skate Park, Sittingbourne (£20,660). Three other properties (three assets) incurred losses, averaging (£6,220) per property.

Impairment losses of £1,954,520 were incurred on the Swallows Leisure Centre. Following major storm damage to the roof of the leisure centre in February 2020, it was necessary to revalue the property to reflect the loss of service caused by this damage. In accordance with accounting requirements, the current value of the asset must reflect the current level of service available from the property at 31 March 2020. The valuer has therefore removed the pool and sports hall elements from the valuation, these being the areas of the Centre which remain closed until the roof is repaired.

27. Investment Properties

The following items of income and expense have been included within Financing and Investment in the Comprehensive Income & Expenditure Statement (Note 11):

	2019/20	2018/19
	£'000	£'000
Rental income from investment properties	(245)	(244)
Direct operating expenses arising from investment properties	34	593
Net (Gain)/Loss	(211)	349

The net gain on revaluation for investment properties in the year was £108,500 (£69,670 gain in 2018/19) from reversed prior losses of £122,800 and losses of (£14,300). 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 Council 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 Council's investment properties, the highest and best use of the properties has been applied.

Notes to the Core Financial Statements

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 investment assets were to reduce by 10% this would result in £356,800 being charged to the Comprehensive Income & Expenditure Statement.

28. Assets Held for Sale

The sole asset classed as Held for Sale was revalued in the year and the current net book value is the maximum allowed of £99,600. The value of the property was assessed to its highest and best use, input hierarchy Level 2 for valuation purposes (see accounting policies note for explanation of fair value valuation input levels); however, the value is restricted to no greater than its original net book value as an asset Held for Sale in accordance with accounting requirements (any higher assessed value may only be recognised in the actual gain achieved upon disposal).

The disposal of the asset has been delayed such that it could not be disposed of within the year and accordingly it has been re-classed as a non-current asset; however it is still assessed to meet the 'available for immediate sale' requirements and is treated as a Held for Sale asset.

29. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

REFCUS relates to capital expenditure for which the Council does not hold any non-current assets (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 Comprehensive Income & Expenditure Statement in the same year that it was incurred.

Grant Area	Funding Provider	2019/20 £'000	2018/19 £'000
Home renovation grants	Ministry for Housing, Communities & Local Government	1,530	1,545
Sheppey Lower Road improvement	Swale Borough Council	200	0
Faversham Pool refurbishment	Swale Borough Council	93	0
Highways works Sittingbourne Town Centre	Kent County Council	64	364
Shared Information Technology service	Swale Borough Council	53	38
Coastal monitoring	Environment Agency	40	42
Sittingbourne High Street footpath	Spirit of Sittingbourne	40	0
Housing repair grants	Swale Borough Council	3	4
Dolphin Barge museum	Private Developer/Swale Borough Council	0	105
Queenborough causeway	Kent County Council	0	60
Winter warm grants	Swale Borough Council	0	20
Total		2,023	2,178

30. Commitments under Capital Contracts

The contractual commitments at 31 March 2020 totalled £8,077,480 (£21,673,100 at 31 March 2019). The major commitments were:

- £3,990,330 Housing repair grants,
- £1,581,300 Sittingbourne Town Centre regeneration works,
- £356,000 Open spaces play equipment,
- £293,850 Leisure centres refurbishment,
- £251,000 Wheeled bins,
- £200,000 Faversham Creek Basin regeneration,
- £199,530 Faversham Recreation Ground improvements,
- £150,000 Play improvements,
- £150,000 Public toilets, Milton Creek Country Park,
- £115,830 Corporate IT systems, hardware and software,
- £109,930 Public toilets, Minster Leas, Isle of Sheppey,
- £100,000 Public toilets and showers, Barton's Point, Isle of Sheppey.

(The housing repair grants are not committed contractually but they are committed to spend for capital purposes.)

31. Capital Expenditure and Capital Financing

The table below shows the total amount of capital expenditure incurred in the year, together with the resources that have been used to finance it. The Capital Financing Requirement is a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

	2019/20	2018/19
	£'000	£'000
Opening Capital Financing Requirement	27,765	12,511
Total capital investment	19,091	18,791
Add long-term debtors – loans	8	80
Sources of Finance:		
Capital receipts (Note 16)	(298)	(438)
Government grants & external contributions	(3,098)	(2,382)
Sums set aside from revenue:		
Direct revenue funding	(873)	(359)
Minimum revenue provision (MRP)	(634)	(438)
Total Sources of Finance	(4,903)	(3,617)
Closing Capital Financing Requirement	41,961	27,765
Explanation of Movements in Capital Financing Requirement in Year:		
Capital expenditure to be funded from future MRP when assets are operational	14,830	15,692
(Reduction) in underlying need to borrow (MRP)	(634)	(438)
Total Increase in Capital Financing Requirement	14,196	15,254

Creditors and Debtors**32. Long-Term Creditors**

As consideration for the extension of a current lease of 99 years, tenants have paid the Council a premium of £60,000.

33. Short-Term Creditors

	31 March 2020	31 March 2019
	£'000	£'000
Business rates – central Government share	(5,465)	0
Business rates – pool share	(2,812)	(2,732)
Business rates – KCC and Kent & Medway Fire & Rescue Authority share	(1,093)	(6,524)
Waste and cleansing contracts	(338)	(1,189)
Business rates and council tax payers	(330)	(527)
Sittingbourne regeneration	0	(891)
Receipts in advance	(2,646)	(37)
Other	(3,023)	(2,791)
Total	(15,707)	(14,691)

The increase in 'business rates – central Government creditor share' and the corresponding decrease in 'business rates – KCC and Kent & Medway Fire & Rescue Authority share', is due to the Kent Business Rates Pilot ending in 2018/19. The increase in receipts in advance is mainly due to advanced grant funding from central Government to aid council cash flows.

34. S106 Deferred Revenue Receipts

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.

35. Deferred Liabilities

Deferred liabilities related to two items:

- an arrangement with the Council's contractor for leisure management who agreed to provide phased capital expenditure of £1.826m at the leisure centres over 15 years. The Council was committed to make regular monthly payments for 15 years to cover this sum together with associated financing costs. The contract came to an end in 2019/20; and,
- 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 was committed to make regular monthly payments for ten years to cover this sum together with associated financing costs. The contract came to an end in 2019/20.

	31 March 2020	31 March 2019
	£'000	£'000
Due within one year (short-term creditors)	0	(140)

36. Capital Grants and Contributions

The Capital Grants and Contributions 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 34) to fund new facilities provided as part of an agreement with developers.

	1 April 2019	Expenditure	Income	31 March 2020
	£'000	£'000	£'000	£'000
Disabled facilities grants	(1,613)	1,769	(2,174)	(2,018)
Sittingbourne Town Centre grant	(165)	64	0	(101)
Faversham Recreation Ground grant	(139)	1,092	(1,027)	(74)
Other	(326)	155	(98)	(269)
S106 held for third parties	(1,666)	3,987	(3,361)	(1,040)
S106 Capital Funding:				
Housing	(324)	0	0	(324)
Play areas	(202)	34	(2)	(170)
The Meads Community Centre	(31)	0	0	(31)
Open spaces	(229)	148	(240)	(321)
Town centre improvements	(115)	40	(59)	(134)
Other	(134)	24	(87)	(197)
Total	(4,944)	7,313	(7,048)	(4,679)

	31 March 2020	31 March 2019
	£'000	£'000
Due to spend within one year (short-term creditors)	(295)	(257)
Due to spend in more than one year (long-term liabilities)	(4,384)	(4,687)
Total	(4,679)	(4,944)

In 2019/20, the Council repaid £30,000 S106 grants to Optivo as requested in relation to the Hugh Price Close play area improvement (nothing was repaid in 2018/19).

37. 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 passed to a Scheme Administrator who has implemented a "Scheme of Arrangement". The provision for future claims has been calculated as £59,105 as at 31 March 2020. This sum will be revised as further information becomes available.

The Council has made a provision of £4,052,000 for business rate appeals based on its best estimates of the actual liability as at 31 March 2020. £2,841,000 has been identified as a long-term provision. See Note 51 for further details.

38. Long-Term Debtors – Other

Long-term debtors are those that fall due after a period of at least one year.

	31 March 2020	31 March 2019
	£'000	£'000
Housing repair loans	2,047	2,124
Rent deposit scheme – gross debt	69	70
Rent deposit scheme – allowance for impairment of debts	(55)	(62)
Assisted car purchase loans	165	128
Opportunities for Sittingbourne Limited	118	118
Faversham Town Football Club Limited	42	45
Queenborough Harbour Trust Community Interest Company (CIC)	27	32
Borden Sport Limited	12	18
Other long-term loans	16	22
Total	2,441	2,495

39. Short-Term Debtors

	31 March 2020	31 March 2019
	£'000	Restated £'000
Debtors		
Council tax – KCC, Kent & Medway Fire & Rescue Authority and Kent Police & Crime Commissioner shares	2,576	1,299
Business rates and council tax payers	2,430	2,158
Housing benefits overpayments	2,390	2,476
Department for Works and Pensions (DWP) – housing benefits	1,765	919
Business rates – pool share	1,617	2,935
Sundry debtors	641	1,003
Heritage Lottery Fund – Faversham Recreation Ground	632	0
Her Majesty's Revenue and Customs (HMRC) – VAT	482	935
Payments in advance	234	242
Other	1,212	1,852
Total Debtors	13,979	13,819
Impairment for Doubtful Debt		
Housing benefit overpayments	(1,429)	(1,469)
Other	(1,614)	(1,384)
Total Impairment for Doubtful Debt	(3,043)	(2,853)
Net Short-Term Debtors	10,936	10,966

The 2018/19 figures have been restated to provide more detail for short-term debtors.

There are no non-financial assets (e.g. housing benefit overpayments, council tax or business rate payers) that are outstanding debt as at the reporting date that have not been impaired. Housing benefit overpayments provision for debt impairment is based on the recovery action, the percentage of debt paid to date and the age of the debt. Further details for council tax and business rate payers can be found within the Collection Fund Note 50.

There has been no impairment for debt outstanding from other local authorities or from central Government departments and all debt is less than 12 months old.

Notes to the Core Financial Statements

As at 31 March 2020 the Council has a gross balance for sundry debtors of £3m. A review of significant balances suggested that an impairment for doubtful debts of 53% (£1.6m) was appropriate. However, if collection rates were to fall, the cost of covering the impairment of doubtful debts would require an additional £16,000 to be set aside for every 1% reduction in collection rates.

40. Cash and Cash Equivalents

	31 March 2020	31 March 2019
	£'000	£'000
Cash (overdrawn) by the Council	(3,239)	(1,207)
Money market funds (see Note 42 Table 4)	21,238	17,990
Total Cash and Cash Equivalents	17,999	16,783

The Council's bank balance had a surplus of £218,855 at 31 March 2020, but cash is shown as overdrawn in the above note because it includes payments which had been put through as expenditure in the Council's accounts, but which had not yet been cleared as payments to the bank account.

Leases

41. Leases

Disclosures in Relation to Operating Leases – Council as Lessee

Plant and equipment – as at 31 March 2020 the Council had 14 vehicles on a contract hire-operating lease basis (12 service vehicles, one electric car and one mayor's car). The Council is committed to making payments of £10,042.53 in 2020/21.

The expenditure charged to the Cost of Services in the Comprehensive Income & Expenditure Statement during 2019/20 in relation to these leases was £42,501 (£41,154 in 2018/19).

Disclosures in Relation to Operating Leases – Council as Lessor

The Council holds a number of operating leases with third parties.

Main Classifications of Usage of Operating Leases with Third Parties	Rentals Payable	Rentals Payable
	2019/20	2018/19
	£'000	£'000
Business premises	353	367
Industrial units	112	112
Other	117	94
Total	582	573

Future Minimum Lease Payments Under Non-Cancellable Leases in Future Years	2019/20	2018/19
	£'000	£'000
Not later than 1 year	87	101
Later than 1 year and not later than 5 years	124	124
Later than 5 years	371	348
Total	582	573

Financial Instruments

42. Financial Instruments

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

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. For reconciliation to cash and cash equivalents please see Table 4 below and Note 40. A reconciliation is available on request to the Finance Department on finance@swale.gov.uk.

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1 April 2018. The main changes were the reclassification of financial assets and the earlier recognition of the impairment of financial assets.

Table 1

Financial Liabilities	Long-Term		Current	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Lease liabilities	0	0	0	(140)
Cash and cash equivalents	0	0	(3,239)	(1,207)
Loans from other local authorities	(5,000)	(5,000)	(20,000)	(5,000)
Other creditors	0	0	(2,042)	(3,565)
Total Financial Liabilities	(5,000)	(5,000)	(25,281)	(9,912)

Table 2

Financial Assets	Long-Term		Current	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Amortised Cost				
Housing interest free loans	2,047	2,124	0	0
Employee car loans	165	128	0	0
Mortgages	5	5	0	0
Other debtors	224	238	1,541	1,175
Fair Value Through Profit and Loss				
Money market funds	0	0	21,238	17,990
CCLA property fund (long-term investment)	2,938	3,046	0	0
Total Financial Assets	5,379	5,541	22,779	19,165

The amortised cost assets are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council of £0.2m (£0.2m, 2018/19). The loss allowance has been calculated by reference to the Council's historic experience of default and to adjust for current and forecast economic conditions. Amortised cost assets that have not been impaired are £3.2m (£2.9m, 2018/19).

Notes to the Core Financial Statements

c) Employee Car Loans

The Council had loans for car purchase to 28 employees in 2019/20 (27 in 2018/19). The interest charged on new loans is 1.10% and an unsubsidised rate for such loans would have been 2.10%.

d) Gains and Losses on Financial Instruments

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

Table 3

	2019/20 £'000	2018/19 £'000
Financial Liabilities		
Interest costs on leases	15	41
Interest costs on loans	196	17
Financial Assets – Interest Income:		
Amortised cost: fixed term deposits and call accounts	(16)	(8)
Fair value through profit and loss: money market funds and CCLA	(298)	(281)
(Gains)/losses from change in fair value	109	(47)
Net (Gain)/Loss for the Year	6	(278)

e) Fair Value of Assets and Liabilities

Financial instruments assets which are classified at amortised cost and financial instruments liabilities are carried in the Balance Sheet at amortised cost. Financial instruments which are not classified at amortised cost, are carried in the Balance Sheet at fair value. For money market funds and the CCLA property fund, their fair value is taken from the market price. The Council has invested £3m in the CCLA Property Fund which is carried in the Balance Sheet at its fair value as at 31 March 2020 of £2.938m, the difference being posted to the Pooled Fund Adjustment Account. When comparing the Balance Sheet value of financial instruments valued at amortised cost to what their value would be at fair value, the only difference is for the five external loans whose fair value at 31 March 2020 is £25.205m.

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.

Notes to the Core Financial Statements

The 2019/20 Treasury Management Strategy was approved by Council on 20 February 2019 and can be obtained from the Council's website using the following link:

<https://services.swale.gov.uk/meetings/documents/s11709/Treasury%20strategy%20for%20Council%2020%20February.pdf>

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;
- 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 £3m. A 5% fall in commercial property prices would result in a £150,000 charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

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 and borrowing portfolio at 31 March 2020. 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 2020.

Notes to the Core Financial Statements

Table 4

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Fair Value Level	Balance Invested at 31 March 2020 £'000		Total	Balance Invested at 31 March 2019 £'000
			Up to 1 month	Greater than 3 months		
Invesco MMF	AAAmmf	1	3,000		3,000	3,000
JPM Liquidity MMF	AAAmmf	1	3,000		3,000	0
SSgA MMF	AAAmmf	1	2,180		2,180	0
Goldman Sachs MMF	AAAmmf	1	2,538		2,538	2,990
Morgan Stanley MMF	AAAmmf	1	3,000		3,000	3,000
Black Rock MMF	AAAmmf	1	3,000		3,000	3,000
Aberdeen MMF	AAAmmf	1	3,000		3,000	3,000
Amundi MMF	AAAmmf	1	1,520		1,520	3,000
Total Cash & Cash Equivalents			21,238		21,238	17,990
CCLA Property Fund		2		2,938	2,938	3,046
Total Long-Term Investments				2,938	2,938	3,046
Total Investments			21,238	2,938	24,176	21,036
London Borough of Hammersmith & Fulham Loan		2				(5,000)
Wycombe District Council Loan		2		(5,000)	(5,000)	(5,000)
London Borough of Camden Loan		2		(5,000)	(5,000)	0
London Borough of Islington Loan		2		(5,000)	(5,000)	0
Brighton and Hove City Council Loan		2		(5,000)	(5,000)	0
Greater London Authority Loan		2		(5,000)	(5,000)	0
Total External Borrowing				(25,000)	(25,000)	(10,000)

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 2020 (nil as at 31 March 2019).

The rating above is from the Fitch credit rating agency. A description of the grading is provided below:

- **AAAmmf** Funds have very strong ability to meet the dual objectives of providing liquidity and preserving capital.

Descriptions of the fair value level ratings are given below:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – measurements other than quoted prices included within Level 1 that are observable (e.g. they can be measured or found from existing data and records) for the asset, either directly or indirectly.

The Council's Relationship with Other Organisations

43. 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 allow 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). Un-ringfenced grants received from Government departments are set out in the Comprehensive Income & Expenditure Statement and ring-fenced grants credited to services are shown in Note 13.

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 2019/20 is shown on Note 8. 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 their 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 2019/20 financial year from Members and senior officers and there were no transactions considered of material significance to warrant separate disclosure in the Annual Accounts.

During 2019/20, no officers declared a pecuniary interest in accordance with section 117 of the Local Government Act 1972.

44. 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. Three interests were identified and details of these are set out below:

- Opportunities for Sittingbourne Limited (Company Number 09400214) – This 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 Company owns and operates a property in Sittingbourne that offers opportunities for people across Swale and Medway to get involved in a programme of creative activities and offers low cost and free business support to new enterprises. Opportunities for Sittingbourne Limited was incorporated in January 2015. 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.

Notes to the Core Financial Statements

- PSP Swale LLP (Company Number OC416830) – This partnership was registered on 8 April 2017 and Swale Borough Council is in partnership with PSP Facilitating Limited, who act as the administrators for the partnership. The Partnership did not carry out any transactions throughout the 2019/20 financial year other than the required administrative returns etc.
- SBC Holding Company 1 Limited (Company Number 12417065) – This company was registered on 21 January 2020. It is wholly owned by the Council. The company leases the land occupied by the hotel from the Council which is part of the Sittingbourne Town Centre regeneration. This company did not carry out any transactions throughout the 2019/20 financial year.

Further information on all the above companies is available from the Companies House website <https://www.gov.uk/government/organisations/companies-house>. As at 31 March 2020 the total investment in these entities has been assessed as immaterial and the Council has decided that group accounts are not required.

Further Adjustments Between Accounting Basis and Funding Basis

45. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total Comprehensive Income & Expenditure Statement 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.

	2019/20 Usable Reserves			2019/20 Unusable Reserves £'000	2018/19 Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
Adjustments to Revenue Resources					
Pension costs	(2,331)	0	0	2,331	1,783
Pooled Fund Adjustment Account	(110)	0	0	110	(47)
Council tax and business rates	82	0	0	(82)	(2)
Capital grants moved to Capital Grants Unapplied	91	0	(91)	0	0
Reversal of entries for capital expenditure	(8,626)	0	0	8,626	5,619
Total Adjustment to Revenue Resources	(10,894)	0	(91)	10,985	7,353
Adjustments Between Revenue & Capital Resources					
Transfer of cash sale proceeds from non-current assets to Capital Receipts Reserve (CRR)	292	(292)	0	0	206
Statutory provision for financing of capital investment (MRP)	634	0	0	(634)	(438)
Capital expenditure charged to the General Fund	873	0	0	(873)	(359)
Total Adjustments Between Revenue & Capital	1,799	(292)	0	(1,507)	(591)
Adjustments to Capital Resources					
Use of the CRR to finance capital expenditure	0	298	0	(298)	(438)
Capital Grants used to finance capital expenditure	3,087	0	11	(3,098)	(2,382)
Total Adjustment to Capital Resources	3,087	298	11	(3,396)	(2,820)
Total Adjustments	(6,008)	6	(80)	6,082	3,942

46. Expenditure and Funding Analysis 2018/19

Service Departments	2018/19					Net Expenditure Accounting Basis £'000
	Net Expenditure Reported to Cabinet £'000	Capital £'000	Pension £'000	Budget Responsibility £'000	Other £'000	
Chief Executive	290	27	36	12	(1)	364
Democratic Services	848	14	63	19	(1)	943
Policy, Communications & Customer Services	1,113	0	192	56	0	1,361
Director of Regeneration	267	95	28	3	1	394
Commissioning, Environment & Leisure Planning	5,152	984	269	(145)	(1)	6,259
Housing, Economy & Community Services	884	0	293	91	0	1,268
Property	3,170	64	362	55	19	3,670
Finance	476	1,277	85	(78)	(769)	991
Revenues & Benefits	748	7	125	212	307	1,399
Licensing & Resilience Planning	(268)	3	236	105	137	213
Information Technology	(15)	2	37	3	1	28
Audit	1,087	43	0	(359)	0	771
Environmental Health	204	0	0	0	0	204
Human Resources	506	3	0	1	0	510
Legal	329	0	0	13	0	342
Corporate Items	426	0	240	(19)	(1)	646
Cost of Services	2,745	1,106	1	0	(3,751)	101
Financed by Council Tax, Business Rates & Grants	17,962	3,625	1,967	(31)	(4,059)	19,464
Surplus in Year	(18,577)					
General Fund Balance at 1 April 2018	(615)					
Surplus in Year	(4,695)					
2018/19 Approved Rollovers	(615)					
General Fund Balance at 31 March 2019	952					
	(4,358)					

The left hand column shows the final spend for the year as reported to Cabinet. The middle columns show changes that have to be made to the figures reported to Cabinet in order to report the Council's expenditure on an accounting basis which is shown in the column on the right.

The table below reconciles the Cost of Services to the Surplus on the Provision of Services on the 2018/19 Comprehensive Income & Expenditure Statement:

2018/19	Net Expenditure Reported to Cabinet			Budget Responsibility	Other	Net Expenditure Accounting Basis
	£'000	£'000	£'000	£'000	£'000	£'000
Cost of Services	17,962	3,625	1,967	(31)	(4,059)	19,464
Other Income and Expenditure	(24,267)	(959)	1,563	(38)	4,172	(19,529)
Surplus on Provision of Services	(6,305)	2,666	3,530	(69)	113	(65)
Adjustments from Accounting Basis	5,690	(2,666)	(3,530)	69	(113)	(550)
Surplus in Year	(615)	0	0	0	0	(615)

Collection Fund

As a billing authority, Swale Borough Council collects council tax and business rates from taxpayers and redistributes them to other local authorities and the Government. Because the Council is collecting these taxes on behalf of others, under statute, it has to hold these transactions in a separate account known as the Collection Fund.

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 Council as the billing authority in relation to the Collection Fund are apportioned to the Government and other local authorities as appropriate in the subsequent financial year in their respective proportions.

The council tax and business rate income included in the Comprehensive Income & Expenditure Statement 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 and Kent & Medway Fire and Rescue Service, and collects business rates on behalf of the Government, KCC and Kent & Medway Fire and Rescue Service. Parish precepts are paid from the Council's General Fund and are disclosed on the face of the Comprehensive Income & Expenditure Statement.

Collection Fund 2019/20	Note	Business Rates £'000	Council Tax £'000	Total £'000
Income				
Council tax receivable	48	0	(84,603)	(84,603)
Business rates receivable	49	(53,332)	0	(53,332)
Transitional protection payments		(310)	0	(310)
Sub Total		(53,642)	(84,603)	(138,245)
Contribution towards previous year's Collection Fund forecast deficit				
Central Government		(27)	0	(27)
Swale Borough Council		(145)	0	(145)
Kent County Council		(187)	0	(187)
Kent & Medway Fire and Rescue Service		(3)	0	(3)
Sub Total		(362)	0	(362)
Total Income		(54,004)	(84,603)	(138,607)
Expenditure				
Precepts, demands and shares:				
Central Government		23,971	0	23,971
Swale Borough Council		19,177	9,625	28,802
Kent County Council		5,179	61,520	66,699
Kent & Medway Fire and Rescue Service		480	3,681	4,161
Kent Police and Crime Commissioner		0	9,145	9,145
Sub Total		48,807	83,971	132,778
Cost of collection		186	0	186
Other transfers to General Fund		422	0	422
Allowance for debt impairment	50	387	904	1,291
Allowance for appeals impairment	51	3,939	0	3,939
Sub Total		4,934	904	5,838

Notes to the Core Financial Statements

Collection Fund 2019/20	Note	Business Rates £'000	Council Tax £'000	Total £'000
Contribution towards previous year's Collection Fund forecast surplus				
Swale Borough Council		0	40	40
Kent County Council		0	253	253
Kent & Medway Fire and Rescue Service		0	15	15
Kent Police and Crime Commissioner		0	35	35
Sub Total		0	343	343
Total Expenditure		53,741	85,218	138,959
(Surplus)/Deficit Movement for the Year		(263)	615	352
(Surplus) at 1 April 2019		(722)	(223)	(945)
(Surplus)/Deficit at 31 March 2020	47	(985)	392	(593)

Collection Fund 2018/19	Note	Business Rates £'000	Council Tax £'000	Total £'000
Income				
Council tax receivable	48	0	(79,029)	(79,029)
Business rates receivable	49	(50,863)	0	(50,863)
Transitional protection payments		(587)	0	(587)
Total Income		(51,450)	(79,029)	(130,479)
Expenditure				
Precepts, demands and shares:				
Swale Borough Council		18,857	9,075	27,932
Kent County Council		28,659	57,665	86,324
Kent & Medway Fire and Rescue Service		472	3,518	3,990
Kent Police and Crime Commissioner		0	7,881	7,881
Sub Total		47,988	78,139	126,127
Cost of collection		181	0	181
Other transfers to General Fund		394	0	394
Allowance for debt impairment	50	365	585	950
Allowance for appeals impairment	51	1,747	0	1,747
Sub Total		2,687	585	3,272
Contribution towards previous year's Collection Fund forecast surplus				
Central Government		162	0	162
Swale Borough Council		130	178	308
Kent County Council		29	1,104	1,133
Kent & Medway Fire and Rescue Service		3	69	72
Kent Police and Crime Commissioner		0	147	147
Sub Total		324	1,498	1,822
Total Expenditure		50,999	80,222	131,221
(Surplus)/Deficit Movement for the Year		(451)	1,193	742
(Surplus) at 1 April 2018		(273)	(1,416)	(1,689)
Prior Year Adjustment		2	0	2
Revised (Surplus) at 1 April 2018		(271)	(1,416)	(1,687)
(Surplus) at 31 March 2019	47	(722)	(223)	(945)

47. Collection Fund Surplus/Agency Arrangements

Swale Borough Council's element of the Collection Fund surplus is £349,000 as at 31 March 2020 (£315,000 surplus in 2018/19) and is shown in the Balance Sheet within the Collection Fund Adjustment Account (Note 21). 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 collection fund balance at 31 March 2020 split into its attributable parts is shown below:

	2019/20 Business Rates £'000	2019/20 Council Tax £'000	2019/20 Total £'000	2018/19 Total £'000
Central Government	(493)	0	(493)	27
Swale Borough Council	(394)	45	(349)	(315)
Kent County Council	(88)	287	199	(618)
Kent & Medway Fire & Rescue Service	(10)	17	7	(29)
Kent Police and Crime Commissioner	0	43	43	(10)
Balance at 31 March	(985)	392	(593)	(945)

48. 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 & Medway Fire and Rescue Service and Swale Borough Council by the tax base for Swale which is 47,344.08 (46,590.79 in 2018/19). 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 2019/20 is listed below:

Band	Basic Tax £	Proportion of Band D Charge	Number of Band D Equivalent Dwellings
A	1,163.17	6/9	4,136.86
B	1,357.03	7/9	9,410.67
C	1,550.89	8/9	12,422.24
D	1,744.75	9/9	9,743.07
E	2,132.47	11/9	6,198.99
F	2,520.19	13/9	3,343.16
G	2,907.92	15/9	1,898.25
H	3,489.50	18/9	190.84
Total			47,344.08

The detail to the calculation of the Council Tax base can be found in the 'Resolutions for Calculating Council Tax' report to Council on 09 January 2019 by using the following link:
<https://services.swale.gov.uk/meetings/ieListDocuments.aspx?CId=128&MId=2020&Ver=4>

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

The level of non-payment provided for in 2019/20 was 0.86% (0.86% in 2018/19). The original anticipated income from the taxbase of 47,344.08 at £1,773.63 (Band D £1,744.75 plus average parish precept of £28.88) was £83,970,881. The actual income was £84,603,045.

49. 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 for 2019/20 is paid to the Government (50%), KCC (9%), and Kent & Medway Fire and Rescue Service (1%). The 2019/20 business rate income after reliefs was £53,642,379 (£51,450,346 in 2018/19).

The rateable value for the Council's area at the end of the financial year 2019/20 was £131,429,735 (£130,712,754 for 2018/19).

The business rate multiplier set for 2019/20 was 50.4p (2018/19 was 49.3p). Small businesses have a lower rate multiplier of 49.1p (2018/19 was 48.0p).

50. Debt Impairment

It is the policy of the Council that impairment for debt provisions for council tax and business rates are charged to the Collection Fund. The following provisions have been made against the possible non-collection of Collection Fund debt:

	2019/20 Business Rates £'000	2018/19 Business Rates £'000	2019/20 Council Tax £'000	2018/19 Council Tax £'000
Balance brought forward 1 April	(1,635)	(1,469)	(1,909)	(1,635)
Less amounts written off	41	199	449	311
(Increase) in provision	(387)	(365)	(904)	(585)
Balance at 31 March	(1,981)	(1,635)	(2,364)	(1,909)
Swale Borough Council's proportion	(792)	(654)	(272)	(219)

Amounts written off are charged directly to the provision for debt impairment. Any amounts written off in excess of the provision will be a charge to the Collection Fund. Council tax provision for debt impairment is based on an analysis of the age of the debt and their recovery stage. At 31 March 2020, the total council tax outstanding debt was £6.2m (£5m in 2018/19) of which debt one year old was £3m, debt between two to five years old was £2.7m and debt over five years old was £0.5m.

The provision for business rate debt impairment is based on an assessment of the likelihood of recovery of each debt in respect of each financial year since 2003/04. The provision takes into account the recovery action to date, the legal status of the debtor and potential absconders. At 31 March 2020, the total business rates outstanding debt was £2.6m (£2.4m in 2018/19) of which debt one year old was £0.9m, debt between two to five years old was £1.6m and debt over five years old was £0.1m.

51. Provision for Alteration of Lists and Appeals for Business Rates

	2019/20 £'000	2018/19 £'000
Balance brought forward 1 April	(9,962)	(8,542)
Less amounts charged to appeals	3,770	327
(Increase) in provision	(3,939)	(1,747)
Balance at 31 March	(10,131)	(9,962)
Swale Borough Council's proportion	(4,052)	(3,985)

Notes to the Core Financial Statements

Amounts refunded following successful revaluation appeals are charged directly to the provision for alteration of lists and appeals. Any amounts refunded in excess of the provision will be a charge to the Collection Fund.

There is a regular reassessment of the Rateable Valuations (RV) of businesses, carried out in 2005, 2010 and 2017. The provision for alteration of lists and appeals for the 2005 and 2010 RV lists is based on outstanding and forecast future appeals for businesses. For the 2017 RV list, the appeals forecast is based on the assumption made at national level of potential appeals amended to reflect local circumstances and the likelihood of appeals.

In July 2019 the Council was notified of a successful business rate appeal by Morrisons for their major warehouse on the 2010 rating list. The one-off cost charged to the provision for appeals was £2.5m.

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 £101,300 for every 1% increase in total rateable value, under appeal.

As at 31 March 2019, the Council was aware of an ongoing litigation between the Valuation Office and a number of ratepayers concerning the rating of Automated Teller Machines (ATMs/cash machines), and was referred to in the 2018/19 accounts as a contingent liability. This action was resolved in favour of ratepayers by the Supreme Court in May 2020, and the provision has been increased in 2019/20 to reflect this decision. However, the ruling has potential implications which are still to be considered by the Valuation Office Agency (VOA).

52. Contingent Liability

The Council is aware that the VOA is planning to review the valuations for purpose built General Practitioners' (GPs) surgeries during 2020/21. It is estimated that the maximum impact could be in the region of £0.2m.

In 2018/19 the Court of Appeal determined that ATMs hosted by retailers should not be assessed separately for business rates and refused the Valuation Office Agency (VOA) leave to appeal to the Supreme Court, although the VOA could and did petition the Supreme Court for leave to appeal. The outcome of the appeal was released in late May 2020 and, although the Supreme Court found in favour of the retailers in that they should not be assessed separately, the ruling has many potential implications which are still to be considered and it is unknown at this stage how the VOA will proceed.

Glossary

Accruals	The inclusion of outstanding debtors and creditors in the year's income, expenditure and capital expenditure.
Amortised Cost	Amortised cost (in relation to financial instruments) is the amount on initial recognition plus the interest taken to income and expenditure less cash paid or received for both interest and principal.
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 is expected to be converted into cash within a year.
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.
Code of Practice on Local Authority Accounting in the UK 2019/20 (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.
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.
Current Value	The value of a non-current asset which reflects the economic environment prevailing for the service or function the asset is supporting at the reporting date.
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.

Glossary

Depreciation	The measure of the cost or revalued amount of the benefits of the non-current assets that have been consumed during the period.
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.
Impairment	A reduction in the value of an asset below its carrying amount on the Balance Sheet.
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).
Internal Borrowing	If capital expenditure is spent which is not immediately financed through capital receipts or grants, the Council's underlying need to borrow (its Capital Financing Requirement) increases, resulting in a Minimum Revenue Provision (MRP). When the Council reduces its cash balances to cover this expenditure then this is called 'internal borrowing'.
International Financial Reporting Standards	Guidelines and rules set by the International Accounting Standards Board that companies and organisations can follow when compiling financial statements.
Investment Properties	Investment properties are those that are used primarily to earn rentals and/or for capital appreciation.
Liabilities	Amounts which will become payable by the Council in the short or long-term.
Materiality	Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about the Council.
Minimum Revenue Provision (MRP)	A charge to the Council's General Fund balance to make provision for the repayment of the Council's past unfunded capital expenditure.
Non-Operational Assets	Non-current assets which are 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.

Glossary

Precept	The levy made by those authorities which do not run the local taxation system, e.g. KCC, Kent & Medway Fire and Rescue Service, Kent Police and Crime Commissioner, on Swale Borough Council which collects the required income from local taxpayers on their behalf.
Property, Plant and Equipment	An asset that has physical substance which is used in the provision of services and is expected to be in use for longer than one year. The value is depreciated over the estimated life of the asset.
Provision	A provision is made when the Council has a present obligation as a result of a past event and it is probable that the Council will be required to settle that obligation.
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.
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
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Consumer Price Index
CRR	Capital Receipts Reserve
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
KCC	Kent County Council
LGPS	Local Government Pension Scheme
MIRS	Movement in Reserves Statement
MKS	Mid Kent Services

MMF	Money Market Funds
MRP	Minimum Revenue Provision
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 34
SMT	Strategic Management Team
VAT	Value Added Tax
VOA	Valuation Office Agency

Contacting Swale Borough Council

The Customer Service Centre deals with all enquiries across the Council; it should be your first stop when contacting us.

Copies of this Statement of Accounts for the year ended 31 March 2020 are available on the council website

Audit Committee Meeting	
Meeting Date	25 November 2020
Report Title	Interim Internal Audit & Assurance Report 2020/21
Cabinet Member	Cllr Roger Truelove
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Rich Clarke, Head of Audit Partnership
Lead Officer	Rich Clarke, Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendations	1. To note progress against the 2020/21 Internal Audit & Assurance Plan and findings so far.

1 Purpose of Report and Executive Summary

- 1.1 The report provides to Members an update on progress so far towards completing the 2020/21 Internal Audit & Assurance Plan. It also provides the update information needed by Audit Standards including an assessment of available audit time, results of audit work and commentary on performance of the audit service.
- 1.2 Following delays arising from the Covid Pandemic, we presented our final report for 2019/20 to Members in September along with an updated 2020/21 Plan. We have begun work on that plan and anticipate concluding the first engagements later this month. At present there are no matters of broader concern we wish to bring to Members' attention.

2 Background

- 2.1 The report provides an update for Members on progress against the 2020/21 Internal Audit & Assurance Plan approved by this Committee earlier this year and updated in September. The report also meets our duties under Public Sector Internal Audit Standard 2060 to report to Members on:

- Our audit charter,
- The independence of internal audit,
- Audit plan changes and progress against the plan,
- Resource needs of the audit service,
- Results of audit work so far,
- Affirming conformance with the Standards and Code of Ethics, and

- Details of risks taken by management that, in the Head of Audit Partnership’s judgement, may be unacceptable to the authority.

2.2 We will continue to adjust our plans according to the Council’s risk profile and remain confident of delivering a robust audit opinion by year end. We note in the report forthcoming CIPFA guidance on *Limitation of Scope Opinions* where a Head of Internal Audit is unable to gather enough evidence to support an opinion (for example where an audit service has been depleted through redeployment). We do not currently expect to be at that position come year end but, following the guidance, will report promptly to Senior Management and Members if that judgement changes.

2.3 We note good levels of delivery for officers acting to fulfil agreed actions.

2.4 We also report our continuing conformance with the Standards (including independence) and the Code of Ethics. We include an update on progress towards the recommendations included in our External Quality Assessment published by CIPFA in May 2020.

3 Proposals

3.1 To keep conformance with the Standards we must report progress periodically to Members. This report fulfils that duty and provides the opportunity for Members to review, comment on and question the progress we have made and the results we have reached.

4 Alternative Options

4.1 We do not propose any alternative action.

5 Consultation Undertaken or Proposed

5.1 We discuss results of audit work with responsible officers within the authority before issuing as final. We remain pleased to record to Members continuing strong levels of co-operation from officers.

5.2 The report builds on Committee comments from previous similar reports at equivalent points in earlier years.

6 Implications

Issue	Implications
Corporate Plan	Internal audit and its findings provide assurance to Members on the effectiveness of the Council’s governance. Good governance is necessary for successfully fulfilling the Corporate Plan.

Issue	Implications
Financial, Resource and Property	Continuing the audit and assurance plan is within already approved budgetary headings and so needs no new funding for implementation.
Legal and Statutory	Reporting to Members in his way contributes to fulfilling the Council's duties under the Local Audit & Accountability Act 2014.
Crime and Disorder	The report makes no recommendations that impact crime and disorder.
Environmental Sustainability	The report makes no recommendations that impact environmental sustainability.
Health and Wellbeing	The report makes no recommendations that impact health and well being.
Risk Management and Health and Safety	<p>We present this report for information only so it has no direct risk management implications.</p> <p>Audit Standard 2060 demands we report to Members any risks accepted by management that in our view may be unacceptable to the organisation. For example, this might include audit recommendations that management refuse to address.</p> <p>There are no risks we have identified in our work that we believe management have unreasonably accepted.</p> <p>The report makes no recommendations that impact health and safety.</p>
Equality and Diversity	The report makes no recommendations that impact equality and diversity.
Privacy and Data Protection	The audit service collects no data directly from the public. Any data we collect during our reviews we hold in line with the Council's applicable policies.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Interim Internal Audit & Assurance Report

8 Background Papers

None applicable.

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MID KENT AUDIT

Interim Internal Audit & Assurance Report

November 2020
Swale Borough Council



MID KENT AUDIT

Introduction

1. The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our reporting:

2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the *Code of Ethics* and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the *Code of Ethics* and the *Standards*, and action plans to address any significant conformance issues.
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

Audit Charter

3. This Committee approved our *Audit Charter* in September 2020 and it remains in place through the audit year.

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Independence of internal audit

4. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.
5. Within Swale BC during 2020/21 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
6. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Management response to risk

7. We include the results of our work in the year so far later in this report. In our work we often raise recommendations for management action. During the year so far management have agreed to act on all recommendations we have raised. We report on progress towards implementation in the section titled *Agreed Actions Follow Up Results*.
8. There are no risks we have identified in our work that we believe management have unreasonably accepted.

Resource Need

9. We reported in our plan presented to this Committee in March 2020 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

...we believe we have enough resource to deliver the 2020/21 plan

10. Since that plan we, and everyone else, have seen significant disruption from the Covid-19 pandemic. We set out a changed plan to this Committee in [September](#) which included updated resource need.
11. We are also aware that CIPFA are about to publish guidance on “limitation of scope” opinions. These apply where an audit service reaches year end having been unable to gather enough information to support a definitive opinion. This includes the sensible guidance that Heads of Audit should quickly communicate such a possibility.

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12. Currently, I continue to believe we have enough resources available to us to deliver the 2020/21 audit plan and provide a robust opinion at year end. I set out later in this report the information that supports that view. I will, following the guidance, report quickly to Senior Management and Members if I have any concerns that forecast will change.

Audit Plan Progress: Closing 2019/20

13. In September, there were a few audit engagements approaching completion that did not finish in time for Committee deadlines. I set out below our summary findings for those remaining projects. As expected, none produced significant concerns that would alter the opinion or demand separate reporting.

Budget Monitoring (September 2020)

14. The budget monitoring process at Swale Borough Council works effectively. We found that officers involved understand their roles and responsibilities. We also note regular liaison between the finance team and officers help manage the process. The service provides regular routine reports to both budget holders and Senior Management.
15. We found budget holders praised the accessibility and support provided by the finance team. We noted this support mitigates that some guidance documents have fallen out of date. Our testing of movements between budgets (virements) confirmed accurate management. We also noted clear documentation on the reason and approval for most movements, except for routine movements from reserves.

- **Finding Summary:** 3 x Low priority

Council Tax Recovery & Write-Offs (October 2020)

16. System parameters within the Council Tax system were found to be in line with the approved Council Tax recovery process so that part of the recovery of unpaid Council tax for the majority of debts can be undertaken while taking up only limited officer time. This enables to apply their training and experience on debts where manual intervention is required to ensure collection of any unpaid Council Tax. Good routines were found to be in place thereby ensuring that officers working on recovery are also suitably monitored.
17. Well-practiced routines were found to be in place to monitor payment arrangements and take the necessary action on broken payment arrangements or returned direct debits.

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18. Testing identified that where recovery action has been unsuccessful in recovering outstanding debts, appropriate approval is both sought and gained to write off those debts.
19. Some scope for improvement was identified to establish routines to identify unoccupied properties which have not been registered as empty by the property owner.
 - **Finding Summary:** 1 x Medium priority, 1 x Low priority

Member Development (October 2020)

20. We found that Swale Borough Council has well designed controls in place to ensure that Members on the Planning and Licensing Committees are trained to support effective decision making. There is a constitutional requirement for Members of these committees to have received training prior to voting on decisions and this requirement is being fulfilled. The training program in place is delivered by knowledgeable and experienced Officers who are delivering relevant content to support Members in their decision making.
 - **Finding Summary:** 1 x Low priority

Health & Safety (October 2020)

21. In this audit, our original draft report landed immediately before the service was about to undergo significant staffing changes. There was also then the upheaval in Swale House health and safety arrangements forced on the Council as part of its pandemic response. We therefore agreed to simply report the findings to management and revisit the service in the near future.

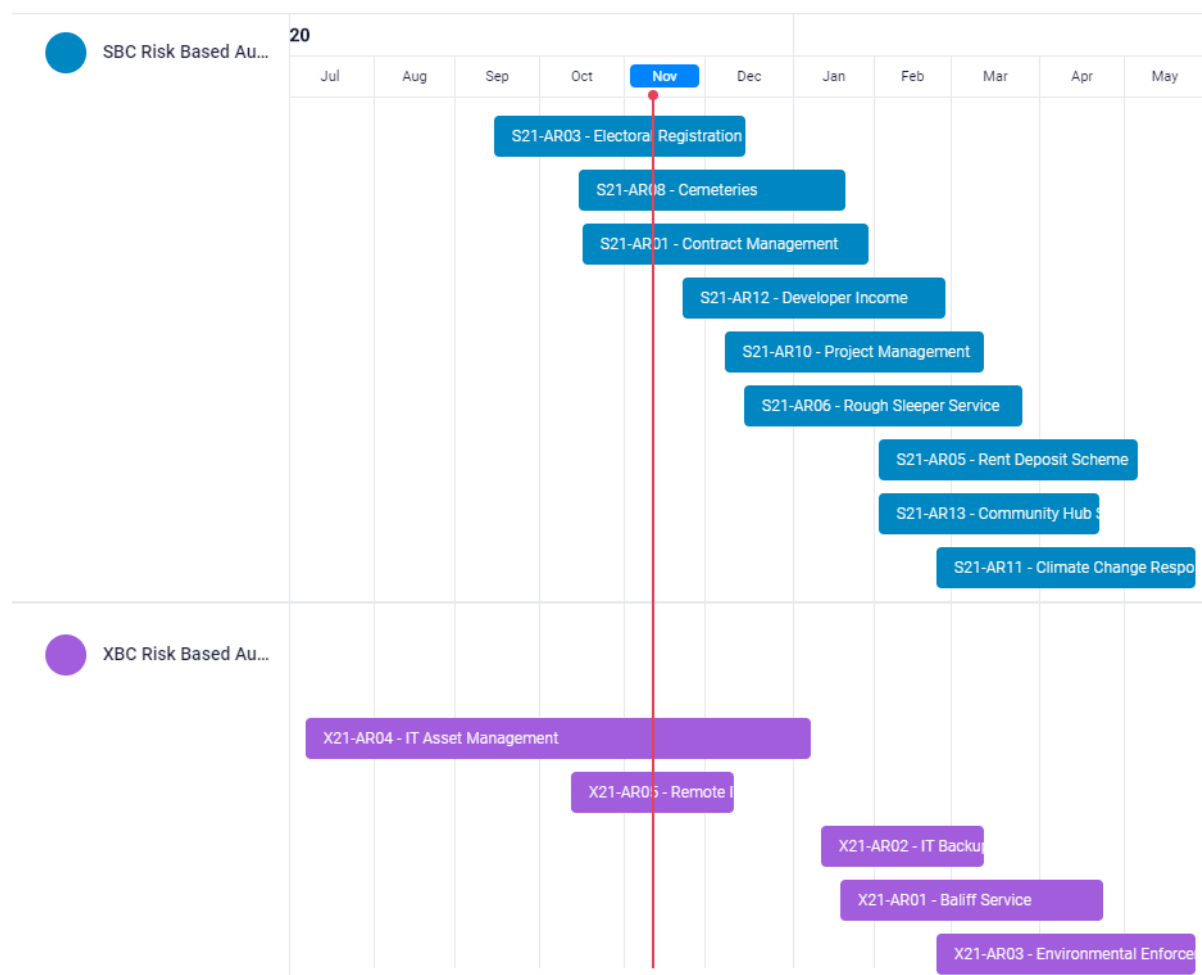
Procurement (November 2020, expected)

22. We have published our draft report but could not complete before the Committee deadline. We will provide a verbal update and summary wording from the final report in our later Member reporting.

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Audit Plan Progress: Beginning 2020/21

23. We have made a start on the plan approved in September, making progress towards delivering the opinion by year end. The chart below shows expected progress:



24. The table below also summarises (up to end of October) current days on audit plan progress, with forecast position later in the year.

Plan Area	Plan Days	Actual to Oct-20	Forecast to Apr-21
Risk Based Audits	218	44	212
Governance	84	50	95
Consultancy	48	11	25
Total	350	105	332

25. We will keep these forecasts and plans under review, especially if there need to be any further redeployment demands on the audit team.

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Agreed Actions Follow Up Results

26. Our approach to agreed actions is that we follow up each as it falls due in line with the plan agreed with management when we finish our reporting. We report progress on implementation to Senior Management Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after addressing key actions). In total, we summarise in the table below the current position on following up agreed actions:

Project	Total	High Priority	Medium Priority	Low Priority
Actions brought into 2020/21	24	2	14	8
New actions agreed in 2020/21	20	0	3	17
Total Actions Agreed	44	2	17	25
Fulfilled by 31 October 2020	20	0	8	12
Actions cfwd past 31 October 2020	24	2	9	13
Not Yet Due	16	2	4	10
Delayed but no extra risk	8	0	5	3
Delayed with risk exposure	0	0	0	0

Audit Quality and Improvement

Code of Ethics

27. This Code applies specifically to internal auditors, though individuals within the team must comply with similar Codes for their own professional bodies. The Standards also direct auditors in the public sector to consider the Committee on Standards in Public Life's [Seven Principles of Public Life](#) (the "Nolan Principles").
28. We have included the Code within our Audit Manual and training for some years. We also have policies and guidance in place on certain specifics, such as managing and reporting conflicts of interest.
29. We can report to Members we remain in conformance with the Code.

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Public Sector Internal Audit Standards & External Quality Assessment

30. In September we reported to Members we had achieved a second successive **fully conforming** conclusion in an External Quality Assessment. The Assessment included a few recommendations for us to consider. The table below summarises our progress:

Recommendation	Current Position
Statement limiting distribution and use of audit reports	We've included a statement (wording agreed with CIPA) on our standard 20/21 reporting template. Complete
Conforms to IPPF Statement	Template amended as above. Complete
Enhance declaration of interest forms for audit staff	New form in draft, will roll out as part of team objective setting discussions in Spring 2021. In progress
Expand use of data analytics	Have identified possible approaches in 20/21 plan and opened discussions with tool suppliers. In progress
Provide greater comparative insight for clients	Have identified joint audits for 20/21 and will look to publish cross-partnership reports on select topics. In progress
Renew collaboration agreement	Have re-started discussions among partners and Director to clarify expectations of any new agreement. In progress

Assurance Ratings Consultation

31. During our Assessment we had reviewed our *Quality Assurance and Improvement Plan*. A core part of this is that we periodically revisit features of how we work to consider whether they remain effective or could bear improvement.
32. This consideration includes, currently, our assurance rating structure. We have had the current structure in place since 2014/15 and so, after seven years in service, we believe a review of possible alternatives is timely.
33. We will shortly circulate a survey to consult stakeholders – including Members – on alternatives which may help aid your understanding and use of our results in drawing assurance. We are working towards bringing forward a new proposal (or reaffirming the current approach) as part of our 2021/22 audit plan next spring.

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Acknowledgements

34. We achieve these results through the hard work and dedication of our team and the resilience that comes from working a shared service across four authorities.
35. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through the year so far.
36. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

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