

Annual **Financial Report**

including the Statement of Accounts
for year ended 31 March 2019

Subject to Audit



SUBJECT TO AUDIT

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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 146,700, 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 and the Chief Executive is Mr Radford.

The Council's Purpose

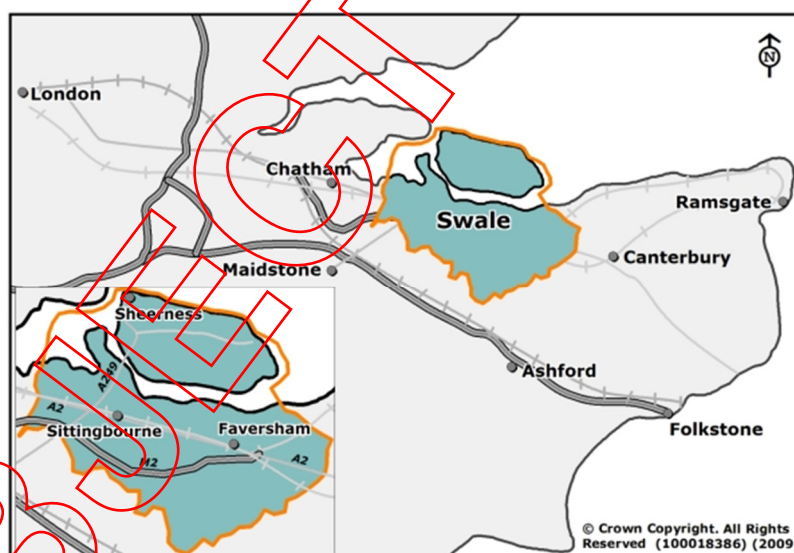
The Council's overarching purpose is making Swale a better place.

The Council's 2019/20 Corporate Priorities

Delivering Regeneration

Delivering Improved Quality of Life

Delivering the Council of Tomorrow



Financial Performance by Chief Financial Officer Nick Vickers

The Council's Expenditure and Income for 2018/19

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

	Budget 2018/19 £'000	Actual Spending 2018/19 £'000	Over/ (Under) Spend 2018/19 £'000
Chief Executive	337	290	(47)
Democratic Services	993	848	(145)
Policy, Communications & Customer Services	1,201	1,113	(88)
Regeneration	255	267	12
Commissioning, Environment & Leisure	5,531	5,152	(379)
Planning	1,019	884	(135)
Housing, Economy & Community Services	3,294	3,170	(124)
Property	564	476	(88)
Finance	765	748	(17)
Revenues & Benefits	38	(268)	(306)
Licensing & Resilience Planning	41	(15)	(56)
Information Technology	1,232	1,087	(145)
Audit	200	204	4
Environmental Health	561	506	(55)
Human Resources	379	329	(50)
Legal	437	426	(11)
Corporate Items	2,047	2,745	698
Cost of Services	18,894	17,962	(932)
Financed by Council Tax, Business Rates and Grants	(18,578)	(18,577)	1
Deficit / (Surplus) in Year	316	(615)	(931)

	Budget 2018/19 £'000	Actual Spending 2018/19 £'000	(Under) spend 2018/19 £'000
General Fund balance as at 1 April 2018	(4,695)	(4,695)	0
Deficit/ (Surplus) in year	316	(615)	(931)
2017/18 approved rollovers	952	952	0
Sub Total movement in 2018/19	1,268	337	(931)
General Fund balance as at 31 March 2019	(3,427)	(4,358)	(931)

The above table shows how the decrease in the General Fund of £337,000 shown in the Movement in Reserves Statement (MIRS) page 27 compared to the budget. The Council's policy is to maintain a balance of at least £1.5 million in the General Fund. The balance of £4.4 million represents 20% of the cost of services for 2018/19 and is therefore deemed to be at an adequate level by the Chief Financial Officer.

There are regular reports to Cabinet and senior management on the monitoring of spend against budget. There will be a report detailing the 2018/19 differences between the budget forecasts and the actual money spent and income to Cabinet on 10 July 2019.

Reviewing the Council's Performance

The major reasons for the underspend are salaries, additional planning income, and procurement savings.

In addition, the Council:

- collected £79m of Council Tax for Police, Fire, Kent County Council (KCC), Parish Councils and itself (£74m in 2017/18);
- collected £51m of Business Rates for the Government, Fire, KCC, and itself (£48m in 2017/18);
- paid out £43m on benefits and received £43m in grant (£51m paid, £51m received in 2017/18).

Capital Spending for 2018/19

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

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

Capital Spending	Revised Budget 2018/19 £'000	Actual Spending 2018/19 £'000	Over/ (Under) Spending £'000
Sittingbourne Town Centre	12,984	14,410	1,426
Disabled Facilities Grants	3,159	1,545	(1,614)
Easthall Farm Community Centre	158	0	(158)
East Street – Former Bus Depot	1,156	1,156	0
Faversham Recreation Ground Improvement	161	180	19
Leisure Centres	2,000	921	(1,079)
Other Services	729	659	(70)
Total	20,347	18,871	(1,476)

Capital Funding	2018/19 £'000
Total Capital Spending	18,871
Source of Funding	
Capital receipts	438
Capital grants and other contribution	2,382
Earmarked reserves	359
Internal borrowing (i.e. reducing Council's cash balances)	15,692
Total Capital Funding	18,871

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 Barnett Waddingham 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 expected income with the aim that the last payment to the last pensioner

Reviewing the Council's Performance

uses up the remaining money left in the Pension Fund.

The estimate is based on forecasting the current and future payments from the fund to pensioners (known as liabilities) against the current and future contributions to be made to the Pension Fund from the Council and Council staff, and the projected investment returns on cash held by the fund (assets). These forecasts are based on assumptions on factors such as future inflation, possible 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 valuation 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 Pension Fund deficit fell from £24 million in 2013 to £20 million in 2016 and the level of funding of the scheme rose from 69% in 2013 to 76% in 2016. This meant that the Council's pension contributions could remain at the same percentage of salaries as for the previous valuation.

However, the Pensions Note in the accounts (Note 8) 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 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. For example, the basis of 'discounting' the cost of future payments to pensioners to a present day value is set by the accounting standard. This enables the comparison of the pension assets and liabilities between different councils. In the accounts, the pension deficit according to IAS 19 has fallen from £62.7 million at 31 March 2018 to £57.4 million at 31 March 2019. However, this IAS 19 approach does not affect the amount that the Council actually 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	3 Year Review
	Pension Deficit	Pension Deficit
	£'000s	£'000s
2014/15	64,037	24,155
2015/16	58,297	24,155
2016/17	66,266	24,155
2017/18	62,713	20,067
2018/19	57,367	20,067

The reasons for the contrast in the valuations between the two methods are the different methods and assumptions underlying their calculations, for example a key feature of IAS19 is the requirement for the cost of pensions, i.e. the liabilities, to be valued using a discount rate assumption set with reference to yields on high quality corporate bonds.

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 £28 million during 2018/19 (£36 million for 2017/18) and closed at £21 million at 31 March 2019 (see Note 41, Table 4) (£20 million 31 March 2018). The Council achieved a return of 0.90% for 2018/19 (0.72% for 2017/18), amounting to £290,000 (£261,000 in 2017/18). 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 as a result of the base rate rise in 2018/19, but this was offset against a reduction in the amount invested as a result of increased capital expenditure.

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).

In 2019 the Council took out two loans of £5 million each, from other local authorities. One loan is for 12 months at a rate of 1.1% and the other for 18 months at a rate of 1.2%.

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 74.

In 2018/19, the Government postponed the full localisation of business rates nationally but did agree for it to be trialled by a number of pilots, including one which included all the Kent local authorities with the councils retaining the levy previously paid to the Government and all growth above the baseline. The Kent authorities agreed a method of sharing this additional growth. The result was a growth in the business rates income for the Council in 2018/19 which has been allocated to reserves. Unfortunately, Kent was not selected to be one of the pilots for 2019/20.

Transparency of the Council's Spending

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/>.

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/>.

New Accounting Policies in 2018/19

IFRS 9 Financial Instruments

The Council has adopted the International Financial Reporting Standard 9 (IFRS 9) with effect from 1 April 2018. A key issue is the treatment of gains and losses on the market value of the Council's £3 million investment in the CCLA Property Fund. Previously, losses and gains were only realised when the assets were disposed of and the effect of IFRS 9 will

Reviewing the Council's Performance

be that gains and losses will be shown in the accounts. However, the Government has introduced a 'statutory override' whereby any financial impact on the Council's revenue is reversed out.

IFRS 15 Revenue from Contracts with Customers

The core principle of this Standard is that the Council should recognise income when or as control over the goods or services is transferred to the customer or service recipient. For the Council's major income streams, income is recognised at the same time as the provision of service.

Future Accounting Policies

In 2020/21 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 approach to the Medium Term Financial Plan is based upon:

- Drive income – from fees and charges, new sources of income, asset management;
- Deliver regeneration – generating additional Business Rates/New Homes Bonus/Council Tax;
- Contracts – re-let of contracts to achieve business outcomes and savings;
- Transformation – the Transformation Team continues to review Council services and seek opportunities to make more use of digital service provision; and,
- Efficiency/staff savings – traditional approaches seeking efficiency savings.

Capital Strategy

The Council is not asset rich and the revenue budget constraints minimise the ability to purchase new assets. The Capital Strategy identifies viable new projects which help the Council achieve its wider objectives be they regeneration, housing or planning related.

In March 2016, Council agreed to a borrowing facility of up to £30m subject to individual business case and in November and December 2016 Cabinet agreed a business case for borrowing up to £28m for Sittingbourne Town Centre regeneration. This facility was extended to £60m 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 and the Leisure Centre refurbishment. In January 2019 the Council took out two loans of £5m each, from other local authorities. One loan is for 12 months at a rate of 1.1% and the other for 18 months at a rate of 1.2%.

Each year, the Council agrees an annual Treasury Management Strategy covering the management of council debt and cash investments with the 2019/20 strategy approved by Council on 20 February 2019. In considering investing, for the Council's investment strategy there are two overriding principles to be applied:

Reviewing the Council's Performance

- Minimising the cost to the revenue budget - given the continued reductions in local government financing there is no scope within the revenue budget to meet debt charge costs. If the Council incurred debt charge costs then, unless the investment generated sufficient income to cover these costs, the Council effectively would have to reduce services to fund the costs; and,
- Strategic impact - if the Council is going to invest in property it needs to support wider Council objectives around regeneration of the Borough and creating new employment. This means there needs to be additionality in terms of the wider economic benefits e.g. higher business rates.

The Council has not made any commercial investments outside of the Borough and is very unlikely to do so. Revenue and capital funds are very limited and the investment criteria for strategic impact would make it very hard to prioritise spend outside the Borough given that by definition investment outside of the Borough cannot deliver the wider strategic regeneration benefits within the Borough.

In 2018 the Council was successful alongside KCC and Kent Police in bidding for funding under the auspices of One Public Estate for funding for a scoping exercise on rationalising the property holdings of the three organisations in Sittingbourne Town Centre. A consultancy firm (Pellings) has been procured to undertake the work and a report is expected in 2019.

Decisions on either commercial or service investment will be made by Cabinet.

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. 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. MRP still has to be made. The Council to date has been using internal borrowing to fund expenditure on Sittingbourne Town Centre (STC), the Multi-Storey Car Park (MSCP), 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.

2019/20 will see the completion of the MSCP and the STC development. The Chief Financial Officer will be seeking to minimise external borrowing until such time as the tenant rent free periods expire. In this period there will be very little scope for any other significant capital spend except in areas such as Disabled Facilities Grant which is 100% funded by specific grants.

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

Reserves

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

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

Future of Local Government Finance

Two significant developments will take effect from 2020/21:

- the Fair Funding Review; this is a fundamental reworking of needs based funding allocations; and,
- the local share in the Business Rate Retention Scheme will increase from 50% to 75% in 2020/21. The increase in local share will be fiscally neutral and will be matched by transfers of Revenue Support Grant, public health grant and other grants. No announcement has been made about the split over the different levels of local authorities (e.g. KCC and district councils).

The Secretary of State has also suggested that there would be a full Business Rate baseline reset for 2020/21 but there was no clarity on whether there would be a full or partial reset. This whole issue is very significant for the Council given the extent of Business Rate growth since the partial localisation from 1 April 2013. When the reset is combined with the extension of Business Rate localisation and a Comprehensive Spending Review in 2019 it makes any forecasts beyond 2019/20 highly speculative.

Annual Financial Report

Swale Borough Council's Annual Financial Report for 2018/19 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 2019. It has been prepared in line with the Accounts and Audit Regulations 2015. The format meets the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code), supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts appears on pages 24 to 79 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 2018/19.

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: 30 May 2019

Chief Financial Officer



Reviewing Performance

The Council's Performance

The Council adopted its Corporate Plan 2015 and it remained in operation for the whole of 2018/19 (see <http://www.swale.gov.uk/corporate-plan-2015-2018/>). The Plan represents an evolution from previous plans; containing 15 medium-term strategic objectives grouped under three headline 'priority themes' covering the Council's aspirations for the Borough as a physical place, for the local community, and for the Council's own organisational culture and development.

The Council maintains comprehensive partnership links with a wide range of other agencies both within and beyond the Borough. These include both strategically and operationally focused partnerships with partners from the health, housing, blue-light and other sectors, some of which are directly responsible for the delivery of key services or strategies, as well as partnerships with other local councils aimed at sharing functions to make them more effective, efficient and resilient than they would be as stand-alone services. The most comprehensive of these shared-service partnerships is Mid Kent Services (MKS), whose core members are Maidstone, Swale and Tunbridge Wells, within which the Council shares a number of large back-office and frontline services. Maintaining strong partnership links with cross-sectoral partners has become more difficult in recent years as austerity has taken its toll on agencies' capacity for meaningful engagement and collaboration.

Like other parts of the public sector, the Council has experienced major reductions in Government grant funding since 2010, and in common with most councils, the Council has worked to identify and pursue alternative sources of income. While the Council has a relatively low physical asset base and the Borough's low land values mean that viability on property development schemes is often marginal, nonetheless the Council is investing in much-needed large-scale regeneration in Sittingbourne town centre as a means both of improving the quality of the local offer for residents and visitors, and of providing new revenue streams to support the Council's services.

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. When minor changes are excluded, performance improved on 37% of these indicators in 2018/19 compared to 2017/18, while it deteriorated on 32% of indicators. The Council publishes a summary performance report each month on its website at <http://www.swale.gov.uk/managing-performance/>.

A major challenge is homelessness and the number of households in temporary accommodation. The causes are complex and in response the Government has introduced the Homeless Reduction Act whose aim is to prevent people from becoming homeless with earlier intervention. However, this is largely dependent upon the Council's ability to secure homes financially within the private rented sector.

We continue to recognise those residents and groups who positively contribute to helping others in the local community by sponsoring the annual Volunteer Swale Awards which are now in their fifth year. This important annual event celebrates the hard work of some of our borough's most dedicated volunteers at a gala ceremony. Other ways the Council recognises the value of giving something back to the community includes enabling every member of staff being the opportunity to carry out volunteering activities.

Looking forwards, there are a number of issues which will continue to challenge the Council's ability to deliver the outcomes its residents need during 2019/20 and beyond. Despite its location in the generally prosperous South-East, Swale contains large pockets of deprivation. In addition to the effects of on-going austerity on the Council's own capacity, the rollout of universal credit and further reductions in social security spending will continue to have a profound impact on the lives and opportunities of the people who live in Swale.

Furthermore, the Council experienced a seismic shift in political balance following the 2019 local elections and officers are working closely with an alliance of five different political groups to help them development and implement a new political programme from that of the previous administration. We are fortunate that we have a stable, experienced and dedicated management team and officers to help deliver this.

The Council's People

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

There are well-established performance and development processes for all staff, which ensures that all team members have a development plan. The Council has developed 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.

A new Workforce Strategy has been developed and implemented at the Council which 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/>.

The Council carries out the Best Council survey every two years. The results of the survey for 2018 showed that we are still in the 'One to Watch' category and staff felt that there was a strong sense of family within the organisation and that they felt supported in their jobs by their managers and the teams they work in. The results of the survey will also help the Council to further strengthen the approach to development, wellbeing and engagement opportunities.

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 2018/19, the amount of time lost to sickness was an average of 9.73 days per employee, which is higher than the average for the local government sector of 8.5 days; however, the figures have declined dramatically over the last 6 months. The main reason for the increase in sickness figures is due to long-term absence. One other outcome of the Council's strategy was demonstrated by the very positive results of the Health and Safety Executive's Stress at Work survey, which showed that employee stress is well managed. The proactive approach to sickness management is enhanced by an active programme of well-being initiatives to encourage staff to take responsibility for their own health.

How the Council Manages Data

The Council has a responsibility to securely keep the personal data it holds. In 2018/19 there were 16 reported incidents which amounted to breaches of the Data Protection Act. Each case is investigated fully before the Council's Senior Information Risk Owner decides on the appropriate response. In 2018/19 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's corporate level risks link directly to delivery of its Corporate Plan. Because of their higher profile, the Council keeps corporate risks under review. These reviews include oversight from both officers (at Strategic Management Team) and Members (at Cabinet).

The Council keeps a full register of its risks both corporate and more routine. The Council also undertakes regular exercises to identify emerging risks. Over the course of 2018/19 the Council identified, assessed, took action and oversaw various corporate risk issues.

The Council, like all local authorities, continues to work in a challenging environment. The key challenges documented in the risk register are, to some degree, familiar. They include authority funding, changing regulations, housing pressures and IT security.

The Council works collectively in response to these risks. Behind each is an action plan setting out existing controls in place and planned actions to further manage the risk. The Council oversees all corporate risks through the year ensuring effective response to any risk events. The Audit Committee received a progress update on the Council's risk management on 13 March 2019 and it can be found here:

<https://services.swale.gov.uk/meetings/ielistDocuments.aspx?CId=142&MId=2027&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. A schematic summarising how the Council meets this obligation is set out below.

1.4 In June 2017 the Cabinet agreed an updated Local Code of Corporate Governance based upon the 2016 Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework 'Delivering Good Governance in Local Government'. The local code was updated to reflect this document with its greater emphasis on outcomes rather than process.

1.5 This Annual Governance 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.

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 on-going 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 2019, 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 February 2019 after an extensive consultation process, Council agreed a new Corporate Plan, "Delivering a Better Borough for You". The plan is structured around three high level priority themes, each containing a number of specific objectives. The three themes are:

- Delivering regeneration;
- Delivering improved quality of life; and
- Delivering the Council of tomorrow.

3.3 This is the Council's fourth corporate plan, and the latest is very much an evolution based upon what has preceded it. In governance terms it is the document that sets out the Council's overarching medium term strategic vision. The Annual Report reviews headline performance and does focus on outcomes.

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

Management of resources

3.5 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 strategy 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 SMT and quarterly reporting to Cabinet and Scrutiny Committee;
- (iii) an investment strategy using borrowing to generate new income streams to cover the costs of borrowing on projects which support the Council's strategic priorities; and
- (iv) an annual review of fees and charges.

Member and officer working arrangements

3.6 Roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. The Cabinet is the main decision-making body of the Council, and for 2018/19 it was made up of seven

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members who have responsibility for particular portfolios. The Cabinet members are supported by Deputy roles.

- 3.7 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.
- 3.8 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 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 Chartered Institute of Public Finance and Accountancy (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, its budget, the work of the Council's employees, and the work undertaken for the Council by a variety of partners and contractors who deliver a wide range of services to the community. The role of Chief Executive is a permanent appointment, which requires the approval of the full Council following the recommendation of a candidate for the role by the Appointments Sub Committee of General Purposes Committee. In December 2017 Council confirmed the appointment of the interim as the Council's permanent Chief Executive.
- 3.13 Section 5 of the Local Government and Housing Act 1989, as amended by paragraph 24 of schedule 5 Local Government Act 2000, requires the Council to designate one of its senior officers as the Monitoring Officer. The Head of Policy, Communications and Customer Services took over this role in October 2018 and is responsible for:
- (i) ensuring that the Council acts and operates within the law. This post has a duty to report to the whole Council if the Council has broken or may have broken the law;
 - (ii) maintaining arrangements to support the Council's functions and activities, including regular reviews of the Council's Constitution;

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- (iii) 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 (CFO) in Local Government (2010).
- 3.15 The role of Head of Internal Audit is assigned to the post of the Head of Audit Partnership, an arrangement covering the three MKS 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 2011. The Head of Audit Partnership's operational responsibilities are set out in the Internal Audit Charter, and are consistent with the independence requirements set out in the Standards. The Head of Audit Partnership role also conforms to the principles set out in the CIPFA statement on the role of the Head of Internal Audit in Public Service Organisations (2010).
- 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 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:

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- (i) an Anti-Fraud and Anti-Corruption Strategy;
- (ii) a Whistleblowing Policy;
- (iii) various Human Resources 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 interests and disclosable other interests;
- (ii) declarations of disclosable pecuniary interests and disclosable other interests at the start of each meeting in which discussions involve a matter in which a member has an interest;
- (iii) registers of gifts and hospitality for officers;
- (iv) an Equalities Scheme and Equal Opportunities Policies; and
- (v) comprehensive member induction.

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 Internal Audit have led a complete review of the approach to risk management. This has embedded a rigorous process for identifying and managing corporate risks based upon senior officer workshops and then discussions with Cabinet members. The Audit Committee maintains an oversight of the process.

Developing the capacity and capability of Members and Officers

- 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.
- 3.26 The Council continues to put great emphasis on the management and development of its key resource - the people who work for the Council. There are well-established performance appraisal and development processes for all staff. The Council has

developed its values - Fairness, Integrity, Respect, Service and Trust (FIRST) - to clearly describe how we do things, and all employees have been engaged in activities to help them be aware of how we expect them to work so that they behave in ways which are consistent with these values.

- 3.27 The Council also has a Staff Engagement Strategy. Communications with staff are paramount, with a monthly Team Talk document, three all staff briefings a year led by the Chief Executive, weekly SMT meetings, regular meetings of the wider leadership team, monthly team meetings, and quarterly third tier managers meetings. These processes are supplemented by a staff group with direct access to SMT. In February 2017 the Council was evaluated as being one of the best 100 public sector employers as assessed in the annual Sunday Times survey.
- 3.28 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

- 3.29 The Council engages with partners and stakeholders through various partnerships such as the Community Safety Partnership, the Swale Economy and Regeneration Partnership, the local Health and Wellbeing Boards, and the Green Grid Partnership, to ensure collaboration on strategic issues and joint responsibility for working together for the benefit of the residents of Swale.
- 3.30 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 e.g. the Business Bulletin and Active Swale Bulletin.
- 3.31 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,

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- (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.

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 framework 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 their 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.
- 4.3 In the 2017/18 Annual Governance Statement three main areas for attention moving forward were identified. The latest position on these is as follows:

Issue	Updated position
Continued development of a robust Medium Term Financial Plan with greater financial self-sufficiency and the pilot of full localisation of business rates.	<p>2018/19 will see the Council once again achieve a significant revenue budget underspend and a very substantial business rate surplus. The latter was heavily impacted by the business rate pilot.</p> <p>Business rate income was also critical in achieving a balanced budget for 2019/20.</p>

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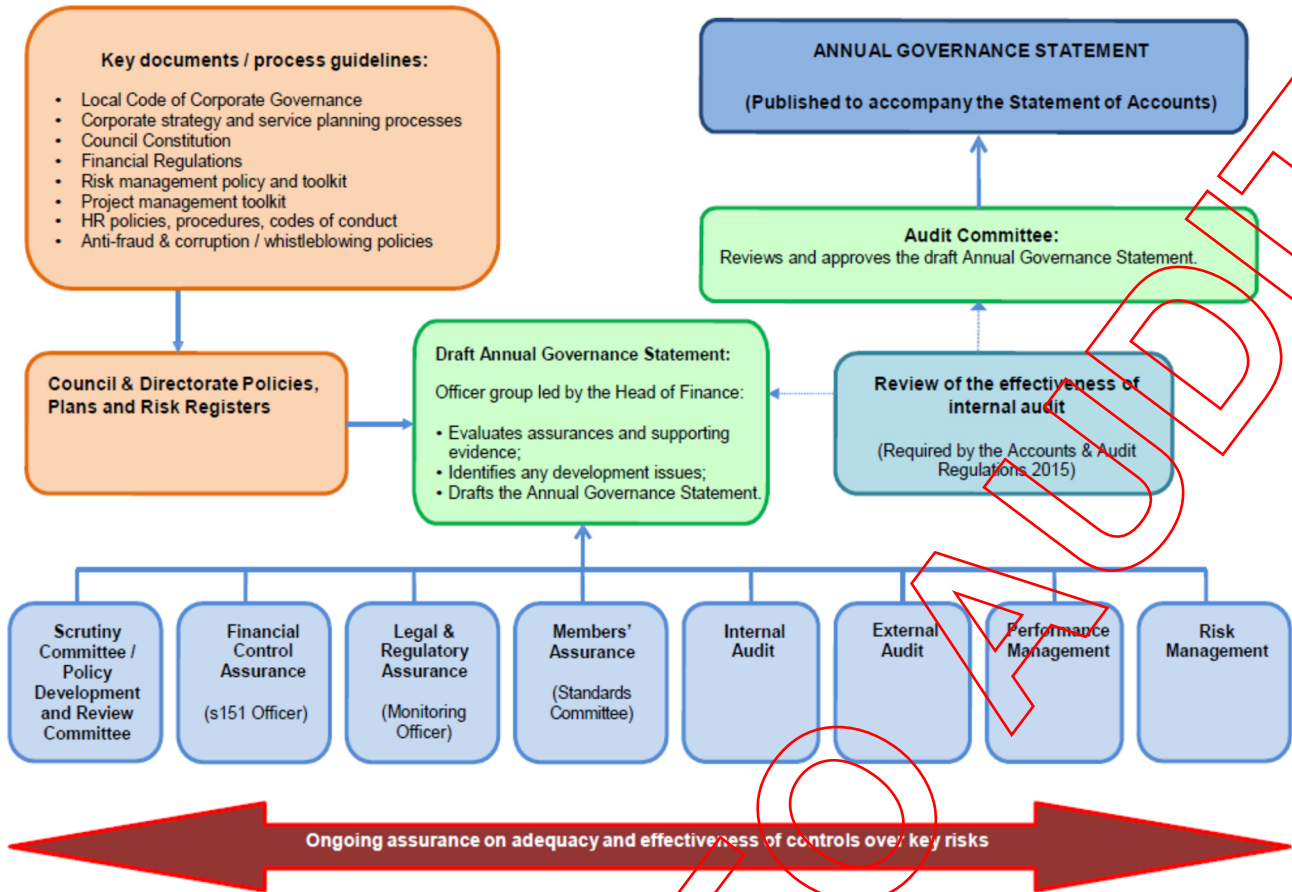
Issue	Updated position
Significant progress in the delivery of the Sittingbourne Town Centre programme.	The retail development opened on time in Summer 2018 and is trading well. The multi-storey car park has been completed and is due to open shortly. Really good progress has been made on the leisure build which is due to be completed in December 2019.
Delivering management development through the wider leadership team to ensure capacity to deliver continued service improvement.	The internal management forums have been revised with the Corporate Leadership Team expanded to include senior managers reporting to Heads of Service. The recent bHeard survey revealed a change in the results for some of the categories. In relation to management development, further support will be provided to improve the management skills of managers and supervisors in the organisation.

5. Significant Governance Issues

5.1 The change of administration following the Borough election in May means that there will be new working arrangements to establish and new priorities. The main areas for member and senior management attention in the coming year are:

- (i) establishing effective working relationships with the new administration;
- (ii) constitutional review to enable power to be diffused more widely among members;
- (iii) 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; and,
- (iv) providing effective officer leadership to the organisation in the extended absence due to ill health of the Chief Executive.

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Agreed:

Leader of the Council

Director of Regeneration

Head of Policy, Communications and Customer Services

Chief Financial Officer

30 May 2019

SUBJECT TO

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

During July 2019, Grant Thornton UK LLP will be auditing the accounting statements of Swale Borough Council for the year ended 31 March 2019 in accordance with the statutory framework established by Sections 3 and 20 of the Local Audit and Accountability Act 2014 for England. Grant Thornton will be presenting their opinion of the financial statements to the Council's Audit Committee on 29 July 2019 and the final certification will be included here when it has been issued.

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 2019.

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

Date: 30 May 2019

Certification of the Chairman of the Audit Committee

I confirm that the adoption process for the 2018/19 Statement of Accounts has been formally completed and that the Statement of Accounts for the year ended 31 March 2019 was approved by Swale Borough Council in accordance with the Accounts and Audit Regulations (England) 2015 at the meeting of the Audit Committee on 29 July 2019.

Councillor Simon Clark
Chair of the Audit Committee

Date: 29 July 2019

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

Service Departments	2018/19					Net Expenditure Accounting Basis £'000
	Net Expenditure Reported to Cabinet £'000	Capital £'000	Pension £'000	Budget Respon- sibility £'000	Other £'000	
	Chief Executive	290	27	36	12	
Democratic Services	848	14	63	19	(1)	943
Policy, Communications & Customer Services	1,113	0	192	56	0	1,361
Director of Regeneration	267	2,186	28	3	1	2,485
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	(18,577)					
Surplus in Year	(615)					
General Fund Balance at 1 April 2018	(4,695)					
Surplus in Year	(615)					
2017/18 Approved Rollovers	952					
General Fund Balance at 31 March 2019	(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 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 2017/18 can be seen in Note 45.

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 Surplus on the Provision of Services on the 2018/19 Comprehensive Income & Expenditure Statement:

2018/19	Net Expenditure Reported to			Budget Responsibility £'000	Other £'000	Net Expenditure Accounting Basis £'000
	Cabinet £'000	Capital £'000	Pension £'000			
Cost of Services	17,962	5,716	1,967	(31)	(4,059)	21,555
Other Income and Expenditure	(24,267)	(959)	1,563	(38)	4,172	(19,529)
Deficit on Provision of Services	(6,305)	4,757	3,530	(69)	113	2,026
Adjustments from Accounting Basis	5,690	(4,757)	(3,530)	69	(113)	(2,641)
Surplus in Year	(615)	0	0	0	0	(615)

SUBJECT TO AUDIT

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

	2018/19	2018/19	2018/19	2017/18
	Gross	Gross	Net	Restated
	Expenditure	Income	Expenditure	Net
	£'000	£'000	£'000	£'000
Chief Executive	372	(8)	364	311
Democratic Services	1,019	(76)	943	1,026
Policy, Communications & Customer Services	1,394	(33)	1,361	1,340
Director of Regeneration	2,646	(161)	2,485	248
Commissioning, Environment & Leisure	11,123	(4,864)	6,259	6,761
Planning	2,901	(1,633)	1,268	1,426
Housing, Economy & Community Services	6,763	(3,093)	3,670	4,519
Property	1,107	(116)	991	1,053
Finance	1,406	(7)	1,399	1,183
Revenues & Benefits	45,951	(45,738)	213	226
Licensing & Resilience Planning	283	(255)	28	52
Information Technology	774	(3)	771	820
Audit	204	0	204	175
Environmental Health	563	(53)	510	511
Human Resources	338	4	342	322
Legal	1,965	(1,319)	646	632
Corporate Items	572	(471)	101	144
Sub Total Cost of Services	79,381	(57,826)	21,555	20,749
Other Operating Expenditure				
Drainage Board levy	797	0	797	779
Parish Precepts	1,163	0	1,163	1,100
Revaluation of Held for Sale assets (Note 27)	12	0	12	0
Disposal of assets (gains)/losses (Note 14)	7	(514)	(507)	(58)
Other	0	0	0	(73)
<i>Sub Total Other Operating Expenditure</i>	<i>1,979</i>	<i>(514)</i>	<i>1,465</i>	<i>1,748</i>
Financing & Investment (Note 10)	4,129	(1,522)	2,607	943
Taxation and Non-Specific Grant Income and Expenditure				
Council Tax	0	(9,112)	(9,112)	(8,725)
Business Rates income	0	(23,887)	(23,887)	(19,930)
Tariff & levy Business Rates	11,068	0	11,068	11,308
Contribution paid to Business Rates pool	2,544	0	2,544	1,992
Income received from Business Rates pool	0	(1,573)	(1,573)	(1,295)
Revenue Support Grant	0	0	0	(1,238)
New Homes Bonus	0	(2,046)	(2,046)	(2,742)
Other grants and contributions	0	(595)	(595)	(1,408)
<i>Sub Total Taxation and Non-Specific Grant</i>	<i>13,612</i>	<i>(37,213)</i>	<i>(23,601)</i>	<i>(22,038)</i>
Sub Total Movement from Cost of Services			(19,529)	(19,347)
Deficit on Provision of Services			2,026	1,402
Net surplus on revaluation of non-current assets (Note 18)			2,864	(647)
Re-measurement of net defined pension liability (Note 8)			(7,129)	(5,632)
Receipts from long-term debtors			89	66
Surplus on revaluation of available for sale assets			0	(91)
Sub Total Other Comprehensive Income & Expenditure			(4,176)	(6,304)
Total (Surplus) Comprehensive Income and Expenditure			(2,150)	(4,902)

This shows the cost of providing services on an accounting basis. There is a gain of £2.15 million in the value of the Council's assets and is the total of the movement on the Balance Sheet. The 2017/18 analysis has been updated to reflect a staff reorganisation.

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

	General Fund Balance £'000	Revenue Earmarked Reserves £'000 (Note 17)	Total General Fund £'000	Capital Receipts Reserve £'000 (Note 15)	Capital Grants Unapplied £'000 (Note 16)	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
2017/18								
Balance as at 31 March 2017	(4,874)	(11,261)	(16,135)	(986)	(306)	(17,427)	8,048	(9,379)
Total Comprehensive Expenditure and Income 2017/18	1,402	0	1,402	0	0	1,402	(6,304)	(4,902)
Adjustments between accounting basis and funding basis (Note 44) 2017/18	(3,736)	0	(3,736)	(95)	(20)	(3,851)	3,851	0
Transfers (to)/from earmarked reserves 2016/17 (Note 17)	2,513	(2,513)	0	0	0	0	0	0
(Increase)/Decrease in 2017/18	179	(2,513)	(2,334)	(95)	(20)	(2,449)	(2,453)	(4,902)
Balance as at 31 March 2018	(4,695)	(13,774)	(18,469)	(1,081)	(326)	(19,876)	5,595	(14,281)
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	2,026	0	2,026	0	0	2,026	(4,176)	(2,150)
Adjustments between accounting basis and funding basis (Note 44) 2018/19	(5,746)	0	(5,746)	(284)	(3)	(6,033)	6,033	0
Transfers (to)/from earmarked reserves 2017/18 (Note 17)	4,057	(4,057)	0	0	0	0	0	0
(Increase)/Decrease in 2018/19	337	(4,057)	(3,720)	(284)	(3)	(4,007)	1,857	(2,150)
Balance as at 31 March 2019	(4,358)	(17,831)	(22,189)	(1,365)	(329)	(23,883)	7,452	(16,431)

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 an increase in the Council’s reserves of £4 million resulting in a balance of £23.9 million.

Balance Sheet – The Council's Resources

	Note	31 March 2019		31 March 2018	
		£'000	£'000	£'000	£'000
Total Property, Plant and Equipment	23		70,709		62,588
Heritage Assets		579		579	
Investment Property	26	3,460		3,438	
Intangible Assets		135		155	
Long-Term Investments	41	3,046		3,000	
Long-Term Debtors	37	2,495		2,514	
			9,715		9,686
Total Long-Term Assets			80,424		72,274
Current Assets					
Assets Held for Sale	27	88		200	
Short-Term Investments	41	0		6,000	
	T4				
Inventories		1		1	
Cash and Cash Equivalents	39	16,783		9,393	
Short-Term Debtors	38	10,966		8,984	
			27,838		24,578
Total Current Assets			27,838		24,578
Total Assets			108,262		96,852
Current Liabilities					
Short-Term Creditors	32	(14,691)		(11,648)	
Short-Term Loans	41	(5,000)		0	
S106 Deferred Revenue Receipts	33	(89)		(142)	
Revenue Grant Receipts in Advance	12	(504)		(413)	
Provisions	36	(1,928)		(1,908)	
			(22,212)		(14,111)
Total Current Liabilities			(22,212)		(14,111)
Total Assets less Current Liabilities			86,050		82,741
Long-Term Liabilities					
Long-Term Creditors	31	(60)		(60)	
Long-Term Loans	41	(5,000)		0	
Deferred Liabilities	34	0		(140)	
Liability Related to Defined Benefit Pension Scheme	8(f)	(57,367)		(62,713)	
Capital Grants and Contributions	35	(4,687)		(3,501)	
S106 Deferred Revenue Receipts	33	(389)		(478)	
Provisions	36	(2,116)		(1,568)	
			(69,619)		(68,460)
Total Long-Term Liabilities			(69,619)		(68,460)
Net Assets			16,431		14,281

Balance Sheet – The Council's Resources

	Note	31 March 2019		31 March 2018	
		£'000	£'000	£'000	£'000
Financing:					
Unusable Reserves					
Revaluation Reserve	18	(17,272)		(20,511)	
Deferred Capital Receipts Reserve		(7)		(6)	
Capital Adjustment Account	19	(32,274)		(36,287)	
Collection Fund Adjustment Account	20	(315)		(314)	
Pensions Reserve	22	57,367		62,713	
Pooled Fund Adjustment Account	21	(47)		0	
Total Unusable Reserves			7,452		5,595
Total Usable Reserves	MIRS page 27		(23,883)		(19,876)
Total Reserves			(16,431)		(14,281)

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

The usable reserves are detailed on the Movement in Reserves Statement and can be used to fund expenditure or reduce local taxation. The movement in cash that resulted in the Cash and Cash Equivalents balance of £16.783 million 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
Chief Financial Officer

Date: 30 May 2019

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

	2018/19	2017/18
	£'000	£'000
Net (Deficit)/Surplus on the Provision of Services (see Comprehensive Income & Expenditure Statement)	(2,026)	(1,402)
Depreciation	1,227	1,276
Impairment & downward valuations	4,367	1,289
Movement in market value of investment property and upward revaluation	(70)	(186)
(Decrease)/Increase in creditors	2,605	(147)
(Increase) in debtors	(1,980)	(3,397)
(Decrease) in debt impairment	9	(20)
Movement in provisions	568	276
Movement in pension liability	1,783	2,079
Carrying amount of non-current assets and current assets held for sale, sold or derecognised	213	101
Other movements	(47)	(199)
Adjustment to Net Surplus on the Provision of Services for Non-Cash Movements	8,675	1,072
Adjustment for items included in the net surplus on the provision of services that are investing and financing activities	21,659	16,416
Net Cash Inflows from Operating Activities	28,308	16,086
Purchase of property, plant and equipment, investment property and intangible assets	(15,957)	(8,730)
Movements of short-term and long-term investments	(18,755)	(7,500)
Other payments for investing activities	(348)	(555)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	610	96
Other receipts from investing activities	4,218	2,725
Net Cash (Outflows) from Investing Activities	(30,232)	(13,964)
Short and Long Term Borrowing	10,000	0
Council Tax and Business Rates adjustments	(503)	(610)
Cash payments for the reduction of outstanding liabilities relating to finance leases	(183)	(169)
Net Cash (Outflows)/Inflows from Financing Activities	9,314	(779)
Net Increase in Cash or Cash Equivalents	7,390	1,343
Cash and cash equivalents as at 1 April (Note 39)	9,393	8,050
Cash and cash equivalents at 31 March (Note 39)	16,783	9,393
Net Increase in Cash or Cash Equivalents During Year	7,390	1,343

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 £295,000 for interest received (£263,000 in 2017/18) and £63,000 for interest paid (£61,000 in 2017/18).

Accounting Policies

1. Accounting Policies – General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code 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 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

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

- 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;
- 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;

Notes to the Core Financial Statements

- 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; and,
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to Cost of Services for the income that might not be collected. Exceptions to this are utility bills, insurance premiums and income from car parking, which are, in the main, charged or credited to the year in which billed, rather than be apportioned between years as the effect of adjusting for opening and closing balances would not be material to the total of transactions for the year. This policy also covers larger payments credited to the year in which they were billed and not apportioned between years.

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. Receipts in excess of £10,000 are categorised as capital receipts. 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. Receipts below £10,000 are considered de-minimis and treated as revenue.

(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 Authority, 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 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 2.4%. The discount rate is the annualised yield at the 18-year point on the Merrill Lynch AA-rated corporate bond curve, chosen to meet the requirements of International Accounting Standard (IAS) 19 and with consideration of the estimated duration of employer's liabilities.

The assets of the 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;
- 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

Notes to the Core Financial Statements

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 is due to take 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.

(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 CCLA Property Fund carried at fair value at 31 March 2019.
- amortised cost – this category includes fixed term deposits, call accounts and other

Notes to the Core Financial Statements

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

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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) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

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

Notes to the Core Financial Statements

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.

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

Notes to the Core Financial Statements

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 property, plant and equipment assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

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

Notes to the Core Financial Statements

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; if costs are incurred in years before the capital receipt then the costs are met from the Capital Receipts Reserve with unused capital receipts from other disposals.

(r) 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.

(s) 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.

(t) Reserves

The Council maintains general and earmarked reserves, with the latter being set up for a specific purpose, whilst the former are not. No expenditure is charged directly to a reserve,

but is charged to the service revenue account within the Comprehensive Income & Expenditure Statement. This is then offset by a reserve appropriation within the Movement in Reserves Statement.

(u) Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

(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:

- IFRS 16 Leases;
- amendments to IAS 40 Investment Property: Transfers of Investment Property;
- annual Improvements to IFRS Standards 2014-2016 Cycle;
- International Financial Reporting Interpretations Committee (IFRIC) 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

None of these are expected to have a material effect on the Council's finances in 2019/20.

4. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 30 May 2019. 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 2019, the figures in the financial statements and notes have been adjusted if material to reflect the impact of this information.

5. Authorisation of Accounts for Issue

The Statement of Accounts was authorised for issue by Mr Nick Vickers, the Chief Financial Officer on 30 May 2019.

Pay and Pensions

6. 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	2018/19 Number of Employees	2017/18 Number of Employees
£50,000 - £54,999	10	10
£55,000 - £59,999	8	5
£60,000 - £64,999	2	1
£65,000 - £69,999	1	1
£70,000 - £74,999	1	1
£75,000 - £79,999	1	3
£80,000 - £84,999	3	0
£85,000 - £89,999	0	1
£90,000 - £94,999	1	0
£135,000 - £139,999	0	1
£140,000 - £144,999	1	0
Total	28	23

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

- all sums paid to or receivable by an employee including non-taxable termination payments, redundancy pay and pay in lieu of notice;
- expense allowances chargeable to tax i.e. the profit element of car allowances; and,
- the monetary value of any other benefits.

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

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 £	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
£0 - £20,000	1	0	7	0	8	0	90,200	0
£20,001 - £40,000	0	0	3	0	3	0	76,500	0
£60,001 - £80,000	3	0	0	0	3	0	202,400	0
Total	4	0	10	0	14	0	369,100	0
Total paid to employees							242,600	0
Total paid to KCC for contracted payments for pension scheme							126,500	0
Total							369,100	0

Notes to the Core Financial Statements

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

(a) Post holder Information (Post title and name)	Point	2018/19 Salary, Fees & Allowances £'000	2018/19 Pension Contributions £'000	2018/19 Total Remuneration £'000	2017/18 Total Remuneration £'000
Chief Executive Mr Mark Radford	1	142	44	186	179
Total		142	44	186	179

Point 1: Includes Returning Officer fees for Parliamentary elections and KCC elections.

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

(b) Post holder Information (Post title)	Point	2018/19 Salary, Fees & Allowances £'000	2018/19 Pension Contributions £'000	2018/19 Total Remuneration £'000	2017/18 Total Remuneration £'000
Head of Legal Services	1	84	26	110	59
Head of Legal Services	2	0	0	0	41
Director of Regeneration	3	94	29	123	116
Monitoring Officer	4	50	16	66	74
Head of Development Services		81	25	106	104
Head of Housing, Economic and Community Services	5	76	24	100	95
Head of Commissioning & Customer Contact	6	73	23	96	85
Head of Commissioning, Environment & Leisure	7	0	0	0	3
Policy & Performance Manager	8	62	20	82	72
Head of Housing Services	9	87	20	107	103
Chief Executive Thames Gateway Kent Partnership	10	0	0	0	6
Chief Executive Thames Gateway Kent Partnership	11	82	0	82	80
Total		689	183	872	838

Point 1: Post holder in post from September 2017. Includes market supplement and mileage allowance.

Point 2: Post holder left September 2017 having been employed on an interim basis.

Point 3: Post holder started July 2016 on an interim basis until September 2018 when they were appointed on a permanent basis.

Point 4: 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. 2017/18 total includes fees for Parliamentary Elections, KCC Elections and Presiding Officer and honorarium. 2018/19 includes honorarium.

Notes to the Core Financial Statements

- Point 5:** Post holder was appointed July 2016 on an interim basis until September 2018 when they were appointed on a permanent basis.
- Point 6:** Post holder appointed in April 2017 on an interim basis until September 2018 when they were appointed on a permanent basis.
- Point 7:** Post holder left April 2017.
- Point 8:** Post holder appointed Monitoring Officer from October 2018.
- Point 9:** 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 10:** Post holder left April 2017.
- Point 11:** Post holder joined April 2017. Includes mileage allowance.

More details on the cost of shared services can be seen on Note 11.

7. Members' Allowances

	2018/19 £'000	2017/18 £'000
Basic allowance	240	234
Special responsibility allowance	142	138
Members' travel, subsistence and IT allowance	20	21
Total	402	393

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

8. 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

Notes to the Core Financial Statements

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 real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income & Expenditure Statement and the General Fund balance via the Movement in Reserves Statement:

	2018/19 £'000	2017/18 £'000
Comprehensive Income & Expenditure Statement		
Cost of Services comprising:		
Current service cost	3,080	3,040
Administration expenses	39	37
Net interest on the net defined benefit liability	1,563	1,751
Total Post-Employment Benefits Charged to the Deficit on the Provision of Services	4,682	4,828
Post-Employment Benefits Charged to Other Comprehensive Income and Expenditure:		
Return on plan assets in excess of interest	(4,061)	(559)
Change in demographic assumptions	(7,991)	0
Change in financial assumptions	4,923	(5,073)
Total Re-Measurements Recognised in Other Comprehensive Income and Expenditure	(7,129)	(5,632)
Total Post-Employment Benefits Charged to the Comprehensive Income & Expenditure Statement	(2,447)	(804)

Notes to the Core Financial Statements

	2018/19 £'000	2017/18 £'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	(1,783)	(2,079)
Employers' Contributions Payable to the Scheme	2,899	2,749
Actual Return on Scheme Assets less Interest	4,061	559

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:

	2018/19 £'000	2017/18 £'000
Present value of the defined benefit obligation	137,745	137,191
Fair value of plan assets	(83,198)	(77,556)
Sub total	54,547	59,635
Present value of unfunded obligation	2,820	3,078
Net liability in Balance Sheet	57,367	62,713

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:

	2018/19 £'000	2017/18 £'000
Reconciliation of present value of the scheme liabilities		
Opening balance as at 1 April – defined benefit obligation	(140,269)	(142,035)
Current service cost	(3,080)	(3,040)
Interest cost	(3,537)	(3,788)
Contributions by scheme participants	(550)	(542)
Changes in financial assumptions	(4,923)	5,073
Changes in demographic assumptions	7,991	0
Benefits paid including unfunded pension payments	3,803	4,063
Closing balance as at 31 March – defined benefit obligation	(140,565)	(140,269)

	2018/19 £'000	2017/18 £'000
Reconciliation of fair value of the scheme assets		
Opening balance as at 1 April – fair value of scheme assets	77,556	75,769
Interest on assets	1,974	2,037
Return on assets less interest	4,061	559
Administration expenses	(39)	(37)
Employer contributions	2,899	2,749
Contributions by scheme participants	550	542
Benefits paid including unfunded pension payments	(3,803)	(4,063)
Closing balance as at 31 March – fair value of scheme assets	83,198	77,556

Notes to the Core Financial Statements

h) Pension Fund Assets

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

	31 March 2019	31 March 2019	31 March 2018	31 March 2018
	£'000	%	£'000	%
Equity investments	57,074	69	51,783	67
Gilts	547	1	594	1
Bonds	7,579	9	7,420	9
Property	9,997	12	9,757	13
Cash	1,417	1	2,526	3
Target return portfolio	6,584	8	5,476	7
Total	83,198	100	77,556	100

A detailed analysis of the Pension Fund's assets over asset category is available from the Finance Department. Please email your request to finance@swale.gov.uk.

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 2019	31 March 2018
Mortality assumptions:		
Longevity at 65 if retiring today:		
Men	22 years	23.1 years
Women	24 years	25.2 years
Longevity at 65 if retiring in 20 years:		
Men	23.7 years	25.3 years
Women	25.8 years	27.5 years
Rate of inflation (Retail Price Index (RPI) increases)	3.40%	3.35%
Rate of inflation (Consumer Price Index (CPI) Increases)	2.40%	2.35%
Rate of increase in salaries	3.90%	3.85%
Rate of increase in pensions	2.40%	2.35%
Rate of discounting scheme liabilities	2.40%	2.55%
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 2019 is estimated to be 8% (3% for the year 31 March 2018).

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that the life expectancy of women is higher than that of men who retire at the same or similar ages. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Notes to the Core Financial Statements

Uncertainty	Sensitivity Analysis		
	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	138,151	140,565	143,023
Projected service cost	2,800	2,870	2,941
Adjustment to long-term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	140,839	140,565	140,292
Projected service cost	2,870	2,870	2,870
Adjustment to pension increases and deferred revaluation	+0.1%	+0.0%	-0.1%
Present value of total obligation	142,746	140,565	138,421
Projected service cost	2,941	2,870	2,800
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
Present value of total obligation	145,632	140,565	135,674
Projected service cost	2,969	2,870	2,775

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 2016 which disclosed a net deficit of £547m on the fund overall, a reduction from the 2013 valuation deficit of £784m.

The movement in demographic assumptions is because, for 2018/19, the mortality improvement projection was updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2018, which shows that the increase in longevity has slowed and has contributed to a reduction in the pension fund deficit. 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 2019/20 is £2.606m (£2.899m, 2018/19).

The weighted average duration of the defined benefit obligation for scheme members remains at 18 years for 2018/19 (2017/18, 18 years).

Day to Day Spending - Revenue

9. Expenditure and Income Analysed by Nature

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

	2018/19	2017/18 Restated
	Net Expenditure £'000	Net Expenditure £'000
Benefit payments	43,747	51,382
Employee costs	15,248	14,968
Business rates paid to Government and pool	13,612	13,300
Other service expenses	14,938	14,384
Major contracts	7,011	6,343
Trading undertakings (losses)	1,911	138
Parish precepts	1,163	1,100
Drainage board levy	797	779
Investment properties	592	24
Other items	82	169
Total Expenditure	99,101	102,587
Benefit income	(43,292)	(50,701)
Business rates income	(25,460)	(21,225)
Fees, charges and other service income	(14,534)	(13,876)
Council tax	(9,112)	(8,725)
New homes bonus	(2,046)	(2,742)
Trading undertakings (gains)	(865)	(342)
Revenue support grant	0	(1,238)
Other grants and contributions	(595)	(1,408)
Other items	(1,171)	(928)
Total Income	(97,075)	(101,185)
Deficit on Provision of Services	2,026	1,402

The 2017/18 analysis has been restated to reflect a staff reorganisation.

10. Financing and Investment Income and Expenditure

	2018/19	Restated 2017/18
	Net Expenditure £'000	Net Expenditure £'000
Interest payable & similar charges	63	61
Net interest on the net defined pension liability	1,563	1,751
Interest receivable & similar income	(295)	(263)
Losses / (Gains) on trading undertakings	1,046	(204)
Income & expenditure - investment properties (Note 26)	349	(216)
Revaluation gains to investment properties and changes in fair value (Note 26)	(70)	(186)
Disposal of investment property (gains) (Note 14)	(2)	0
Net gain on financial assets through profit and loss	(47)	0
Total	2,607	943

The 2017/18 analysis has been restated following a review of the application of accounting regulations.

11. 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:

	2018/19 Expenditure on Partners £'000	2018/19 Income from Partners £'000	2018/19 Expenditure Other £'000	2018/19 Income Other £'000	2018/19 Net Expenditure £'000	2017/18 Net Expenditure £'000
Environmental Health	465	0	72	(30)	507	512
Information Technology	453	0	646	(3)	1,096	1,205
Human Resources	222	0	93	0	315	315
Planning Support	196	0	24	0	220	235
Internal Audit	190	0	19	0	209	171
Parking	112	(21)	1,213	(2,915)	(1,611)	(1,601)
Building Control	70	0	4	0	74	76
Local Land Charges	65	0	6	(156)	(85)	(141)
Fraud Investigation	19	0	0	0	19	17
Legal	0	(1,224)	1,756	(95)	437	778
Debt Recovery	0	0	0	(133)	(133)	(134)
Total	1,792	(1,245)	3,833	(3,332)	1,048	1,433

In 2018/19 the Council contributed £38,345 towards shared IT capital expenditure (£79,960 in 2017/18). The Council has accrued its funding share to Maidstone Borough Council as revenue expenditure funded from capital under statute. In 2018/19 the Council contributed £44,400 towards the shared cost of staff redundancies in the Information Technology MKS and the Internal Audit shared service. This represented the Council's share of the total costs.

12. 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 2018/19 were £504,651 (£412,785 in 2017/18).

Capital Grants - Receipts in Advance

Please see Note 35 for a breakdown of Capital Grants receipts in advance

Notes to the Core Financial Statements

Grants Credited to Services

Grant Area	Provider	2018/19 £'000	2017/18 Restated £'000
Housing benefit grant	Department for Work & Pensions	(43,292)	(50,701)
Housing repair grants – disabled facilities	Ministry for Housing, Communities and Local Government	(1,545)	(1,328)
Sittingbourne Town Centre road works	Kent County Council	(364)	(579)
Dolphin Barge Museum	Private Developer	(70)	0
Housing benefit admin subsidy	Department for Work & Pensions	(451)	(498)
Discretionary housing payment	Department for Work & Pensions	(393)	(455)
Homelessness grant	Ministry for Housing, Communities and Local Government	(392)	(360)
Implementing welfare reform changes	Department for Work & Pensions	(230)	(129)
Localising council tax support administration subsidy grant	Ministry for Housing, Communities and Local Government	(174)	(195)
Open spaces and play areas – commuted sums	Various Contributors	(150)	(161)
Troubled families grant	Kent County Council	(14)	(84)
Other grants	Various Contributors	(656)	(545)
Total Grant Income Credited to Cost of Services		(47,731)	(55,035)

The 2017/18 has been restated to provide more details on the relevant grants.

13. External Audit Costs

The Council's auditors are Grant Thornton UK LLP.

	2018/19 £'000	2017/18 £'000
Fees payable for external audit service	47	53
Fees payable for the certification of grant claims and returns	24	21
Total	71	74

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

Property valued at £212,810 was disposed of in 2018/19. A total net gain of £509,350 was incurred for 2018/19 for all disposed assets (net gain of £57,980 in 2017/18). Net gains on all assets excluding investment assets totalled £507,250, with net gains on investment assets being £2,100 (no investment assets were disposed of in 2017/18). The largest gain in the year was £372,870 re the disposal of land in St. Michael's Road, Sittingbourne. This was part of a land swap agreement with Network Rail further to the Sittingbourne Town Centre regeneration works. Gains and losses on investment properties are shown within Financing and Investment in the Comprehensive Income & Expenditure Statement.

Council Resources – Reserves**15. Usable Capital Receipts Reserve**

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

	2018/19 £'000	2017/18 £'000
Balance as at 1 April	(1,081)	(986)
Capital receipts in year from sale of assets	(607)	(82)
Capital receipts in year from repayment of grants and mortgages	(115)	(90)
Capital receipts applied during the year – financing long-term assets	438	70
Other movements	0	7
Balance as at 31 March	(1,365)	(1,081)

16. 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.

17. 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 2018/19 and 2017/18.

	Balance 31 March 2017 £'000	Transfers out 2017/18 £'000	Transfers in 2017/18 £'000	Balance 31 March 2018 £'000	Transfers out 2018/19 £'000	Transfers in 2018/19 £'000	Balance 31 March 2019 £'000
Business Rates Volatility	(1,425)	25	(2,149)	(3,549)	426	(1,812)	(4,935)
General Reserve	(2,918)	435	(532)	(3,015)	906	(77)	(2,186)
Business Rates Pool (Economic)	(748)	0	(598)	(1,346)	35	(754)	(2,065)
Building Maintenance	(934)	122	(12)	(824)	81	(154)	(897)
Housing & Commercial Growth Fund	0	0	0	0	0	(846)	(846)
Preceptors Council Tax Support	(309)	0	(254)	(563)	0	(254)	(817)
Housing Benefits	(490)	136	(62)	(416)	0	(214)	(630)
Performance	(535)	372	(153)	(316)	122	(300)	(494)
STC Retail Park	0	0	0	0	0	(439)	(439)
Regeneration	(687)	337	0	(350)	213	(300)	(437)

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	Balance 31 March 2017 £'000	Transfers out 2017/18 £'000	Transfers in 2017/18 £'000	Balance 31 March 2018 £'000	Transfers out 2018/19 £'000	Transfers in 2018/19 £'000	Balance 31 March 2019 £'000
Parking	(113)	1	(193)	(305)	43	(117)	(379)
Repairs & Renewals	(183)	73	(76)	(186)	61	(149)	(274)
Commuted Sums	(331)	92	(19)	(258)	14	(22)	(266)
Stay Put Fund	(144)	0	(39)	(183)	18	(67)	(232)
Local Development Framework	(175)	0	(62)	(237)	29	0	(208)
Financial Services	(134)	0	(50)	(184)	25	(25)	(184)
Wheeled Bins	(111)	0	(35)	(146)	0	(35)	(181)
Local Loan Fund	(200)	0	0	(200)	25	0	(175)
Housing	(182)	134	(119)	(167)	30	0	(137)
Refuse and Recycling	(104)	65	(66)	(105)	9	(36)	(132)
Communities Fund	(116)	6	(2)	(112)	66	(76)	(122)
Electoral Registration	(89)	0	0	(89)	0	0	(89)
Insurance Funds	(91)	0	0	(91)	3	0	(88)
Pension & Redundancy	(205)	0	0	(205)	369	(250)	(86)
Disabled Facilities Grants (Revenue)	0	0	0	0	7	(92)	(85)
Faversham Recreation HLF Bid	0	0	0	0	0	(80)	(80)
Environmental Initiatives	(9)	0	(40)	(49)	0	(28)	(77)
Milton Creek Access Road	(58)	0	(17)	(75)	0	0	(75)
Tree Survey and Works in Closed Churchyards	(38)	0	0	(38)	0	(25)	(63)
Cemeteries	(48)	10	(17)	(55)	10	(15)	(60)
Faversham Creek Footpath	(60)	0	0	(60)	0	0	(60)
ICT Reserve	(44)	0	0	(44)	0	(11)	(55)
Miscellaneous	(780)	569	(395)	(606)	171	(542)	(977)
Total	(11,261)	2,377	(4,890)	(13,774)	2,663	(6,720)	(17,831)

Business Rates Volatility	To assist the Council in managing the volatility of business rate income as a result of business rate localisation.
General Reserve	The use of this reserve is subject to the approval of Members.
Business Rates Pool (Economic)	This fund has been established as a result of the Council joining the Kent Business Rates Pool. It is to fund economic development as agreed by the Council and KCC.
Building Maintenance	To meet items of backlog building maintenance as identified in the Council's medium term maintenance plan as well as urgent or unexpected items. Each year the reserve is topped up by any underspend on the building maintenance revenue budget.
Housing & Commercial Growth Fund	Under the Kent Business Rates 2018/19 Pilot there was to be an allocation of funds called the Housing and Commercial Growth Fund which was allocated among "clusters" of authorities for each cluster to determine the final allocation. SBC is in the "North Kent" cluster.

Notes to the Core Financial Statements

Preceptors Council Tax Support	Paid by KCC, Police and Fire to reflect the costs of Council Tax support localisation.
Housing Benefits	Savings made in the Benefits section, including unspent grants were transferred to this reserve. This is used to cover the shortfall in grant.
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.
Regeneration	To fund regeneration projects in the Borough. Officers can submit bids to this reserve.
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.
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.
Commuted Sums	This reserve will be used to fund play area and open space maintenance in future years.
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.
Local Development Framework	Any underspend or overspend on this service on the General Fund will be transferred to this fund and used solely to fund Local Development Framework associated work.
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.
Wheeled Bins	To fund the new wheeled bins purchases and replacements.
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.
Housing	To fund the homelessness service in future years.
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.
Communities Fund	This is to support the Council's Localism Agenda.
Electoral Registration	To fund one-off costs of Local Authority elections in future years.
Insurance Funds	The purpose of the reserve is to fund Insurance claims that fall below £1,000 which will reduce our number of claims.
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.
Faversham Recreation Heritage Lottery Fund (HLF) Bid	Following a second phase of the Heritage Lottery Fund parks for people programme, detailed plans for improvements and enhancements at Faversham Rec have been submitted and will be subject to a final decision in June 2018. If successful in achieving the £1.9m bid, SBC have committed to provide some match funding to undertake complimentary improvements to items outside the scope of the HLF criteria. This bid is to provide the funds to meet this commitment.
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.
Milton Creek Access Road	Reserve will be used for 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	Funding required to appoint consultants to undertake a tree condition survey across the Council's Green Spaces and to fund a rolling programme of tree works.

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Cemeteries	Used to cover the costs of purchasing a new electronic burial records system as part of the transformation review recommendations and further expected costs at the new Iwade burial site.
Faversham Creek Footpath	Footpath in Faversham - part of the regeneration of the Faversham Creek.
Information and Communication Technology (ICT) Reserve	This is the net ICT underspend and will be used to fund IT equipment in future years.
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.

18. 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.

	2018/19	2017/18
	£'000	£'000
Balance as at 1 April	(20,511)	(20,211)
Upward revaluation of assets	(2,858)	(3,148)
Downward revaluation of assets and impairment losses not charged to the deficit on the provision of services in the Comprehensive Income & Expenditure Statement	5,722	2,501
Sub Total	2,864	(647)
Write down re gains derived from depreciation differences, between historic costs and current value	258	347
Write down of accumulated gains on disposed assets	117	0
Balance as at 31 March	(17,272)	(20,511)

19. Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. It is debited with the cost of acquisition/enhancement as depreciation, impairment losses and amortisations are charged to the 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.

Notes to the Core Financial Statements

	2018/19	2017/18
	£'000	£'000
Balance as at 1 April	(36,287)	(36,825)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Depreciation of tangible non-current assets	1,187	1,246
Amortisation of intangible assets	40	30
Write down revenue expenditure funded by capital under statute (REFCUS)	2,178	2,051
Revaluation losses – impairment to Comprehensive Income & Expenditure Statement – other assets	4,574	1,425
Revaluation losses – impairment to Comprehensive Income & Expenditure Statement – investment assets	32	814
Revaluation – reversal of prior losses or impairments – other assets	(207)	(136)
Revaluation (gain) to Comprehensive Income & Expenditure Statement – investment assets	(102)	(1,000)
Disposal & derecognition of assets – write out of notional gross book value	213	101
Write out of long-term lease liability	0	(80)
Recognition of donated asset	0	(201)
Write down of Revaluation Reserve:		
Write down of Revaluation Reserve depreciation (gains)	(258)	(347)
Write down of Revaluation Reserve accumulated gains on disposed assets	(116)	0
Capital financing applied in the year:		
Capital financing – capital receipts	(438)	(70)
Capital financing – Government grants and external contributions	(2,382)	(2,904)
Capital financing – capital reserves	(359)	(241)
Minimum revenue provision	(438)	(216)
Write down of financing long-term debtors	89	66
Balance as at 31 March	(32,274)	(36,287)

20. 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 2018/19 was an increase in surplus of £1,686 (£1,074,000 decrease in surplus in 2017/18).

21. Pooled Fund Adjustment Account

The movement in year of £46,610 represents the gain in value of the CCLA Local Authorities' Mutual Investment Trust (LAMIT) Property Fund. The fair value is based on public price quotations in an active market for this financial instrument and without this investment counting as capital expenditure.

22. 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 &

Notes to the Core Financial Statements

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. 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 2018/19 are shown on Note 8 under Pension Assets and Liabilities Recognised in the Balance Sheet.

Long-Term Spending - Capital

23. Property, Plant and Equipment Assets

Classification	Operational Assets					Non-Operational Assets		Total Property, Plant & Equipment Assets £'000
	Land & Buildings £'000	Vehicles & Equipment £'000	Infra-structure £'000	Comm-unity £'000	Leased £'000	Assets Under 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	(8,147)	(94)	0	0	0	0	94	(8,147)
Disposals	(61)	(312)	0	0	(6)	0	0	(379)
Reclassified	2,819	0	0	4	0	(3,649)	826	0
At 31 March 2019	45,110	6,434	2,674	5,690	661	16,839	1,419	78,827
Accumulated Depreciation and Impairments								
At 31 March 2018	(997)	(5,188)	(755)	(565)	(667)	0	0	(8,172)
Depreciation	(741)	(324)	(41)	(81)	0	0	0	(1,187)
Impairment losses/(reversals) on revaluation	833	94	0	0	0	0	0	927
Disposals	0	308	0	0	6	0	0	314
At 31 March 2019	(905)	(5,110)	(796)	(646)	(661)	0	0	(8,118)
Net Book Value at 31 March 2019	44,205	1,324	1,878	5,044	0	16,839	1,419	70,709
Net Book Value at 31 March 2018	45,976	1,386	1,489	4,941	0	8,297	499	62,588

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Comparative movements in 2017/18:

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 2017	47,297	6,724	2,224	5,288	1,265	678	627	64,103
Additions	211	539	20	167	0	8,600	0	9,537
Revaluations	(1,468)	(689)	0	0	0	0	97	(2,060)
Disposals	(22)	0	0	0	(598)	0	0	(620)
Reclassified	955	0	0	51	0	(981)	(225)	(200)
At 31 March 2018	46,973	6,574	2,244	5,506	667	8,297	499	70,760
Accumulated Depreciation and Impairments								
At 31 March 2017	(891)	(5,587)	(713)	(488)	(1,185)	0	0	(8,864)
Depreciation	(838)	(290)	(42)	(75)	0	0	0	(1,245)
Impairment losses/(reversals) on revaluation	729	689	0	0	0	0	0	1,418
Disposals	1	0	0	0	518	0	0	519
Reclassified	2	0	0	(2)	0	0	0	0
At 31 March 2018	(997)	(5,188)	(755)	(565)	(667)	0	0	(8,172)
Net Book Value at 31 March 2018	45,976	1,386	1,489	4,941	0	8,297	499	62,588
Net Book Value at 31 March 2017	46,406	1,137	1,511	4,800	80	678	627	55,239

The increase in Assets Under Construction is due to the construction of the multi-storey car park, 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 Impairment Losses Note 25 and Revaluation Reserve Note 18.

Further to the Princes Street Retail Park becoming operational in 2018/19, the asset was reclassified from 'Asset Under Construction' to 'Land & Buildings', value £3,649,170. Also, in 2018/19 steps started for the disposal of the Vacant Land at Minster Cliffs, value £830,000, and therefore this was reclassified from 'Land & Buildings' to 'Surplus'. Other minor reclassifications were made between 'Surplus' and 'Community' assets.

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 falls. It is estimated that the annual depreciation charge for operational buildings would increase by £19,020 should the useful life of each property be reduced by one year.

Surplus Land & Buildings

All of 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

Notes to the Core Financial Statements

purposes (see accounting policies note for explanation of fair value valuation input levels).

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

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 £141,870 being charged to the Comprehensive Income & Expenditure Statement.

24. 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 2018/19 Wilks, Head and Eve valued property assets (which do not include vehicles & equipment) to a total value of £40,442,020, including investment and held for sale properties. This total value comprises of valuations carried out on the following dates: 31 October 2018 (when it was decided to sell the Open Storage Site on Gas Road, Milton) totalling £47,900, 1 January 2019 totalling £35,427,600, and 31 March 2019 totalling £4,966,520.

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 2019 which would require these to be updated at 31 March 2019, 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:

Date Valued (or Acquired) at or up to:	Assets						Surplus Land & Buildings £'000	Total Property, Plant & Equipment Assets £'000
	Land & Buildings	Vehicles & Equipment	Infra- structure	Comm- unity	Leased	Construc- tion		
	£'000	£'000	£'000	£'000	£'000	£'000		
Historical cost	0	0	2,674	5,690	0	16,839	0	25,203
Previous years	0	3,308	0	0	661	0	0	3,969
2013/14	0	176	0	0	0	0	0	176
2014/15	235	1,843	0	0	0	0	0	2,078
2015/16	4,538	3	0	0	0	0	0	4,541
2016/17	2,184	273	0	0	0	0	0	2,457
2017/18	2,112	361	0	0	0	0	0	2,473
2018/19	36,041	470	0	0	0	0	1,419	37,930
Gross Book Value at 31 March 2019	45,110	6,434	2,674	5,690	661	16,839	1,419	78,827

The Council has undertaken a review of all assets that were valued before 2018/19 to ensure that their carrying value does not differ materially from current value.

25. Impairment Losses

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 23 and 26, reconciling the movement over the year in the asset balances for property, plant and equipment and investment properties.

During 2018/19 the Council has recognised a net total loss of £4,297,490 in respect of its non-current assets (£1,103,450 recognition of losses in 2017/18).

	Property, Plant & Equipment Assets £'000	Investment Assets £'000	Held for Sale Assets £'000	2018/19 Total £'000	2017/18 Restated Total £'000
Revaluation – increase recognised in deficit on Provision of Services (reversal prior loss/impairment)	85	0	0	85	82
Depreciation written out to the deficit on Provision of Services (reversal prior loss/impairment)	122	0	0	122	54
Total Reversal Prior Loss/Impairment (gain)	207	0	0	207	136
Revaluation – decrease recognised in the deficit on Provision of Services	(4,733)	0	(11)	(4,744)	(2,132)
Depreciation written out to the deficit on Provision of Services	170	0	0	170	707
Total Losses and Impairments	(4,563)	0	(11)	(4,574)	(1,425)
Revaluation – increase recognised in deficit on Provision of Services	0	102	0	102	955
Revaluation – decrease recognised in deficit on Provision of Services	0	(32)	0	(32)	(769)
Net Total (Loss)/Reversal-Gain Debited (Credited) to Deficit on Provision of Services	(4,356)	70	(11)	(4,297)	(1,103)

The greatest revaluation gains or reversals of previous losses (£20,000 and over) were incurred on Swale House (building component), the site of Faversham Market and the Swallows Leisure Centre (lift component), the gains being £96,490, £48,530 and £21,830 respectively. Six other assets incurred reversed losses, averaging £6,720 per asset.

2018/19 saw capital expenditure of £1,106,570 which did not affect the valuation of the asset as, for example, this had already been reflected in later valuations. Other material movements in the net book value of assets included the following:

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Property	Movement £	Explanation
Property, Plant & Equipment and Held for Sale assets:		
Faversham Swimming Pool	(2,175,420)	Recognition of existing lease granted to charity for asset which has 35 years outstanding.
Former Bus Depot land, East Street, Sittingbourne	(931,090)	This land was purchased in 2018/19. The valuation, which must be based on its current use for vehicle storage and parking, is not reflective of the greater potential value when developed.
Vacant Land, Minster Cliffs	(170,000)	KCC demand for S106 developer's contribution re housing development has reduced sale value of land.
8 other properties (11 assets), average £23,910	(191,270)	
	<u>(3,467,780)</u>	

Five Investment properties incurred gains totalling £101,450, the greatest gains being on properties at Gas Road, Milton, namely the Open Storage site and the site of Kent Auto Salvage, the gains being £47,900 and £32,550 respectively. Three other properties (three assets) incurred gains of an average of £7,000 per asset.

Four Investment assets incurred losses totalling £31,780, the greatest loss being on the Vacant Land at Colegates Close, Oare, a loss of £31,200.

The 2017/18 values have been amended so they are consistent with the treatment of investment assets for 2018/19. The net total however is unchanged.

26. Investment Properties

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

	2018/19	2017/18
	£'000	Restated £'000
Rental income from investment properties	(244)	(240)
Direct operating expenses arising from investment properties	593	24
Net (Gain)/ Loss	<u>349</u>	<u>(216)</u>

The net gain on revaluation for investment properties in the year was £69,670 (£185,630 gain in 2017/18). This was from reversed prior losses of £47,900, additional gains of £53,550 and losses of £31,780. One investment property was sold in 2018/19, the Open Storage Site on Gas Road, Milton, disposed value £47,900. The Council's entire investment property portfolio has been assessed as input hierarchy Level 2 for valuation purposes (see accounting policies note for explanation of fair value valuation input levels).

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

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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 £0.346m being charged to the Comprehensive Income & Expenditure Statement.

27. Assets Held for Sale

Further to the approval by Cabinet in 2017/18 that two freehold sites be disposed of by auction (min.476/02/2018) and the appointment of auctioneers in March 2018, these assets were reclassified as Held for Sale as at 29 March 2018. One of these assets, land at Scrapsgate Road, Minster, was sold this year, disposed value £100,000; however, the other, vacant land at Frogal Gardens, Teynham, remains unsold. It is still the intention to sell this land.

The remaining asset was revalued in the year and the current net book value is £88,300. 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).

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

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

Grant Area	Funding Provider	2018/19 £'000	2017/18 £'000
Professional fees highways works	Spirit of Sittingbourne	0	66
Housing repair grants	Swale Borough Council	4	7
Winter warm grants	Swale Borough Council	20	0
Shared Information Technology service	Swale Borough Council	38	80
Coastal monitoring	Environment Agency	42	57
Queenborough causeway	Kent County Council	60	0
Dolphin Barge museum	Private Developer / Swale Borough Council	105	0
Highways works Sittingbourne Town Centre	Kent County Council	364	513
Home renovation grants	Ministry for Housing, Communities & Local Government	1,545	1,328
Total		2,178	2,051

29. Commitments under Capital Contracts

The contractual commitments at 31 March 2019 totalled £21,673,100 (£31,789,330 in 2017/18). The major commitments were:

- £14,724,790 Sittingbourne Town Centre regeneration works (including the new cinema and multi-storey car park),
- £3,676,730 Housing repair grants,
- £1,351,490 Faversham recreation ground improvements,
- £639,370 Swallows leisure centre refurbishments,
- £226,000 Open spaces play equipment,
- £201,350 Mill Project Sittingbourne Skate Park,
- £163,970 Minster Leas promenade resurfacing, and
- £150,000 Play improvements.

30. 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. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement, a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

	2018/19	2017/18
	£'000	£'000
Opening Capital Financing Requirement	12,511	4,530
Add adjustment for embedded lease assets	0	(79)
Restated Opening Capital Financing Requirement	12,511	4,451
Total capital investment	18,791	11,455
Add long-term debtors – loans	80	36
Sources of Finance:		
Capital receipts (see Note 15)	(438)	(70)
Government grants & external contributions	(2,382)	(2,904)
Sums set aside from revenue:		
Direct revenue funding	(359)	(241)
Minimum revenue provision (MRP)	(438)	(216)
Total Sources of Finance	(3,617)	(3,431)
Closing Capital Financing Requirement	27,765	12,511
Explanation of Movements in Capital Financing Requirement in Year:		
Capital expenditure to be funded from future MRP when assets are operational	15,692	8,276
(Reduction) in underlying need to borrow (MRP)	(438)	(216)
Total Increase/ (Decrease) in Capital Financing Requirement	15,254	8,060

Creditors and Debtors

31. 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.

32. Short-Term Creditors

	31 March 2019	31 March 2018
	£'000	£'000
Central Government bodies	(406)	(5,324)
Other bodies	(3,081)	(2,316)
<u>Other local authorities</u>		
Business Rates – KCC and Kent Fire shares	(6,524)	(981)
Business Rates - pool share	(2,731)	(2,164)
Waste and cleansing contracts	(1,189)	(275)
Other	(760)	(588)
Total	(14,691)	(11,648)

The decrease in Central Government creditors and the corresponding increase in other local authorities is due to the Council participating in the 100% Business Rates Pilot for 2018/19. As such the closing balances on the Business Rates Collection Fund is apportioned across Preceptors only, as opposed to Preceptors and Central Government in 2017/18.

33. 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.

34. Deferred Liabilities

Deferred liabilities relate to two items:

- a) 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 the 15-year life of the contract. The Council is committed to make regular monthly payments for 15 years to cover repayment of this sum together with associated financing costs. The contract is due to end in 2019/20;
- b) a credit sale agreement was taken out for £250,000 in 2009/10 to purchase various equipment for the Swallows Leisure Centre. Under the terms of the agreement, the Council is committed to make regular monthly payments for ten years to cover this sum together with associated financing costs. The contract is due to end in 2019/20.

Notes to the Core Financial Statements

	31 March 2019	31 March 2018
	£'000	£'000
Due within one year (short-term creditors)	(140)	(183)
Due after more than one year (long-term liabilities)	0	(140)
Total	(140)	(323)

35. 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 33) to fund new facilities provided as part of an agreement with developers.

	1 April 2018	Expenditure	Income	31 March 2019
	£'000	£'000	£'000	£'000
Disabled facilities grants	(1,077)	1,677	(2,213)	(1,613)
Sittingbourne Town Centre grant	0	364	(529)	(165)
Other	(299)	61	(227)	(465)
S106 held for third parties	(1,418)	2,064	(2,312)	(1,666)
S106 Capital Funding:				
Housing	(180)	0	(144)	(324)
Play areas	(273)	83	(12)	(202)
The Meads Community Centre	(31)	0	0	(31)
Open spaces	(292)	173	(110)	(229)
Town centre improvements	(184)	70	(1)	(115)
Easthall Farm Community Centre	(3)	3	0	0
Other	(55)	126	(205)	(134)
Total	(3,812)	4,621	(5,753)	(4,944)

	31 March 2019	31 March 2018
	£'000	£'000
Due to spend within one year (short-term creditors)	(257)	(311)
Due to spend in more than one year (long-term liabilities)	(4,687)	(3,501)
Total	(4,944)	(3,812)

In 2018/19, the Council did not repay any S106 grants to developers (£300,325 was repaid in 2017/18).

36. Provisions

In 1992 the Council's previous insurer, Municipal Mutual Insurance (MMI) declared that it would be going into "run off" which is similar to a company going into administration. Control of MMI has now passed to a Scheme Administrator who has implemented a "Scheme of Arrangement". The provision for future claims has been calculated as £59,000 as at 31 March 2019. This sum will be revised in future years as further information becomes available.

The Council has made a provision of £3,985,000 for business rate appeals based on its best estimates of the actual liability as at 31 March 2019. £2,057,000 has been identified as a long-term provision. See Note 50 for further details.

37. Long-Term Debtors – Other

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

	31 March 2019	31 March 2018
	£'000	£'000
Housing repair loans	2,124	2,143
Rent deposit scheme – gross debt	70	69
Rent deposit scheme – allowance for impairment of debts	(62)	(60)
Assisted car purchase loans	128	137
Opportunities for Sittingbourne	118	118
Faversham Town Football Club	45	48
Queenborough Harbour Trust	32	37
Borden Sports Limited	18	0
Other long-term loans	22	22
Total	2,495	2,514

38. Short-Term Debtors

	31 March 2019	31 March 2018
	£'000	£'000
Debtors		
Central Government bodies	2,168	3,031
Other local authorities	5,465	3,255
National Health Service (NHS) bodies	0	43
<u>Other bodies</u>		
Housing benefit overpayments	2,476	2,662
Council tax payers	1,168	1,014
Business rate payers	990	774
Other	1,552	891
Total Debtors	13,819	11,670
Impairment for Doubtful Debt		
<u>Bodies external to general Government</u>		
Housing benefit overpayments	(1,469)	(1,501)
Other	(1,384)	(1,185)
Total Impairment for Doubtful Debt	(2,853)	(2,686)
Net Short-Term Debtors	10,966	8,984

The increase in debt is mainly income due from Maidstone Borough Council from the Business Rates Pilot.

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 49.

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

As at 31 March 2019 the Council has a gross balance for sundry debtors of £3.5m. A review of significant balances suggested that an impairment for doubtful debts of 46% (£1.6m) was appropriate. However, if collection rates were to fall, the cost of covering the impairment of

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doubtful debts would require an additional £16,000 to be set aside for every 1% reduction in collection rates.

39. Cash and Cash Equivalents

	31 March 2019	31 March 2018
	£'000	£'000
Cash (overdrawn) by the Council	(1,207)	(1,422)
Money market funds (see Note 41 Table 4)	17,990	10,815
Total Cash and Cash Equivalents	16,783	9,393

The Council's bank balance had a surplus of £34,855 at 31 March 2019, 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

40. Leases

Disclosures in Relation to Operating Leases – Council as Lessee

Plant and equipment – as at 31 March 2019 the Council had 12 vehicles on a contract hire-operating lease basis (ten service vehicles, one electric car and one mayor's car). The Council is committed to making payments of £3,512 in 2019/20.

The expenditure charged to the Cost of Services in the Comprehensive Income & Expenditure Statement during 2018/19 in relation to these leases was £41,154 (£41,830 in 2017/18).

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
	2018/19	2017/18
	£'000	£'000
Business premises	367	349
Industrial units	112	111
Other	94	80
Total	573	540

Future Minimum Lease Payments Under Non-Cancellable Leases in Future Years	2018/19	2017/18
	£'000	£'000
Not later than 1 year	101	89
Later than 1 year and not later than 5 years	124	124
Later than 5 years	348	327
Total	573	540

Financial Instruments

41. 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 39, and for lease liabilities please see Note 34. 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 include the reclassification of financial assets and the earlier recognition of the impairment of financial assets. The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year’s financial statements. The changes made on transition to the Balance Sheet were not material, therefore no figures have been changed. However, for this note, financial assets are shown for both years under the new IFRS 9 categories, so assets previously categorised as “Loans and Receivables” are now showing under “Amortised Cost” and assets previously shown as “Available for Sale” are now “Fair Value Through Profit and Loss”. However, the presentation, assets and liabilities have been revised and both years’ assets are shown net of impairment for loss.

The table below shows the effect of reclassification of financial assets following the adoption of IFRS 9.

Table 1

Financial Liabilities	Long-Term		Current	
	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
Lease liabilities	0	(140)	(140)	(183)
Cash and cash equivalents	0	0	(1,207)	(1,422)
Loans from other local authorities	(5,000)	0	(5,000)	0
Other creditors	0	0	(3,565)	(1,847)
Total Financial Liabilities	(5,000)	(140)	(9,912)	(3,452)

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Table 2

Financial Assets	Long-Term		Current	
	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
Amortised Cost				
Housing interest free loans	2,124	2,143	0	0
Employee car loans	128	137	0	0
Mortgages	5	5	0	0
Short-term investments	0	0	0	6,000
Other debtors	238	228	1,175	704
Fair Value Through Profit and Loss				
Money market funds	0	0	17,990	10,815
CCLA property fund	3,046	3,000	0	0
Total Financial Assets	5,541	5,513	19,165	17,519

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, 2017/18). 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 £2.9m (£8.6m, 2017/18).

c) Employee Car Loans

The Council had loans for car purchase to 27 employees in 2018/19 (34 in 2017/18). The interest charged on new loans is 1.75% and an unsubsidised rate for such loans would have been 2.50%.

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

	2018/19 £'000	2017/18 £'000
Financial Liabilities		
Interest costs on leases	41	55
Interest costs on loans	17	0
Financial Assets – Interest Income:		
Amortised cost: fixed term deposits and call accounts	(8)	(43)
Fair value through profit and loss: money market funds and CCLA	(281)	(215)
Gain from change in Fair Value	(47)	0
Net (Gain) for the Year	(278)	(203)

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 LAMIT Property Fund which is carried in the Balance Sheet at its fair value as at 31

Notes to the Core Financial Statements

March 2019 of £3.046m, 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 two external loans whose fair value at 31 March 2019 is £10.026m.

f) Nature and Extent of Risks Arising from Financial Instruments

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

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

The 2018/19 Treasury Management Strategy was approved by Council on 21 February 2018 and can be obtained from the Council's website using the following link:

<https://www.swale.gov.uk/assets/Finance/Treasury-Management-Strategy-2018-19.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.

Notes to the Core Financial Statements

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 2019. 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 2019.

Table 4

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Fair Value Level	Balance Invested at 31 March 2019 £'000		Total	Balance Invested at 31 March 2018 £'000
			Up to 1 month	Greater than 3 months		
Lloyds Bank	A+	2			0	3,000
HSBC Bank	AA-	2			0	3,000
Total Short-Term Investments					0	6,000
Invesco MMF	AAAmmf	1	3,000		3,000	3,000
Goldman Sachs MMF	AAAmmf	1	2,990		2,990	0
BNP Paribas MMF	N/A	1	0		0	3,000
Morgan Stanley MMF	AAAmmf	1	3,000		3,000	0
Black Rock MMF	AAAmmf	1	3,000		3,000	1,815
Aberdeen MMF	AAAmmf	1	3,000		3,000	0
Amundi MMF	AAAmmf	1	3,000		3,000	3,000
Total Cash & Cash Equivalents			17,990		17,990	10,815
CCLA Property Fund		1	0	3,046	3,046	3,000
Total Long-Term Investments			0	3,046	3,046	3,000
Total Investments			17,990	3,046	21,036	19,815
London Borough of Hammersmith & Fulham Loan		2		(5,000)	(5,000)	0
Wycombe District Council Loan		2		(5,000)	(5,000)	0
External Loans				(10,000)	(10,000)	0

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 2019 (nil as at 31 March 2018).

The reduction in short-term investments is due to the financing of the Council's capital programme.

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

- **A+** High credit quality. Expectation of low default risk. The capacity for payment of financial commitments is considered strong.
- **AA-** Investments are judged to be of a high quality and are subject to very low credit risk.
- **AAAmmf** Funds have very strong ability to meet the dual objectives of providing liquidity and preserving capital.

A description of the fair value level rating is given below:

Notes to the Core Financial Statements

- 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

42. 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 12.

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 2018/19 is shown on Note 7. During 2018/19, no works or services were commissioned from companies in which Members had an interest. No grants were made to organisations whose senior management included Members or close members of the families of Members. The Council maintains a "Register of Members' Interests" which is open to public inspection at the Council offices during office hours.

There has been an approach to elected Members and senior management seeking from them a declaration that neither they, nor 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 2018/19 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 2018/19, no officers declared a pecuniary interest in accordance with section 117 of the Local Government Act 1972.

Entities Controlled or Significantly Influenced by the Council

Faversham Pools operated as an unincorporated charity in 2017/18 with Swale Borough Council councillors on the Trust's Board until May 2017. From 1 April 2018 a new company Faversham Swimming Pools Management Committee Ltd (FSPMC Ltd) commenced operations. Two councillors remained on the board for 2018/19 but no longer represented

Notes to the Core Financial Statements

Swale Borough Council. The Council therefore has no influence or control and mention of FSPMC Ltd will be removed from the Council's Statement of Accounts from 2019/20.

43. 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:

- Faversham Pools operated as an unincorporated charity in 2017/18 with Swale Borough Council councillors on the Trust's Board until May 2017. From 1 April 2018 a new company Faversham Swimming Pools Management Committee Ltd (FSPMC Ltd) commenced operations. Two councillors remained on the board for 2018/19 but no longer represented Swale Borough Council. Therefore, there is no longer any relationship between the Council and FSPMC Ltd other than an annual payment of a grant of £80,000 and mention of FSPMC Ltd will be removed from the Council's Statement of Accounts from 2019/20.
- Opportunities for Sittingbourne Ltd – is a company set up between the Council and Spirit of Sittingbourne LLP (Spirit of Sittingbourne being a venture between the Council and a number of local developers), with an overall aim of regenerating Sittingbourne Town Centre. The 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 Ltd was incorporated in January 2015 (Company Number 09400214) and complies with all relevant Companies House requirements. 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. Further information on the Company is on the Companies House website <https://www.gov.uk/government/organisations/companies-house>
- 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 other than the required administrative returns etc. did not carry out any transactions throughout the 2018/19 financial year. Further information on the Company is on the Companies House website <https://www.gov.uk/government/organisations/companies-house>

As at the end of 2018/19 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

44. 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.

Notes to the Core Financial Statements

	2018/19 Usable Reserves			2018/19 Unusable Reserves £'000	2017/18 Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
Adjustments to Revenue Resources					
Pension costs	(1,783)	0	0	1,783	2,079
Financial Instruments Adjustment Account	0	0	0	0	(2)
Pooled Fund Adjustment Account	47	0	0	(47)	0
Council tax and business rates	2	0	0	(2)	1,074
Holiday pay	0	0	0	0	(133)
Capital grants moved to Capital Grants Unapplied	81	0	(81)	0	0
Reversal of entries for capital expenditure	(7,710)	0	0	7,710	4,250
Total Adjustment to Revenue Resources	(9,363)	0	(81)	9,444	7,268
Adjustments Between Revenue & Capital Resources					
Transfer of cash sale proceeds from non-current assets to Capital Receipts Reserve (CRR)	516	(722)	0	206	0
Statutory provision for financing of capital investment (MRP)	438	0	0	(438)	(216)
Capital expenditure charged to the General Fund	281	0	78	(359)	(241)
Total Adjustments Between Revenue & Capital	1,235	(722)	78	(591)	(457)
Adjustments to Capital Resources					
Use of the CRR to finance capital expenditure	0	438	0	(438)	(70)
Capital Grants used to finance capital expenditure	2,382	0	0	(2,382)	(2,904)
Transfer of deferred sale proceeds	0	0	0	0	14
Total Adjustment to Capital Resources	2,382	438	0	(2,820)	(2,960)
Total Adjustments	(5,746)	(284)	(3)	6,033	3,851

45. Expenditure and Funding Analysis 2017/18

Service Departments	2017/18					Net Expenditure Accounting Basis £'000
	Net Expenditure Reported to Cabinet £'000	Capital £'000	Pension £'000	Budget Respon- sibility £'000	Other £'000	
Chief Executive	370	27	58	2	0	457
Policy	206	0	44	10	(1)	259
Economy and Communities	2,221	967	226	32	(29)	3,417
Communications	277	0	35	14	0	326
Resident Services	1,073	7	464	394	(2)	1,936
Planning	969	0	277	187	(1)	1,432
Commissioning & Customer Contact	5,073	1,368	269	(41)	(1)	6,668
Directors	230	150	64	7	1	452
Information Technology	1,120	85	0	(385)	0	820
Audit	174	0	0	0	1	175
Environmental Health	492	1	14	6	0	513
Finance	769	0	116	48	253	1,186
Human Resources	314	0	0	9	1	324
Legal	545	0	224	(137)	0	632
Democratic Services	944	14	64	32	(1)	1,053
Property	563	28	88	(172)	275	782

Notes to the Core Financial Statements

Service Departments	2017/18					Net Expenditure Accounting Basis £'000
	Net Expenditure Reported to Cabinet £'000	Capital £'000	Pension £'000	Budget Responsibility £'000	Other £'000	
	Regeneration	142	0	1	1	
Corporate Items	1,811	0	0	(231)	(1,580)	0
Cost of Services	17,293	2,647	1,944	(224)	(1,084)	20,576
Financed by council tax, business rates & grants	(18,006)					
Surplus in Year	(713)					
General Fund balance at 1 April 2017	(4,874)					
Surplus in year	(713)					
2016/17 approved rollovers	892					
General Fund Balance at 31 March 2018	(4,695)					

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. This table reflects the management structure used in Cabinet reports during 2017/18.

The table below reconciles the Cost of Services to the Surplus on the Provision of Services on the 2017/18 Comprehensive Income & Expenditure Statement:

2017/18	Net Expenditure Reported to Cabinet £'000	Capital £'000	Pension £'000	Budget Responsibility £'000	Other £'000	Net Expenditure Accounting Basis £'000
Cost of Services	17,293	2,647	1,944	(224)	(1,084)	20,576
Other Income and Expenditure	(21,301)	(1,478)	1,751	0	1,854	(19,174)
Deficit on Provision of Services	(4,008)	1,169	3,695	(224)	770	1,402
Adjustments from Accounting Basis	3,295	(1,169)	(3,695)	224	(770)	(2,115)
Surplus in Year	(713)	0	0	0	0	(713)

Collection Fund

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

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

Notes to the Core Financial Statements

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

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

Collection Fund 2018/19	Note	Business Rates £'000	Council Tax £'000	Total £'000
Income				
Council tax receivable	47	0	(79,029)	(79,029)
Business rates receivable	48	(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 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	49	365	585	950
Allowance for appeals impairment	50	1,747	0	1,747
Sub Total		2,687	585	3,272
Contribution towards previous year's Collection Fund surplus:				
Central Government		162	0	162
Swale Borough Council		130	178	308
Kent County Council		29	1,104	1,133
Kent 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	46	(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	46	(271)	(1,416)	(1,687)
(Surplus) at 31 March 2019	46	(722)	(223)	(945)

The surplus for Business Rates at 1 April 2018 has been restated by £2,000 due to a prior year adjustment.

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Collection Fund 2017/18	Note	Business Rates £'000	Council Tax £'000	Total £'000
Income				
Council tax receivable	47	0	(74,156)	(74,156)
Business rates receivable	48	(47,751)	0	(47,751)
Sub Total		(47,751)	(74,156)	(121,907)
Expenditure				
Precepts, demands and shares:				
Central Government		22,044	0	22,044
Swale Borough Council		17,636	8,569	26,205
Kent County Council		4,790	53,400	58,190
Kent Fire and Rescue Service		441	3,323	3,764
Kent Police and Crime Commissioner		0	7,119	7,119
Sub total		44,911	72,411	117,322
Cost of collection		182	0	182
Transitional protection payments payable		35	0	35
Other transfers to General Fund		416	0	416
Allowance for debt impairment	49	529	428	957
Allowance for appeals impairment	50	1,402	0	1,402
Sub Total		2,564	428	2,992
Contribution towards previous year's Collection Fund surplus:				
Central Government		1,224	0	1,224
Swale Borough Council		979	141	1,120
Kent County Council		220	867	1,087
Kent Fire and Rescue Service		24	55	79
Kent Police and Crime Commissioner		0	116	116
Sub Total		2,447	1,179	3,626
Total Expenditure		49,922	74,018	123,940
(Surplus)/Deficit Movement for the Year		2,171	(138)	2,033
(Surplus)/Deficit at 1 April 2017		(2,444)	(1,278)	(3,722)
(Surplus)/Deficit at 31 March 2018		(273)	(1,416)	(1,689)

46. Collection Fund Surplus/Agency Arrangements

Swale Borough Council's element of the Collection Fund surplus is £315,000 as at 31 March 2019 (£276,000 surplus in 2017/18 (revised)) and is shown in the Balance Sheet within the Collection Fund Adjustment Account (Note 20). Amounts relating to precepting authorities and Government are shown in the Balance Sheet as a net debtor or creditor. This reflects that billing authorities are acting as agents of the precepting authorities and Government.

The following table shows the collection fund balance at 31 March 2019 split into its attributable parts (the surplus for Business Rates at 1 April 2018 has been restated by £2,000 due to a prior year adjustment):

Notes to the Core Financial Statements

	2018/19	2018/19	2018/19	2017/18 Restated
	Business Rates	Council Tax	Total	Total
	£'000	£'000	£'000	£'000
Central Government	27	0	27	(136)
Swale Borough Council	(289)	(26)	(315)	(276)
Kent County Council	(453)	(165)	(618)	(1,068)
Kent Fire and Rescue Service	(7)	(22)	(29)	(142)
Kent Police and Crime Commissioner	0	(10)	(10)	(65)
Balance at 31 March	(722)	(223)	(945)	(1,687)

47. The Calculation of the Council Tax Base

The Council Tax is primarily a property based tax and is calculated for an average Band D property by dividing the net expenditure (to be met by the tax) of KCC, Kent Police and Crime Commissioner, Kent Fire and Rescue Service and Swale Borough Council by the tax base for Swale which is 46,590.79 (45,299.89 in 2017/18). 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 2018/19 is listed below:

Band	Basic Tax £	Proportion of Band D Charge	Number of Band D Equivalent Dwellings
A	1,101.45	6/9	3,997.90
B	1,285.02	7/9	9,251.15
C	1,468.60	8/9	12,251.06
D	1,652.17	9/9	9,617.51
E	2,019.32	11/9	6,129.14
F	2,386.47	13/9	3,285.41
G	2,753.62	15/9	1,867.80
H	3,304.34	18/9	190.82
Total			46,590.79

The detail to the calculation of the Council Tax base can be found in the report to Council on 24 January 2018 by using the following link:

<https://services.swale.gov.uk/meetings/ielistDocuments.aspx?MId=1918>

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

The level of non-payment provided for in 2018/19 was 0.86% (1.06% in 2017/18). The original anticipated income from the taxbase of 46,590.79 at £1,677.13 (Band D plus average parish precept) was £78,138,812. The actual income was £79,028,575.

48. 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 2018/19 is paid to KCC (59%), and Kent Fire and Rescue Service (1%). The 2018/19 business rate income after reliefs was £51,450,346 (£47,751,335 in 2017/18). Please note that this is the allocation for the Collection Fund and does not reflect the allocation of business rates as a result of the Council being a member of the Kent business rates localisation pilot in 2018/19.

Notes to the Core Financial Statements

The rateable value for the Council's area at the end of the financial year 2018/19 was £130,712,754 (£123,589,111 for 2017/18). The increase in rateable value is due to additional businesses becoming rateable during 2018/19, the largest being an additional £4.7m for a supermarket distribution centre.

The rate poundage set for 2018/19 was 49.3p (2017/18 was 47.9p). Small businesses have a lower rate poundage of 48.0p (2017/18 was 46.6p).

49. Debt Impairment

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

	2018/19	2017/18	2018/19	2017/18
	Business Rates	Business Rates	Council Tax	Council Tax
	£'000	£'000	£'000	£'000
Balance brought forward 1 April	(1,469)	(1,114)	(1,635)	(1,496)
Less amounts written off	199	174	311	289
(Increase) in provision	(365)	(529)	(585)	(428)
Balance at 31 March	(1,635)	(1,469)	(1,909)	(1,635)
Swale Borough Council's proportion	(654)	(588)	(219)	(193)

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 2019, the total council tax outstanding debt was £5m (£4.3m in 2017/18) of which debt one year old was £2.4m, debt between two to five years old was £2.2m and debt over five years old was £0.4m.

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 2019, the total business rates outstanding debt was £2.4m (£1.9m in 2017/18) of which debt one year old was £1.2m, debt between two to five years old was £1.1m and debt over five years old was £0.1m.

50. Provision for Business Rate Valuation Appeals

	2018/19	2017/18
	£'000	£'000
Balance brought forward 1 April	(8,542)	(7,760)
Less amounts charged to appeals	327	620
(Increase) in provision	(1,747)	(1,402)
Balance at 31 March	(9,962)	(8,542)
Swale Borough Council's proportion	(3,985)	(3,417)

Amounts refunded following successful revaluation appeals are charged directly to the provision for Business Rate 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 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

Notes to the Core Financial Statements

forecast is based on the assumption made at national level of potential appeals amended to reflect local circumstances and the likelihood of appeals.

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 £99,600 for every 1% increase in total rateable value, under appeal.

51. Contingent Liability

The Council is aware of on-going business rate litigation between the Valuation Office and a number of ratepayers concerning the rating of Automated Teller Machines. Currently the Valuation Office are putting forward an appeal to the Supreme Court. No provision has been made within the accounts for the appeal at this stage, given the uncertainties surrounding the case. However, it is estimated that the maximum impact could be in the region of £0.5m for the Council's Collection Fund, of which the Council's share would be £0.2m, if the ratepayers' case is successful.

SUBJECT TO AUDIT

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 carrying 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.
Cash & Cash Equivalents	The most liquid assets found within the asset portion of the Balance Sheet.
Code of Practice on Local Authority Accounting in the UK 2018/19 (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.

Glossary

Current Value	<p>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. Current Value measurement bases include:</p> <ul style="list-style-type: none"> • 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.
Debtor	Amounts due to the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been received by the end of that accounting period.
Depreciation	The measure of the cost or revalued amount of the benefits of the non-current assets that have been consumed during the period.
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	Interest in land and/or buildings in respect of which construction work and development have been completed; and, which is held for its investment potential, with any rental income being negotiated at arm's length.
Liabilities	Amounts which will become payable by the Council in the short or long-term.

Glossary

Materiality	A threshold quality ensuring that information is of such significance as to justify its inclusion in the Statement.
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 held by a local council but not used or consumed in the delivery of services or for the service or strategic objective of the Council.
Operating Lease	A lease where the ownership of the long-term asset remains with the lessor.
Operational Assets	Non-current assets held and occupied, used or consumed by the local council in the direct delivery of those services for which it has either a statutory or a discretionary responsibility or for the service or strategic objectives of the Council.
Precept	The levy made by those authorities which do not run the local taxation system, e.g. county councils, on those authorities which do so, e.g. districts, requiring them to collect the required income from local taxpayers on their behalf.
Property, Plant 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.

Glossary

Acronyms Used:

CCLA	Church Charities and Local Authorities
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Consumer Price Index
CRR	Capital Receipts Reserve
FSPMC	Faversham Swimming Pools Management Committee
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
KCC	Kent County Council
LAMIT	Local Authorities' Mutual Investment Trust
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 33
SMT	Strategic Management Team
VAT	Value Added Tax

SUBJECT TO AUDIT

SUBJECT TO AUDIT

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 2019 are available on the council website

Front cover: Bluebells near Wormshill.