



FINANCIAL REVIEW

and

STATEMENT OF ACCOUNTS

for the year ending

31 March 2016

STUART J BOBBY CPFA

Director – Corporate Services

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1. Introduction from the Director (Corporate Services)

- 1.1.** It gives me great pleasure to present Gravesham Borough Council's annual Statement of Accounts for the year ending 31 March 2016. The Statement has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) and is intended to allow interested parties to:
- Understand the overarching financial position of the Council and the outturn for 2015/16;
 - Have confidence in how the Council has used and accounted for the public funds that it holds;
 - Be assured that the financial position of the Council is sound and secure.
- 1.2.** The Statement is accompanied by a Narrative Report, intended to provide interested parties with an understanding of the Council, its financial performance and the economy, efficiency and effectiveness with which resources have been deployed over the financial year.
- 1.3.** The Council continues to operate in very challenging financial times. Despite this, the Council has been able to maintain its strong financial governance arrangements during the year which has enabled it to balance and deliver on its 2015/16 budget and effectively monitor and manage its resources during the year. The financial statements demonstrate that the financial standing of the Council continues to be robust.
- 1.4.** On 7 May 2015 the Council moved from being a Labour controlled Authority to being under Conservative control. To provide a framework for the activities of this administration, in October the Council approved a new Corporate Plan for the period 2015-2019, setting out the vision of delivering a *safer, stronger, sustainable Gravesham*. Individually three community-focused objectives, each with their own portfolio of activities, but importantly underpinned by our ambitious final objective to be a *sound and self-sufficient council*.
- 1.5.** During 2015/16 the Council has been involved in a number of projects intended to have a positive impact on the borough and the lives of local residents. Initiatives delivered in the last year designed to realise our vision for the borough have included.
- **New homes:** A total of 108 affordable homes were delivered in the borough in the last year, vital for creating strong, stable communities. Quarter 4 alone saw the handover of 96 new affordable homes including 70 Extra Care apartments. The council also continued with its own housing development programme with two 2-bed bungalows being completed on an ex-garage court at Greenhill Road.
 - **Gravesend market:** In January 2016 the council successfully secured a Big Lottery grant of £1.8 million to refurbish and revitalise Gravesend's Borough Charter Market. The Council recognises that a newly refurbished Market has the potential to revitalise its role as a local, distinctive, welcoming shopping destination for local people and visitors to the Town. To support this development a range of business start-up sessions have been promoted with work also being undertaken to put in place the administrative requirements of licenses and regulations for renting stalls. The market development is expected to create 35 jobs.

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- **Car Parking:** In September 2015 Cabinet took the decision to implement a free 2-hour parking period on Saturdays for all users of the council's 'Pay and Display' car parks. The revised charging policy commenced in November 2015 and was supplemented by a restructuring of tariffs aimed at supporting businesses and shoppers within the Town Centre.
 - **Shared services:** The Council is committed to delivering on opportunities for the sharing and selling of council services, and has a number of shared managerial and service arrangements already in place. In March 2016 this was further boosted by the official launch of the Internal Audit and Counter Fraud shared service between Gravesham and Medway Council, delivering financial savings and improved resilience.
- 1.6. Closer to home, 2015/16 has been a time of change for the Gravesham Borough Council Finance function with a formal restructure and changes in personnel. During this period, the Team has continued to support the work of Council departments and I am confident that the Council has in place a strong Finance function to help it meet the challenges ahead.
- 1.7. The announcements of the 2015 Autumn Statement and Spending review and the subsequent Local Government Finance Settlement have set out far more dramatic reductions to funding, and at a more accelerated rate than had been anticipated. Even more uncertainty has been introduced following the recent EU Referendum and the vote to leave the European Union. To respond to these announcements and the impacts of 'Brexit', the Council will need to take some significant decisions about the way it operates and delivers services to its communities. I believe that our Medium Term Financial Strategy and Corporate Plan set out a clear statement of intent as to how the Council will ensure it remains financially sustainable in the longer term and will continue to deliver the services that are important to the communities in Gravesham.



Stuart J Bobby

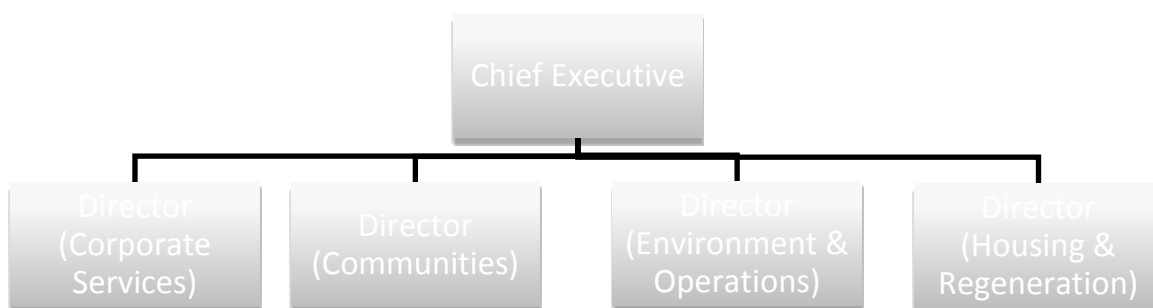
Director (Corporate Services) and Chief Financial Officer

2. The Borough of Gravesham

- 2.1.** Gravesham is located on the south bank of the River Thames in the north of Kent approximately 32km (20 miles) east of London. Covering an area of 105km² (40 miles²) it stretches from the River Thames in the north to the crest of the North Downs in the south. The borough has a striking urban-rural split; the rural area to the south of the borough and to the east of Gravesend makes up 78% of the whole borough and is largely constituted of Green Belt land.
- 2.2.** As at mid-2014 Gravesham had a population of 105,300, the 11th highest figure across the 12 Kent districts and representing a growth rate of 9.8% in the last 10 years. As a result of the urban concentration of the borough, Gravesham presents the third highest population density in Kent (10.6 persons per hectare (p/h)), behind only Dartford (14 p/h) and Thanet (13.4 p/h).
- 2.3.** The population of the borough is extremely diverse with a vibrant mix of people; 14% of the borough's population were born outside of the UK and 23% of residents are of an ethnicity other than 'white British'. In 2014, the mean average age for a Gravesham resident was 38.9 years, up from 38.7 years in 2011 and 38.2 years in 2001. There are an estimated 2,300 residents in Gravesham aged over 85 years and this age group is projected to double in size by 2033. Over the same period the percentage of 0-14 year olds is projected to fall from 19.1% to 18.2%.
- 2.4.** According to the Annual Survey of Hours and Earnings 2015, average full-time weekly earnings for residents in the borough were £545.00, representing the eighth highest figure across Kent districts and £7 below the Kent district average. For Gravesham residents working part-time, average weekly earnings were £134.90, the lowest figure in Kent and £27 below the Kent average.
- 2.5.** As at February 2016 across Kent districts Gravesham had the fourth highest rate of people claiming unemployment benefits (JSA or Universal Credit) at 2.0%, ahead of the county average of 1.6% but in line with national averages. In line with most other Kent districts, the largest level of unemployment in terms of population age groups in Gravesham is found amongst those aged 18-24, with 3.3% unemployed as at February 2016, ahead of the Kent average (2.5%).
- 2.6.** As at 2015 there were 9,635 primary school pupils in Gravesham, with the borough having capacity for 9,066, the largest level of oversubscription in Kent. Conversely, Gravesham is undersubscribed at secondary level with a capacity of 7,906 and only 7,316 pupils. 13.3% of all pupils are eligible for free school meals the seventh highest figure across Kent and down from 16.9% in 2013. As at January 2015, 24.8% of primary school pupils do not have English as a first language. Gravesham's figure is considerably ahead of all other local districts, with the Kent average at 10.9%. At secondary school level, 18.1% of pupils do not have English as a first language, again the highest figure in Kent and well ahead of the county average of 7.9%.

3. Gravesham Borough Council

- 3.1.** Gravesham Borough Council is a multi-functional organisation responsible for a wide range of services to the public and the community it serves. The community is represented by 44 elected Members, working on behalf of the 18 Wards within the borough. The political leadership of the Council is currently provided by the Conservative Group with the political composition of the Council being Conservative Group – 23 and Labour Group – 21.
- 3.2.** The Council has adopted the Leader and Cabinet model as its political management structure. The Leader of the Council, Councillor John Cubitt, has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions. The decision-making processes of the Council are set out in the Constitution, with decisions taken primarily by Cabinet or the ten individual Cabinet Members held to account by the Overview Scrutiny Committee which is chaired by the Leader of the Labour Party, Councillor John Burden.
- 3.3.** Supporting the Elected Members is an organisational structure led by the Council’s Management Team.



- 3.4.** The Management Team structure was changed to that presented above in January 2016 following approval of proposals intended to provide budgetary savings whilst also strengthening the capacity to drive the changes required to reduce the Council’s net budget position. Prior to this time the Management Team had consisted of the Chief Executive, Director (Communities), Director (Finance & Environment) and Director (Housing & Regeneration).
- 3.5.** Management Team meetings are also attended by the Assistant Director (Governance & Law) in his role of Monitoring Officer to ensure that the key statutory officers are represented at the most senior level of the Council. Prior to January 2016, Management Team was also attended by the Assistant Director (Finance) in the role of S151 Officer (this role is now fulfilled by the Director (Corporate Services)).
- 3.6.** In April 2015 the Council employed 538 people across two main sites: the Civic Centre in Gravesend and the Brookvale Depot in Northfleet. By March 2016 this had increased slightly to 541.

4. Our Strategy and Business Model

4.1. The Council operates within a strict financial and regulatory environment. The actions of the Council are subject to internal review by the Council's Management Team and Elected Members as well as external review from the residents of Gravesham, the Council's External Auditor and other regulating bodies.

4.2. The Corporate Plan is the key document for setting the strategic direction of the Council. The plan is developed through consideration of local priorities, understanding the key community characteristics of the borough, consultation with residents, businesses and key stakeholders in the borough and government policies. The Corporate Plan 2015-2019: Delivering for the Community was adopted by Full Council in October 2015 and set the four strategic objectives of the Council as being:

Safer Gravesham – where local residents and visitors can live, work and travel in a safe, clean and green borough.

Stronger Gravesham – a healthier more cohesive community where children have the best start in life and people are proud to call home.

Sustainable Gravesham – a thriving and sustainable local economy, built on the foundations of high quality regeneration and development projects.





Sound and self-sufficient council – a well-run and innovative council supporting its staff to realise commercial opportunities whilst transforming its services to deliver at the best possible value for money.

4.3. The Cabinet drives the successful implementation of this plan, with responsibility for working with and holding council officers to account in the delivery of the four strategic objectives. The Council recognises that it cannot achieve its vision for the borough on its own and is increasingly working with partners to achieve these objectives.

5. Key Performance Indicators – Our Performance in 2015/16

5.1. The Council has in place a Performance Management Framework (PMF) which allows it to evaluate whether the strategic objectives are being achieved and provide accountability in the use of resources to the local community and other interested parties. The PMF includes a range of performance information including ‘SMART’ corporate performance measures and contextual performance indicators, with periodical reporting to the Council’s Senior Management Team, Members and the general public. Performance information is generally collected from systems within the Council and subject to independent year-end verification processes set out in the Council’s Data Quality Policy: <http://www.gravesham.gov.uk/data-quality>

5.2. Key areas of performance during 2015/16 were:

Corporate Objective		Performance measure	2014-15 outturn	2015-16 outturn	Direction of Travel
	PM 1	% of waste from households recycled	34.07%	35%	↑
	PM 3	% of broadly compliant food establishments	Not previously reported	93.59% ⁱ	N/A
	PM 5	Average time taken to re-let local authority housing	28 days	29 days	↓
	PM 6	% of households prevented from becoming homeless	Not previously reported	27.22%	N/A
PM 7	Retail vacancy % rates	8.7% ⁱⁱ			
	PM 8	% of planning applications processed inside set timescales	88% (Major)	75% (Major)	↓
			62% (Minor)	76% (Minor)	↑
			80% (Other)	87% (Other)	↑
	PM 9	% of Council Tax collected	96.92%	96.86%	↓
	PM 10	% NNDR collected	98.40%	98.51%	↑

5.3. Where performance measures were in place prior to the commencement of The Corporate Plan 2015-2019: Delivering for the Community, comparative data for 2014-

ⁱ Figure correct as at April 2016.

ⁱⁱ Figure correct as at April 2016.

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15 has been provided. Further details of the Council's performance during 2015/16 can be found at: www.gravesham.gov.uk/performance

6. Financial Review

6.1. General Fund

- 6.1.1. The revenue account known as the General Fund relates to the day-to-day operational cost of providing the Council's services.
- 6.1.2. In February 2015 the Council set its Budget Requirement for 2015/16 at £14.31m, largely financed by £2.69m of retained Business Rates, £2.00m of Government Grants, £6.02m of Council Tax income (including £0.24m for Parish Precepts) and use of £2.01m of Working Balances held by the Council. To support the budget, the Council agreed an increase of 1.97% in the level of Council Tax from that charged in 2014/15. This resulted in a Band D Council Tax of £181.71, an equivalent increase of less than 7p per week.
- 6.1.3. During the year, the Council regularly reviewed its performance against its Budget Requirement, with these reports available publicly from the Council website. The final outturn position for the year is shown in the table below, together with how this expenditure was financed.

General Fund Revenue Out-turn 2015/16	Original Budget	Out-turn	Variance over/(under)
	£'000	£'000	£'000
All Directorate	0	9	9
Chief Executive	1,042	919	(123)
Communities	4,366	4,426	60
Corporate Services	2,957	2,994	37
Environment & Operations	3,219	3,289	70
Housing & Regeneration	2,551	2,551	0
Directorate total	14,135	14,188	53
Interest & Investment Income	(438)	(480)	(42)
Transfers to/(from) Reserves	(271)	755	1,026
Transfers to/(from) Balances	1,728	1,728	0
Transactions below the line	(841)	(1,845)	(1,004)
Budget Requirement	14,313	14,346	33
Business Rate Income	(2,691)	(2,971)	(280)
Government Grant Funding	(2,009)	(2,009)	0
New Homes Bonus	(1,628)	(1,636)	(8)
Council Tax Income	(5,784)	(5,784)	0
Parish Precepts	(241)	(241)	0
Transfers to/(from) the Council Tax Collection Fund	53	53	0
Use of Working Balances	(2,013)	(2,013)	0
Budget Shortfall / (Underspend)	0	(255)	(255)

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6.1.4. The General Fund outturn was better than originally budgeted. Action to manage vacancies and other workforce matters resulted in employee-related costs being lower than originally anticipated and in-year pressures were effectively managed. The Council also benefitted from growth in the level of business rates retained, where the original budget was set at the government annual baseline funding level. These contributed to a reduced need to call on the Council's Working Balances.

6.1.5. Full details, including notes on individual variances within directorates can be found within the Outturn Report as considered at Finance & Audit Committee on Thursday 16th June 2016.

A link to the report is provided here: <http://www.gravesham.gov.uk/outturn>

6.2. Housing Revenue Account

6.2.1. The Housing Revenue Account (HRA) reflects the income and expenditure related to the provision of housing accommodation by the Council.

6.2.2. In February 2015, the Council set the 2015/16 budget on the basis that the HRA would produce a balanced position at year-end, with planned expenditure being met by anticipated income in the year. As with the General Fund, the Council regularly reviewed the performance of the HRA against budget during the year, with these reports also available publicly from the Council website.

6.2.3. The final outturn position for the year is shown in the table below.

Housing Revenue Account Out-turn 2015/16	Original Budget	Out-turn	Variance over/(under)
	£'000	£'000	£'000
Income			
Rents and Service Charges	(26,959)	(27,546)	(587)
Other Income	(1,012)	(950)	62
General Fund Contribution	(8)	(10)	(2)
Total Income	(27,979)	(28,506)	(527)
Expenditure			
Supervision and Management	5,354	4,854	(500)
Supporting people	185	140	(45)
Repairs and Maintenance	8,006	8,153	147
Depreciation	4,976	5,658	682
Capital Financing Costs	7,701	8,127	426
Total Expenditure	26,222	26,932	710
Net transfers to/(from) Reserves	1,757	1,574	(183)
Net (Surplus)/Deficit for the year	0	0	0

- 6.2.4. The difference between the original Budget and final outturn was mainly due to proactive management of arrears resulting in a reduced bad debt provision, effective management of vacant posts, a higher than budgeted depreciation charge for the year and a higher than expected revenue contribution to fund capital expenditure.
- 6.2.5. Full details, including notes on individual variances within the HRA can be found within the Outturn Report as considered at Finance & Audit Committee on Thursday 16th June 2016.
A link to the report is provided here: <http://www.gravesham.gov.uk/outturn>

6.3. Capital Expenditure (General Fund and HRA)

- 6.3.1. Capital Expenditure relates to expenditure to acquire, construct, enhance or replace tangible non-current assets such as land, buildings or major pieces of equipment that will be used to provide services over a number of years in the form of a capital programme to achieve the Council's strategic objectives and priorities.
- 6.3.2. In 2015/16 the Council spent £1.01m on General Fund capital schemes, including replacement gym equipment for the two Leisure Centres within the borough and works to commence the refurbishment of the Borough Market. For Housing Services, expenditure was £9.84m and included works to replace roofs, windows, doors on properties within the Council's housing stock as well as two new-build projects delivering fourteen new housing units for the residents of Gravesham.
- 6.3.3. In 2016/17 the Council will be embarking on a programme of commercial property acquisitions intended to provide the Council with a new revenue stream to help the Council respond to the ongoing financial pressures it faces. Funding of £10m has been made available for this purpose.

6.4. Treasury Management Performance

- 6.4.1. Total investments managed in-house as at 31 March 2016 stood at £35.57 million (2014/15, £25.12m). During 2015/16 the Council operated a prudent investment strategy with investment priorities being security first, liquidity second and then return. The main borrowers continued to be the UK banking sector and Money Market Funds, used for short-term deposits.
- 6.4.2. The Council also had £101.67m long-term borrowing as at 31 March 2016 (31 March 2015, £104.77m), primarily in the form of £96.45m million Public Works Loans Board (PWLB) borrowing undertaken in relation to HRA self-financing. This represents a decrease of £2.59m in long-term borrowing from 2014/15 and is due in the main to the repayment of the loans necessary to support the HRA self-financing settlement payment to the CLG department.
- 6.4.3. The council achieved an average rate of return of 0.696% on its internally managed cash flow investments (including cash equivalents) for the year.

6.4.4. In 2016/17 the Council will be looking to place £10m of its investment balances with Property Fund Managers, intended as a long-term investment decision to further diversify the Council's investment portfolio and achieve an improved return on that offered by placing funds with banks, building societies and Money Market Funds.

6.5. The Level of Working Balances and Reserves

6.5.1. The Council's General Fund working balances stood at £6.10m as at 31 March 2016, while HRA working balances stood at £3.00m.

6.5.2. The Council also holds earmarked reserves, kept for specific types of expenditure in the future. The total amount of earmarked reserves held as at 31 March 2016 is £6.34m (£4.00m at 31st March 2015).

7. Commentary on the Primary Financial Statements for 2015/16

A summary of the Primary Financial Statements is provided below:

7.1. The Comprehensive Income and Expenditure Statement (CIES) (Page 43)

7.1.1. The CIES reports on how the authority has performed during the year and whether its operations have resulted in a surplus or a deficit. The CIES shows a surplus on provision of services of £22.68m during 2015/16.

Comprehensive Income & Expenditure Statement	2014/15 Actual	Movement during year	2015/16 Actual
	£'000	£'000	£'000
Cost of Services	(29,251)	20,865	(8,386)
Other Income and Expenditure	(9,655)	(4,636)	(14,291)
(Surplus) or Deficit on Provision of Services	(38,906)	16,229	(22,677)
Other Comprehensive Income and Expenditure	5,029	(18,552)	(13,523)
Total Comprehensive Income and Expenditure	(33,877)	(2,323)	(36,200)

7.2. The Balance Sheet (Page 44)

7.2.1. The Council's Balance Sheet provides a snapshot of its financial position, showing what it owns and what it owes at the end of the financial year.

7.2.2. The Council continues to maintain a strong Balance Sheet. During 2015/16, the Council has seen a greater increase in its assets than its liabilities, resulting in an increase in its net worth during the year of £36.20m.

Balance Sheet	31st March 2015	Movement during year	31st March 2016
	£'000	£'000	£'000
Non-current Assets	314,209	21,722	335,931
Current Assets	33,604	7,689	41,293
Current Liabilities	(9,207)	(1,864)	(11,071)
Total Non-Current Assets plus Net Current Assets	338,606	27,547	366,153
Non-Current Liabilities	(174,563)	8,653	(165,910)
Total Assets less Liabilities	164,043	36,200	200,243
Financed by:			
Unusable Reserves	(137,811)	(31,301)	(169,112)
Usable Reserves	(26,232)	(4,899)	(31,131)
Total Net Worth	(164,043)	(36,200)	(200,243)

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7.3. The Movement in Reserves Statement (MIRS) (Page 45)

7.3.1. The MIRS shows movements in level of reserves held between the end of the last financial year and the end of the current financial year. The MIRS is separated between those reserves that are available for use in funding ongoing revenue expenditure (Usable Reserves) and those that are required to be held for accounting purposes (Unusable Reserves).

7.3.2. The MIRS shows that the total reserves of the Council increased during 2015/16 by £36.20m, primarily due to the increase in the level of Unusable Reserves at the end of the year.

Movement in Reserves Statement	Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000
Balance at 31st March 2015	(26,232)	(137,811)	(164,043)
(Increase)/decrease in year	(4,899)	(31,301)	(36,200)
Balance at 31st March 2016	(31,131)	(169,112)	(200,243)

7.4. The Cash Flow Statement (Page 46)

7.4.1. The Cash Flow Statement sets out the Council's cash receipts and payments during the year for both capital and revenue purposes. It summarises in simple terms where the money came from and how it was spent.

7.4.2. During 2015/16, the Council's level of cash and cash equivalents increased by £5.22m.

Cash Flow Statement	2014/15	Movement during year	2015/16
	£'000	£'000	£'000
Net (Surplus) or Deficit on the Provision of Services	(38,906)	16,229	(22,677)
Adjustment to the net (surplus)/deficit on the provision of services	21,345	(20,001)	1,344
Net Cash Flows from Operating Activities	(17,561)	(3,772)	(21,333)
Net cash flows from investing activities	12,225	2,182	14,407
Net cash flows from financing activities	1,494	213	1,707
Net (increase) or decrease in cash or cash equivalents	(3,842)	(1,377)	(5,219)
Cash and cash equivalents at the end of the reporting period	9,855	5,219	15,074

7.5. Adjustment to 2014/15 data

- 7.5.1. Within the 2014/15 Statement of Accounts there was a misinterpretation of £3,400 relating to a financial guarantee for the Local Authority Mortgage Assistance Scheme (LAMS). This amount was previously disclosed within the Financial Instruments Adjustment Account but is now included within Creditors to reflect the potential liability. As a result of the adjustment, the following tables containing 2014/15 comparative data have been updated: Balance Sheet, Movement in Reserves Statement, Creditors, Unusable Reserves, Financial Instruments, Capital Expenditure and Financing.

8. Principal Risks and Uncertainties

8.1. The Council has a long-established process in place to identify the principal risks that may influence or impact on the delivery of services. The risk management process requires judgements to be made on the likelihood and impact of a potential risk and enables the Council to develop and implement appropriate controls to manage or mitigate these risks to reduce the impact on the Council. The Council maintains a Corporate Risk Register which is updated at least annually and reviewed during the year by officers and the Finance & Audit Committee, which is charged with maintaining an overview of the Council's risk and governance framework.

8.2. The next table sets out the key risks to the achievement of the Council's strategic priorities in 2015/16:

Key risks to the achievement of the Council's strategic priorities in 2015/16			
Risk	Assessed Risk Score	Mitigating Actions	Target Risk Score for year end
Ongoing financial viability of the Council	15	Active monitoring of budgets and key areas of income and expenditure by budget holders, Management Team and Members.	15
		Robust Medium Term Financial Strategy and Medium Term Financial Plan in place. Policy decision to retain a level of working balances on the General Fund and Housing Revenue Account to protect the Council against financial shocks.	
		Annual exercises to review reserve policy and fees and charges levied by the Council.	
		Opportunities derived from the Service Review Process to be considered and implemented.	
Changes in national priorities and legislative change	15	Monthly policy briefings prepared providing updates on the development of key issues, six-monthly legislative briefings to Senior Officers and Members.	10
		Communication channels in place with partner organisations to identify ways in which non-direct policies may affect council services and/or to ensure that joint working can continue wherever possible.	

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Key risks to the achievement of the Council's strategic priorities in 2015/16			
Organisational capacity/ resilience	15	Monitoring and allocation of resources to critical tasks and services.	10
		Encouragement of staff to work more flexibly across the organisation through the offering of opportunities for redeployment, secondments and project work.	
		Provision of training to support increased flexible working across the organisation.	
Management of Universal Credit Implementation	15	Ongoing liaison with key stakeholders such as Job Centre Plus and continued meeting with other Kent Benefits Managers and internal officers.	12
		Ongoing communication with Members, staff and claimants.	
		Use of the Universal Credit Local Support Services Update and Trialling plan to prepare the Council's Benefits Service for the introduction of Universal Credit.	
Changes in Refuse and Recycling	15	Application of learning points from Phase One of the project.	12
		Engagement with customers and use of feedback from customer engagement events to shape the rollout of the service.	
		Effective project plan and communication plan in place to manage the implementation of the scheme.	

8.3. The table above does not include risks that are below the Council's strategic risk tolerance threshold; these risks will be monitored and managed through the operational risk registers of council departments.

8.4. Further information on the Council's Risk Management arrangements can be found within the Corporate Governance area of the Council's website:
<http://www.gravesham.gov.uk/services/council-and-democracy/corporate-governance>

9. 2016/17 and Beyond

- 9.1.** The Council will continue to face significant challenges moving into 2016/17 and beyond. The funding reductions currently being experienced by Local Government are some of the largest in the public sector and are set to continue for the next parliamentary period. The recent EU Referendum and the vote to leave the European Union will create additional pressures on the financial standing of the Council. Early indications suggest that Gravesham Borough Council, along with others public authorities across the country, are likely to experience fluctuations in property values and the value of and return from its investments as well as potential increases in its liabilities, such as that of the Pension Fund.
- 9.2.** It will be imperative for the Council to ensure that financial plans remain sustainable and robust and that both revenue and capital resources are aligned with key policy priorities. The Council's medium term financial projections indicate that it can produce a balanced General Fund budget for 2016/17 and 2017/18, though after this point the Council will need to deliver reductions in expenditure or increases in income to remain sustainable in the medium to long term. This will require the Council to focus more clearly on core services and priorities, whilst making some difficult decisions about service delivery and income generation options, potentially increasing the Council's exposure to risk. The Council has set out its approach in the Medium Term Financial Strategy and activity is already underway to progress workstreams focusing on optimising income, innovating service delivery and maintaining financial discipline.

10. Other Useful Information

- 10.1.** As a public sector body, the Council is committed to being open, transparent and accountable in the way it works. Information on the Council's decision-making arrangements, Management Structure, Member Remuneration as well as contractual arrangements and spend data can be found on the Transparency pages of the Council website: www.gravesham.gov.uk/transparency

11. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

Gravesham Borough 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 Gravesham, that officer was the Assistant Director (Finance) until 31 December 2015, and has been fulfilled by the Director (Corporate Services) since this date;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Ensure the un-audited Statement of Accounts is certified subject to audit prior to 30 June by the Director (Corporate Services), and that the audited statement of accounts is approved prior to 30 September by the relevant body. In Gravesham, that body is the Finance & Audit Committee to which the Council has delegated the appropriate authority.

The Director (Corporate Services) - Responsibilities

The Director (Corporate Services) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing the Statement of Accounts, the Director (Corporate Services) has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice.

The Director (Corporate Services) has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities, further details of which are contained in the Annual Governance Statement.

Certification of Director (Corporate Services)

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at the date shown and its income and expenditure for the year ended 31 March 2016.

Stuart J Bobby CPFA

Date:

Certification of Chair of Finance & Audit Committee

I confirm that the adoption process for the 2015/16 Statement of Accounts has been formally completed and that the Financial Review and Statement of Accounts for the year ended 31 March 2016 was considered and approved by Gravesham Borough Council at the meeting of the Finance & Audit Committee on 13 September 2016.

Cllr Derek E Shelbrooke

Date:

12. ACCOUNTING POLICIES, STANDARDS AND CRITICAL JUDGEMENTS

12.1. General

Local Authorities are required to prepare their annual financial statements by the Accounts & Audit (England) Regulations 2015. The regulations require these statements to be prepared in accordance with 'proper accounting practice'.

Each year CIPFA produces a "Code of Practice on Local Authority Accounting in the United Kingdom" (The Code). The Code has been defined as proper accounting practice for the purpose of preparing the annual financial statements of the council and is based on approved accounting standards, comprising International Accounting Standards (IAS), International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board, International Public Sector Accounting Standards (IPSAS) and the Urgent Issues Task Force's (UITF) Abstracts.

The following Accounting Policies set out the general principles used by Gravesham Borough Council to prepare its annual financial statements.

12.2. Accounting Concepts & Qualitative Characteristics

In general, the accounts are prepared on the basis of historical cost modified by the revaluation of land, buildings, vehicles and plant, subject to and in accordance with the fundamental accounting concepts set out below:

Relevance

In accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the accounts are prepared to provide readers with information about the Council's financial performance and position that is useful for assessing the stewardship of public funds.

Reliability

The accounts are prepared on the basis that the financial information contained within them is reliable, i.e. they are free from material error, deliberate or systematic bias, complete within the bounds of materiality and represent faithfully what they intend to represent. Where there is uncertainty in measuring or recognising the existence of assets, liabilities, income and expenditure then caution or prudence has been used as a basis to inform the selection and application of accounting policies and estimation techniques.

Comparability

The accounts are prepared to enable comparison between financial periods. To aid comparability, the Council applies its accounting policies consistently both during the year and between years.

Understandability

Every effort is made to make the accounts as easy to understand as possible. Nevertheless, there is an assumption that the reader has a reasonable knowledge of accounting and local government. Where the use of technical terms is unavoidable, explanations are provided in the Glossary of Terms.

Materiality

Certain information may be excluded from the accounts on the basis that the amounts involved are not material either to the fair presentation of the financial position and transactions of the Council or to the understanding of the accounts.

Accruals

With the exception of the Cash Flow Statement, the accounts are prepared on an accruals basis. The accruals basis of accounting requires the non-cash effect of transactions to be reflected in the accounts for the year in which those effects are experienced and not in the year in which the cash is actually received or paid. Bills for Council Tax and Non-Domestic Rates are recorded as issued at 31 March and no attempt is made to accrue for bills due but not processed at the year-end. The Council has set a de-minimis level of £500 for final accounts accrual adjustments.

Going Concern

The accounts are prepared on the assumption that the Council will continue to operate for the foreseeable future.

Primacy of Legislative Requirements

Where a particular accounting treatment is prescribed by legislation, then that treatment prevails even if it conflicts with one or other of the accounting concepts outlined above. In the unlikely event of this arising, a note to that effect is included in the accounts.

12.3. Revenue Recognition

Activity is accounted for in the year that it takes place, not necessarily when cash payments are made or received. In particular:

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from Council Tax and Non-Domestic Rates is measured at the full amount receivable, as they are non-contractual, non-exchange transactions. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- 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.

12.4. 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.

12.5. Cash and Cash Equivalents

Cash and Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value. Available for sale assets are shown in the Balance Sheet at fair value, and all other investments are shown at their nominal value. The authority has defined cash equivalents to include investments with a maturity date of three months or less from the date of acquisition.

12.6. Assets Held for Sale (Current Assets)

These are assets that have been declared surplus to the Council's operational requirements, are being actively marketed, and have an estimated sale date within twelve months of the Balance Sheet date. They are reported on the Balance Sheet date at the lower of the carrying amount or the fair value (market value) of the asset less the costs to sell the asset. Assets available for sale are not subject to depreciation.

12.7. Property, Plant and Equipment

- Recognition

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis. Expenditure on the acquisition of an asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, should be capitalised, provided that it yields benefits to the authority and the services it provides for a period of more than one year.

Capital expenditure includes:

- the acquisition, reclamation, enhancement or laying out of land;
- acquisition, construction, preparation, enhancement or replacement of, buildings and other structures;
- acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels.

In this context, enhancement means works which are intended to:

- Lengthen substantially the useful life of the asset, or
- Increase substantially the market value of the asset, or
- Increase substantially the extent to which the asset can or will be used for the purposes of or in conjunction with the functions of the authority.

Under this definition, improvement works and structural repairs should be capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance should be recognised in the revenue account as it is incurred.

In defining capital expenditure, the Council operates a de minimis level of £12,000 for such assets. Any expenditure below this level is charged to revenue in the year of acquisition.

- Measurement

ACCOUNTING POLICIES

Initially the assets are measured at cost, comprising the purchase price plus any costs associated with bringing the asset into use. The measurement of an asset acquired other than through purchase is deemed to be its fair value.

In accordance with The Code, Property Plant and Equipment is further classified as:

- Council Dwellings
- Other Land and Buildings *
- Infrastructure assets
- Vehicles, Plant and Equipment
- Community Assets
- Assets under Construction

Each of these asset classifications are valued on the base 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 and Community Assets – Depreciated Historical Cost
- Assets Under Construction - Historical Cost
- Dwellings – current value, determined using the basis of Existing Use Value for Social Housing
- All other assets – current value, determined as the amount that would be paid for the asset in its Existing Use

Where there is no market-based evidence of current value because of the specialist nature of an asset, Depreciated Replacement Cost is used as an estimate of current value. Where non-property assets (such as Vehicles, Plant and Equipment) have short useful lives or low values (or both), Depreciated Historical Cost basis is used as a proxy for current value.

*These asset categories are revalued on a five-year rolling cycle. The programme of revaluations is continuing on this cyclical basis although values of those assets falling between scheduled valuation dates are reviewed annually to ensure that any material changes to asset valuations is adjusted in the interim period, as they occur.

- Depreciation

Depreciation is provided for on those 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.
- depreciation is calculated using the straight-line method.
- full depreciation is calculated in the year of disposal

The standard useful lives for each category of asset are up to the following number of years:

ACCOUNTING POLICIES

Asset	Depreciation Methodology
Operational Land	50 years (usually relating to car parks)
Operational Buildings	Usually 50 years, although this can vary according to the individual asset
Non-Operational Buildings	60 years depending on the individual asset
Council Dwellings	Suitable components are identified and valued at Beacon level, together with an estimate of each component's useful life which together form the basis of the annual depreciation calculation.
Asset	Depreciation Methodology
Infrastructure	40 Years
Vehicles, Plant & Equipment	Vehicles & Plant - 10 Years depending on the type of asset IT Equipment - 7 years depending on the nature of the asset Non-IT Equipment - 20 years depending on the nature of the asset

Provision for depreciation is made by allocating the cost (or revalued amount) less estimated residual value of the assets as closely as possible to the periods expected to benefit from their use.

Depreciation is not normally provided for on freehold land and certain Community Assets (whether operational or non-operational) on the basis that such assets do not have a determinable useful life. Depreciation is also not provided for on assets which are not yet available for use (i.e. Assets Under Construction).

- Valuation

The freehold properties which comprise part of the Council's property portfolio have been valued at the direct request of the Council's Assistant Director (Corporate Services) in accordance with CIPFA's accounting arrangements. Valuations are undertaken by suitably qualified internal staff, or external firms as practicable in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

Fixed plant and machinery is included in the valuation of buildings. Operational Properties are valued on open market (existing use) basis, or where this cannot be assessed because there is no market for the subject asset, the Depreciated Replacement Cost. Non-Operational Properties are valued on open market value.

Council Dwellings are valued on Existing Use Value for Social Housing (EUV-SH).

- Components

ACCOUNTING POLICIES

The Council's policy is to account for components where the total asset has a gross book value in excess of £1m and where any individual component has a value in excess of £100,000. With regard to HRA dwellings, the major common components are identified within each Beacon type, and the value of each component divided by its useful life provides the annual depreciation charge.

- Impairment

Assets are assessed to establish the possibility of impairment. Where indications exist and are estimated to be material, the asset is revalued and if lower than the carrying value, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of previous revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line/s in the Comprehensive Income and Expenditure Statement.

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

- Disposal

Income from the disposal of Property, Plant and Equipment is accounted for on an accruals basis. Such income, following payment of any pooling liability to central government (in respect of housing capital receipts from the sale of dwellings through the Right to Buy (RTB) scheme), is included in the Balance Sheet within Usable Capital Receipts.

When an asset is disposed of or decommissioned, any receipt arising (net of selling costs) is set against the carrying value of the asset in the Comprehensive Income and Expenditure Statement, so comprising a gain or loss on disposal. Any remaining revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Proceeds in excess of £10,000 are categorised as capital receipts. A proportion of sales proceeds relating to HRA disposals is payable to the Government under pooling arrangements. Following the introduction of self-financing, and a revised RTB scheme, some elements of RTB proceeds have to be recycled to deliver new social housing.

Net receipts are credited to the Usable Capital Receipts Reserve to be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance via the Movement in Reserves Statement.

Any amounts written-off following a disposal is not a charge against council tax, since the cost of fixed assets are fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

12.8. Intangible Assets

ACCOUNTING POLICIES

Intangible assets are non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the local authority through custody or legal rights. Examples are licences, quotas, patents, copyrights, franchises and trademarks. The most common intangible asset that is held by local authorities is purchased software licences.

Control of an intangible asset is normally secured by legal rights: a licence grants access to benefits for a fixed period.

Purchased intangible assets (e.g. software licences) are capitalised as assets where they exceed the de minimis threshold.

Software development costs that are directly attributable to bringing a computer system or other computer-operated machinery into use are treated as part of the cost of the related hardware rather than as a separate intangible asset.

Intangible assets are amortised over their economic lives on a straight-line basis, typically over a period of 5 to 7 years. Where access to the economic benefits associated with an intangible asset is achieved through legal rights that have been granted for a finite period, the economic life will not extend beyond that period. The useful economic lives of intangible assets are reviewed at the end of each reporting period and revised if necessary. In amortising an intangible asset, a residual value may be assigned to the asset only if such residual value can be measured reliably. In practice the residual value of an intangible asset is usually nil or insignificant.

For intangible assets held at historical cost, General Fund and Housing Revenue Account service revenue accounts are charged with a provision for amortisation and where required, any related impairment loss (due to a clear consumption of economic benefits), for all intangible assets used in the provision of the service.

12.9. Heritage Assets

Separate disclosure of the carrying amounts of the council's heritage assets is required at 'valuation', where that valuation can be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations if the authority can demonstrate that such a process would not add value to users of the accounts. Thus assets identified as Heritage Assets by Gravesham that exceed the de minimis level of £12,000 are reflected in the accounts at their insurance valuation, which is reviewed annually.

The initial recognition of the asset is in accordance with our accounting policy on recognising Property, Plant & Equipment (See 12.7). Where information on the cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, that asset is not be recognised on the Balance Sheet, and an appropriate disclosure is made instead.

Due to the historic nature of the assets within this category, depreciation is not applied.

12.10. Investment Properties

Investment Property is property (land and/or buildings) held solely to earn rental income or for capital appreciation or both. Investment Property is initially recognised at cost, but is subject to valuation at fair value at the end of each accounting period. Losses or gains are recognised in the Comprehensive Income and Expenditure Statement.

Depreciation is not charged against Investment Property.

12.11. Charges to Revenue for Non-Current Assets

General Fund service revenue accounts, central support services and trading accounts are charged with the following amounts in relation the use of assets during the year;

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses used by the service (where these exceed accumulated gains held in the Revaluation Reserve)
- amortisation of intangible fixed assets used by the relevant service

12.12. Revenue Expenditure Funded from Capital under Statute

Revenue expenditure funded from capital under statute (REFCUS) represents expenditure that may be capitalised under statutory provisions but does not result in the creation of non-current assets. The expenditure items are generally outgoing grants, or expenditure on property not owned by the authority. Such revenue expenditure incurred during the year is charged to the relevant service revenue account in the Comprehensive Income and Expenditure Statement. Where the council has determined to meet the cost of the revenue expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged against the General Fund Balance in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

12.13. Government Grants and Contributions

Government grants and contributions are recognised as due to the authority when there is reasonable assurance that;

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

Where conditions have not yet been complied with, the grants and contributions are carried within the Authority's Balance Sheet as creditors. When conditions are satisfied, grant and contribution amounts are released to the individual Service Revenue Accounts within the Comprehensive Income and Expenditure Statement.

Capital grants and contributions are credited to the Taxation and Non-Specific Grant line in the Comprehensive Income & Expenditure Statement where conditions are satisfied. Capital grants that have not yet been used to finance capital expenditure are posted to the Capital Grants Unapplied Reserve; those that have been applied are credited to the Capital Adjustment Account.

12.14. Leases

ACCOUNTING POLICIES

Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement on a straight-line basis over the term of the lease.

Finance leases are accounted for when the risks and rewards relating to the leased asset are substantially transferred to the council, with rentals payable being apportioned between;

- a charge for the acquisition of the interest in the asset, with a liability in the Balance Sheet at the start of the lease, written down as leasing payments are due, and;
- a finance charge against Net Operating Expenditure in the authority's Comprehensive Income and Expenditure Statement as the leasing payments are due.

Assets recognised by way of finance leases are treated in the same way as Property, Plant and Equipment assets, with the only notable exception being that depreciation is charged over the term of the lease where this is shorter than asset's estimated useful life. Finance leases are recognised within the Balance Sheet at fair value (at the date of the lease's inception).

12.15. Repurchase of Borrowing

Gains and losses on the repurchase of or early settlement of borrowing are credited and debited to Financing and Investment Income in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

However, where repurchase has taken place as part of a restructuring of the loan portfolio and therefore;

- old debt is replaced with new debt by means of an exchange of debt instruments between an existing borrower and lender or the terms of an existing liability are modified, and;
- the terms of the loan debt exchanged are not substantially different or the modification of the terms of an existing liability is not substantial,

the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. In the case of the Housing Revenue Account, in accordance with Local Authority Accounting Panel (LAAP) Bulletin 26 the amount chargeable to the HRA is amortised over a maximum period of 10 years.

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

12.16. Debtors and Creditors

ACCOUNTING POLICIES

The accounts of the Council are maintained on an accruals basis i.e. sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year, with the exception set out above (policy 2).

Debts due to the Council are recorded as they become due and the Debtors section of the Balance Sheet represents the amounts due during the year which remain unpaid at the year-end, from which a sum is deducted as a provision for bad debts.

Interest payable is accrued to 31 March annually on all loans outstanding at that date. Interest on short-term investments due, but not received as at 31 March is also accrued where this is material.

Instalments of interest on Housing Act advances and deferred payments are brought into account on the day they fall due for payment, irrespective of the period to which they relate.

Housing Revenue Account gross rent income is brought into account for the full year irrespective of debit and collection dates.

12.17. Stocks and Long Term Contracts

Bar, kiosk and other small stocks are valued at cost price.

Work-in-progress, representing uncompleted rechargeable jobs as at 31 March annually, is valued at cost including an allocation of overheads.

Long Term contracts are defined as “contracts entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or of a combination of assets or services which together constitute a single project) where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods” The Council makes a disclosure in the notes to the Core Financial Statements in respect of any capital contracts that meet this definition.

12.18. Cost of Management and Support Services

The principles recommended by CIPFA (under the Service Reporting Code of Practice) on accounting for management and support services are followed with the following exceptions:

- cost allocations are based on the time spent by the various officers on performing duties for all services as estimated on a percentage basis and
- costs are allocated using the probable outturn unit prices calculated during the year rather than the actual outturn for the year.

These exceptions are made in order to speed up the preparation of the accounts, the impact of which is not considered to be material.

The cost of computing services is allocated on the basis of actual use and the expenses of administrative buildings are apportioned on the basis of space used.

12.19. Provisions

Provisions represent sums set aside for liabilities or losses which are likely, or certain, to be incurred, but it is uncertain as to the amounts or the dates on which they will arise. Provisions are charged direct to the appropriate revenue account, and when the expenditure is incurred to which the provision relates it is charged direct to the provision.

12.20. Reserves

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves, and transfers to and from them are distinguished from service expenditure disclosed in the Statement of Accounts. Certain items such as the Revaluation Reserve and the Capital Adjustment Account can only be used for specific statutory purposes and thus are not available for discretionary purposes earmarked by the Council, further details of which appear in the Movement in Reserves Statement.

Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management. Statements concerning the purpose and usage of all provisions and specific reserves appear in the notes to the core financial statements.

12.21. Investments

Long-term investments are shown in the Balance Sheet at the original purchase price plus related costs (brokerage, fees, etc.). Available for sale assets are shown in the Balance Sheet under current assets at fair value, and all other short-term investments are shown under current assets at the actual sums lent.

12.22. VAT

VAT, whether of a capital or revenue nature, is included in the Comprehensive Income and Expenditure Statement only to the extent it is unrecoverable. The Council's partial exemption status is reviewed on an annual basis.

12.23. Employee Benefits

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

Benefits payable during employment:

- a) Short-term employee benefits, such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees.
- b) Benefits earned by current employees but payable twelve months or more after the end of the reporting period e.g. long-service awards

Termination benefits:

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

In the event of notice of termination being served on an employee, the costs of redundancy are accrued to the year that the notice is served, but other costs will be charged to the year they are incurred.

Post-employment benefits:

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits are not actually payable until employees retire, the commitment that the authority has to make those future payments must be recognised at the time that employees earn their entitlement. The Local Government Pension Scheme is administered by Kent County Council – this is a funded defined benefit final salary scheme, meaning that both the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

Under International Accounting Standard 19 (IAS 19), the employer is required to recognise as an asset or liability the surplus/deficit in the pension scheme. The surplus / deficit in the pension scheme is the excess/shortfall of the value of assets when compared to the present value of the scheme liabilities. A pre-requisite of the introduction of IAS 19 was that it did not impact on taxation requirements. Where the contributions paid to the pension scheme do not match the change in the authority's recognised liability for the year, any such variance is dealt with by an equivalent appropriation to or from a pensions reserve. Actuarial gains/losses are shown as movements on the pensions asset/liability account and pensions reserve. There is no impact on the Comprehensive Income and Expenditure Statement. The Balance Sheet shows the net pension asset or liability and an equivalent pension reserve balance.

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

12.24. Provision for Debt Impairment

The provision for bad and doubtful debts is calculated having regard to the nature of the debt, its age and the likelihood of recovery. The calculations for each type of debt, i.e. Council Tax, NDR, Rents, Sundry Debtors etc. are based on historical evidence and the methodology and individual percentages applied to calculate the provisions are reviewed regularly.

12.25. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The amount presented in the Balance Sheet is the outstanding principal repayable, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

12.26. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The amount presented in the Balance Sheet is the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

Any gains and losses that arise on the derecognition (i.e. cessation or transfer of the loan) of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Where the Council makes loans with interest at less than market rates, for instance in respect of Improvement Grants, these are termed "Soft Loans". When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the loan, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the borrower, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. The impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. This approach is also adopted where the income pertaining to a capital receipt is received over several years rather than in a lump sum at the time of disposal.

Available for Sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

ACCOUNTING POLICIES

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as follows:

- Level 1 – quote prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quote prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Assets. Where assets are identified as impaired, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available for Sale Reserve.

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

12.27. Events after the Balance Sheet Date

Events arising after the Balance Sheet date are reflected in the Statement of Accounts if they provide additional evidence of conditions that existed at the Balance Sheet date and materially affect the amounts to be included. These are known as 'adjusting events'.

Events which arise after the Balance Sheet date and concern conditions which did not exist at that time are detailed in the notes to the core financial statements if they are of such materiality that their disclosure is required for the fair presentation of the financial statements. These are known as 'non-adjusting events'.

12.28. Contingent Assets/Liabilities

Any contingent assets as at the Balance Sheet date are disclosed within the accounts by way of a note if the inflow of a receipt or economic benefit is probable.

Contingent liabilities as at the Balance Sheet date are disclosed within the accounts by way of a note if a payment or transfer of economic benefit is possible.

12.29. Council Tax & Non-Domestic Rate (NDR) Income

The Council is a billing authority and as such is required to bill local residents and businesses for Council Tax and Non-Domestic (Business) Rates. The Council acts as an agent on behalf of the major precepting authorities, Kent County Council, the Kent Police and Crime Commissioner and Kent Fire & Rescue Service for Council Tax, and Kent County Council, Kent Fire & Rescue Service and the Government for Non-Domestic Rates.

Accordingly, the debtors and creditors in the Balance Sheet only show the amount owed by and to taxpayers in respect of Council Tax and Non-Domestic Rates for the element relating to Gravesham Borough Council. Amounts relating to major precepting authorities will be shown as net debtors or creditors on the Balance Sheet.

The amount shown in the Comprehensive Income and Expenditure Statement as the demand on the Collection Fund includes the accrued amount of Council Tax and

Non-Domestic Rates collected as well as amounts from previous year's estimates. This adjustment is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account.

12.30. Prior Period Adjustments

Material adjustments applicable to prior years arising from changes in accounting policies or standards are reflected by restating the comparable figures in the Statement of Accounts, together with a disclosure note detailing the reasons for such restatement.

12.31. Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015/16 Code:

IAS 1 Presentation of Financial Statements - This standard sets out the overall requirements for financial statements, including their structure and the minimum requirements for their content. Changes to the standard will see adjustments to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and Segmental Reporting Note, along with the introduction of a new Expenditure and Funding Analysis.

Highways Network Assets – the 2016/17 Code will see a change in the valuation method for Transport Infrastructure Assets (now referred to as Highways Network Assets) and these assets disclosed as a separate class on the face of the Balance Sheet. The Council will need to form a judgment on the application of this change, though it is considered unlikely to have an impact on the Financial Statements of the Council.

Other minor changes – A number of other minor changes are due to the Annual Improvements to IFRSs cycles, IFRS11 Joint Arrangements, IAS 16 Employee Benefits, IAS16 Property, Plant and Equipment and IAS 38 Intangible Assets. These changes are not expected to have a material impact on the Council's Statement of Accounts.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 Statement of Accounts.

12.32. Critical Judgments in applying Accounting Policies

In applying the accounting policies, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events.

The critical judgments made in the Statement of Accounts are:

ACCOUNTING POLICIES

- **Future Funding for Local Government** – Whilst the government have made a four-year offer in respect of Settlement Funding, there remains a high degree of uncertainty around future levels of funding for local government. The Council forecasts its financial standing through its Medium Term Financial Plan and has set out proposals to manage its future financial position within its Medium Term Financial Strategy. The Council is of the view that the level of uncertainty is not yet significant enough on terms of impact to warrant an impairment of assets due to the need to close facilities and reduce levels of service provision.
- **Group Accounting** - The Council has a management agreement with Gravesend Community Leisure Limited, an Independent Prudential Society that operates the leisure centres owned by the Authority. It has been determined that the Authority does not have control of the Company and it is not a subsidiary of the Authority.
- **Joint Working** – The Council operates a number of partnership working arrangements with other neighbouring local authorities. The Council believes that it is not necessary to impair any non-current assets in light of these tri-borough working arrangements and any current proposals for changes to the way the services are to be delivered by the Council.
- **Doubtful Debts** – The Council has made judgements about the level of doubtful debts and allowances that it needs to provide for. These judgements are based on historical experience of debtor defaults.
- **NDR Appeals Provision** - The Council has made judgements about the level of the NDR appeals that it needs to provide for. These are based on the latest Valuation Office (VOA) ratings list of appeal and analysis of the likely success of these appeals.
- **Providing for Potential Liabilities** – The Council has made judgments about the likelihood of pending liabilities and whether a provision or a contingent liability should be made. The judgments are based on the degree of certainty around the results of pending actions.
- **Property, Plant and Equipment** - Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance bringing into doubt the useful lives assigned to assets. 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 buildings would increase in these circumstances. If funding streams were reduced, in so far that it results in the reduction of service delivery or closure of facilities, this could result in the impairment of assets due to obsolescence. However, the Authority has determined that the level of uncertainty at this time is not sufficient to indicate this course of action.

12.33. Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The items in the Authority's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as shown in the next table:

ACCOUNTING POLICIES

Item	Uncertainties	Effect if Actual Result Differs from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	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 buildings would increase by £203,000 for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	A 0.1% decrease in the discount rate (the Merrill Lynch AA rated corporate bond curve) would result in an increase in the liability of £2.58m. A 1 year reduction in life expectancy assumptions would result in a £4.53m decrease in the pension liability.
Business Rates	The Council was exposed to an unprecedented level of appeals in business rates due to legislative changes laid before Parliament on 3 March 2015. This meant appeals by ratepayers from 1 April 2015 could not be backdated to before that date. Combined with the Valuation Office focus on the Revaluation 2017 exercise, this is likely to result in an increased number of open appeals.	Sensitivity modelling on our assumptions suggests that including all open appeals would increase appeals provision by £1,036,016. The Council share of that increase in provision would be £414,406 (40%).

12.34. Material Items of Income and Expense

An independent revaluation of Council Dwellings in 2015/16, resulted in a net increase in value of £8.127m. This has been identified separately within the Comprehensive Income & Expenditure Statement. There have been no other material items of income and expense in the year.

12.35. Events after the Balance Sheet Date

There were no events after the balance sheet date.

CORE FINANCIAL STATEMENTS

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COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2014/15	Comprehensive Income & Expenditure Statement		2015/16	
Net Cost		Expenditure	Income	Net Cost
£'000		£'000	£'000	£'000
43	Central Services to the Public	13,562	(12,404)	1,158
3,239	Cultural and Related Services	5,532	(2,158)	3,374
1,620	Environmental & Regulatory Services	6,892	(2,272)	4,620
2,657	Planning Services	3,678	(1,734)	1,944
(572)	Highways, Roads & Transportation Services	1,175	(2,036)	(861)
(9,692)	Housing Revenue Account Services	21,974	(31,444)	(9,470)
(31,389)	HRA revaluations (see note: 13.5)	(13,619)		(13,619)
2,373	Other Housing Services	39,672	(37,449)	2,223
2,326	Corporate & Democratic Services	2,913	(786)	2,127
144	Non Distributed Costs	118	0	118
(29,251)	Net Cost of Services	81,897	(90,283)	(8,386)
(1,669)	Other Operating Expenditure/(Income) (Note 13.1)			(852)
5,172	Financing and Investment Income and Expenditure (Note 13.2)			2,052
(13,158)	Taxation and Non-Specific Grant Income (Note 13.3)			(15,491)
(38,906)	(Surplus)/Deficit on the Provision of Services			(22,677)
(6,627)	Surplus or Deficit on revaluation of non-current assets (Note 13.14.1)			(4,798)
(2)	Revaluation of available-for-sale assets			(40)
11,658	Remeasurements of the net defined benefit liability (Note 13.22)			(8,685)
5,029	Other Comprehensive Income & Expenditure			(13,523)
(33,877)	Total Comprehensive Income & Expenditure			(36,200)

BALANCE SHEET

At 31 March 2015	Balance Sheet		At 31 March 2016	
£'000		Notes	£'000	£'000
	Property, Plant and Equipment	13.5		
	Operational assets			
261,876	- council dwellings		275,555	
32,032	- other land and buildings		34,066	
3,133	- vehicles, plant and equipment		3,084	
2,052	- infrastructure assets		1,942	
2,501	- community assets		2,505	
	Non-operational assets			
468	- assets under construction		2,727	
91	- land and buildings		91	
302,153	Total Property, Plant and Equipment		319,970	
191	Intangible Assets		84	
7,950	Investment Properties	13.8	10,500	
1,592	Heritage assets	13.7	3,048	
2,303	Long Term Debtors	13.9	2,309	
20	Long term Investments		20	15,961
314,209	Total Non-Current Assets		335,931	
16	Inventories		21	
16,043	Short -term Debtors (Gross)	13.9	12,110	
(6,317)	Debt Impairment Provision		(6,959)	
9,855	Cash and Cash Equivalents	13.10	15,074	
14,007	Investments		21,047	41,293
347,813	Total Assets		377,224	
	Current Liabilities:			
(2,875)	Short-term Borrowing		(3,392)	
(6,332)	Short-term Creditors	13.11	(7,679)	(11,071)
338,606	Total Assets less Current Liabilities		366,153	
	Long Term Liabilities:			
(66,627)	Liability Related to Defined Benefit Pension Scheme	13.22	(60,741)	
(105,772)	Long-term Borrowing	13.26	(102,667)	
(839)	Capital Grants Receipts in Advance	13.12	(728)	
(1,325)	Provisions	13.13	(1,774)	
	Total Long-term Liabilities		(165,910)	
164,043	Total Net Assets		200,243	
	Financed by:			
(137,811)	Unusable Reserves	13.14	(169,112)	
(26,232)	Usable Reserves	13.15	(31,131)	(200,243)
(164,043)	Total Reserves		(200,243)	

MOVEMENT IN RESERVES STATEMENT

Financial Year 2015/16	General Fund Balance	Earmarked Reserves	HRA	Major Repairs Reserve	Capital Receipts	Grants and Cont unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2015	(6,124)	(7,162)	(3,000)	(1,390)	(7,750)	(806)	(26,232)	(137,811)	(164,043)
(Surplus)/Deficit on Provision of Services	(1,463)		(21,214)				(22,677)		(22,677)
Other Comprehensive Expenditure or Income								(13,523)	(13,523)
Total Comprehensive Expenditure and Income	(1,463)		(21,214)				(22,677)	(13,523)	(36,200)
Adjustment between accounting basis and funding basis (Note 13.16)	737		19,641	263	(1,612)	(1,251)	17,778	(17,778)	0
Net (increase)/decrease before transfers to Earmarked Reserves	(726)		(1,573)	263	(1,612)	(1,251)	(4,899)	(31,301)	(36,200)
Transfers to/(from) Earmarked Reserves (Note 13.15.3)	755	(2,328)	1,573				0		0
(Increase)/Decrease in year	29	(2,328)	0	263	(1,612)	(1,251)	(4,899)	(31,301)	(36,200)
Balance at 31 March 2016	(6,095)	(9,490)	(3,000)	(1,127)	(9,362)	(2,057)	(31,131)	(169,112)	(200,243)

Financial Year 2014/15	General Fund Balance	Earmarked Reserves	HRA	Major Repairs Reserve	Capital Receipts	Grants and Cont unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2014	(5,601)	(5,031)	(3,852)	(107)	(4,873)	(810)	(20,274)	(109,891)	(130,165)
(Surplus)/Deficit on Provision of Services	1,288		(40,194)				(38,906)		(38,906)
Other Comprehensive Expenditure or Income								5,029	5,029
Total Comprehensive Expenditure and Income	1,288		(40,194)				(38,906)	5,029	(33,877)
Adjustment between accounting basis and funding basis (Note 11.16)	(3,660)		40,764	(1,283)	(2,877)	4	32,948	(32,948)	0
Net (increase)/decrease before transfers to Earmarked Reserves	(2,372)		570	(1,283)	(2,877)	4	(5,958)	(27,919)	(33,877)
Transfers to/(from) Earmarked Reserves (Note 11.15.3)	1,849	(2,131)	282						
(Increase)/Decrease in year	(523)	(2,131)	852	(1,283)	(2,877)	4	(5,958)	(27,919)	(33,877)
Balance at 31 March 2015	(6,124)	(7,162)	(3,000)	(1,390)	(7,750)	(806)	(26,232)	(137,811)	(164,043)

CASH FLOW STATEMENT

2014/15	Cash Flow Statement	2015/16	
£'000		£'000	£'000
(38,906)	a) Net (Surplus) or Deficit on the Provision of Services		(22,677)
	b) Adjustment to the net (surplus)/deficit on the provision of services for non-cash movements		
(6,802)	Depreciation and amortisation of non-current assets	(7,250)	
	Impairment and downward valuations	(881)	
30,668	Impairment reversals (including writing out depreciation)	13,619	
(49)	Increase in impairment provision for bad debts	(642)	
(60)	Establishment of Land Charges provision	0	
(3,055)	Movement in revenue creditors	(1,111)	
2,299	Movement in revenue debtors	(3,052)	
3	Movement in Stock (Inventories)	5	
(2,278)	Movement in pension liability	(2,799)	
(1,790)	Carrying amount of non-current assets sold	(1,539)	
(2,194)	Other non-cash items charged to the net surplus or deficit on the provision of services	1,787	
(22,164)			(24,540)
	c) Adjustment for items in the net (surplus)/deficit on the provision of services that are investing and financing activities		
4,211	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,984	
392	Other Receipts for investing activities	224	3,208
(17,561)	d) Net Cash Flows from Operating Activities		(21,332)
	e) Investing Activities		
12,000	Purchase of property, plant and equipment, investment property and intangible assets	10,183	
4,022	Purchase of Short Term and Long Term Investments	7,000	
806	Other Payments for investing activities	431	
(4,211)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,984)	
(392)	Other Receipts for investing activities	(224)	
12,225	Net cash flows from investing activities		14,406
	f) Financing Activities		
0	Cash Receipts of short and long term borrowing		
(571)	Other receipts from financing activities	(881)	
2,065	Repayments of short and long term borrowing	2,588	
0	Other payments for financing activities	0	
1,494	Net cash flows from financing activities		1,707
(3,842)	g) Net movements in year excluding non-cash items		(5,219)
6,013	h) Cash and cash equivalents at the beginning of the reporting period		9,855
3,842	i) Net increase or (decrease) in cash or cash equivalents		5,219
9,855	j) Cash and cash equivalents at the end of the reporting period		15,074

13. NOTES TO THE CORE FINANCIAL STATEMENTS

The notes that follow have been provided in support of the four core statements. Some are detailed breakdown of figures presented on the statements whilst others give additional information provided for disclosure purposes.

13.1. Other Operating Expenditure/Income

2014/15	Other Operating Expenditure		2015/16	
Net Expenditure		Expenditure	Income	Net Expenditure
£'000		£'000	£'000	£'000
242	Parish Precepts	241		241
38	Levies	41		41
468	Payments to the Housing Capital Receipts Pool	535		535
(2,391)	(Gains)/Losses on the disposal of non-current assets	1,639	(2,984)	(1,345)
	Other derecognition of non-current assets	(100)		(100)
(26)	Other capital receipts		(224)	(224)
<u>(1,669)</u>	Total	<u>2,356</u>	<u>(3,208)</u>	<u>(852)</u>

13.2. Financing and Investment Income and Expenditure

2014/15	Financing and Investment Income and Expenditure		2015/16	
Net Expenditure		Expenditure	Income	Net Expenditure
£'000		£'000	£'000	£'000
3,128	Interest Payable and Receivable	3,286	(279)	3,007
2,251	Pensions Interest cost and return on pension assets	2,145		2,145
135	Trading Operations (see below)	765	(841)	(76)
(342)	Investment Properties (inc fair value changes)	(2,540)	(484)	(3,024)
<u>5,172</u>	Total	<u>3,656</u>	<u>(1,604)</u>	<u>2,052</u>

The major aspect of the movement between 2014/15 and 2015/16 net expenditure values concerns revaluation gains within industrial estates of £2.6m.

The following surpluses have been realised in relation to Trading Operations carried out during 2015/16:

2014/15	Trading Operations		2015/16	
Net Expenditure		Expenditure	Income	Net Expenditure
£'000		£'000	£'000	£'000
9	Industrial Estates	73	(205)	(132)
80	Spotlites Café	250	(252)	(2)
46	Trade Refuse Services	442	(384)	58
<u>135</u>	Total	<u>765</u>	<u>(841)</u>	<u>(76)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

13.3. Taxation and Non-Specific Income

The Borough's funding requirements, including those of the parish councils, are met by a demand on the Collection Fund. These are shown as an expenditure item in the Comprehensive Income and Expenditure Statement of the Collection Fund.

2014/15	Taxation and Non-specific Grant Income	2015/16
<i>£'000</i>		<i>£'000</i>
(5,896)	Council Tax Income	(6,137)
(1,741)	Business Rates Income	(3,169)
(5,129)	Non-Ringfenced Government Grants	(4,332)
(392)	Capital Grants & Contributions	(1,853)
<u>(13,158)</u>	Total	<u>(15,491)</u>

Within business rates income, the 2014/15 position included a £0.48m end of year deficit. In 2015/16, a favourable reduction to the in-year deficit position resulted in a year-end credit of £0.84m i.e. a net improvement of £1.32m. (See note 15.4).

NOTES TO THE CORE FINANCIAL STATEMENTS

13.4. Service Subjective Analysis (Segment Accounting)

Directorate Analysis 2015/16	Chief Executive	Communitas	Corporate Services	Environment & Operations	Housing & Re-generation	Other	Total	Housing Revenue Account
	£'000	£'000	£'000	£'000	£'000		£'000	£'000
Fees, charges & other service income	(28)	(2,705)	(834)	(3,204)	(725)	0	(7,496)	(28,500)
Government Grants	0	(237)	(36,557)	0	(22)	0	(36,816)	(6)
Recharge Service Income	(211)	(5,489)	(5,707)	(1,630)	(1,302)	0	(14,339)	0
Total Income	(239)	(8,431)	(43,098)	(4,834)	(2,049)	0	(58,651)	(28,506)
Employee expenses	240	4,504	3,793	1,368	2,393	(637)	11,661	2,825
Other service expenses	(44)	4,385	37,805	2,621	396	646	45,809	20,209
Support service recharges	962	3,968	4,495	4,133	1,811	0	15,369	3,898
Total Expenditure	1,158	12,857	46,093	8,122	4,600	9	72,839	26,932
Net Expenditure	919	4,426	2,995	3,288	2,551	9	14,188	(1,574)

2014/15	Segment Reporting	2015/16
		£'000
12,053	Net Expenditure in the Directorate Analysis	12,614
(37,793)	Amounts in the Comprehensive Income & Expenditure Statement not reported to management in the Analysis	(16,691)
(3,511)	Amounts in the Analysis not reported to management in the Comprehensive Income & Expenditure Statement	(4,309)
(29,251)	Cost of Services in Comprehensive Income & Expenditure Statement	(8,386)

Directorate Analysis 2014/15	Chief Executive	Communitas	Corporate Services	Environment and Operations	Housing & Re-generation	Total	Housing Revenue Account
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(35)	(3,421)	(905)	(2,838)	(725)	(7,924)	(27,469)
Government Grants	0	(74)	(37,696)	(3,637)	(47)	(41,454)	0
Recharge Service Income	(208)	(5,792)	(5,559)	(1,837)	(1,769)	(15,165)	1,671
Total Income	(243)	(9,287)	(44,160)	(8,312)	(2,541)	(64,543)	(25,798)
Employee expenses	201	4,557	3,185	1,562	2,534	12,039	776
Other service expenses	156	6,080	37,908	2,782	1,455	48,381	21,284
Support service recharges	956	4,041	4,372	4,111	1,845	15,325	4,590
Total Expenditure	1,313	14,678	45,465	8,455	5,834	75,745	26,650
Net Expenditure	1,070	5,391	1,305	143	3,293	11,202	852

NOTES TO THE CORE FINANCIAL STATEMENTS

13.5. Property Plant and Equipment

	Property, plant & equipment							Total
	Operational Assets					Non-Op Assets		
	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Assets Under Construction	Other Land & Buildings	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
As at 1 April 2015	261,876	39,820	8,091	2,521	4,707	468	1,979	319,462
Additions	7,190	434	514	44	4	2,233	0	10,419
Revaluation increases/decreases recognised in Revaluation Reserve	0	(1,338)					0	(1,338)
Revaluation increases/(decreases) recognised in Surplus/Deficit on Provision of Services	8,127	(896)					0	7,231
Derecognition - disposals	(1,638)	(16)	(2,634)	0	0	0	0	(4,288)
Assets reclassified	0	(26)	0	0	0	26	0	0
Other movements in cost or valuation	0	113	0	0	0	0	0	113
As at 31 March 2016	275,555	38,091	5,971	2,565	4,711	2,727	1,979	331,599
Accumulated Depreciation and Impairments								
As at 1 April 2015	0	(7,788)	(4,958)	(469)	(2,206)	0	(1,888)	(17,309)
Depreciation Charge for year	(5,492)	(934)	(563)	(154)			0	(7,143)
Accumulated depreciation written out to the Revaluation Reserve	0	4,679					0	4,679
Accumulated depreciation written out to the (Surplus)/Deficit on the Provision of Services	5,492	48					0	5,540
Impairment (losses)/reversals recognised in the Revaluation Reserve	0	0					0	0
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	0	(33)					0	(33)
Accumulated depreciation and impairment written back on disposal			2,634	0	0	0	0	2,634
Reclassifications	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment		3	0	0	0	0	0	3
As at 31 March 2016	0	(4,025)	(2,887)	(623)	(2,206)	0	(1,888)	(11,629)
Net Book Value								
At 31 March 2016	275,555	34,066	3,084	1,942	2,505	2,727	91	319,970
At 1 April 2015	261,876	32,032	3,133	2,052	2,501	468	91	302,153

NOTES TO THE CORE FINANCIAL STATEMENTS

Property, plant & equipment								
	Operational Assets					Non-Op Assets		Total
	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Assets Under Construction	Other Land & Buildings	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
As at 1 April 2014	228,120	34,848	6,025	2,456	4,606	78	1,993	278,126
Additions	8,941	140	2,066	65	101	391	0	11,704
Revaluation increases/decreases recognised in Revaluation Reserve	0	4,900					(14)	4,886
Revaluation increases/(decreases) recognised in Surplus/Deficit on Provision of Services	0	(69)					0	(69)
Derecognition - disposals	(1,790)	0	0	0	0	0	0	(1,790)
Reclassifications	0	1	0	0	0	(1)	0	0
Other movements in depreciation and impairment	26,605	0	0	0	0	0	0	26,605
As at 31 March 2015	261,876	39,820	8,091	2,521	4,707	468	1,979	319,462
Accumulated Depreciation and Impairments								
As at 1 April 2014	0	(7,498)	(4,663)	(319)	(2,206)	0	(1,234)	(15,920)
Depreciation Charge for year	(4,784)	(1,464)	(295)	(150)			0	(6,693)
Accumulated depreciation written out to the Revaluation Reserve	0	880					0	880
Accumulated depreciation written out to the (Surplus)/Deficit on the Provision of Services	4,784	2					0	4,786
Impairment (losses)/reversals recognised in the Revaluation Reserve	0	292					0	292
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	26,605	0					(654)	25,951
Accumulated depreciation and impairment written back on disposal	0	0	0	0	0	0	0	0
Reclassifications								
Other movements in depreciation and impairment	(26,605)	0	0	0	0	0	0	(26,605)
As at 31 March 2015	0	(7,788)	(4,958)	(469)	(2,206)	0	(1,888)	(17,309)

Net Book Value								
At 31 March 2015	261,876	32,032	3,133	2,052	2,501	468	91	302,153
At 1 April 2014	228,120	27,350	1,362	2,137	2,400	78	759	262,206

Revaluations of the Council's assets are carried out on a five yearly cycle as per paragraph 12.7 of the Accounting Policies. For 2015/16, valuations were carried out internally by the Council's Principal Estates Surveyor, Sarah London, BSc (Hons) MRICS, on behalf of the Council's Property Services Manager and based on a valuation date of 1 April 2015. In addition, a further review was carried out at the end of the year resulting in the values of some assets being restated.

Valuation of Council Dwellings, which were valued at 31 March 2016, was undertaken by Wilks Head & Eve, Chartered Surveyors and Town Planners. This resulted in a net increase in value of £8.13m, which has been shown separately within the Comprehensive Income & Expenditure Statement.

The methods and significant assumptions applied are in accordance with UK Valuation Standards which require that valuations shall be in accordance with the CIPFA Code. Essentially, fair value is interpreted as the amount that would be paid for the asset in its existing use.

13.6. Depreciation and Impairment

Service revenue accounts are charged with depreciation during the year to properly reflect the cost of utilising assets in the provision of the council services. For 2015/16 the total depreciation charges were £7.14m (£6.69m, 2014/15), including £5.65m to the HRA. A reversing entry ensures that the overall revenue effect is neutral and that no cost falls to the local taxpayer.

Impairment reversals totalling £8.13m (£26.54m, 2014/15) have been recognised within the Comprehensive Income and Expenditure Statement during 2015/16, where there are no accumulated revaluation gains held within the Revaluation Reserve Account.

The HRA depreciation and impairment is disclosed in note 14.3 of the notes to the HRA.

13.7. Heritage Assets

Heritage Assets where the Council holds information on an asset's cost or value are detailed in the table below. Where the Council does not hold information on cost or value, and it is considered that the cost of obtaining this information outweighs the benefit to the reader of the accounts, assets are not included in the Balance Sheet but disclosed in this note. These include the Fort Gardens Tunnels and various war memorials in the borough.

31st March 2015	Heritage Assets	31st March 2016
£'000		£'000
162	Fort Gardens - Bandstand	203
541	Clock Tower	1,830
1	Telegraph Hill - Obelisk	0
50	Puji Memorial	50
23	Mayoral Chains	23
183	Civic regalia	182
86	Museum exhibits	50
546	Woodlands Park Bunker	710
<u>1,592</u>	Total	<u>3,048</u>

13.8. Investment Properties

Items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. There are no restrictions on the Authority's ability to realise the value inherent in its Investment Property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement. Valuations were assessed by the Council's Principal Estates Surveyor, Sarah London, BSc (Hons) MRICS, on behalf of the Council's Property Services Manager.

The market value of Investment Properties on the Balance Sheet as at 31 March 2016 is £10.50m (at 31 March 2015 £7.95m). The asset valuations were conducted internally by suitably qualified valuation staff.

NOTES TO THE CORE FINANCIAL STATEMENTS

13.9. Debtors

Short-term debtors are shown below under the specific categories defined within the code of practice guidance.

31st March 2015	Short term Debtors	Movement	31st March 2016
£'000		£'000	£'000
898	Central government bodies	244	1,142
1,166	Other local authorities	(1,166)	0
13,979	Other entities and individuals	(3,011)	10,968
<u>16,043</u>	Total		<u>12,110</u>

Of the above reduction in year-end debtors of £3,933k, £2,584k relates to reduced year-end debtor and advance payment balances. A further £1,166k relates to reduced council tax shares, with the remaining £182k other net movements.

Long-term debtors at 31 March 2016 totalled £2.3m, which is formed primarily of debtors relating to the Local Authority Mortgage Scheme, plus loans and mortgages issued by the Council.

13.10. Cash and Cash Equivalents

The net balance of Cash and Cash Equivalents at the Balance Sheet date is made up of the following elements.

31st March 2015	Cash & Cash Equivalents	Movement	31st March 2016
£'000		£'000	£'000
(1,240)	Cash in Hand/(Overdrawn)	1,764	524
11,095	Short Term Deposits	3,455	14,550
<u>9,855</u>	Total Cash & Cash Equivalents	<u>5,219</u>	<u>15,074</u>
6,013	Balance brought forward at 1 April		9,855
3,842	Movement in year		5,219
<u>9,855</u>	Balance carried forward at 31 March		<u>15,074</u>

13.11. Creditors

Creditors are shown in the next table under the specific categories defined within the code of practice guidance.

31st March 2015	Short term Creditors	31st March 2016
£'000		£'000
(349)	Central government bodies	(1,679)
(35)	Other local authorities	(1,922)
(5,948)	Other entities and individuals	(4,078)
<u>(6,332)</u>	Total	<u>(7,679)</u>

13.12. Capital Grants and Contributions Received in Advance

Capital Grants and Contributions received in advance	Balance at 31st March 2015	Receipts	Recognised as Income	Balance at 31st March 2016
	£'000		£'000	£'000
Land Securities - Springhead	(250)	0	0	(250)
Union Railways (infrastructure Maintenance)	(78)	0	0	(78)
Christianfields	(181)	0	0	(181)
Section 106 - Land at South Hever Court	(60)	0	58	(3)
Leith Park Road (HRA)	(6)	0	0	(6)
Capital Contributions - Landseer Avenue	(74)	0	0	(74)
Other Small Grants and Contributions	(190)	0	53	(136)
Total Capital Grants and Contributions received in advance	(839)	0	111	(728)

13.13. Provisions

Municipal Mutual Insurance Company (MMI) was the leading provider of local Authority insurances for many years until 1992 when the company failed and went into 'run-off'. Currently, what remains of MMI is still solvent and the known and anticipated liabilities arising from prior years' insured risks will be met from the company's assets. Councils (and other creditors) will be liable to repay sums that have previously been paid out on their behalves in settlement of claims, hence calls on the council's contribution will be required. A provision in the sum of the council's estimated maximum liability of £170,000 was made in the 2011/12 accounts, with £26,000 utilised during 2013/14. There has been no further call on the provision balance of £144,000 to 31 March 2016, though a further levy of £16,940 is due to be paid in May 2016.

Gravesham Borough Council was a defendant in proceedings brought by two groups of Property Search Companies for refunds of fees paid to the Council to access land charges data. The matters have been settled although there remains the payment of costs to the second group of claimants, for which a provision of £16,000 has been made.

Under the new arrangements introduced from 1 April 2013, the authority and other business rates preceptors assume liability for bearing the cost (via the Collection Fund) of refunding ratepayers who successfully appeal against the rateable value of their commercial properties. The Council held a provision of £1.12m in 2014/15, which represents its share of any rate refunds arising from successful appeals. In 2015/16 this provision was increased by a further £0.493m, giving a total provision of £1.61m.

The Council has total provisions of £1.77m.

NOTES TO THE CORE FINANCIAL STATEMENTS

13.14. Unusable Reserves

Unusable reserves are unrealised gains and losses on assets, and adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure. Below is a summary of those reserves.

31st March 2015	Unusable Reserves	31st March 2016
£'000		£'000
(19,151)	Revaluation Reserve (note 13.14.1)	(23,252)
(186,714)	Capital Adjustment Account (note 13.14.2)	(207,035)
139	Financial Instruments Adjustment Account (note 13.14.3)	122
189	Accumulated Absences Account (note 13.14.4)	249
(85)	Deferred Capital Receipts Reserve	(73)
66,627	Pensions Reserve (Note 13.22)	60,741
1,191	Collection Fund Adjustment Account (note 15.5)	183
(7)	Available-for-Sale Financial Instruments Adjustment Account	(47)
<u>(137,811)</u>	Total Unusable Reserves	<u>(169,112)</u>

13.14.1. Revaluation Reserve Account

The Revaluation Reserve Account summarises the net gains or losses arising from asset revaluations during the year. The balance is reduced when assets with previously accumulated gains are:

- Revalued downwards or impaired and the previous gains are lost or,
- Disposed of and the gains are realised in the Comprehensive Income and Expenditure Statement, with the Revaluation Reserve values being written off as part of the disposal.

The closing balance on the Revaluation Reserve Account represents the net gain realised on non-current assets from 1 April 2007 onwards:

2014/15	Revaluation Reserve	2015/16
£'000		£'000
(4,429)	Other Land and Buildings - GF	(3,313)
(1,644)	Other Land and Buildings - HRA	(28)
15	Non Operational Land and Buildings - GF	0
0	Non Operational Land and Buildings - HRA	0
(569)	Heritage Assets - GF	(1,457)
<u>(6,627)</u>	Surplus or Deficit on revaluation of non-current assets	<u>(4,798)</u>
	Adjustment with Capital Adjustment Account (Note 13.14.2)	
0	- Accumulated Gains on assets sold	0
821	- Difference between Historic and Current Depreciation	697
<u>(5,806)</u>	Total movement on the Reserve for the Year	<u>(4,101)</u>
(13,345)	Balance brought forward at 1 April	(19,151)
(5,806)	Movement in year	(4,101)
<u>(19,151)</u>	Balance carried forward at 31 March	<u>(23,252)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

13.14.2. 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. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve Account to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve Account was created to hold such gains.

2014/15	Capital Adjustment Account	2015/16
£'000		£'000
	Sources of Finance	
(877)	Capital Receipts	(1,072)
(379)	Government grants and contributions (received in year)	(602)
(4)	Government grants and contributions (brought forward)	0
(3,689)	Major Repairs Reserve	(5,923)
<u>(4,949)</u>		<u>(7,597)</u>
	Sums set aside from revenue	
(7,594)	Direct revenue contributions	(3,253)
(2,187)	Minimum revenue provision (MRP)	(2,706)
<u>(9,781)</u>	Increase or decrease during year	<u>(5,959)</u>
	Removal of items not chargeable to Fund Balances	
6,692	Depreciation charged in the year	7,143
110	Amortisation charged in the year	107
(40,104)	Revaluation gains	881
9,661	Revaluation losses - PPE	0
	Reversal of impairment losses	(13,619)
0	Revaluation (gains)/losses - Investment properties	(2,550)
1,790	Disposals in the year	1,539
806	Revenue expenditure met from capital under statute	431
<u>(21,045)</u>	Increase or decrease during year	<u>(6,068)</u>
<u>(35,775)</u>	<i>Total accounting adjustments between funding basis under statute</i>	<u>(19,624)</u>
	Adjustment with Revaluation Reserve (Note 13.14.1)	
0	- Accumulated Gains on assets sold	0
(821)	- Difference between Historic and Current Depreciation	(697)
<u>(821)</u>		<u>(697)</u>
<u>(36,596)</u>	Increase or decrease during year	<u>(20,321)</u>
(150,118)	Balance brought forward at 1 April	(186,714)
(36,596)	Movement in year	(20,321)
<u>(186,714)</u>	Balance carried forward at 31 March	<u>(207,035)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

13.14.3. Financial Instruments Adjustment Account

This account is a balancing account to allow for differences in statutory requirements and proper accounting practices on borrowings and investments. This account represents the differences between costs in relation to financial instruments calculated in accordance with the Code where charges are different to those as calculated in accordance with statutory requirements.

2014/15	Financial Instruments Adjustment Account	2015/16
<i>£'000</i>		<i>£'000</i>
(16)	Private Sector renovation loans	(17)
(16)	Total increase/(decrease) in Financial Instruments	(17)
155	Balance brought forward at 1 April	139
(16)	Movement in year	(17)
139	Balance carried forward at 31 March	122

(Some comparative values have been altered when compared last year to maintain integrity throughout the document.)

Previously the 2014/15 balance included a misinterpretation of £3,400 relating to a financial guarantee for the Local Authority Mortgage Assistance Scheme This is now disclosed within creditors to reflect the potential liability. See note 13.26a for further details.

13.14.4. Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

2014/15	Accumulated Absences Account	2015/16
<i>£'000</i>		<i>£'000</i>
(163)	Reversal of accrual from preceding year	(189)
189	Amount accrued at the end of the current year	249
26	Total increase/(decrease) in Accumulated Absences Account	60
163	Balance brought forward at 1 April	189
26	Movement in year	60
189	Balance carried forward at 31 March	249

NOTES TO THE CORE FINANCIAL STATEMENTS

13.15. Usable Reserves

The Council keeps a number of reserves in the Balance Sheet that are either held for statutory reasons, to comply with proper accounting practice or to voluntarily earmark monies to fund future spending plans.

31st March 2015	Usable Reserves	31st March 2016
£'000		£'000
(7,750)	Capital Receipts Reserve	(9,362)
(3,999)	Earmarked Reserves	(6,337)
(3,163)	Revenue Grants not yet applied	(3,153)
(806)	Grants & Contributions Unapplied	(2,057)
(1,390)	Major Repairs Reserve	(1,127)
(6,124)	General Fund Balance	(6,095)
(3,000)	Housing Revenue Account Balance	(3,000)
<u>(26,232)</u>	Total Usable Reserves	<u>(31,131)</u>

13.15.1. Capital Receipts Reserve

2014/15	Capital Receipts Reserve	2015/16
£'000		£'000
(3,419)	Cash proceeds from the disposal of non-current assets (Note 12.7)	(2,983)
(792)	Other capital receipts	(224)
(11)	Transfer from Deferred Capital Receipts (Note 13.14)	(12)
468	Payment to Housing Capital Receipts Pool (Note 14.7)	535
877	Applied in Capital Financing	1,072
<u>(2,877)</u>	Total (increase)/decrease	<u>(1,612)</u>
(4,873)	Balance brought forward at 1 April	(7,750)
(2,877)	Movement in year	(1,612)
<u>(7,750)</u>	Balance carried forward at 31 March	<u>(9,362)</u>

Usable capital receipts are receipts from the disposal of assets that have not yet been used to finance expenditure or repay debt. As indicated in Note 14.7 to the Housing Revenue Account, a proportion of specified housing related capital receipts is payable into a Government pool for redistribution. The code requires any amount paid to the pool to be disclosed as expenditure in the Comprehensive Income and Expenditure Statement even though the capital receipts themselves have not been recognised as income within the Comprehensive Income and Expenditure Statement. The deficit is made good by an equivalent appropriation from Usable Capital Receipts.

NOTES TO THE CORE FINANCIAL STATEMENTS

13.15.2. Grants and Contributions Unapplied

Grants & Contributions Unapplied	Balance at 31st March 2015 £'000	Transfer from General Fund Balance £'000	Applied in capital financing £'000	Balance at 31st March 2016 £'000
Performance Reward Grant	(128)	0	0	(128)
Public Realm Improvement & Maint Funds	(89)	0	0	(89)
CLG - Transport Quarter Stage 3	(500)	0	0	(500)
CLG - Localised Council Tax Support	(89)	0	0	(89)
Disabled Facilities Grants	0	(40)	0	(40)
Coastal Communities Market Capital	0	(1,143)	0	(1,143)
Gravesend Ferry	0	(13)	0	(13)
Land at South of Hever Court Road	0	(55)	0	(55)
Total (increase)/decrease	(806)	(1,251)	0	(2,057)
Balance brought forward at 1 April	(810)			(806)
Movement in year	4			(1,251)
Balance carried forward at 31 March	(806)			(2,057)

NOTES TO THE CORE FINANCIAL STATEMENTS

13.15.3. Earmarked Reserves

Expenditure funded from an earmarked reserve is charged direct to revenue, and not to the reserve, with the equivalent funding being shown as Contributions from Reserves. The following statement shows the expenditure and income in respect of Earmarked Reserves for the year:

31st March 2015	Earmarked Reserves	Transfer from GFB	Applied in revenue financing	Transfer between reserves	31st March 2016
£'000		£'000	£'000	£'000	£'000
(6)	Provision for Insurance Excess	0	0	6	0
(214)	Planning Policy Reserve	(100)	34	0	(280)
(215)	Repair & Renewals Reserve	(100)	150	(160)	(325)
(277)	Spend to Save Reserve	(124)	29	150	(222)
(336)	Leisure Centres Reserve	(320)	256	0	(400)
(176)	Buildings Improvements Reserve	0	0	160	(16)
(168)	Corporate Priorities Reserve	(160)	17	(7)	(318)
(90)	Town Pier Pontoon Reserve	0	0	(1)	(91)
(100)	Local Authority Mortgage Scheme Reserve	0	0	0	(100)
(90)	Elections Reserve	(30)	70	0	(50)
(132)	Gravesham CAN Reserve	0	90	1	(41)
(500)	Business Rates Collection Fund Reserve	(374)	0	155	(719)
(208)	IT Infrastructure Reserve	(75)	158	0	(125)
(269)	DSO Vehicle Capital	(246)	104	18	(393)
0	Freighter Replacement Reserve	(116)	0	0	(116)
0	NNDR Growth Fund Reserve	0	0	(155)	(155)
(10)	DSO Provision Excess 3rd Party Insurance	0	0	10	0
(3)	Decriminalisation Reserve	(40)	0	0	(43)
0	GBC Match Fund CCF Borough Market	0	0	(40)	(40)
0	Spend to Save Reserve - Digital Team	0	25	(150)	(125)
(673)	HRA Debt	(2,105)	0	0	(2,778)
(532)	New Build & Acquisitions Reserve	0	532	0	0
(3,999)	Total Earmarked Reserves	(3,790)	1,465	(13)	(6,337)
(3,295)	Balance brought forward at 1 April				(3,999)
(704)	Movement in year				(2,338)
(3,999)	Balance carried forward at 31 March				(6,337)

These reserves have been established for the following purposes:-

Planning Policy Reserve – To meet the financial liabilities arising from the Development Framework over the next three years.

Repairs and Renewals Reserve – To assist in meeting the backlog in repairs and maintenance works to the Council's assets over the forthcoming financial years.

Spend to Save Reserve – To assist in delivering savings over the forthcoming Medium Term Plan period.

Leisure Centres Reserve – To ring-fence accumulated gains arising from the Management Agreement for the Leisure Centres to contribute to major infrastructure liabilities that may accrue.

NOTES TO THE CORE FINANCIAL STATEMENTS

Buildings Improvement Reserve - To assist with funding potential obligations over the forthcoming Medium Term Financial Plan cycle in relation to lease agreements.

Corporate Priorities Reserve - To deliver specific items in line with the Council's Corporate Plan.

Town Pier Pontoon Reserve – To assist with the ongoing maintenance costs in respect of the town pier pontoon.

Local Authority Mortgage Scheme (LAMS) Reserve – The Authority has entered into a LAMS agreement with Kent County Council to provide assistance with mortgages for residents in the Gravesham area. The Council has deemed it prudent to set aside a fixed amount in order to cover the possibility of defaults on these mortgages.

Elections – A contribution of £30,000 each year is made to the reserve in order to spread the cost of the local election cycle. Each borough election, which takes place every four years, is estimated to cost the authority approximately £120,000.

Gravesham CAN – To make funding available to support local projects and initiatives that make a positive difference to the communities and residents of Gravesham.

Business Rates Collection Fund Equalisation – To smooth the timing differences brought about by the accounting arrangements for business rates.

IT Infrastructure Reserve – To enable the Council to better plan for investment in improving and developing its IT infrastructure and increase the use of digital technology to the benefit of the Council and its residents.

DSO Vehicle Capital Reserve – To hold annual contributions to the replacement of DSO vehicles and proceeds from the disposal of redundant vehicles.

Freighter Replacement Reserve – To hold annual contributions to the replacement of waste collection freighters and proceeds from the disposal of redundant vehicles.

NNDR Growth Fund Reserve – To hold growth fund monies for Gravesham generated from retained business rate growth as a result of the Council being part of the Kent Business Rates Pool.

Decriminalisation – To provide replacement equipment and uniforms as and when required.

Borough Market Reserve – To hold GBC's match funding (to external grant income) in order to facilitate the borough market refurbishment project.

Digital Spend to Save Reserve – To enable investment in digital solutions as a contribution to the delivery of savings over the forthcoming Medium Term Financial Plan period.

HRA Debt Repayment Reserve – to meet future Housing Revenue Account debt repayment obligations.

New Build & Acquisitions (HRA) – To fund projects to increase the housing stock. This means potential opportunities for:

- Building new council homes
- Buying homes off plan from developers
- Buying houses from the open market and renovating them for use as social housing
- Acquiring land to build new homes
- Providing grants to Housing Associations for building social housing

NOTES TO THE CORE FINANCIAL STATEMENTS

13.16. Adjustments Between Accounting Basis and Funding Basis under Regulations

Adjustments between Accounting Basis and Funding Basis under regulations - 2015/16	General Fund Balance	HRA	Major Repairs Reserve	Capital Receipts	Grants and Cont unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Adjustments primarily involving the Capital Adjustment Account</i>						
Reversal of Items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation of non-current assets	(1,490)	(5,653)				7,143
Charges for impairment of non-current assets	0	13,619				(13,619)
Revaluation gains/losses on Property, plant and equipment	(857)	(25)				882
Movement in the fair value of Investment Properties	2,550	0				(2,550)
Amortisation of intangible assets	(20)	(87)				107
Capital Grants & Contributions applied	602	0				(602)
Revenue expenditure funded from capital under statute (REFCUS)	(431)	0				431
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	88	(1,627)				1,539
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment (MRP)	199	2,507				(2,706)
Capital expenditure charged against the General Fund and HRA balances (CERA)	557	2,696				(3,253)
<i>Adjustments primarily involving the Capital Grants Unapplied Account</i>						
Capital Grants & Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,251	0			(1,251)	
Application of grants to capital financing transferred to the Capital Adjustment Account					0	0
<i>Adjustments primarily involving the Capital Receipts Reserve</i>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	224	2,984		(3,208)		
Other Capital Receipts	0	0		0		
Use of the Capital Receipts Reserve to finance new capital expenditure				1,072		(1,072)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	0		0		
Contribution from the Capital Receipts Reserve to finance the payments to the Government's capital receipts pool	(535)			535		
Transfer from Deferred Capital Receipts Reserve upon the receipt of cash				(11)		11
<i>Adjustments primarily involving the Deferred Capital Receipts Reserve</i>						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0				0
<i>Adjustments primarily involving the Major Repair Reserve</i>						
Reversal of Major Repairs Allowance credited to the HRA		5,660	(5,660)			
Use of the Major Repair Reserve to finance new capital expenditure			5,923			(5,923)
<i>Adjustments primarily involving the Financial Instruments Adjustment Account</i>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	17	0				(17)
<i>Adjustments primarily involving the Pensions Reserve</i>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,263)	(943)				6,206
Employer's pensions contributions and direct payments to pensioners payable in the year	2,881	526				(3,407)
<i>Adjustments primarily involving the Collection Fund Adjustment Account</i>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax Income calculated for the year in accordance with statutory requirements	164					(164)
Amount by which non-domestic rate income credited to the Comprehensive Income and Expenditure Statement is different from Non-domestic Rate Income calculated for the year in accordance with statutory requirements	844					(844)
<i>Adjustment primarily involving the Accumulated Absences Account</i>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(44)	(16)				60
(Increase)/Decrease in year	737	19,641	263	(1,612)	(1,251)	(17,778)

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments between Accounting Basis and Funding Basis under regulations - 2014/15	General Fund Balance	HRA	Major Repairs Reserve	Capital Receipts	Grants and Cont unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Adjustments primarily involving the Capital Adjustment Account</i>						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation of non-current assets	(1,721)	(4,972)				6,693
Charges for impairment of non-current assets		31,389				(31,389)
Revaluation gains/losses on Property, plant and equipment	(720)	0				720
Movement in the fair value of Investment Properties	(225)	0				225
Amortisation of intangible assets	(24)	(85)				109
Capital Grants & Contributions applied	379	0				(379)
Revenue expenditure funded from capital under statute (REFCUS)	(806)	0				806
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	(1,790)				1,790
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment (MRP)	204	1,984				(2,188)
Capital expenditure charged against the General Fund and HRA balances (CERA)	2,214	5,382				(7,596)
<i>Adjustments primarily involving the Capital Grants Unapplied Account</i>						
Capital Grants & Contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0			0	
Application of grants to capital financing transferred to the Capital Adjustment Account					4	(4)
<i>Adjustments primarily involving the Capital Receipts Reserve</i>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	4,185		(4,185)		
Other Capital Receipts	26	0		(26)		
Use of the Capital Receipts Reserve to finance new capital expenditure				877		(877)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	0		0		
Contribution from the Capital Receipts Reserve to finance the payments to the Government's capital receipts pool	(468)			468		
Transfer from Deferred Capital Receipts Reserve upon the receipt of cash				(11)		11
<i>Adjustments primarily involving the Deferred Capital Receipts Reserve</i>						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0				0
<i>Adjustments primarily involving the Major Repair Reserve</i>						
Reversal of Major Repairs Allowance credited to the HRA		4,972	(4,972)			
Use of the Major Repair Reserve to finance new capital expenditure			3,689			(3,689)
<i>Adjustments primarily involving the Financial Instruments Adjustment Account</i>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	16	0				(16)
<i>Adjustments primarily involving the Pensions Reserve</i>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,209)	(868)				6,077
Employer's pensions contributions and direct payments to pensioners payable in the year	3,229	567				(3,796)
<i>Adjustments primarily involving the Collection Fund Adjustment Account</i>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax Income calculated for the year in accordance with statutory requirements	(49)					49
Amount by which non-domestic rate income credited to the Comprehensive Income and Expenditure Statement is different from Non-domestic Rate Income calculated for the year in accordance with statutory requirements	(480)					480
<i>Adjustment primarily involving the Accumulated Absences Account</i>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(26)	0				26
Increase/(Decrease) in year	(3,660)	40,764	(1,283)	(2,877)	4	(32,948)

13.17. Related Party Transactions

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. By making such disclosures, readers of the accounts are able 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 operate 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, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are separately identified within Note 13.3.

Elected Members and Officers

Elected Members and Senior Officers of the Council have direct control over the Council's financial and operating policies. The key sources used to identify material related party transactions for Senior Officers and Members are:

- The Register of Members' Interests (as maintained in accordance with the Local Authorities (Members' Interests) Regulations 1992),
- Disclosure of direct or indirect pecuniary interests at council meetings, made in accordance with Section 94 of the Local Government Act of 1972.

This information can be viewed for each councillor by following the "Local Councillor(s)" link at: <http://www.gravesham.gov.uk/democracy/mgMemberIndex>

The information is supplemented by the Council requiring Members and Senior Officers to annually declare whether they, close family or anyone in the same household have been involved in any material transactions with the Council. Returns were received from all Councillors and Chief Officers for the 2015/16 financial year with the following relationships considered material:

Officer/ Member	Nature of Related Party Transaction	Value of Transactions
Cllr Samir Jassal	Council Representative on Groundwork South	
	----- Payments relating to the Team Green apprenticeship programme	£112,300
Cllr Greta Goatley	Council Representative on Gravesham Citizens Advice	
	----- Payment of Grants by the Council to Gravesham Citizens Advice	£93,490
	Use of Premises at Civic Centre	£48,000

The council works with a number of partner organisations. Details of these arrangements are published in the Corporate Register of Partnerships which can be viewed at: <http://www.gravesham.gov.uk/partnership-register>

13.18. Member Allowances

NOTES TO THE CORE FINANCIAL STATEMENTS

Member allowances (including all payments in relation to remuneration) to the value of £0.24m were paid during 2015/16 (2014/15, £0.24m) in accordance with the Gravesham Borough Council Members' Allowances Scheme. Please note that figures for 2014/15 have been re-stated to incorporate allowances for the Mayor and Deputy Mayor.

Further details are published on our website: www.gravesham.gov.uk/transparency

13.19. Officer Remuneration and Exit Packages

This note provides details of senior officers' remuneration, the number of employees earning above £50,000 per annum, and exit packages.

"Remuneration" incorporates basic pay, allowances & expenses and exit packages (where payable directly to the employee). Additionally election payments in respect of Returning Officer duties are also shown, but no other election-related items.

Senior Officers

In the case of senior officers, pension contributions are also disclosed (including pension-based exit packages). These contributions are amounts paid by the authority into the Kent County Council pension fund, but not directly receivable by the employee. Shaded posts fulfil statutory roles.

Senior Officer Remuneration 2015/16	Pay and allowances	Compensation for loss of office	Pension	Total remuneration
	£'000	£'000	£'000	£'000
Chief Executive	124	-	-	124
Director (Communities)	93	-	13	106
Director (Housing & Regeneration)	93	-	13	106
Director (Environment & Operations)	93	-	13	106
Assistant Director (Finance)	74	-	105	179
Assistant Director (Governance & Law)	74	-	10	84
Assistant Director (Corporate Performance)	53	-	8	61
Director (Corporate Services)	20	-	2	22
Total	624	-	164	788

Senior Officer Remuneration 2014/15	Pay and allowances	Compensation for loss of office	Pension	Total remuneration
	£'000	£'000	£'000	£'000
Chief Executive	122	-	-	122
Director (Housing & Regeneration)	92	-	13	105
Director (Communities)	92	-	12	104
Director (Finance & Environment)	92	-	12	104
Assistant Director (Governance & Law)	73	-	10	83
Assistant Director (Finance)	73	-	10	83
Assistant Director (Corporate Performance)	67	-	9	76
Total	611	-	66	677

It should be noted that during 2015/16, the following are applicable for comparison purposes:

NOTES TO THE CORE FINANCIAL STATEMENTS

- S151 duties until 31st December 2015 were carried out by the Assistant Director (Finance).
- S151 duties from 1st January 2016 were carried out by the Director (Corporate Services).
- The post of Assistant Director (Corporate Performance) was deleted from 1st January 2016.
- The post of Director (Finance & Environment) was renamed Director (Environment & Operations) from 1st January 2016.

The contribution rate for employer pension remained at 14.5% in 2015/16 – the same level as in 2014/15. Additionally, a lump sum of £1,330,000 has been paid as a “past service contribution”. This amount is not included in the pension contributions for 2015/16 shown in the table above.

Employees earning above £50,000

2014/15	Employees earning above £50,000	2015/16
<i>nos</i>		<i>nos</i>
	<i>Remuneration band</i>	
-	£50,001 - £55,000	3
1	£55,001 - £60,000	1
5	£60,001 - £65,000	5
2	£65,001 - £70,000	-
2	£70,001 - £75,000	3
-	£75,001 - £80,000	-
-	£80,001 - £85,000	-
-	£85,001 - £90,000	-
-	£90,001 - £95,000	-
-	£95,001 - £100,000	-
-	£100,001 - £105,000	-
-	£105,001 - £110,000	-
-	£110,001 - £115,000	-
-	£115,001 - £120,000	1
10	Total	13

The bandings exclude the remuneration of individuals already included within the senior officer tables, but do incorporate exit packages where appropriate.

Exit Packages

The number of exit packages, both by type and banding are shown in the table below. Exit packages include both payments made directly to individuals, and also to Kent County Council in respect of pension benefits e.g. where retirement has been taken early but with preserved pension rights.

Exit packages Cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost		Total cost of exit packages in each	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
	<i>nos</i>	<i>nos</i>	<i>nos</i>	<i>nos</i>	<i>nos</i>	<i>nos</i>	£'000	£'000
£1-£20,000	-	2	-	2	-	4	-	29
£20,001-£40,000	-	-	1	-	1	-	37	-
£40,001-£60,000	-	-	-	-	-	-	-	-
£60,001-£80,000	-	-	-	1	-	1	-	66
£80,001-£100,000	-	-	-	1	-	1	-	95
Total	-	2	1	4	1	6	37	190

NOTES TO THE CORE FINANCIAL STATEMENTS

13.20. External Audit Costs

The Council incurred the following fees relating to external audit and inspection in 2015/16.

2014/15	External Audit Costs	2015/16
£'000		£'000
71	Fees payable in respect of external audit services carried out	53
10	Fees payable in respect of the certification of grant claims and returns	15
81	Total	68

13.21. Construction Contracts (Commitments under Capital Contracts)

The Council has approved expenditure in future years of £56.92m (2014/15, £46.05m) under its capital programme of which £6.37m (2014/15, £8.29m) had been contracted as at 31 March 2016. The split between schemes contracted and not contracted is as follows:

Expenditure approved and contracted at	Expenditure approved but not contracted at	Commitments under Capital Contracts	Expenditure approved and contracted at	Expenditure approved but not contracted at
31 Mar 2015	31 Mar 2015		31 Mar 2016	31 Mar 2016
£'000	£'000		£'000	£'000
4,931	16,760	Decent homes expenditure	3,699	17,800
111	4,285	Health & safety works	46	4,572
57	2,033	Minor/other works	0	2,061
372	0	PV panels	0	0
2,525	10,157	New building programme	1,040	10,129
0	10	Housing computer system	0	10
0	2,360	Renovation grants	0	2,550
294	2,150	General Fund capital schemes	1,584	13,424
8,290	37,755	Total	6,369	50,546

Readers of the accounts should note that the prior year figures has been restated to show only remaining commitments under contracts at 31 March 2015.

13.22. Pension Costs

Participation in the Pension Scheme

Employees of Gravesham Borough Council may participate in the Kent County Council Pension Fund, part of the Local Government Pension Scheme, a defined benefit statutory scheme. The fund is administered by Kent County Council in accordance with the Local Government Pension Scheme Regulations 2007-08 as amended. A formal valuation of the Kent County Council Pension Fund for funding purposes took place as at 31 March 2016. However, the outcome will not be known until the autumn, and therefore any changes resulting from this valuation will not be implemented until 2017-18.

As required under IAS 19 'Employee Benefits', the valuation method used is the projected unit method of valuation. With this method, where the age profile of the active membership is rising, the current service cost will increase as the members of the scheme approach retirement.

NOTES TO THE CORE FINANCIAL STATEMENTS

Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, in accordance with IAS19, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Comprehensive Income and Expenditure Statement after Net Operating Expenditure. This ensures there is no cost to the local taxpayer.

Under IAS19, the Council is required to provide details of assets and future liabilities for pensions payable to Council staff, both past and present.

The following transactions, derived from an Actuarial Valuation for the purposes of IAS19 have been made in the Comprehensive Income and Expenditure Statement during the year:

2014/15	Pension Costs - Transactions relating to retirement benefits	2015/16
£'000		£'000
	<i>Comprehensive Income & Expenditure Statement</i>	
3,061	Current service cost	3,795
83	Past service costs	56
61	Administrative Expenses	62
158	Unfunded benefits	148
3,363		4,061
2,251	Net interest expense	2,145
5,614	<i>Net charge to Comprehensive Income & Expenditure Statement</i>	6,206
(2,278)	<i>Movement on Pensions Reserve</i>	(2,799)
3,336	<i>Employer's contributions payable to LGPS</i>	3,407

Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2016 are as follows:

2014/15	Assets and liabilities relating to retirement benefits	2015/16
£'000		£'000
(154,125)	Present value of the defined benefit obligation	(148,795)
89,524	Fair value of plan assets	89,917
(64,601)	Net liability arising from defined benefit obligation	(58,878)
(2,026)	Present value of unfunded liabilities	(1,863)
(66,627)	<i>Total net liability</i>	(60,741)

Gravesham Borough Council's net liability on the Kent County Council Pensions Fund has decreased from £66.63m at the end of 2014/15 to £60.74m at the end of 2015/16. This is a net decrease in liability of £5.89m.

NOTES TO THE CORE FINANCIAL STATEMENTS

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The net pension liability is matched by an equivalent Pensions Reserve of £60.74m. Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Barnett Waddingham, an independent firm of actuaries, has assessed the Fund's liabilities.

IAS19 does not directly impact on the actual level of employer contributions paid to the Kent County Council Fund. Employers' levels of contributions are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields).

The movement to the Fund is set out in more detail in this note to the Core Financial Statements. The total liability has an impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains sound. The deficit on the scheme will be recovered through increased contributions over the remaining life of the employees as assessed by the actuary.

The reconciliation of the present value of the scheme liabilities is shown below;

2014/15	Present value of Scheme liabilities	2015/16
<i>£'000</i>		<i>£'000</i>
(134,487)	Scheme Liabilities brought forward	(156,151)
(3,061)	Current service cost	(3,795)
(5,822)	Interest cost	(5,091)
(781)	Contributions from scheme participants	(799)
	Remeasurement gains/losses:	
0	- actuarial gains/losses arising from changes in demographic assumptions	0
(17,201)	- actuarial gains/losses arising from changes in financial assumptions	10,648
(83)	Past service cost	(56)
5,231	Benefits paid	4,572
53	Experience loss/(gain) on defined benefit obligation	14
<u>(156,151)</u>	<i>Total value of liabilities</i>	<u>(150,658)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

The reconciliation of fair value of employer assets is shown below;

2014/15	Fair value of Scheme assets	2015/16
<i>£'000</i>		<i>£'000</i>
81,796	Scheme Assets brought forward	89,524
3,571	Interest income	2,946
	Remeasurement gains/losses:	
5,490	- the return on plan assets, excluding the amount included in the net interest expense	(1,977)
0	- other	0
3,178	Contribution from employer	3,259
781	Contribution from employees into the scheme	799
(5,231)	Benefits paid	(4,572)
(61)	Administrative expenses	(62)
89,524	Total value of liabilities	89,917

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History

The history of actuarial gains/losses identified as movements on the Pensions Reserve can be analysed into the categories shown over the page, measured as absolute amounts and as a percentage of assets or liabilities:

2011/12	2012/13	2013/14	2014/15	Pension Costs - scheme history	2015/16
<i>£'000</i>	<i>£'000</i>	<i>£'000</i>			<i>£'000</i>
71,023	80,123	81,796	89,524	Fair value of scheme assets	89,917
(118,207)	(129,960)	(134,487)	(156,151)	Present value of scheme liabilities	(150,658)
(47,184)	(49,837)	(52,691)	(66,627)	Surplus/deficit	(60,741)
(3,068)	6,096	3,057	5,490	Return on assets less interest	(1,977)
(34)	(20)	6,031	53	Experience loss/(gain) on defined benefit obligation	14

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2017 is £3.14m.

Included within "experience gains/losses on liabilities" in the table above is a loss of £1.86m (2014/15 £2.02m) relating to unfunded pension liabilities.

Information can also be found in Kent County Council's Pension Funds Annual Report which is available upon request from the Investment Section, Sessions House, County Hall, Maidstone, Kent, ME14 1XQ.

NOTES TO THE CORE FINANCIAL STATEMENTS

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Kent County Council Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, with estimates for the Kent County Council Fund being based on the last full valuation of the scheme as at 31 March 2013.

The main assumptions used in their calculations are shown in the table on the next page. Where actual data is available, the actual rate of increase is also shown.

The discount rate employed is the annualised yield at the 18 year point on the Merrill Lynch AA rated corporate bond curve), at the IAS19 valuation date, in accordance with CIPFA guidance.

Local Government Pension Scheme Assets consist of the following categories, by proportion of the assets held:

2014/15			2015/16	
Assumptions used	Actual		Assumptions used	Actual
%	%		%	%
		Long term expected return on assets		
		Mortality assumptions (years)		
22.80		Longevity at 65 for current pensioners (men)	22.90	
25.20		Longevity at 65 for current pensioners (women)	25.30	
25.10		Longevity at 65 for future pensioners (men)	25.20	
27.60		Longevity at 65 for future pensioners (women)	27.70	
		Other assumptions		
3.20	0.00	RPI increases	3.20	0.00
2.40	(0.80)	CPI increases	2.30	(0.90)
4.20	1.00	Salary increases	4.10	0.90
2.40	(0.80)	Pension increases	2.30	(0.90)
3.30	0.10	Discount rate	3.60	0.40

2014/15		Employer asset share - bid value	2015/16	
£'000	%		£'000	%
61,179	68.40	Equities	59,962	66.69
936	1.00	Gilts	797	0.89
9,958	11.10	Other bonds	9,873	10.98
11,121	12.40	Property	13,062	14.53
2,448	2.80	Cash	2,315	2.57
3,882	4.30	Target return portfolio	3,908	4.34
89,524	100.00	Total	89,917	100.00

NOTES TO THE CORE FINANCIAL STATEMENTS

13.23. Capital Expenditure and Capital Financing

In addition to utilising revenue funds in providing services to the public, the Council spends money procuring and maintaining the assets it needs to provide those services. The table below shows the total amounts incurred for the year together with the sources of finance and the authority's reduced borrowing requirement.

2014/15	Capital Expenditure and Financing	2015/16
£'000		£'000
110,658	<i>Opening Capital Financing Requirement</i>	108,471
	Capital Investment	
11,704	Property, Plant and Equipment	10,419
27	Heritage Assets	0
6	Intangible Assets	0
806	Revenue Expenditure Funded from Capital under statute	431
<u>12,543</u>		<u>10,850</u>
	Sources of Finance	
(877)	Capital Receipts	(1,072)
(383)	Government grants and contributions (received in year)	(602)
(3,689)	Application of Reserves	(5,923)
<u>(4,949)</u>		<u>(7,597)</u>
	Sums set aside from revenue	
(7,594)	Direct revenue contributions	(3,253)
(2,187)	Minimum revenue provision (MRP)	(2,706)
<u>(9,781)</u>		<u>(5,959)</u>
<u>108,471</u>	<i>Closing Capital Financing Requirement</i>	<u>105,765</u>
	Explanation of movements in year	
	<i>Decrease in underlying need to borrowing</i>	
(2,187)	(unsupported by Government financial assistance)	(2,706)
<u>(2,187)</u>	Decrease in Capital Financing Requirement	<u>(2,706)</u>

13.24. Contingent Assets

VAT claim on Royal Mail Postal Services

The Council is one of a number of local authorities who have jointly lodged a Group Litigation Order with the High Court in respect of embedded VAT paid on postal services provided by the Royal Mail since 1973.

13.25. Contingent Liabilities

The Council has identified no potential Contingent Liabilities at the time of preparing the balance sheet.

13.26. Financial Instruments and Financial Risks

(a) Financial Instruments – Classifications

The requirements for accounting for financial instruments are based on IFRS 7 and IFRS 9. The 2010 Code of Practice notes that where they continue to be relevant, the transitional provisions of the UK standards adopted by the 2007 SORP remain.

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’.

The term ‘financial instrument’ covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives. Typical financial instruments are shown in the next table.

Liabilities	Assets
Trade payables and other payables	Bank deposits
Borrowings	Trade receivables
Financial guarantees	Bank deposits
	Other receivables and advances
	Investments

Some types of financial instruments covered by IAS 39 are not covered by the Code because they are not relevant to entities that do not issue equity instruments. These are shown below and are covered in more detail elsewhere in the Council’s Statement of Accounts:-

- Rights and obligations under leases,
- Employers’ rights and obligations under pension schemes and
- Joint ventures

Balances in money market funds and call accounts at 31 March 2016 are shown under ‘cash and cash equivalents’ in the Balance Sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of changes in value.

NOTES TO THE CORE FINANCIAL STATEMENTS

Financial Instruments – Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

Financial Instruments - Balances	Long-term		Short-term	
	31st March 2015	31st March 2016	31st March 2015	31st March 2016
	£'000	£'000	£'000	£'000
Financial liabilities (principal amount)	(104,772)	(101,667)	(2,597)	(3,114)
Financial liabilities (interest amount)	0	0	(278)	(278)
LAMS (KCC contribution)	(1,000)	(1,000)	0	0
Total borrowings	(105,772)	(102,667)	(2,875)	(3,392)
Total creditors	0	0	(5,767)	(3,351)
Cash overdrawn	0	0	(1,240)	0
Financial Guarantees	(4)	(2)	0	0
Total financial liabilities	(105,776)	(102,669)	(9,882)	(6,743)
Loans and receivables	20	20	18,095	22,550
LAMS (Lloyds deposit)	2,000	2,000	0	0
Available-for-sale financial assets	0	0	7,007	13,047
Total investments	2,020	2,020	25,102	35,597
Cash In Hand	0	0	0	524
Loans and receivables	11	7	0	0
Financial assets carried at contract amounts	0	0	8,601	7,797
Soft loans provided	292	302	0	0
Total financial assets	2,323	2,329	33,703	43,918

Under accounting requirements the carrying value of the financial instrument value is shown in the Balance Sheet which includes the principal amount borrowed or lent.

Fair value has been measured by:

- Direct reference to published price quotations in active market; and/or
- Estimating using a valuation technique.

The Council provides a financial guarantee in respect of the Local Authority Mortgage Scheme, which has been recognised at fair value. Subsequently this is measured at the higher of the amount recognised initially and the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Assets less when appropriate cumulative amortisation. Therefore, the carrying amount of the financial guarantee would remain at the original amount estimated at inception (less amortisation) unless payment under the guarantee becomes probable at which point the amount of the liability will be determined in accordance with IAS 37. See also note 13.14.3 for cross-referencing.

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council made no further loans to private sector residents during 2015/16. The balance of the outstanding soft loans is detailed below:

2014/15	Financial Instruments - Soft loans	2015/16
£'000		£'000
282	Opening balance	292
(6)	Loan repayments	(7)
16	Fair value adjustment	17
0	Increase in the discounted amount	0
292	Balance carried forward	302
292	Nominal value carried forward	302

(b) Financial Instruments Gains/Losses

The gains/losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

Financial Instruments - Gains/losses	Financial liabilities measured at amortised cost	Financial assets Loans and receivables	Total
	£'000	£'000	£'000
Interest expense	(3,285)	0	(3,285)
Debt Impairment Provision	(6,959)	0	(6,959)
Interest income	0	271	271
Increase in fair value	0	0	0
Total expense/income in the Surplus/Deficit on the Provision of Services	(10,244)	271	(9,973)
Gains on revaluation	0	17	17
Revaluation surplus in Other Comprehensive Income and Expenditure	0	17	17
Total financial assets	(10,244)	287	(9,956)

NOTES TO THE CORE FINANCIAL STATEMENTS

(c) Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments.

The fair values calculated are as follows:

Carrying amount 2014/15	Fair value 2014/15	Financial Instruments - Fair values of liabilities	Carrying amount 2015/16	Fair value 2015/16
£'000	£'000		£'000	£'000
(405)	(423)	PWLB debt (EIP loan)	(324)	(338)
(98,955)	(101,824)	PWLB debt (Maturity loan)	(96,448)	(100,891)
(8,000)	(10,931)	LGS Investment plc	(8,000)	(10,597)
(8)	(8)	Other short term borrowing	(9)	(9)
(5,767)	(5,767)	Short term creditors	(3,351)	(3,351)
(1,000)	(1,000)	LAMS (KCC contribution)	(1,000)	(1,000)
(114,135)	(119,953)	Total	(109,132)	(116,186)

There are two options for assessing the fair value of the PWLB loans, using either the rate available for new borrowing or the early redemption rate. The fair values of the PWLB loans in the table above have been determined using the rate available for new borrowings.

The fair value of liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

Carrying amount 2014/15	Fair value 2014/15	Financial Instruments - Fair values of assets	Carrying amount 2015/16	Fair value 2015/16
£'000	£'000		£'000	£'000
9,095	9,095	Money Market Loans < 1 year	14,550	14,550
9,000	9,000	Investments	8,000	8,000
20	20	Long term Investments	20	20
7,000	7,007	Available for sale Investments	13,000	13,047
2,000	2,000	LAMS Deposit	2,000	2,000
303	303	Long term debtors	7	7
8,601	8,601	Short term debtors	7,797	7,797
36,019	36,026	Total	45,374	45,421

The differences are attributable to fixed interest instruments receivable being held by the authority whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of loans and receivables.

(d) Disclosure of nature and extent of risk arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit risk,
- Liquidity, Refinancing and Maturity risk,
- Interest rate risk,
- Price risk,

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003. The Council complied with the CIPFA Prudential Code and the CIPFA Code of Treasury Management in the Public Services and investment guidance issued through the Act by approving the annual treasury management strategy on 24 February 2015.

Credit risk

Credit risk arises from deposits with banks and financial institutions (counterparties), as well as credit exposure to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's, and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied.

This Council uses the creditworthiness service provided by Capita Asset Services. This service uses a sophisticated modelling approach with credit ratings from all those three agencies mentioned above forming the core element. However, it does not rely solely on the current ratings of counterparties but also uses the following overlays:

- Credit watches and credit outlooks from credit rating agencies,
- CDS spreads to give early warning of likely changes in credit ratings,
- Sovereign ratings to select counterparties from only the most creditworthy countries.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Authority's maximum exposure to credit risk in relation to its investment in banks and building societies is £5m, subject to this not constituting more than 20% of the overall investment balances of the Council at the time of placing such investments and at no point more than 25% of the overall investment balance held, cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at 31 March 2016 that this was likely to crystallise.

NOTES TO THE CORE FINANCIAL STATEMENTS

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect and losses from non-performance by any of its counterparties in relation to deposits and bonds.

Collateral – During the reporting period the council held no collateral as security.

Liquidity, Refinancing and Maturity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a cash flow management, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The maturity analysis of financial liabilities, excluding sums due from customers, is as follows:

2014/15		2014/15		Financial Instruments - maturity analysis of liabilities		2015/16		2015/16	
£'000		%				£'000		%	
(2,596)	2.40	Less than 1 year		(3,114)	2.94%				
(3,105)	2.87	Between 1 and 2 years		(4,585)	4.34%				
(13,586)	12.54	Between 2 and 5 years		(22,419)	21.19%				
(45,743)	42.20	Between 5 and 10 years		(42,008)	39.71%				
(43,338)	39.99	More than 10 years		(33,655)	31.82%				
<u>(108,368)</u>	<u>100.00</u>	Total		<u>(105,781)</u>	<u>100.00</u>				

Interest rate risk

All borrowings held by the Council are at a fixed interest rate and therefore is only exposed to interest rate movements on its investments.

The interest rates have remained static and at historically low levels over the last couple of years, the Council remains exposed to risk due to potential movements in interest rates. If all interest rates had been 1% higher (with all other variables held constant), the financial effect on investment income has been estimated as an increase of £393,787.

The approximate impact of a 1% fall in interest rates would be as above but with the movements reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost.

Price risk

The Council holds only minimal investments in UK Government bonds and therefore is not exposed to any significant gains or losses arising from movements in the price of these bonds. As at 31 March 2016, these bonds were valued at cost at £413.

NOTES TO THE CORE FINANCIAL STATEMENTS

13.27. Leasing

The requirements of the IFRS reporting standards impact significantly on the Council's leasing arrangements. The Council has undertaken a detailed review of the leases operated by the Council for both Vehicles Plant and Equipment and for Land and property as both lessee and lessor. The existing lease registers satisfy the requirements of IFRS both in representing this document and for future assessment and management of the lease portfolio.

Finance Leases

At 31 March 2016, the Council had not entered into any finance leases relating to the procurement of those non-current assets held on the Balance Sheet.

Operating Leases

The Council uses operating leases to acquire officer and fleet vehicles, computer hardware and printing equipment. The amount paid under these arrangements in 2015/16 was £203,000 (2014-15, £318,000).

The future cash payments required under these leases are payable as follows:

	Land and property	Vehicles, plant and equipment
	£'000	£'000
Amount payable next year	64	157
Amounts payable 2-5 years	158	267
Amount payable 6+	41	0
Total	263	424

An analysis of the operating lease payments that the Authority is committed to make in the next financial year analysed between those leases that will expire in the next year, in the second to fifth subsequent years, and from the sixth subsequent year onwards:

	Land and property	Vehicles, plant and equipment
	£'000	£'000
Expiring next year	26	80
Expiring 2-5 years	0	80
Expiring 6+	38	0
Total	64	160

NOTES TO THE CORE FINANCIAL STATEMENTS

Disclosure as a Lessor

The Council acts as a lessor on a portfolio of commercial properties for which rentals for 2015/16 amounted to £1.04m (2014-15 £1.08m). The net book value of these assets within the Balance Sheet is £12.8m (2014-15 £10.3m).

Property	Income 2014/15	Income 2015/16	Balance Sheet value	Depreciation
	£'000	£'000	£'000	£'000
Imperial	0	1	0	0
Springhead	259	331	4,600	0
Miscellaneous	136	116	0	0
Stonebridge Road	22	9	250	0
Shops	313	258	2,130	42
Norfolk Road	150	134	2,900	0
St Georges	195	195	3,000	0
Total	1,075	1,044	12,880	42

The future cash receipts expected over the full life of the leases are as follows:

	Land and property
	£'000
Amounts receivable next year 2016/17	903
Amounts receivable 2-5 years	3,263
Amounts receivable 6+	27,459
Total	31,625

An analysis of the operating lease sums receivable that the Authority is expected to receive in the next financial year analysed between those leases that will expire in the next year, in the second to fifth subsequent years, and from the sixth subsequent year onwards:

	Land and property
	£'000
Amounts receivable next year	33
Amounts receivable 2-5 years	160
Amounts receivable 6+	710
Total	903

13.28. Trust Funds

The Council currently administers five trust funds, all of which are registered charities. In none of these cases does the Council act as sole trustee.

The charities vary in nature and relate principally to legacies left by individuals. These funds do not represent assets of the Council and consequently have not been included in the Balance Sheet. Funds are invested in external marketable securities and on short-term deposit, either with Banks or Building Societies or with the Council itself.

The principal fund is the Bonham Hayes Fund established for the relief of poverty in the Parish of Cobham. It had net assets as at 31 March 2016 of £78,680 and in 2015/16 gross income and expenditure were £2,850 and £1,820 respectively. The remaining four funds had a total fund balance of £1,160.

Supplementary Financial Statements

HOUSING REVENUE ACCOUNT

2014/15	Housing Revenue Account	2015/16
£'000		£'000
	Expenditure	
7,935	Repairs and maintenance	8,153
5,369	Supervision & management	5,574
146	Rents, rates, taxes and other charges	160
	Depreciation of assets	
4,784	- dwellings	5,492
188	- non-dwellings	161
85	Amortisation of Intangible assets	87
(31,389)	Exceptional item - impairment reversal of Council dwellings	(13,594)
47	Debt management costs	47
89	Provision for bad & doubtful debts	(25)
(12,746)		6,055
	Income	
(25,875)	Dwelling rents	(26,438)
(502)	Non-dwelling rents	(703)
(1,563)	Charges for service & facilities	(1,702)
(267)	Contribution towards expenditure (Supporting people)	(273)
(128)	Other income	(28)
(28,335)		(29,144)
(41,081)	Net cost of HRA Services as included in the Comprehensive Income & Expenditure Statement	(23,089)
53	HRA Service share of Corporate & democratic core	42
(41,028)	Net income for HRA Services	(23,047)
(2,395)	Gain or loss on the sale of HRA non-current assets	(1,346)
	Derecognition of non-current assets	(11)
2,940	Interest payable and similar charges	2,893
(11)	Interest and investment income	(33)
300	Net pension interest	330
(40,194)	(Surplus)/deficit for the year on HRA Services	(21,214)

The HRA Income and Expenditure Account shows the Income and Expenditure on HRA services included in the whole authority Income and Expenditure Account.

This reconciliation statement summarises the differences between the outturn on the HRA Income and Expenditure Accounts and the HRA Balance.

HOUSING REVENUE ACCOUNT

2014/15	Housing Revenue Account Balance	2015/16
<i>£'000</i>		<i>£'000</i>
(3,852)	Balance brought forward at 1 April	(3,000)
(40,194)	(Surplus) or Deficit for the Year on the HRA Income & Expenditure	(21,214)
40,764	Adjustments between accounting basis and funding basis under statute	19,641
570	Net (increase) or decrease before transfers to or from reserves	(1,573)
282	Transfer to/(from) earmarked reserves	1,573
852	Total (increase)/decrease	0
(3,000)	Balance carried forward at 31 March	(3,000)

14. NOTES TO THE HOUSING REVENUE ACCOUNT

The notes that follow have been provided in support of the Housing Revenue Account. Some are detailed breakdown of figures presented on the statements whilst others give additional information provided for disclosure purposes.

14.1. General

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the movement on the Housing Revenue Account Statement

14.2. Housing Stock

As at 31 March 2016, the Council had 5,694 dwellings (2014/15, 5,712). This represents a net reduction in Council housing stock of 18 properties during 2015/16, as a result of the sale of 32 properties under the Right-to-buy scheme and 14 new build properties

A profile of the age and type of dwellings held is set out below:

HRA Housing stock					
	Pre 1919	1919-44	1945-64	Post 1964	Total HRA assets
Flats					0
- 1 bedroom	0	18	472	1,278	1,768
- 2 bedrooms	0	0	149	292	441
- 3 bedrooms	0	0	102	232	334
Houses & bungalows					0
- 1 bedroom	0	18	67	104	189
- 2 bedrooms	16	144	347	200	707
- 3 bedrooms	3	793	959	275	2,030
- 4 bedrooms	0	116	93	16	225
Total	19	1,089	2,189	2,397	5,694

HOUSING REVENUE ACCOUNT

14.3. HRA Non-Current Assets

The opening and closing Balance Sheet values for HRA non-current assets are shown below:

HRA Non-current assets							
	Operational Assets			Non-Op Assets			Total HRA assets
	Council Dwellings	Other Land & Buildings	Assets Under Construction	HRA Non Op Land & Build	Vehicles, Plant & Equipment	Intangible assets	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
As at 1 April 2015	261,876	4,608	468	20	189	432	267,593
Additions	7,190	0	2,233	0	0	0	9,423
Revaluation increases/decreases recognised in Revaluation Reserve	0	(17)		0			(17)
Revaluation increases/(decreases) recognised in Surplus/Deficit on Provision of Services	8,127	0		0			8,127
Derecognition - Disposals	(1,638)	0		0	0	0	(1,638)
Other movements in cost or valuation	0	10	26	0	0	0	36
As at 31 March 2016	275,555	4,601	2,727	20	189	432	283,524
Accumulated Depreciation and Impairments							
As at 1 April 2015	0	(634)	0	(19)	(124)	(302)	(1,079)
Depreciation Charge for year	(5,492)	(149)		0	(12)	(87)	(5,740)
Accumulated depreciation written out to the Revaluation Reserve	0	46		0			46
Accumulated depreciation written out to the (Surplus)/Deficit on the Provision of Services	5,492	8		0			5,500
Impairment (losses)/reversals recognised in the Revaluation Reserve	0	0		0			0
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	0	(33)		0			(33)
Accumulated depreciation and impairment written out on disposal	0	0		0			0
Reclassifications	0	0		0	0	0	0
Other movements in depreciation and impairment	0	0	0	0	0	0	0
As at 31 March 2016	0	(762)	0	(19)	(136)	(389)	(1,306)

Net Book Value							
At 31 March 2016	275,555	3,839	2,727	1	53	43	282,218
At 1 April 2015	261,876	3,974	468	1	65	130	266,514

HOUSING REVENUE ACCOUNT

HRA Non-current assets							
	Operational Assets			Non-Op Assets			Total HRA assets
	Council Dwellings	Other Land & Buildings	Assets Under Construction	HRA Non Op Land & Build	Vehicles, Plant & Equipment	Intangible assets	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
As at 1 April 2014	228,120	3,257	77	35	189	426	232,104
Additions	8,941	0	391	0	0	6	9,338
Revaluation increases/decreases recognised in Revaluation Reserve	0	1,351	(391)	(15)	(189)	(6)	1,336
Revaluation increases/(decreases) recognised in Surplus/Deficit on Provision of Services	0	0	0	0	0	0	0
Derecognition - Disposals	(1,790)	0	0	0	0	0	(1,790)
Other movements in cost or valuation	26,605	0	0	0	0	0	26,605
As at 31 March 2015	261,876	4,608	468	20	189	432	267,593
Accumulated Depreciation and Impairments							
As at 1 April 2014	0	(754)	0	(19)	(109)	(217)	(1,099)
Depreciation Charge for year	(4,784)	(173)	0	0	(15)	(85)	(5,057)
Accumulated depreciation written out to the Revaluation Reserve	0	262	0	0	0	0	262
Impairment (losses)/reversals recognised in the Revaluation Reserve	4,784	31	0	0	0	0	4,815
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	26,605	0	0	0	0	0	26,605
Other movements in depreciation and impairment	(26,605)	0	0	0	0	0	(26,605)
As at 31 March 2015	0	(634)	0	(19)	(124)	(302)	(1,079)
Net Book Value							
At 31 March 2015	261,876	3,974	468	1	65	130	266,514
At 1 April 2014	228,120	2,503	77	16	80	209	231,005

The total net book value of HRA non-current assets as at 31 March 2016 is £282.22m (£266.51m at 31st March 2015). Within this, the HRA has intangible assets in the form of computer systems valued at £0.04m as at 31 March 2016 (£0.13m at 31 March 2015).

For 2015/16, depreciation and amortisation against the HRA was £5.74m. Depreciation in respect of Council dwellings in 2015/16 was £5.49m (2014/15, £4.78m) and is a real charge to the HRA. A revaluation gain of £8.13m (2014/15 £26.61m) has arisen from a revaluation of the HRA stock values.

HOUSING REVENUE ACCOUNT

14.4. Vacant Possession Value of HRA Dwellings

Every five years an external valuation of the housing stock is carried out. The most recent full valuation was as at 31 March 2016. As a result of this the Council dwellings had a market valuation of £861.11m. However, a regional adjustment factor of 32% is applied to this valuation to reflect the fact that Local Authority housing is let at sub-market rents and to give a valuation on the basis of Existing Use Value for Social Housing (EUV-SH). After applying the regional adjustment factor, the valuation of Council dwellings is £275.56m as at 31 March 2016.

14.5. Major Repairs Reserve

This reserve provides resources for capital investment on the Council's housing stock and is funded by depreciation charges on non-current tangible assets. Amortisation on non-tangible assets has not been transferred into the MRR.

2014/15	Major Repairs Reserve	2015/16
£'000		£'000
	Amount transferred in year	
(4,784)	- Dwellings	(5,492)
(188)	- Non-dwellings	(168)
3,689	Amount utilised in capital financing	5,923
<u>(1,283)</u>	Total (increase)/decrease	<u>263</u>
(107)	Balance brought forward at 1 April	(1,390)
(1,283)	Movement in year	263
<u>(1,390)</u>	Balance carried forward at 31 March	<u>(1,127)</u>

14.6. Financing of HRA Capital Expenditure

Capital expenditure of £9.42m (2015/16, £9.34m) on HRA assets was financed as follows:

2014/15	HRA Financing of capital expenditure	2015/16
£'000		£'000
	Capital expenditure	
9,332	Dwellings	9,423
6	Non-dwellings	0
<u>9,338</u>		<u>9,423</u>
	Financed by	
(267)	Capital receipts	(804)
(3,689)	Major Repairs Reserve	(5,923)
(5,382)	Funded from revenue	(2,696)
<u>(9,338)</u>		<u>(9,423)</u>

HOUSING REVENUE ACCOUNT

14.7. Capital Receipts

Capital receipts are sums received in respect of the disposal of any interest in an asset. The use of capital receipts is restricted by a general requirement to pool a proportion of these.

An analysis of the total HRA capital receipts received during 2015/16 is shown in the next table:

2014/15	HRA Capital receipts	2015/16
£'000		£'000
Receipts for the year		
(3,419)	Sale of Council Dwellings	(2,984)
(4)	Principal repayment for mortgages	(4)
(766)	Overage from Christian fields	0
(4,189)		(2,988)
Use of receipts		
468	Paid to Housing Capital Receipts Pool	535
267	Capital financing - HRA schemes	0
368	Capital financing - other schemes	26
2,704	Transfer to Earmarked Reserves	2,966
3,807		3,527
(998)	Balance brought forward	(1,380)
(1,380)	Total unapplied capital receipts held	(841)

14.8. Movement on Pensions Reserve

In accordance with Accounting Policy 12.23, the Net Cost of Services has been adjusted to reflect the cost of pensions in accordance with IAS 19 'Employee Benefits'. The adjustment is £0.33m in respect of current and past service cost for 2015/16. However this was reversed out to the Pensions Reserve so that there was no impact on the HRA.

14.9. Dwelling Rents

This item includes all rent rebates granted by the Council to HRA tenants but excluding rental income in respect of empty properties. To comply with the Government's policy on rent restructuring and the Supporting People Programme, the Council has 'un-pooled' charges for services that were previously included as part of the tenants' rents.

HOUSING REVENUE ACCOUNT

14.10. Rent and Service Charge Arrears

At the end of the year, arrears as a proportion of gross rent and service charge income for current and former tenants had decreased to 4.34% (2014/15, 5.55%). The arrears for current tenants and former tenants is shown in the table below together with the amounts written off and provided for during the year, for bad and doubtful debts.

31st March 2015	HRA Rent and service charges arrears	31st March 2016
£'000		£'000
1,157	Current tenant arrears	950
(580)	Rents paid in advance	(579)
1,044	Former tenant arrears	1,015
<u>1,621</u>		<u>1,386</u>
(1,309)	Provision for bad debts	(1,163)
(94)	Rent arrears written off	(120)

14.11. Charges for Services and Facilities

The total income accounted for during the year is set out below:

2014/15	HRA Charges for services	2015/16
£'000		£'000
(1,075)	Service charges - tenants	(1,083)
(149)	Service charges - leaseholders	(209)
(339)	Support charges	(410)
<u>(1,563)</u>		<u>(1,702)</u>

14.12. Contribution towards Expenditure

This reflects grant monies received from Kent County Council in respect of the Supporting People Programme (£0.27m) and two grants from DCLG (£0.01m) for expenditure incurred regarding stock number, void properties and installation of smoke alarms.

14.13. HRA Interest payable & Investment Income

This item is the HRA's share of income derived from investments, mortgages and interest on notional cash balances.

The interest payable is on the loan taken out by the HRA for self-financing.

14.14. Further Information

The Authority is required to provide tenants with further information about housing activities, and copies of this information are available from Gravesham Housing, Civic Centre, Windmill Street, Gravesend, Kent, DA12 1AU.

COLLECTION FUND

2014/15			Income and Expenditure Account	2015/16		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£'000	£'000	£'000		£'000	£'000	£'000
			Income			
	(47,251)	(47,251)	Council Tax Income		(49,394)	(49,394)
(23,730)		(23,730)	Business Rates Income	(24,705)		(24,705)
			Transitional Relief	(39)	0	(39)
(23,730)	(47,251)	(70,981)	Total Business Rates/Council Tax	(24,744)	(49,394)	(74,138)
			Apportionment of previous year's Collection Fund deficit:			
(248)	(35)	(283)	Gravesham Borough Council	(646)	(53)	(699)
(56)	(212)	(268)	Kent County Council	(145)	(304)	(449)
	(29)	(29)	Kent Police & Crime Commissioner		(41)	(41)
(6)	(14)	(20)	Kent Fire & Rescue Service	(16)	(20)	(36)
(311)		(311)	Central Government	(808)		(808)
(24,351)	(47,541)	(71,892)	Total Income	(26,359)	(49,812)	(76,171)
			Expenditure			
			Precepts, Demands and Shares			
8,749	5,980	14,729	Gravesham Borough Council	9,370	6,025	15,395
1,968	34,415	36,383	Kent County Council	2,108	34,695	36,803
	4,646	4,646	Kent Police & Crime Commissioner		4,684	4,684
219	2,232	2,451	Kent Fire & Rescue Service	234	2,249	2,483
10,936		10,936	Central Government	11,712		11,712
21,872	47,273	69,145		23,424	47,653	71,077
			Charges to Collection Fund			
2	56	58	Amounts written off	0	5	5
661	598	1,259	Increase (-) /Decrease in Bad Debt Provision	(504)	854	350
2,802		2,802	Increase (-) /Decrease in Provision for Appeals	1,232		1,232
97		97	Cost of Collection	97		97
117		117	Transitional protection			0
3,679	654	4,333		825	859	1,684
1,200	386	1,586	Surplus / (Deficit) arising during the year	(2,110)	(1,300)	(3,410)
1,640	49	1,689	Surplus / (Deficit) b/fwd 1st April	2,840	435	3,275
2,840	435	3,275	Surplus / (Deficit) c/fwd 31st March	730	(865)	(135)

15. NOTES TO THE COLLECTION FUND

The notes that follow have been provided in support of the Collection Fund. Some are detailed breakdown of figures presented on the statements whilst others give additional information provided for disclosure purposes.

15.1. General

This account represents the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Business Rates, Council Tax and the distribution to the major preceptors and the General Fund. The account is consolidated with other accounts of the Council.

15.2. Council Tax

The Council's tax base (i.e. the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings) for 2015/16 was approved on 30 January 2015 as follows:

Band	2014/15			2015/16		
	<i>Estimated Number of properties (Net of exemptions, discounts & reliefs) (a)</i>	<i>Multipliers (b)</i>	<i>Band D equivalents properties (a x b)</i>	<i>Estimated Number of properties (Net of exemptions, discounts & reliefs) (c)</i>	<i>Multipliers (d)</i>	<i>Band D equivalents properties (c x d)</i>
A with disabled relief	2.00	5 /9	1.11	2.00	5 /9	1.11
A	2,207.70	6 /9	1,471.83	1,864.29	6 /9	1,242.86
B	4,905.70	7 /9	3,815.58	4,705.66	7 /9	3,659.96
C	11,406.40	8 /9	10,139.03	11,244.60	8 /9	9,995.20
D	8,279.70	9 /9	8,279.67	8,314.47	9 /9	8,314.47
E	4,048.20	11 /9	4,947.86	4,099.92	11 /9	5,011.01
F	1,831.30	13 /9	2,645.21	1,846.07	13 /9	2,666.55
G	932.80	15 /9	1,554.67	950.31	15 /9	1,583.85
H	87.50	18 /9	175.00	85.75	18 /9	171.50
Tax Base before Council Tax Support			33,029.96			32,646.51
Estimated Collection Rate			97.5%			97.5%
Council Tax Base			32,204.20			31,830.34

The tax rate per Band D property, excluding Parish Council precepts, was £1,489.50 (2014/15, £1,460.44).

COLLECTION FUND

15.3. Income from Business Ratepayers

The Council collects Business Rates from businesses in the borough, based on local rateable values multiplied by a national uniform rate (multiplier). On the 1 April 2013, a system of locally retained business rates was introduced by the government, replacing the former central pooling method of redistribution. The total non-domestic rateable value for the borough at 31 March 2016 was £62.51m (31 March 2015 £62.30m). The respective multipliers for the year were 49.3p (non-domestic rating multiplier) and 48.0p (small business non-domestic rating multiplier) per £ of rateable value.

15.4. Collection Fund Surplus/Deficit

The Council is required to estimate by 15 January the amount of the surplus/deficit on the Collection Fund for the financial year in respect of Council Tax, and with effect from this financial year, Business Rates. The estimated surplus/deficit on each fund is shared the following year between the relevant preceptors in proportion to the value of their respective precepts. Each of the major preceptors' shares of the surplus/deficit is shown in the table below.

Collection Fund Surplus/deficit 2015/16						
	Gravesham Borough Council	Kent County Council	Kent Police & Crime Com- missioner	Kent Fire & Rescue Service	Central Govern- ment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Council Tax						
(Surplus)/deficit brought forward	55	317	43	20		435
(Surplus)/deficit for year	(164)	(947)	(128)	(61)		(1,300)
(Surplus)/deficit carried forward	(109)	(630)	(85)	(41)		(865)
Business Rates						
(Surplus)/deficit brought forward	1,136	256		28	1,420	2,840
(Surplus)/deficit for year	(844)	(190)		(21)	(1,055)	(2,110)
(Surplus)/deficit carried forward	292	66		7	365	730

Collection Fund Surplus/deficit 2014/15						
	Gravesham Borough Council	Kent County Council	Kent Police & Crime Com- missioner	Kent Fire & Rescue Service	Central Govern- ment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Council Tax						
(Surplus)/deficit brought forward	6	36	5	2		49
(Surplus)/deficit for year	49	281	38	18		386
(Surplus)/deficit carried forward	55	317	43	20		435
Business Rates						
(Surplus)/deficit brought forward	656	148		16	820	1,640
(Surplus)/deficit for year	480	108		12	600	1,200
(Surplus)/deficit carried forward	1,136	256		28	1,420	2,840

15.5. Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from council taxpayers and ratepayers compared with the statutory arrangements for paying amounts across to the General Fund from the Collection Fund.

2014/15	Collection Fund Adjustment Account	2015/16
£'000		£'000
49	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax Income calculated for the year in accordance with statutory requirements	(164)
480	Amount by which non-domestic rate income credited to the Comprehensive Income and Expenditure Statement is different from Non-domestic Rate Income calculated for the year in accordance with statutory requirements	(844)
529	Total increase/(decrease) in Collection Fund Adjustment Account	(1,008)
662	Balance brought forward at 1 April	1,191
529	Movement in year	(1,008)
1,191	Balance carried forward at 31 March	183

16. ANNUAL GOVERNANCE STATEMENT

16.1. Scope of Responsibility

- 14.1.1. Gravesham Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 14.1.2. In discharging this overall responsibility, Gravesham Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 14.1.3. Gravesham Borough Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code can be obtained from the Corporate Performance Team and is also available on the council's website at:
www.gravesham.gov.uk/services/council-and-democracy/corporate-governance
- 14.1.4. This statement explains how Gravesham Borough Council has complied with the code during 2015/16 and also meets the requirements of regulation 4(3) of the Accounts and Audit (England) Regulations 2011 in relation to the preparation of an Annual Governance Statement.

16.2. The Purpose of the Governance Framework

- 14.1.5. The governance framework comprises the systems and processes, and cultures 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 corporate objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 14.1.6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 14.1.7. The governance framework has been in place at Gravesham Borough Council for the year ended 31 March 2016 and up to the date of the approval of the Statement of Accounts.
- 14.1.8. In order to secure corporate ownership of its contents, this Annual Governance Statement was considered by the council's Corporate Management Team on 31 May 2016 before being approved by Members of the Finance & Audit Committee on 16 June 2016.

16.3. The Governance Framework

14.1.9. The policy setting and decision making process of the council is set out in Gravesham Borough Council's Constitution. The Full Council is the ultimate decision-making body of the council. The Cabinet is responsible for most day-to-day decisions within the policy framework which are subject to scrutiny by the Overview Scrutiny Committee whose role includes the examination of decisions made by Cabinet. The Constitution also contains details of the council's internal financial control framework, including comprehensive contract procedure rules, financial procedure rules and the scheme of delegation. During 2015/16, work continued to review the Constitution to further strengthen the councils financial control framework and reflect amendments to the council's decision making processes.

14.1.10. As required by the Local Government and Housing Act 1989, the council has appointed a Monitoring Officer for the council and this role is fulfilled by the Assistant Director (Governance and Law). The role of the Monitoring Officer includes ensuring the lawfulness and integrity in the operation of the council's decision-making processes, supporting the work of the Standards Committee and the investigation and reporting on issues that embrace all aspects of the council's functions.

Strategic Planning

14.1.11. The council has in place a clear statement of the organisation's purpose and its vision for the borough. To work towards this vision and ultimately deliver relevant outcomes for local residents, the council's Corporate Plan 2015-19 sets out four clear strategic objectives each supported by a series of policy commitments:

- **Safer Gravesham:** *where local residents and visitors can live, work and travel in a safe, clean and green borough;*
- **Stronger Gravesham:** *a healthier more cohesive community where children have the best start in life and people are proud to call home;*
- **Sustainable Gravesham:** *a thriving and sustainable local economy, built on the foundations of high quality regeneration and development projects; and*
- **Sound and self-sufficient council:** *a well-run and innovative council supporting its staff to realise commercial opportunities whilst transforming its services to deliver at the best possible value for money.*

14.1.12. The Corporate Plan was adopted into the council's Policy Framework, as defined by the Constitution, by Full Council in October 2015.

14.1.13. It is the Elected Members of the council who are ultimately responsible for the delivery of the council's corporate objectives. The council has strong communication channels between Members and officers and this has continued in 2015/16. Meetings are regularly held between officers and Members to discuss specific issues relating to individual portfolios.

- 14.1.14. Whilst the Elected Members are responsible for the delivery of council objectives, individual council departments have a key role in the delivery of those objectives. Effective communication within departments and across departments has continued to be supported through the Wider Management Team, consisting of the Chief Executive, Directors, Assistant Directors and Service Managers to help ensure consistent delivery of corporate messages.
- 14.1.15. Departmental business plans identify how the operational work of each department contributes to the achievement of the corporate objectives.

Transparency

- 14.1.16. The Government maintains a commitment to increasing transparency across Whitehall and local authorities in order to make data more readily available to residents and allow them to hold service providers to account.
- 14.1.17. As a publicly funded organisation, Gravesham Borough Council is committed to openness and accountability in the way the council operates. The council has published a series of datasets in line with the Local Government Transparency Code 2015 including; senior staff salaries, organisation chart, council spending to suppliers (over £500), details of new contracts and has also adopted a Pay Policy Statement.

Performance Management

- 14.1.18. The council's corporate objectives are cascaded down through departmental business plans and individual employee appraisals and action plans to help ensure that the council as a whole is aware of and is working towards the achievement of those objectives.
- 14.1.19. The council has in place a Performance Management Framework (the framework) to standardise the mechanisms for managing performance against the Corporate Plan objectives and operational targets. The framework is also used to help ensure compliance with established policies and procedures through discussion of service issues and the consideration of external reviews and Internal Audit reviews carried out within service areas.
- 14.1.20. The framework establishes performance management meetings between Cabinet Portfolio holders, Directors, Assistant Directors and Service Managers. These meetings are intended to focus attention on the achievement of objectives through action planning, the consideration of risk, monitoring and review as well as supporting the economical, effective and efficient use of resources.
- 14.1.21. The framework enables performance to be measured periodically against the suite of performance measures introduced by the Corporate Plan and other operational performance indicators. This identifies areas of good performance as well as enabling action to be taken on areas of poor or falling performance.
- 14.1.22. The council has sound performance reporting procedures for Members. The Cabinet receive quarterly performance reports across the full suite of performance measures and indicators. In addition, each of the Cabinet Committees receives regular reports on progress against the corporate objectives and performance indicators that fall within the remit of the committee.

Risk

- 14.1.23. The Council has a Risk Management Strategy which continues to be reviewed and updated each year (as required) to reflect any future changes in the councils risk management arrangements. The strategy was most recently reviewed during 2015/16 and was found to be fit for purpose and therefore no amendments were made to the strategy that was presented to the Cabinet on 2 April 2013. The Risk Management Strategy sets out the approach that has been adopted for identifying, evaluating, managing and recording risks to which the council is exposed.
- 14.1.24. In preparing the council's Corporate Risk Register a thorough review of the risks already identified by the council is undertaken by senior officers of the council with consideration given to the identification of potential new risks. Progress made against any action required in relation to the risks identified in the Corporate Risk Register is reported to the council's Corporate Management Team for review.

Finance

- 14.1.25. Section 151 of the Local Government Act 1972 requires a council to ensure that one of their officers has responsibility for the proper administration of its financial affairs. During 2015/16, this responsibility was held between April and December 2015 by Assistant Director (Finance) and from January 2016 by the Director (Corporate Services) with a Deputy Section 151 officer also appointed - Assistant Director (Corporate Services). Directors, Assistant Directors and Service Managers are responsible for the financial management of service areas within the council, which includes the monitoring of financial performance against budget.
- 14.1.26. The council's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework.
- 14.1.27. The council has in place a 10-year Medium-Term Financial Plan (MTFP) which sets out the forecasted budget for the council over the period. This is supported by the Medium Term Financial Strategy (the latest version approved by Cabinet in March 2016) which outlines how the council wants to structure and manage its finances and to ensure it fits with and supports the direction of the council's corporate objectives.
- 14.1.28. A mid-year review of the council's Treasury Management arrangements was undertaken and presented to the Finance & Audit Committee at its meeting in November 2015 which resulted in the committee recommending to Council that the revised estimates against the prudential and treasury indicators be endorsed; these were endorsed by Full Council at its meeting in December 2015.
- 14.1.29. In addition, the Finance & Audit Committee recommended to Full Council the adoption of the Treasury Management Strategy for the 2016/17 financial year at its meeting in February 2016; Full Council endorsed this at its subsequent meeting.
- 14.1.30. Regular budget monitoring took place in 2015/16 in order to manage the council's Net Revenue Budget. Regular meetings are held between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports have been presented to the Finance & Audit Committee and Cabinet on a quarterly basis.

14.1.31. The level of balances is reviewed annually in line with the budget setting process but is regularly reported to Finance and Audit Committee and Cabinet for position statements.

Partnership and Joint-working

14.1.32. The council is increasingly looking at alternative ways in which it can provide services, including making more effective use of the resources available to it and considering opportunities for working in partnership with public bodies and local agencies.

14.1.33. Opportunities for shared or joint-working have been explored and implemented during the year, as they have arisen.

14.1.34. During 2015/16, as in previous years, a comprehensive review of the council's Corporate Register of Partnerships was undertaken to ensure all relevant partnerships were included.

Internal and External Audit

14.1.35. The responsibilities of the Finance & Audit Committee include the consideration of reports from internal audit and external audit and inspection agencies as well as monitoring the performance of internal audit. During 2015/16, the Finance and Audit Committee received and considered a number of reports from council officers and external bodies, enabling the committee to obtain assurances of the internal control and governance arrangements of the council and to monitor action in addressing any control issues identified by these reports.

14.1.36. As a shared service with Medway Council, the council has an Internal Audit team which operates to the standards as set out in the Public Sector Internal Audit Standards and CIPFA's Local Government Application Note to the Public Sector Internal Audit Standards.

14.1.37. The purpose of the team is to independently examine, evaluate and report on the council's activities, assessing the adequacy of internal control systems as a contribution to the proper, economic, efficient and effective use of resources. The council also has an effective and professional relationship with the council's external auditors, and statutory inspectors.

14.1.38. The council's internal audit arrangements conform to the governance requirements of CIPFA's statement on the Role of the Head of Internal Audit in Public Service Organisations (2010).

Counter Fraud Arrangements

14.1.39. The council acknowledges the risk of fraud and has put robust arrangements in place to prevent, detect and investigate suspicions or allegations of fraud when they are received. An annual report on counter fraud activity is produced each year and presented to the Finance & Audit Committee, as well as a half-yearly report midway through each financial year.

16.4. Review of Effectiveness of the Governance Framework

14.1.40. Gravesham Borough Council has responsibility for conducting an annual review of the effectiveness of its governance framework, including the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the executive managers within the council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

14.1.41. In maintaining and reviewing the effectiveness of the governance framework, the review has considered the following:

- 14.1.41.1. The corporate and business planning processes of the council;
- 14.1.41.2. The corporate performance management framework and the corporate performance reporting processes of the council;
- 14.1.41.3. The completion of self-assessment control questionnaires by the Chief Executive, Directors, Assistant Directors, Service Managers and other key managers within the council;
- 14.1.41.4. The completion of control questionnaires by the Monitoring Officer, Chief Financial Officer (Section 151 Officer) and the Head of Internal Audit;
- 14.1.41.5. Reviews carried out by Internal Audit, External Audit and other review bodies which generate reports commenting on the effectiveness of the systems of internal control employed by the council;
- 14.1.41.6. The consideration of External Audit reports and certain Internal Audit reports by the Finance & Audit Committee;
- 14.1.41.7. The opinion on the overall adequacy and effectiveness of the council's overall control environment from the Head of Internal Audit.
- 14.1.41.8. The findings of the annual review of the governance framework were considered by the council's Management Team on 31 May 2016 and reported to Members of the Finance & Audit Committee on 16 June 2016.

14.1.42. The arrangements in place are considered to still be fit for purpose and in accordance with the council's governance framework, with no significant areas requiring attention. The areas that are specifically to be addressed with new actions to further enhance existing controls are outlined in section 16.5.

ANNUAL GOVERNANCE STATEMENT

16.5. Control Issues requiring attention

14.1.43. Whilst the review of the council's governance arrangements has not identified any significant governance issues requiring attention, it highlighted a number of areas where controls can be either further developed or enhanced. These are outlined in the table below.

No.	Control Issue	Required Action	Target for completion
1	<u>Corporate Procurement Strategy</u> A key element to ensuring that the authority makes best use of its resources and that tax payers and service users receive excellent value for money from frontline services.	In light of legislative changes in procurement, and the council's Corporate Objective for a ' <i>sound and self-sufficient council</i> ', there is a requirement to review the council's existing Corporate Procurement Strategy.	September 2016
2	<u>Constitution</u> The Constitution ensures effective leadership throughout the authority, outlining the core executive and non-executive functions and the roles and responsibilities of the scrutiny function.	Complete the scheduled full review of the council's Constitution and re-issue to all Members.	March 2017
3	<u>Records Retention Policy</u> The purpose of such a policy is to set out the length of time that the council's records should be retained and the processes for disposing of records at the end of the retention period, in line with the legislative framework.	To review and prepare a new Records Retention Policy for the council in line with legislative requirements, to be presented to Cabinet for endorsement.	December 2016

ANNUAL GOVERNANCE STATEMENT

Certification by Chair of the Finance & Audit Committee

I confirm that the 2015/16 Annual Governance Statement has been considered and approved by Gravesham Borough Council at the meeting of the Finance & Audit Committee on 16 June 2016.

.....

Councillor Derek E Shelbrooke

Date.....

Endorsement by the Leader of the Executive and the Chief Executive

.....

Councillor John M Cubitt
Leader of the Executive

Date.....

.....

David R Hughes CPFA
Chief Executive

Date.....

17. INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAVESHAM BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Gravesham Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Director (Corporate Services) and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director (Corporate Services) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Statement and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

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

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

INDEPENDENT AUDITORS REPORT

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Darren Wells
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Explorer Building
Fleming Way
Manor Royal
Crawley
RH10 9GT

September 2016

18. GLOSSARY OF TERMS

ACCOUNTING PERIOD

This is the period covered by the Accounts which is the 12 month period commencing 1 April each year.

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements

ACTUARIAL GAINS & LOSSES

For a defined benefit pension scheme the changes in actuarial deficits or surpluses that arise because: A; events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); B; the actuarial assumptions have changed

CAPITAL ADJUSTMENT ACCOUNT

This account provides a balancing mechanism between the different rates at which assets are depreciated under the Code and are financed through the capital controls system.

CAPITAL EXPENDITURE

Expenditure to acquire non-current assets that will be used in providing services beyond the current accounting period or expenditure that adds value to an existing fixed asset.

CAPITAL FINANCING

Funds used to pay for capital expenditure.

CAPITAL RECEIPTS

Funds received by the Council from the sale of non-current assets. Capital receipts are used to repay the debt on assets financed from loan or to finance new capital expenditure, subject to compliance with statutory requirements.

CASH EQUIVALENTS

See Investments

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

The principal accountancy body dealing with local government finance.

COMMUNITY ASSETS

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions in their disposal. Examples of community assets are parks and historical buildings.

CONTINGENT ASSET

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

CONTINGENT LIABILITY

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

CREDITORS

Amounts owed by the Authority for goods and services where payments have not been made at the end of the financial year.

CURRENT ASSETS

A current asset is one that is expected to be consumed or realised by the end of the next accounting period.

CURRENT LIABILITIES

A current liability is one that is expected to be paid or discharged by the end of the next accounting period.

DEBTORS

Amounts owed to the Authority for goods and services where the income has not been received at the end of the financial year

DE MINIMIS

The Council applies a de-minimis value of £12,000 for the acquisition, creation or enhancement of non-current assets. Any expenditure below this level is charged to revenue in the year of acquisition.

DEPRECIATION / AMORTISATION

The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

GENERAL FUND

An account providing details of all the Authority's services except those shown in the Collection Fund. The Housing Revenue Account is statutory, ring-fenced account whose activities are shown in addition in a Supplementary Financial Statement. The Housing Revenue Account balances are also recorded separately.

HOUSING BENEFITS

A system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central government.

HOUSING REVENUE ACCOUNT (HRA)

A separate account to the General Fund, which includes the expenditure and income arising from the provision of housing accommodation, by the Council, as a landlord service.

IMPAIRMENT

Impairment is where the book value (carrying value) of an asset exceeds the amount that could be recovered through use or sale of the asset.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The accounting standards that have been produced and adopted to govern accounting and the move to a globally similar basis.

INVESTMENTS

Investments fall into two categories. Short-term investments where the duration between the Balance Sheet date and the date the Council intends to redeem the investment is less than one year and long-term investments where the duration between the Balance Sheet date and the date the Council intends to redeem the investment is more than one year. Internally managed short-term highly liquid investments of three months or less from the date of acquisition are recognised as cash equivalents.

GLOSSARY OF TERMS

LEASES

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Leases fall into two categories. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

LIABILITIES

Those amounts which will become payable by the authority in the short or long term.

NON-DOMESTIC RATES (NDR)

Amounts payable to local authorities by organisations or businesses from non-domestic properties.

NON-CURRENT ASSETS

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

MINIMUM REVENUE PROVISION (MRP)

This is the calculation that Councils make for the repayment of debt.

OUTTURN

The actual results for the financial year in question.

OVERHEADS

Management and administrative costs including buildings. The majority of management and administrative costs including buildings are allocated to services.

PRECEPT

The requests made by precepting authorities to billing authorities, e.g. Gravesham Borough Council. The major precepting authorities are Kent County Council, Kent Police and Crime Commissioner and Kent Fire & Rescue Service. These precepts are shown in the Collection Fund. Parish Councils are local precepting authorities, e.g. Vigo Parish Council, who raise money by means of a precept on the relevant billing authority's General Fund.

PROPERTY, PLANT & EQUIPMENT (PPE)

All assets with physical substance that are used in the production or supply of goods and services that are expected to be used for more than one period.

PUBLIC WORKS LOAN BOARD (PWLB)

Central Government Agency which lends money to local authorities usually at interest rates which are more favourable than those found elsewhere

REVALUATION RESERVE

This account represents the balance of the net surpluses arising on the revaluation of non-current assets.

REVENUE EXPENDITURE

The costs related to the day-to-day running of services, such as salaries and energy cost.

GLOSSARY OF TERMS

REVENUE SUPPORT GRANT (RSG)

A grant paid by Central Government to aid Local Authority services in general, as opposed to specific grants, which may only be used for a specific purpose. These are credited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement. (A Council may also receive other non-specific grants and these are shown with the Revenue Support Grant in the 'Taxation and Non-Specific Grant Income' line in the Comprehensive Income and Expenditure Statement.)

SECTION 151 OFFICER (CFO)

Section 151 of the Local Government Act 1972 requires the Council to appoint an officer responsible for the proper administration of the Council's financial affairs. The Director (Corporate Services) is the Council's Section 151 Officer.

SOFT LOANS

These are loans made below prevailing interest rates (i.e. interest free or low interest loans) and include loans made to local voluntary sector organisations that undertake activities that the authority considers benefits the local population.

WORKING BALANCES

The revenue reserves of an authority made up of the accumulated surplus of income over expenditure on the General Fund or the Housing Revenue Account which may be utilised to provide for unforeseen circumstances or to ensure that payments can be made pending the receipt of income and may be used to reduce the Council Tax.