CONTENTS

Page

EXPLANATORY FOREWORD ... **3**
ABOUT THE STATEMENT OF ACCOUNTS ... 3
The Statements and the Change in Format ... 3
Financial Instruments ... 4
Revaluation of Assets ... 4
Accounting Policies ... 5
The Pension Figures ... 5
Kent Pension Fund ... 5
Accounting for Pensions under FRS17 ... 5
Events in 2007-08 ... 6
Other Future Events ... 6
Medium Term Financial Strategy ... 7
The Statement of Total Recognised Gains and Losses (STRGL) ... 7
Performance Plans and Indicators ... 7
Use of Resources ... 7
Euro Costs ... 7
Investments ... 7
General Fund ... 7
General Fund Balance ... 8
Capital Programme ... 9
Collection Fund ... 10
Further Information ... 10
STATEMENT OF RESPONSIBILITIES ... **11**
THE AUTHORITY'S RESPONSIBILITIES ... 11
THE HEAD OF FINANCE'S RESPONSIBILITIES ... 11
AUDITOR'S REPORT ... **12**
STATEMENT OF ACCOUNTING POLICIES ... **15**
General ... 15
Estimation Techniques ... 15
Changes in Accounting Policies ... 15
Accruals ... 16
Provisions ... 16
Reserves ... 16
Grants ... 16
Retirement Benefits ... 17
The Local Government Pension Scheme ... 17
VAT ... 18
Overheads and Support Services ... 18
Intangible Fixed Assets ... 18
Tangible Fixed Assets ... 18
Charges to Revenue for Fixed Assets ... 20
Deferred Charges ... 20
Leases ... 20
Financial Liabilities ... 21
Financial Assets ... 21
Stocks and Work In Progress ... 22
Debtors and Creditors ... 22
Bad and Doubtful Debts ... 22
Events after the Balance Sheet Date ... 22
Credit Sale Arrangement ... 23
INCOME AND EXPENDITURE ACCOUNT ... **24**
STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE ... **26**
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES ... **27**
BALANCE SHEET ... **28**
CASH FLOW STATEMENT ... **29**
NOTES TO CORE FINANCIAL STATEMENTS ... **30**
1. Restatement of Balance Sheet as at 31 March 2007 ... 30
2. Long Term Contracts ... 30
3. Trading Undertakings ... 30
4. Discretionary Expenditure ... 30
5. Publicity ... 31
6. Building Control Trading Account ... 31

CONTENTS

Page
7. Members' Allowances ... 32
8. Officers' Emoluments ... 32
9. Related Party Transactions ... 32
10. Audit Costs ... 33
11. Movement of Tangible Fixed Assets ... 34
12. Financing of Capital Expenditure ... 35
13. Commitments under Capital Contracts ... 35
14. Deferred Charges ... 35
15. Information on Assets Held ... 36
16. Leases ... 36
17. Fixed Asset Valuation ... 37
18. Depreciation Methodologies ... 38
19. Movement of Intangible Fixed Assets ... 39
20. Analysis of Net Assets Employed ... 39
21. Insurance Provisions ... 39
22. Reserves ... 40
Summary Introduction to Detail of Movements on Reserves ... 40
22(a) Revaluation Reserve ... 41
22(b) Fixed Asset Restatement Account ... 41
22(b) Capital Financing Account ... 41
22(b) Capital Adjustment Account ... 42
22(c) Financial Instruments Adjustment Account ... 42
22(d) Usable Capital Receipts Reserve ... 42
22(e) Other Reserves ... 43
23. Contingent Liability ... 44
24. Authorisation of Accounts for Issue ... 44
25. Events after the Balance Sheet Date ... 44
26. Trust Funds ... 44
27. Pension Costs ... 44
28. Reconciliation of Net Surplus/Deficit on the Income and Expenditure Account to the Revenue Activities Net Cash Flow in the Statement ... 47
29. Movement in Cash ... 47
30. Analysis of Government Grants ... 48
31. Long-term Investments ... 48
32. Long-term Debtors - Other ... 48
33. Stocks and Work in Progress ... 48
34. Debtors ... 49
35. Short-term Investments ... 49
36. Creditors ... 49
37. Deferred Liabilities ... 49
38. Deferred Credits ... 50
39. Grants & External Contributions Unapplied ... 50
40. Group Accounts ... 50
41. Local Authority (Goods and Services) Act 1970 ... 51
42. Involvement in Local Area Agreement ... 51
43. Financial Instruments ... 51
RECONCILING ITEMS ON THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE ... 57
COLLECTION FUND ... 58
NOTES TO THE COLLECTION FUND ACCOUNTS ... 59
1. General ... 59
2. Council Tax ... 59
3. Income Collectable from Business Ratepayers ... 59
4. Previous Year's Surplus/Deficit ... 60
5. Collection Fund Surplus/Deficit ... 60
6. Provision for Bad Debts ... 60
ANNUAL GOVERNANCE STATEMENT ... 61
GLOSSARIES ... 71
ACCOUNTING GLOSSARY ... 71
PENSIONS GLOSSARY ... 75
NOTES ... 78

The Statement of Accounts for the year ended 31 March 2008 appears on pages 15 – 60 inclusive.

ABOUT THE STATEMENT OF ACCOUNTS

The Council's Statement of Accounts for the year ended 31 March 2008 is set out in this booklet and consists of the following accounting statements:

a) **A Statement of Accounting Policies -** setting out the policies adopted by the Council for drawing up the various accounting statements;

b) **The Income and Expenditure Account -** expenditure and income relating to all of the Council's functions;

c) **The Statement of Movement on the General Fund Balance -** this reconciles the surplus or deficit for the year on the Income and Expenditure Account to the movement on the General Fund Balance – the difference generally represents amounts required to be accounted for in a particular way to reflect statutory provisions;

d) **The Statement of Total Recognised Gains and Losses -** this reflects all the gains and losses experienced by the Council;

e) **The Balance Sheet -** this sets out the financial position of the Council on 31 March 2008;

f) **The Cash Flow Statement -** this summarises the movement in the Council's cash balances;

g) **The Notes to Core Financial Statements -** detailed notes relating to the above core financial statements;

h) **The Reconciling Items on the Statement of Movement on the General Fund Balance -** this provides details of the entries identified in (c) above; and,

i) **The Collection Fund -** the statutory account which records Council Tax and National Non-Domestic Rate transactions.

These accounts are supported by various explanatory notes and a glossary which are given on subsequent pages. In addition, there is a Statement of Responsibilities and an Annual Governance Statement.

This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main features of the Council's financial position.

The Statements and the Change in Format

The accounts of all Local Authorities are prepared in accordance with the appropriate regulations and professional guidance, namely the Accounts and Audit Regulations 2003 (as amended) and the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Statement of Recommended Practice (SORP).

The overriding requirement of the SORP is that the accounts 'presents fairly' the financial position of the authority. In doing this, the SORP sets out the proper accounting practices for the Statement of Accounts. The external auditors will match the Statement against the requirements of the SORP, and material non-compliance will result in the accounts being 'qualified'.

The SORP is prepared on the basis that the intention of the Statement of Accounts is to give the Council's principal stakeholders like the electors, taxpayers, Members, employees and other interested parties clear information about the Council's finances. It should answer such questions as:

- What did the Council's services cost in the year of account?
- Where did the money come from?
- What were the Council's assets and liabilities at the year end?

For comparative purposes between authorities, the SORP also requires a consistent pattern of presentation and compliance with the CIPFA Best Value Accounting Code of Practice (BVACOP) service analysis.
This guidance is updated on an annual basis by CIPFA to ensure that local government accounting practice remains in line with changes to national and international financial standards and the Council's accounts are amended accordingly to reflect the revised requirements.

All codes of recommended accounting practice in the UK require the approval of the Accounting Standards Board (ASB), who has ultimate responsibility in this area. The ASB is continuing to move towards international convergence with the accounting regulations of other countries, and a component part of this movement is the need for local authority accounts to become more compliant with Generally Accepted Accounting Practice (GAAP) (as per the accounts of a company).

In order to move Local Government Financial Accounts closer to those produced by the private sector, the Chartered Institute of Public Finance and Accountancy have made changes in 2007-08 to its Code of Practice on Local Authority Accounting in the UK; a Statement of Recommended Practice. The main changes introduced into the 2007 SORP are detailed below.

Financial Instruments

The 2007 SORP requirements are now based on Financial Reporting Standards (FRSs) 25, 26 and 29 that relate to financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another. The Council's investments and borrowings are thus all financial instruments.

The FRSs cover the way the Council must measure the value of its financial instruments at the balance sheet date and disclose additional information such as an explanation of key risks.

The key issues arising from the new FRSs are:

- additional disclosures;
- the need to quantify the financial cost of awarding loans at less than market rates of interest (commonly termed "soft loans"), and incorporate this in the Statement of Accounts if material;
- the need to establish what financial guarantees the Council has made and their associated potential cost, and incorporate this in the Statement of Accounts if material.

Revaluation of Assets

The rules for showing changes in asset values have changed completely for 2007-08. The Fixed Asset Restatement Account (FARA) and the Capital Financing Account (CFA) have been replaced by the Revaluation Reserve and the Capital Adjustment Account. The balances on the FARA and the CFA have been combined and transferred to the Capital Adjustment Account as at 31 March 2007, leaving a starting balance of zero on the new Revaluation Reserve.

The subsequent entries to the Revaluation Reserve are intended to reflect the difference between the historic cost net book value of the individual assets and their increases on revaluation to a new current valuation net book value. CIPFA found on proposing this change last year that most authorities would have been faced with an inordinate amount of work to track down or estimate the historic cost of each individual asset in the asset register as at 31 March 2007. CIPFA therefore relented and have assumed that the current balance sheet valuations as at 31 March 2007 are a reasonable proxy for historic cost, thereby saving all local authorities a huge amount of time and work. This decision results in the Revaluation Reserve having a starting balance of zero as at 31 March 2007.

Any subsequent increase in the value of Fixed Assets is debited to the Fixed Assets in the Balance Sheet and credited to the new Revaluation Reserve (previously credited to the Fixed Asset Restatement Account). The increase is then depreciated over the remaining expected useful life of the asset, crediting depreciation and debiting the Revaluation Reserve. The same is done if at any time in the future the value of the asset increases or decreases.

Accounting Policies

All the previously identified changes to accounting treatment are those that the authority is required to follow under the SORP. The financial policies of the authority have not changed to those presented in the 2006-07 accounts, but are reviewed as part of the closedown process to ensure completeness and accuracy.

The Pension Figures

Kent Pension Fund

The Council is a contributor to the statutory Pension Fund administered by Kent County Council on behalf of all local authorities in Kent. Employees, up to 31 March 2008, made a statutory contribution of 6% of their pay to the Pension Fund. The Council's contribution to the fund is based on an actuarial calculation of the amount required to meet future liabilities of the Fund. The Fund Actuary (Hymans Robinson) calculates the position for each contributing body separately. The Actuary is required to value the Kent Pension Fund every three years. The results of the last actuarial reviews have shown that the Pension Fund is in deficit. This means that the assets (mainly investments in shares, property and bonds) in the Pension Fund are not sufficient to meet liabilities (the pensions payable).

The latest valuation (as at 31 March 2007) compiled by the Actuary set the level of contributions for the three-year period commencing April 2008. The valuation disclosed the following features for Swale:

- a net deficit of £23 million;
- a funding level of 66% (an increase from the previous level of 61%). A significant reason for the increased funding level was the improved performance of assets;
- an increasing employer's contribution for the next three years ending at 32% (previously 31%) of pensionable pay; and,
- additional annual contributions to eliminate the deficit over the next 20 years. The Actuary allowed the Council to phase in these additional contributions, starting in the 2008-09 financial year.

The next scheduled triennial revaluation of the Council's pension arrangements will take place as at 31 March 2010, with any impact on budgets feeding through from 1 April 2011.

Accounting for Pensions under FRS17

Pensions costs in these accounts are based on the accounting standard FRS 17 'Retirement Benefits'. The objectives of FRS 17 are that financial statements set out at fair value the assets and liabilities of the organisation relating to retirement benefits, and that the true cost of these obligations is recognised. Legislation prevents the changes introduced by FRS 17 from impacting on Council Tax levels. Therefore, the difference between the charge to taxation, and the FRS 17 charge, is financed by an appropriation to a Pensions Reserve.

These accounts provide detailed disclosures on the assets and liabilities of the Pension Fund under the FRS 17 accounting rules. Under the set of actuarial assumptions used to make the FRS 17 calculations, the position of the Swale element of the Fund as at 31 March 2008 is a deficit of £27 million. The reason why the deficit calculated under FRS17 is £27 million, whilst the deficit calculated by the latest triennial revaluation is £23 million is because the purpose of the formal triennial funding revaluation is to assess the ongoing financial position of the fund and to determine the rate at which the employing bodies participating in the fund should contribute in the future, whereas the aim of the FRS17 revaluation is to ensure that the existing assets and future investment returns and contributions will be sufficient to meet future benefit payments from the fund. FRS17 is an accounting standard and its calculations are carried out using a prescribed method and some of the assumptions are also prescribed and are therefore different from those used in the triennial valuation resulting in a difference in the value of the deficit. The FRS17 deficit of £27 million is a decrease on the deficit at March 2007 which was £30 million. Both the fund assets and fund liabilities decreased in the year. The assets decreased because of decreases in the valuation of equities and cash (£6 million). Liabilities decreased by £10 million, mainly because the discount rate for measuring the scheme liabilities has changed from 5.4% for 2006-07 to 6.9% for 2007-08 (a higher discount rate when applied to future cash flows decreases the total liabilities). The fund liability based on FRS17 is estimated at £69 million at 31 March 2008, compared with £79 million at 31 March 2007.

However, care needs to be taken in interpreting these figures. It is important to see pensions for what they are, that is long-term assets and liabilities. It is true that FRS 17 figures disclose the position of a pension fund at a point in time, based on certain financial assumptions. However, it is the long-term position of the

Fund as disclosed by the fund actuary that determines the amounts that the Council must provide for its pension commitments. In accordance with FRS17 'Retirement benefits', the pension costs charged to the Net Cost of Services section of the Income and Expenditure Account reflect the actuary's estimate of service performance during the financial year. These costs reflect the Council's commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund. Further information is shown in note 27 of the notes to the core financial statements.

Events in 2007-08

The Council approved its Corporate Plan 'Shaping the Future of Swale' on 21 November 2007. The Corporate Plan's four priorities are:

- *Regenerating Swale*
- *Creating A Greener and Cleaner Swale*
- *Promoting A Safer and Stronger Community*
- *Becoming A High Performing Organisation*

The Government announced the results of its Comprehensive Spending Review (CSR) 2007 which has set out its spending plans for the three years commencing 2008-09, which in turn will affect councils' financial support through the formula grant. It has also set an ambitious efficiency challenge. The Local Authority Business Growth Incentive Scheme (LABGI) aims to encourage local authorities to increase business growth in their areas. As part of the CSR, the Government announced a major review of LABGI. For 2008-09 there will be no funds for distribution and only £50 million for 2009-10 and £100 million for 2010-11 – considerably less than the funding made available in the last Spending Review.

A Budget Task Force was established to realign resources to the agreed corporate plan priorities and have a balanced medium term budget. This involved identifying savings which subsequently were used to invest in priority services. It also challenged the robustness of options presented, underpinning assumptions and sought to ensure alignment to priorities by applying a policy ranking matrix to all services.

2007-08 saw the start of a partnership between Swale, Gravesham and Medway Councils for the joint provision of Building Control services. The partnership is led by a Building Control Joint Committee with each Council being represented by an elected Member. Medway is the host council and existing Gravesham and Swale staff transferred over to Medway under TUPE (Trading Undertakings Protection of Employment).

The Government introduced the Planning Delivery Grant (PDG) system in 2003-04 in recognition that the planning system needed additional resources to raise the quality and effectiveness of the local planning service. The Government has now widened the scope of the grant from 2008-09 and it is now known as the Housing and Planning Delivery Grant (HPDG).

Other Future Events

The Council agreed to be a partner in the Kent Local Area Agreement in 2005, which has carried forward the 14 targets of the Local Public Service Agreement 2, thus giving rise to a Performance Reward Grant which will be available on successful conclusion of the agreement in 2008.

From April 2008-09, there will be a new efficiency regime for local authorities and the public sector more widely. This will run for the period of the CSR 2007. Collectively, local government will be required to deliver 3% cashable efficiency savings in each of the next 3 years. This is an increase on the current regime, where an efficiency target of 2.5% has been set, with only half being cashable.

The Government is introducing a free nationwide scheme for off peak bus travel for over 60s and registered disabled persons in 2008-09. There is widespread concern that future costs could compromise the budget strategies of district councils if the Specific Grant proves to be insufficient.

The Local Government Pension Scheme (LGPS) has gone through a period of reform over the last three years and further changes are being introduced on 1 April 2008. These changes affect all staff that are members of the scheme and future members. In summary, the most significant changes are: changes in employee contribution rates from a flat rate of 6% to a banded contribution rate (employer rates are unaffected by this change); eligibility; changes in the way benefits are calculated upon retirement; flexible retirement; changes to ill-health retirement provisions.

Medium Term Financial Strategy

The Council approved a revised Medium Term Financial Strategy which provides an integrated view of the whole of the Council's finances and medium term position. It covers revenue and capital spending by the Council, highlighting the inter-relationships between the two, and the resultant implications. It also considers all of the financial accounts, (Funds), operated by the Council and sets out how they support the Council's vision. This document will be reviewed annually as part of the budget process. The MTFS also now incorporates the Budget Projections – a three year projection of the budget submitted to Executive for the next financial year.

The Statement of Total Recognised Gains and Losses (STRGL)

This Statement reflects all the gains and losses experienced by the Council. In 2007-08 a gain of £4.7 million is shown. The impact that this is likely to have on spending plans for future years is that although the Council has gained, this is largely through the increase in the valuation of its assets, which could only assist future spending plans if they were all to be sold and capital receipts generated. However, two of the assets were sold at an increase of £477,000 on their book value, but there are no plans to do so for the remaining assets concerned. The element of the STRGL that is due to a decrease in the liabilities of the pension fund will be addressed by the Council adopting the recommendations of the actuaries as a result of the next triennial revaluation which is explained above.

Performance Plans and Indicators

The financial figures used in the Annual Performance Plan and in its Performance Indicators (PIs) are often required before the final outturn for the financial year is known. Furthermore, there remain a few PIs that are based on costs that still include a notional cost of capital whereas, as described above, this element is now omitted from the figures in the Statement of Accounts. Notional interest is a justifiable charge for the consumption of capital and therefore it will be considered when charging third parties for local authority services.

Use of Resources

The annual Use of Resources (UoR) assessment evaluates how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services. Overall for 2006-07 the main conclusion was that the Council has sustained its adequate overall performance levels against a higher national benchmark and good progress has been made in addressing some of the issues identified in the earlier audit report. The Council had managed to improve its overall scores on the financial reporting and financial management elements from level one (which represents inadequate performance) to level two, with significant improvements in the standard of working papers and the timeliness of accounts production. The Council's arrangements for preparing its medium term financial strategy and linking this to corporate objectives had also improved. However, the Council was judged to need to improve budget monitoring and the development of procedure notes for key financial systems. In relation to the value for money the Council was seen to be continuing to perform adequately.

Euro Costs

The Council is monitoring progress of the Euro and indications from central government of the possibility that the UK may join the Euro. As there is no further certainty on the possible date for British participation in the Economic and Monetary Union (EMU) no exceptional expenditure in connection with this issue has been incurred during 2007-08.

Investments

The Council's investment portfolio averaged £9.8 million during 2007-08 (£6.6 million for 2006-07) and closed at £4.971 million at 31 March 2008. The 'in-house' team achieved a return of 5.84% for 2007-08 (4.84% for 2006-07) amounting to £0.58 million (£0.33 million in 2006-07). This resulted in an additional £17,800 of investment income when compared with the average 7 day LIBOR rate for the year of 5.66%

General Fund

The Council approved the use of £160,000 from Balances to support the level of services for 2007-08. The following Revenue Summary shows the major variations in the Budget amounting to a £40,000 net overspend on the Revised Budget. The closing balance on the General Fund as at 31 March 2008 is £2.256 million, a decrease of £126,000 from the start of the year.

The summary of the General Fund net expenditure is as follows:

	Original Budget £'000	Revised Budget £'000	Actual £'000	Difference £'000
Net expenditure for the year	17,997	18,196	18,162	(34)
(excluding parish precepts)	-	-	-	-
Contribution to/(from) Balances	39	(160)	(126)	34
TOTAL	**18,036**	**18,036**	**18,036**	**-**

The major variations are shown in the following table:

	£'000
Contribution to funds	628
Overspend on staff employment contract matters.	39
Greater income from the transition phase of the Gambling Act 2005 than anticipated	(65)
Savings on capital financing accounts including fees due to be incurred on disposals of fixed assets	(28)
Saving on Cleansing contract variations due to only two weed sprays being required instead of three	(23)
Savings generated on Council Tax/ Housing Benefit service	(290)
Greater recovery of Stay Put fee income from support given to the Loan Assistance Scheme and Disabled Facilities Grants	(25)
Under spend on Local Development Framework Implementation Special item which has been approved for rollover	(61)
Over achievement of Planning fees for the year	(41)
Under spend on staff costs	(44)
Minimum Revenue Provision savings	(90)
Bad Debt Provision	131
Other Variations	(165)
TOTAL	**(34)**

A detailed report on the revenue outturn for 2007-08 was presented to the meeting of the Executive on 11 June 2008.

General Fund Balance

As shown below, the General Fund balance decreased by £126,000 from £2,382,000 at 1 April 2007 to £2,256,000 at 31 March 2008. This compares with the revised estimate of a reduction in the balance of £160,000 to £2,222,000 at the year-end.

	GENERAL FUND		
	Original Budget	Revised Budget	Actual
	£'000	£'000	£'000
Balance brought forward	2,382	2,382	2,382
Contribution to/(from) Balances	39	(160)	(126)
TOTAL	**2,421**	**2,222**	**2,256**

The above figures include the Housing Act Advances Revenue Account which previously has been shown separately but which is, for the purpose of the Council's accounts, treated as part of the General Fund.

Capital Programme

From 1 April 2004, the Prudential Code for Capital Finance came into effect for local authorities imposing new requirements on them in the manner they consider and approve their spending plans.

The capital programme for 2007-08 totalled £3.9 million, of which £0.6 million was funded through partnership schemes. Several schemes were completed during the year, the main ones being:-

- upgrading of the CCTV recording equipment to digital technology giving enhanced picture quality and easier access;
- completion of the Sheerness Children & Family Centre, now known as Seashells;
- completion of the landscape works west of the railway line at Church Marshes, Sittingbourne, creating a country park environment;
- new play areas at Buckthorne and Maylam Gardens Sittingbourne and Lower Road, Faversham funded from developer contributions;
- completion of the Gunpowder Works Country Park at Oare, Faversham;
- refurbishment of the Cherry Suite, Wyvern Hall, Sittingbourne;
- Completion of the rolling programme of the historic building grant scheme in Faversham, which has contributed to restoration of many of the historical buildings in private ownership in the Town;
- replacement of the sluice gates at Stonebridge Pond, Faversham, which will protect the nearby allotments from flooding; and,
- following the successful bid for a flood defence grant from DEFRA, a rock revetment has been constructed along the northern coastline at Warden Bay, Isle of Sheppey.

The Council also continued its mandatory Disabled Facility Grant (Home Renovation Grants) programme, which attracts 60% funding from central government, the total spend in 2007-08 being £806,000.

The revised capital programme for 2007-08 forecast payments for the year of £4,854,600 with the actual outturn being £3,615,100. The Executive, on 12 December 2007, agreed that no new capital contracts were to be let unless the Executive specifically approved them and they align with the corporate priorities.

The schedule below highlights the main areas of capital spending and details of the funding of this expenditure are shown under Note 12 in the Notes to the Core Financial Statements. The main areas of capital spending during 2007-08 were:

	Revised Budget £'000	Actual £'000	Variance £'000
CCTV – Digitisation for VCR equipment	80	78	(2)
Replacement of Faversham Rec Ground Bowl Pavilion	152	62	(90)
New Play Area - Iwade Schemes	91	-	(91)
Thames Gateway Projects/ Swale Forward	187	23	(164)
New Play Area - Buckthorne Play Area	71	71	-
Home Renovation Grants	1,086	806	(280)
Waste Collection & Recycling - wheelie bins	910	954	44
Regional Housing Board Grant Scheme	734	369	(365)
Coast Protection for North Sheppey	865	749	(116)
ICT - Housing Register software	79	74	(5)
ICT System replacement - Environmental Services	108	58	(50)
Other schemes	492	371	(121)
TOTAL	**4,855**	**3,615**	**(1,240)**

During the next financial year, 2008-09, the Executive will be asked to approve the rollover of capital budgets which accounts for some of the above underspends.

Collection Fund

The Collection Fund is the statutory account which records Council Tax, Community Charge and National Non-Domestic Rate transactions. At the year-end this account had a surplus of £951,000 compared with the surplus estimated in January 2008 of £624,000 which was taken into account in setting the Council Tax for 2008-09. The difference of £327,000 is attributable mainly to additional new properties.

The Council Tax in-year collection rate has remained at 97% in 2007-08. The Business Rate in-year collection rate increased from 98.8% in 2006-07 to 99.0% in 2007-08, mainly due to a stricter recovery regime. In addition, the continuance of the small business rate scheme has encouraged payment. Council Tax arrears at 31 March 2008 were £3.054 million whilst arrears for Business Rates were £1.647 million.

Further Information

Further information on the accounts is available from the Accountancy Section, Swale House, East Street, Sittingbourne. Interested members of the public have a statutory right to inspect the accounts for 20 working days before the audit is completed. For 2007-08 the inspection dates are between 7 July and 1 August 2008 inclusive. The appointed day for raising queries with the External Auditors is 4 August 2008. The availability of accounts for inspection is advertised in the local press.

My thanks go to all my staff and those in other Service Units who have helped to prepare these accounts and supported me during the last year.

David Buckett CPFA
Head of Finance **11 June 2008**

STATEMENT OF RESPONSIBILITIES

THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

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

Certification of the Chairman of the Council
I confirm that the adoption process for the 2007-08 Statement of Accounts has been formally completed and that the Statement of Accounts for the year ended 31 March 2008 was approved by Swale Borough Council in accordance with the Accounts and Audit Regulations 2003 at the meeting of the Council on 25 June 2008.

Councillor Alan Willicombe
Mayor **25 June 2008**

THE HEAD OF FINANCE'S RESPONSIBILITIES

As the Head of Finance, I am responsible for the preparation of the authority's Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

In preparing this Statement of Accounts, I have:

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

I confirm that the accounts present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2008.

David Buckett CPFA
Head of Finance **11 June 2008**

Independent auditor's report to the Members of Swale Borough Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Swale Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Swale Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Head of Finance and auditor

The Head of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority accounting statements and related notes.

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Swale Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Best Value Performance Plan

The previous appointed auditor issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/08 on November 2007. She did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack 30 September 2008

District Auditor
Audit Commission,
16 South Park,
Sevenoaks,
Kent
TN13 1AN

General

The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice' (the SORP), together with associated guidance notes, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

The financial information contained in the accounts has the following qualitative characteristics as laid out in the Code of Practice:

- Relevance - The accounts are prepared so as 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 can be depended upon to represent faithfully what they purport 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 so as to enable comparison between financial periods. To aid comparability the Council has applied its accounting policies consistently both during the year and between years;
- Understandability - Every effort has been made to make the accounts as easy to understand as possible. Nevertheless, an assumption has been made that the reader will have a reasonable knowledge of accounting and local government. Where the use of technical terms has been unavoidable, an explanation has been provided in the Glossary of Terms; and,
- 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.

Three further accounting concepts are given precedence in the preparation 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, Exceptions to this are utility bills and insurance premiums, which are, in the main, charged to the year in which billed, rather than be apportioned to between years as the effect of adjusting for opening and closing balances would not be material to the total of transactions for the year;
- Going Concern - The accounts are prepared on a going concern basis, i.e. on the assumption that the Council will continue to operate for the foreseeable future; and,
- Primacy of Legislative Requirements - Where a particular accounting treatment is prescribed by legislation, then the 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 will be included in the accounts.

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.

Changes in Accounting Policies

The following changes have been made to accounting policies adopted last year:

- The Fixed Asset Restatement Account has been replaced by the Revaluation Reserve. This reserve records the accumulated gains on fixed assets arising from changes in value or other factors, but excluding depreciation;
- The Capital Adjustment Account replaces the Capital Financing Account and this is used to accumulate the write down of the historical cost of fixed assets as they are consumed by depreciation. The balances at 31 March 2007 (midnight) on the Fixed Asset Restatement Reserve and the Capital Financing Reserve were transferred into this account. Exceptionally, there is no requirement to backdate the introduction of the Capital Adjustment Account or the Revaluation Reserve;
- Minimum Revenue Provision (MRP). The MRP will continue to include the principal element of the credit arrangement, but will not include for 2007-08 the 4% of the value of the remaining principal of the credit arrangement present in the Capital Financing Requirement;
- Financial Instruments. These have been introduced as part of the changes to the 2007 SORP. The changes reflect the accounting treatment of ‘gains’ and ‘losses’ that may arise from holding financial instruments, e.g. debt or shares; and,
- The replacement of the Statement on Internal Control with an Annual Governance Statement.

Accruals

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular: fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services; interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet; where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Provisions

Provisions are sums set aside for liabilities or losses, which are likely to be incurred, but which are uncertain as to the amount or the date on which they will arise. Provisions are charged to the appropriate revenue account when the authority becomes aware of the obligation, and when payments are eventually made they are charged to the provision set up in the balance sheet.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure. The majority of the reserves are earmarked for particular purposes, the exception being the General Reserve which is available to fund revenue expenditure, subject to Members’ approval. Full details of these reserves are explained in note 22(e).

In addition, certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council. These reserves are explained in the notes to the core financial statements.

Grants

Revenue grants and contributions are matched with the expenditure to which they relate.

Where the acquisition of a fixed asset is financed either wholly or in part by a Government grant or other contribution, the amount of the grant or contribution is credited initially to the ‘Government Grants Deferred Accounts’. Amounts are written off to services over the useful life of the asset to match the depreciation charge on the asset to which it relates.

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred.

Retirement Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by Kent County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council, as detailed below.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.

The liabilities of the Kent County Council (KCC) pension scheme attributable to Swale Borough Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 6.9% (based on the indicative rate of return on high quality corporate bonds).

The assets of the KCC pension fund attributable to the Council are included in the balance sheet at their fair value:

- Quoted securities - mid-market value;
- Unquoted securities - professional estimate;
- Unitised securities - average of the bid and offer rates; and,
- Property - market value.

The change in the net pensions liability is analysed into seven components:

- Current service cost - the increase in liabilities as result of years of service earned this year – allocated to the revenue accounts of services for whom the employees worked;
- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services as part of Non-Distributed Costs;
- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure;
- Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure;
- Gains/losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services as part of Non-Distributed Costs;
- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – not charged to revenue; and,
- Contributions paid to the KCC pension fund - cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there is an appropriation to the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

In assessing liabilities for retirement benefits at 31 March 2007, the actuary assumed a discount rate of 2.1% real (5.4% actual), a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities is to be used. For the 2007-08 Statement of Accounts, the actuary has advised that a rate of 3.2% real (6.9% actual) is appropriate. Application of this rate has resulted in a decrease in liabilities measured at today's prices of £9.7 million, which together with the reduction of £6.3 million in assets is reflected in the actuarial gain recognised for the year in the Statement of Total Recognised Gains and Losses.

The Fund's actuary determines employers' contributions to the pension scheme on a triennial basis. The last actuarial valuation took place on 31 March 2007 and the change in contribution rates as a result of that valuation took effect from 1 April 2008.

VAT

Income and expenditure accounts, whether of a capital or revenue nature, only include amounts related to VAT to the extent that it is not recoverable from HM Revenue and Customs.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA 'Best Value Accounting Code of Practice 2007'. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multi-functional, democratic organisation; and,
- Non-Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account as part of Net Cost of Services.

Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant revenue account over the economic life of the investment to reflect the pattern of consumption of benefits. The accounting policies practiced will be the same for all fixed assets as stated below.

Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition - expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement - Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Investment properties and assets surplus to requirements - lower of net current replacement cost or net realisable value;
- Land and buildings, vehicles, plant and equipment - lower of net current replacement cost or net realisable value in existing use; and,
- Infrastructure assets and community assets - depreciated historical cost.

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value;
- Specialised operational properties – depreciated replacement cost; and,
- Investment properties and surplus assets – market value.

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Impairment - the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account; and,
- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals - when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only 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 Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Depreciation - depreciation is provided for on all assets with a determinable finite life (except for investment properties) by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Deprecation is calculated on the following bases:

- Land – depreciation is not normally provided for freehold land (whether operational or non-operational). However, freehold land should be depreciated where it is subject to depletion by, for example, the extraction of minerals;
- Buildings – straight-line allocation over the life of the property as estimated by the valuer;
- Plant and equipment – straight-line allocation over 5-10 years; and,
- Infrastructure and community – straight-line allocation over 20-50 years.

Where an asset has major components with different estimated useful lives, these are depreciated separately, but only if the asset has been enhanced recently.

For newly acquired assets and revalued assets, no depreciation is charged in the year of acquisition or revaluation.

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

Capital grants and contributions - where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

<u>Charges to Revenue for Fixed Assets</u>

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

- depreciation attributable to the assets used by the relevant service;
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service; and,
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (normally equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement and this is £259,000 in 2007-08). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

<u>Deferred Charges</u>

Deferred charges represent expenditure which may be capitalised under statutory provisions, but does not result in the creation of tangible fixed assets; e.g. improvement grants to private house owners. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of the deferred charges from existing capital resources, a transfer from the Capital Adjustment Account then reverses out the amounts charged to the Statement of Movement on the General Fund Balance so there is no impact on the level of Council Tax.

<u>Leases</u>

Finance Leases - The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable); and
- a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life. The Council took out a new finance lease in 2007-08 for blue recycling bins and glass caddies. This finance lease was in two phases and the total number of bins now held under this arrangement are 49,500 bins and 50,000 glass caddies which are being repaid over the life of the contract. As at 31 March 2008 the outstanding principal sum was £871,245.

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

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

The reconciliation of amounts charged to the Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

Financial Assets
Financial assets are classified into two types:

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

Loans and Receivables
Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the council has made loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, 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, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

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 Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

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 Income and Expenditure Account 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 Income and Expenditure Account 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; and,
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

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 Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Long-term investments (those held for greater than one year) are shown in the Balance Sheet at cost. These investments date pre-1974 and total £3,000.

Stocks and Work In Progress

Stocks for stationery are valued at the latest cost price which differs from the requirements of the Code which requires stocks to be shown at the lower of cost or net realisable value. The difference between these methods of valuation is immaterial. Stocks on the franking machine are valued at the original cost price.

Debtors and Creditors

The accounts of the Council are maintained on an accruals basis in accordance with FRS 18 ‘Accounting Policies’, 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. Exceptions to this principle relate to electricity and similar quarterly payments which are charged at the date of meter reading rather than being apportioned between financial years, and income from car parking which is dealt with on a cash basis and the outstanding sums are not included in debtors on the Balance Sheet. These policies are consistently applied each year and therefore do not have a material effect on the year's accounts.

Debts due to the Council are recorded as they become due and the item ‘Debtors’ shown in 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 has been accrued to 31 March 2008 on any loans outstanding at that date. Interest on short-term investments due, but not received as at 31 March 2008, has also been accrued.

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.

Any surplus on the Collection fund which is attributable to the precepting authorities is recorded as a creditor in the balance sheet. The movement on the residual balance over the financial year is added to the Statement of Total Recognised Gains & Losses.

Bad and Doubtful Debts

The provision for bad and doubtful debts is based on the age of the debt and the likelihood of recovery.

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 Balance Sheet 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’.

There are no events after the balance sheet date.

Credit Sale Arrangement

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

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

INCOME AND EXPENDITURE ACCOUNT

	2007-08 Gross Expenditure £'000	2007-08 Income £'000	2007-08 Net Expenditure £'000	*Restated 2006-07 Net Expenditure £'000
COST OF CONTINUING OPERATIONS				
Council Tax Collection	1,123	(502)	621	603
Council Tax Benefit	9,648	(9,447)	201	306
Other Central Services	909	(385)	524	427
Central Services to the Public	**11,680**	**(10,334)**	**1,346**	**1,336**
Culture & Heritage	167	(6)	161	133
Recreation & Sport	3,352	(773)	2,579	2,127
Open Spaces	1,524	(213)	1,311	1,489
Tourism	173	(32)	141	114
Cultural Services	**5,216**	**(1,024)**	**4,192**	**3,863**
Cemeteries	481	(122)	359	184
Coast Protection & Flood Defence	322	(42)	280	273
Environmental Health	2,336	(393)	1,943	2,010
Community Safety	699	(37)	662	630
Street Cleansing	1,864	(332)	1,532	1,487
Waste Collection	3,481	(946)	2,535	2,292
Environmental Services	**9,183**	**(1,872)**	**7,311**	**6,876**
Building Control	280	(142)	138	230
Development Control	1,303	(889)	414	37
Planning Policy	736	(115)	621	806
Environmental Initiatives	0	0	0	0
Economic Development	522	(194)	328	301
Community Development	1,257	(1,107)	150	153
Planning Services	**4,098**	**(2,447)**	**1,651**	**1,527**
Highways	131	(37)	94	118
Parking Services	1,107	(1,855)	(748)	(733)
Concessionary Fares	1,043	(68)	975	674
Highways, Roads & Transport Services	**2,281**	**(1,960)**	**321**	**59**
Homelessness	1,123	(549)	574	353
Housing Benefit	37,364	(36,679)	685	814
Other General Fund Housing	1,267	(380)	887	664
Housing Services	**39,754**	**(37,608)**	**2,146**	**1,831**
Democratic Representation & Management	1,004	0	1,004	926
Corporate Management	1,987	(46)	1,941	1,368
Corporate & Democratic Core	**2,991**	**(46)**	**2,945**	**2,294**
Non Distributed Costs	**144**	**0**	**144**	**0**
Net Cost of Services	**75,347**	**(55,291)**	**20,056**	**17,786**
(Gain) / loss on disposal of fixed assets	7	0	7	6
Parish Council Precepts	604	0	604	548
Deficit / (Surplus) on Trading Undertakings not included in Net Cost of Services – Note 3	683	(1,121)	(438)	(408)
Other Income	0	(305)	(305)	0
Interest Payable and Similar Charges	118	0	118	101
Contribution of Housing Capital Receipts to Government Pool	15	0	15	18
Interest and Investment Income	71	(581)	(510)	(296)
Pensions Interest Cost - Note 27	4,210	0	4,210	3,900
Expected Return on Pensions Assets - Note 27	0	(3,370)	(3,370)	(3,020)
Net Operating Expenditure	**81,055**	**(60,668)**	**20,387**	**18,635**
Financed by				
Government Grants (not attrib to specific services)			(187)	(364)
Demand on the Collection Fund			(7,092)	(6,763)
Non-Domestic Rates Redistribution			(9,917)	(9,089)
Revenue Support Grant			(1,664)	(1,728)
Collection Fund Deficit/(Surplus) on Council Tax			33	28
Total Deficit/(Surplus) for the Year			**1,560**	**719**

*2006-07 comparatives have been restated for grants received for Local Authority Business Growth Initiative and for Second Homes which are now shown under 'Financed by' whereas previously they had been included in the Net Cost of Services.

INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

The Income and Expenditure Account is fundamental to the understanding of a local authority's activities. It brings together all of the functions of the authority and summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the authority, before allowing for the concessions provided by statute to raise Council Tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.

The outturn on the Income and Expenditure Account is very different from the movement on the General Fund balance for the year and is best examined in connection with the Statement of the Movement on the General Fund Balance.

Any substantial surplus on the Account does not necessarily mean that the Council has resources available to increase spending or reduce Council Tax. Any substantial deficit on the Account does not necessarily mean that immediate action is needed to cut expenditure or raise Council Tax.

The 2007-08 deficit of £1,560,000 shows that the net cost of services plus the trading undertakings totalling £19.6 million (£20.0 million less £438,000) were not adequately financed by the non specific grants and local taxes (excluding Parish Precepts) of £18.2 million (£18.8 million less £604,000) resulting in a deficit of £1.4 million. This is because of the increase in the cost of impairment and depreciation of fixed assets, and the increase in expenditure on one off items which have been subsequently funded from reserves. Other factors, including pension costs and income from interest and investment income, resulted in a total deficit of £1.6 million.

2007-08 saw a deficit on this account of £1,560,000 compared to the deficit in 2006-07 of £719,000. The increase is due to the factors identified above. In addition, as can be seen in the Statement of Movement on the General Fund Balance (see below), the 2006-07 deficit was reduced by £1.3 million worth of items in order to reconcile it to the movement on the General Fund whilst the equivalent figure in 2007-08 was a higher £1.4 million.

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the authority is required to raise Council Tax on a different accounting basis, the main differences being:

- capital investment is accounted for as it is financed, rather than when the fixed assets are consumed;
- the payment of a share of housing capital receipts to the Government is a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than Council Tax; and,
- retirement benefits are charged as amounts become payable to the pension fund, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance:

	2007-08 £'000	2006-07 £'000
(Surplus)/deficit for the year on the Income and Expenditure Account	1,560	719
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(1,434)	(1,313)
(Increase)/ Reduction in General Fund Balance for the Year	126	(594)
General Fund Balance brought forward	(2,382)	(1,788)
General Fund Balance carried forward	(2,256)	(2,382)

There is a statement on page 57 which details the reconciling items on the above statement.

The significance of this statement for the year is that the balance on the General Fund has not fallen below the optimum level of £1.5 million as stated in the Medium Term Financial Strategy (MTFS). The level of the General Fund balance at over £2 million provides the Council with an opportunity to review its resources in the context of the competing demands from services. Therefore, the Council will use this opportunity as part of its progress towards ensuring that its resources are aligned more closely with the priorities of the Council as identified in its Corporate Plan and the MTFS..

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

Statement of Total Recognised Gains and Losses	2007-08 £'000	2006-07 £'000
(Surplus)/deficit for the year on the Income and Expenditure Account	1,560	719
(Surplus)/loss arising on revaluation of fixed assets (Note 11)	(2,914)	(10,051)
(Surplus)/deficit arising on revaluation of available-for-sale financial assets	-	-
Actuarial (gains)/losses on pension fund assets and liabilities (Note 27)	(3,440)	(4,270)
Attributable movement on Collection Fund (Page 58)	(115)	(69)
Prior Year Adjustment	-	-
Total recognised (gains)/losses for the year	(4,909)	(13,671)

This Statement reflects all the gains and losses experienced by the Council. In 2007-08 a gain of £4.9 million is shown. The impact that this is likely to have on spending plans for future years is that although the Council has gained, this is largely through the increase in the valuation of its assets, which could only assist future spending plans if they were all to be sold and capital receipts generated. However, two of the assets were sold at an increase of £477,000 on their book value, but there are no plans to do so for the remaining assets concerned. The element of the STRGL that is due to a decrease in the liabilities of the pension fund will be addressed by the Council adopting the recommendations of the actuary as a result of the next triennial revaluation.

BALANCE SHEET

		31 March 2008 £'000	31 March 2008 £'000	Restated 31 March 2007 £'000	Restated 31 March 2007 £'000
Fixed Assets					
Intangible Assets	- Note 19		106		50
Tangible Fixed Assets	- Note 11				
Operational Assets:					
Land and Buildings		34,065		34,639	
Plant and Equipment		3,523		1,216	
Infrastructure Assets		1,749		1,018	
Community Assets		3,517		4,815	
Non-operational Assets:					
Investment Properties		7,016		6,457	
Assets Under Construction		-		-	
Surplus Assets Held for Disposal		1,737		560	
			51,607		48,705
Total Fixed Assets			51,713		48,755
Long-term Investments	- Note 31	3		3	
Long-term Debtors -					
Mortgagors		117		143	
Other	- Note 32	1,017		791	
			1,137		937
Total Long-term Assets			52,850		49,692
Current Assets					
Stocks and Work in Progress	- Note 33	3		2	
Debtors	- Note 34	10,971		9,687	
Provision for bad debts	- Note 34	(2,888)		(2,680)	
Short-term Investments	- Note 35	4,971		3,940	
Cash in hand	- Note 29	154		-	
			13,211		10,949
Total Assets			66,061		60,641
Current Liabilities					
Creditors	- Note 36	(7,187)		(5,140)	
Cash Overdrawn	- Note 29	-	(7,187)	(239)	(5,379)
Total Assets less Current Liabilities			58,874		55,262
Long-term Liabilities					
Deferred Liabilities	- Note 37	(2,127)		(1,506)	
Liability related to defined benefit pension scheme	- Note 27	(27,030)		(30,360)	
Capital Grants and External Contributions Unapplied	- Note 39	(2,308)		(1,924)	
Government Grants Deferred		(5,008)	(36,473)	(3,980)	(37,770)
Total Assets less Liabilities			**22,401**		**17,492**
Financed By:					
Revaluation Reserve	- Note 22a		2,435		-
Fixed Asset Restatement Account	- Note 22b		-		-
Capital Financing Account	- Note 22b		-		-
Capital Adjustment Account	- Note 22b		37,229		38,153
Usable Capital Receipts Reserve	- Note 22d		1,225		1,421
Pensions Reserve	- Note 27		(27,030)		(30,360)
Financial Instruments Adjustment Account	- Note 22c		(65)		-
Deferred Credits	- Note 38		101		123
Other Reserves	- Note 22e		6,155		5,793
Revenue Balances					
General Fund		2,256		2,382	
Collection Fund		95		(20)	
			2,351		2,362
Total Net Worth			**22,401**		**17,492**

CASH FLOW STATEMENT

	2007-08		2006-07	
	£'000	£'000	£'000	£'000
REVENUE ACTIVITIES				
Cash Outflows				
Cash paid to and on behalf of employees	12,841		12,012	
Housing Benefit paid out	35,816		33,537	
Precept paid to Kent County Council	43,929		41,295	
Precept paid to Kent Police Authority	5,566		5,231	
Precept paid to Kent & Medway Towns Fire Authority	2,809		2,670	
Parish Precepts	604		548	
National Non-Domestic Rate Payments to National Pool	28,338		25,773	
Other operating cash payments	18,280		20,101	
Payment to Government Housing Capital Receipts Pool	15		18	
		148,198		141,185
Cash Inflows				
National Non-Domestic Rate Receipts from National Pool	(9,917)		(9,089)	
Council Tax Income	(51,199)		(48,559)	
Housing and Council Tax Benefit Grant	(44,698)		(41,517)	
Revenue Support Grant	(1,664)		(1,735)	
Other government grants (Note 30)	(1,855)		(1,722)	
Cash received for goods and services	(6,928)		(8,031)	
National Non-Domestic Rate Receipts	(28,512)		(28,272)	
Other Operating Cash Receipts	(4,979)		(5,208)	
		(149,752)		(144,133)
Revenue Activities (Inflow)/Outflow (Note 28)		(1,554)		(2,948)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE				
Interest paid	91		101	
Interest element of finance lease rental payments	27		-	
Interest received	(510)		(296)	
		(392)		(195)
CAPITAL ACTIVITIES				
Cash Outflows				
Purchase of fixed assets	3,159		1,308	
Deferred charges paid	969		1,191	
Other Capital Cash Payments	279		50	
		4,407		2,549
Cash Inflows				
Sale of fixed assets	(558)		(1,307)	
Capital grants received (Note 30)	(2,412)		(1,718)	
Other capital cash receipts - capital contributions	(60)		(1,053)	
Other Capital Cash Receipts	(80)		(102)	
		(3,110)		(4,180)
Capital Activities (Inflow)/Outflow		1,297		(1,631)
Net Cash (Inflow)/Outflow Before Financing		(649)		(4,774)
Management of Liquid Resources				
Net (decrease) in short term deposits (Note 35)		1,031		3,940
Financing				
Capital element of repayments of deferred liabilities (Note 37)		(775)		88
(Increase)/Decrease in Cash (Note 29)		(393)		(746)

1. Restatement of Balance Sheet as at 31 March 2007

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006-07 to accommodate the implementation of the Revaluation Reserve (see Statement of Accounting Policies). The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). The credit balance of £26.6 million on the FARA at 31 March 2007 has been written off to the Capital Financing Account (£11.6 million credit balance) to form the new Capital Adjustment Account with a balance of £38.2 million. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 therefore only shows revaluation gains accumulated since 1 April 2007.

2. Long Term Contracts

In 2007-08 the authority is committed to making payments under the following contracts:

- £3,648,000 for the provision of cleansing services (refuse & recycling, street cleansing and public conveniences); the remaining value of the contracts are estimated at £21.6 million (excluding future indexation and contract variations). The original contract period for all these contracts expires in 2013. Subsequent to the original contract, wheelie bins have been procured from the contractor under a finance lease (for further details see note 16);
- £591,000 for the provision of Leisure Centre Management (including utilities recharges); the remaining value of the contract is estimated at £4.9 million (excluding future indexation, contract variations and utility recharges which are subject to annual negotiation). The original contract period expires in 2019; and,
- £1,153,000 for the Grounds Maintenance contract. This contract was re-let in January 2007 at a base price of £1,075,000 for 10 years and is subject to annual indexation. The original contract period expires in 2017. The remaining value of the contract is £9.4 million (excluding future indexation and contract variations).

The Council also belongs to a partnership with Kent County Council (KCC) and other Kent District Councils which has received approval for £72 million PFI credits to deliver new homes for vulnerable people in Kent. The Council contributed to set up costs (legal costs) in 2007-08. However, as KCC is procuring and managing the project on behalf of the partners, this PFI project has no further accounting implications for the Council. The scheme is known as “Kent Better Homes Active Lives” PFI project, and its aim is to secure six units for a learning disabilities housing scheme in Faversham.

3. Trading Undertakings

	2007-08 Gross Expenditure £’000	2007-08 Income £’000	2007-08 Net Expenditure £’000	2006-07 Net Expenditure £’000
Property Portfolio	353	(706)	(353)	(293)
Markets	14	(93)	(79)	(97)
Building Control (chargeable activities only)	316	(322)	(6)	(18)
TOTAL	**683**	**(1,121)**	**(438)**	**(408)**

The above figures do not include the notional cost of capital as this has been excluded from all revenue services. However, if it was included for the Property Portfolio then it would reduce the surplus of £353,000 (£293,000 in 2006-07) to £102,000 (£32,000 in 2006-07).

Further details of the operations of Building Control are given in Note 6.

4. Discretionary Expenditure

Section 137 of the Local Government Act 1972 as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals. The Council’s expenditure under this power was £Nil (nil in 2006-07).

5. Publicity

Per the requirements of section 5(1) of the Local Government Act 1986, the Council's spending on publicity was:

	2007-08 £'000	2006-07 £'000
Recruitment Advertising	125	55
Other Advertising:		
Graphic Design Section	103	93
Communications - PR	80	17
Development Control	27	33
Industrial Development	31	32
North Kent Local Authority Arts	115	25
Swale / Hop Festivals	22	18
Corporate Advertising	3	17
Maritime Kent	-	10
Council Newspaper	25	10
Other	106	71
Total	**637**	**381**

The expenditure on the North Kent Local Authority Arts is fully reimbursed by external grants.

6. Building Control Trading Account

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Swale Borough Council sets charges for work carried out in relation to building regulations, with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

On 1 October 2007, the Building Control Unit transferred to the South Thames Gateway Building Control Partnership (STGBCP), along with the respective units of Medway Council and Gravesham Borough Council. This activity has been defined as a Joint Arrangement that is Not an Entity (JANE). Therefore, the Council's accounts reflect not the amount paid to the STGBCP for building control activities for 1 October 2007 to 31 March 2008, but the Council's share of the STGBCP's income, expenditure, assets and liabilities for the period. These are shown below:

	Chargeable	Non-Chargeable	Set Up Costs	Chargeable	Non-Chargeable	Total Building Control	Total Building Control
	2007-08 (April to September) £'000	2007-08 (April to September) £'000	2007-08 £'000	2007-08 (October to March) £'000	2007-08 (October to March) £'000	2007-08 Chargeable £'000	2007-08 £'000
Employees	-	-	-	133	39	133	172
Transport	-	-	-	7	2	7	9
Supplies and Services	6	29	108	2	1	8	146
Other	162	99	-	6	2	168	269
Contributions	-	-	(97)	-	(44)	-	(141)
Building Regulation Charges	(167)	-	-	(148)	-	(315)	(315)
Miscellaneous Income	(7)	(1)	-	-	-	(7)	(8)
(Surplus)/ Deficit for Year	**(6)**	**127**	**11**	**-**	**-**	**(6)**	**132**

7. **Members' Allowances**

The total of Members' Allowances paid in 2007-08 amounted to £252,900 (£253,000 in 2006-07).

8. **Officers' Emoluments**

The number of employees whose remuneration, excluding employers' pension contributions, was £50,000 or more, in bands of £10,000, was:

Remuneration Band	2007-08 Number of Employees	2006-07 Number of Employees
£50,000 - £59,999	5	6
£60,000 - £69,999	8	8
£70,000 - £79,999	1	1
£80,000 - £89,999	0	2
£90,000 - £99,999	2	0
£100,000 - £109,999	0	1
£110,000 - £120,000	1	0
Total	17	18

The 2006-07 figures have been amended to the same basis as 2007-08 – Gross Pay plus Taxable Allowances, rather than Taxable Pay plus Taxable Allowances.

9. **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. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council. The Statement of Accounts already includes appropriate references to related parties such as central government, the pension fund, other local and precepting authorities.

For 2007-08 details of transactions with all such other parties are included within the body of the Statement of Accounts and so do not need to be disclosed in this note. However, they do not include anything in relation to elected Members and senior management – for this purpose, members of the close family or the same household are also regarded as related parties. This has been supplemented by an approach to elected Members and senior management seeking from them a declaration that neither they, nor close family nor anyone in the same household have been involved in any material transactions with the Council. A return was received from all Members and Senior Officers.

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

For the 2007-08 financial year, there were no relevant disclosures.

10. Audit Costs

In 2007-08 the Council incurred the following fees relating to external audit and inspection:

	2007-08 £'000	**2006-07 £'000**
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditors	120	140
Fees payable to the Audit Commission in respect of statutory inspection	14	12
Fees payable to the Audit Commission for the certification of grant claims and returns	28	35
Fees payable in respect of other services provided by the appointed auditor.	25	26
Total	**187**	**213**

The fees for other services payable in 2006-07 related to fees paid to PricewaterhouseCoopers for external audit services relating to previous years. The fees for other services payable in 2007-08 largely related to work carried out by the Audit Commission on service planning.

11. Movement of Tangible Fixed Assets

	Operational Assets				Non-Operational Assets			
	Land & Buildings £'000	Plant & Equipment £'000	Infrastructure £'000	Community £'000	Under Construction £'000	Investment Property £'000	Surplus Held for Disposal £'000	TOTAL £'000
Cost / Certified Valuation as at 1 April 2007	35,011	4,344	1,273	5,328	-	6,457	560	52,973
Accumulated Depreciation and Impairment	(372)	(3,128)	(255)	(513)	-	-	-	(4,268)
Net Book Value as at 1 April 2007	34,639	1,216	1,018	4,815	-	6,457	560	48,705
Movement in 2007-08: Additions	46	1,376	755	113	-	40	251	2,581
Disposals / Scrapped	-	(1,187)	-	(6)	-	(557)	-	(1,750)
Reclassification	43	1,271	-	(1,320)	-	(461)	467	-
Impairments	(715)	-	-	-	-	(47)	(112)	(874)
Revaluations	402	-	-	6	-	1,584	571	2,563
Depreciation For Year	(735)	(340)	(24)	(91)	-	-	(6)	(1,196)
Depreciation on Assets Sold / Scrapped	-	1,187	-	-	-	-	-	1,187
Depreciation on Assets Revalued	345	-	-	-	-	-	6	351
Depreciation on Assets Impaired	40	-	-	-	-	-	-	40
Net Book Value as at 31 March 2008	**34,065**	**3,523**	**1,749**	**3,517**	**-**	**7,016**	**1,737**	**51,607**

12. Financing of Capital Expenditure

	2007-08 £'000	2006-07 £'000
Opening Capital Financing Requirement	**7,425**	**6,902**
Adjustment - Previous Year	**(98)**	**-**
Corrected Opening Capital Financing Requirement	**7,327**	**6,902**
Capital Investment:		
Intangible Fixed Assets	65	11
Operational Assets	2,290	957
Non–Operational Assets	291	35
Capital expenditure due to be provided under leisure contract (see note 39)	-	-
Deferred Charges	969	1,550
Total Capital Investment	**3,615**	**2,553**
Add Long Term Debtors - Housing Loans	304	**-**
Sources of Finance:		
Capital Receipts	(767)	**-**
Government Grants & other contributions	(1,852)	(1,847)
Regional Housing Board Monies - Funding of LT Debtors	(304)	-
Minimum Revenue Provision	(259)	(93)
Direct Revenue	(13)	(90)
Total Sources of Finance	**(3,195)**	**(2,030)**
Closing Capital Financing Requirement	**8,051**	**7,425**

Explanation of movements in year:

Increase in underlying need to borrow (supported by governmental financial assistance)	**-**	**-**
Increase in underlying need to borrow (unsupported by governmental financial assistance)	**724**	**523**

The increase in underlying need to borrow (unsupported by governmental financial assistance) represents the use of existing cash balances and a long-term liability for the waste collection and recycling (Wheelie Bins), offset by the Minimum Revenue Provision.

13. Commitments under Capital Contracts

There were no significant commitments under contract for future capital expenditure as at 31 March 2008.

14. Deferred Charges

Deferred charges relate to capital spend for which there will be no fixed asset (for example grants paid to external organisations) held by the Council. As there is no continuing benefit derived from this expenditure, it is written off to the Income and Expenditure Account in the same year that it is incurred.

	Balance at 01 April 07 £'000	Expenditure £'000	Written off to Net Cost of Services £'000	Balance at 31 March 08 £'000
Home Renovation Grants	-	924	(924)	-
Other	-	45	(45)	-
Total	**-**	**969**	**(969)**	**-**

15. Information on Assets Held

	31 March 08 (No's)	31 March 07 (No's)
Council Dwellings (cemetery lodges etc)	2	2
Offices	3	3
Depots	3	3
Off Street Car Parks (paying)	22	22
Off Street Car Parks (free)	25	25
Leisure Centres and Pools	4	4
Parks and Recreation Grounds	346.8 Ha	308.9 Ha
Harbours	1	1
Quays and Wharfs	3	3
Cemeteries	4	4
Public Halls	4	4
Museums	4	4
Pavilions	6	6
Shops	16	16
Commercial Property Leased Out	55 Units	58 Units
Allotments	14	14
Public Conveniences	15	15

16. Leases

Disclosures in relation to finance leases

Finance Leases - The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable); and
- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council took out a new finance lease in 2007-08 for blue recycling bins and glass caddies which was over two phases and the total number of bins now held under this arrangement are 49,500 bins and 50,000 glass caddies which are being repaid over the life of the contract. The rentals paid in 2007-08 were £109,721 charged to the Income and Expenditure Account as £27,246 finance costs (debited to interest payable) and £82,475 relating to the write-down of obligations to the lessor (debited as part of the appropriation to Capital Adjustment Account in the Statement of Movement on the General Fund Balance). As at 31 March 2008 the outstanding principal sum was £871,245.

The gross amount of assets held under finance leases together with the accumulated depreciation is shown below:

Type of Asset	Capital Value £	Depreciation to date £	Net Value £
Plant & Equipment	953,720	0	953,720
TOTAL	**953,720**	**0**	**953,720**

Amounts payable under this finance lease over the term of the agreement are as follows:

	Payments due within one year £	Payments due between two and five years £	Payments due after five years £	TOTAL £
Plant and Equipment	171,150	684,929	121,838	977,917

The Council has committed to phase three of the finance lease which is for a further 1,500 bins at a capital cost of £22,425 and this will commence in April 2008. This will involve instalment payments of £4,308 in 2008-09 and £25,004 over the period of the lease agreement.

Disclosures in relation to operating leases

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

Plant and equipment – as at 31 March 2008 the Council has ten service vehicles on a contract hire / operating lease basis (excluding staff lease vehicles). The Council is committed to making payments of £32,240 in 2008-09 as detailed below. This commitment is expected to expire within five years of the balance sheet date.

The amount paid under these arrangements in 2007-08 was £36,800.

Type of Asset	Payments due in 08-09 on leases due to expire 2008-09 £	Payments due in 08-09 on leases due to expire between 2009-10 and 2012-13 £	Payments due in 08-09 on leases due to expire after 2013-14 £	TOTAL £
Vehicles	5,500	26,740	0	32,240

Disclosures in relation to the Council acting as lessor

The Council holds a number of leases with third parties. The following tables details the main operational leases with third parties. In addition to these the Council has a number of leases on non operational assets (commercial, industrial, community and miscellaneous properties) with third parties.

Asset	Lessee	Term	Value per annum in £000
Depot	Verdant	14 years	138
Leisure Centres	Swale Community Leisure Trust	15 years	peppercorn
Faversham Pool	FSPMC	99 years	peppercorn

17. Fixed Asset Valuation

The freehold and leasehold properties which comprise the Council's property portfolio have been valued by the Valuation Office Agency together with Mr K Parker ARICS, who is an employee of the Council, on the under-mentioned basis in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The Valuation Office Agency is an executive agency of HM Revenue & Customs (HMRC) and their main functions are: to compile and maintain the business rating and council tax valuation lists for England and Wales; value property in England, Wales and Scotland for the purposes of taxes administered by the HM Revenue & Customs; provide statutory and non-statutory property valuation services in England, Wales and Scotland; give policy advice to Ministers on property valuation matters.

There is in place a rolling programme of revaluations; assets with a carrying value of £9.2 million were revalued in the year by the Valuation Office Agency together with Mr K Parker ARICS.

Properties regarded by the authority as operational were valued on the basis of existing use value, or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost. Properties regarded by the authority as non-operational (mainly land and buildings for commercial lettings) have been valued on the basis of open market value.

The table below sets out the progress of the rolling programme of revaluation of the Council's fixed assets:

	Land & Buildings £'000	Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Assets Under Construction £'000	Investment Property £'000	Surplus Assets for Disposal £'000	Total £'000
Valued at historical cost	7	1,277	1,749	3,517	0	0	0	6,550
Valued at current value in:								
Pre 2000	302	0	0	0	0	74	0	0
2001-02	0	133	0	0	0	58	0	191
2002-03	657	97	0	0	0	168	0	922
2003-04	1,262	42	0	0	0	470	0	1,774
2004-05	23	129	0	0	0	1,881	0	2,033
2005-06	3,781	447	0	0	0	5	0	4,233
2006-07	23,813	143	0	0	0	1	0	23,957
2007-08	4,220	1,255	0	0	0	4,359	1,737	11,571
Total of Values as at 1 April 2008	34,065	3,523	1,749	3,517	0	7,016	1,737	51,607

18. Depreciation Methodologies

Depreciation is provided for on all assets with a determinable finite life (except for investment properties) by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Deprecation is calculated on the following bases:

- Land – depreciation is not normally provided for freehold land (whether operational or non-operational). However, freehold land should be depreciated where it is subject to depletion by, for example, the extraction of minerals;
- Buildings – straight-line allocation over the life of the property as estimated by the valuer;
- Plant and equipment – straight-line allocation over 5-10 years; and,
- Infrastructure and community – straight-line allocation over 20-50 years.

Newly acquired assets and revalued assets are depreciated in the year following acquisition or revaluation.

There was nil material change in the depreciation charge for 2007-08 as a result of a change during the period in either the estimate of useful lives or the estimate of residual values because any changes to the estimated useful life or the estimate of residual values are actioned the following year.

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

19. Movement of Intangible Fixed Assets

	Purchased Software Licence £'000
Original Cost	**61**
Accumulated Amortisation to 1 April 2007	(11)
Balance as at 1 April 2007	**50**
Additions in Year	65
Amortisation for Year	(9)
Balance as at 31 March 2008	**106**

Software licences are mainly for the Customer Relationship Management System, used in the Customer Service Centre. The cost is being written off over the eight-year life of the licences.

20. Analysis of Net Assets Employed

	31 March 2008 £'m	31 March 2007 £'m
General Fund	13	9
Trading Undertakings	9	8
Total	**22**	**17**

21. Insurance Provisions

The Council has decided that repair works, valued at £1,000 or less, to council occupied property will not be insured where such damage arises in respect of fire, accidental and malicious damage, flood or theft and other associated risks; a voluntary excess of £1,000 has been applied to policies held for such cover. Also, neither the costs of temporary replacement hire cars nor compensation costs payable in respect of Public Health Act powers or in respect of loss of early terminated leased cars are insured.

The total funds held in respect of the above liabilities as at 31 March 2008 are £100,146 (£90,000 as at 31 March 2007). There are separate funds for different risks, each of which is monitored, with contributions made from services to each fund made as required

22. Reserves

Summary Introduction to Detail of Movements on Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance 1 April 2007 £'000	Net Movement in Year £'000	Balance 31 March 2008 £'000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	-	2,435	2,435	Store of gains on revaluation of fixed assets not yet realised through sales	See (a) below
Capital Adjustment Account	38,153	(924)	37,229	Store of capital resources set aside to meet past expenditure	See (b) below
Financial Instruments Adjustments Account	-	(65)	(65)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	See (c) below
Usable Capital Receipts	1,421	(196)	1,225	Proceeds of fixed asset sales available to meet future capital investment	See (d) below
Pensions Reserve	(30,360)	3,330	(27,030)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 27 to the Core Financial Statements
General Fund	2,382	(200)	2,182	Resources available to meet future running costs for services	Statement of Movement on the General Fund Balance
Other Reserves	5,793	262	6,055	See note (e) below	See note (e) below
Total	**17,389**	**4,642**	**22,031**		

22(a) Revaluation Reserve

The closing position on the Reserve at 31 March 2008 only shows revaluation gains accumulated since 1 April 2007.

	2007-08 £'000	2006-07 £'000
Balance as at April 1	-	-
Revaluation Gains	(2,914)	-
Sale of Assets - write out of revaluation gain	477	-
Impairment	2	-
Balance as at March 31	**(2,435)**	**-**

22(b) Fixed Asset Restatement Account

	2007-08 £'000	2006-07 £'000
Balance as at 31 March 2007	**-**	**(17,846)**
Revaluation of assets	-	(6,023)
Expenditure not adding value	-	-
Disposal of assets	-	1,300
Depreciation on revalued assets	-	(4,028)
Depreciation on disposal of assets	-	-
Restatement of accounts	-	26,597
Fund Balance as at 31 March 2008	**-**	**-**

To comply with the SORP 2007 the balance on this account has been transferred as at 31 March 2007 to the Capital Financing Account and then to the Capital Adjustment Account.

22(b) Capital Financing Account

To comply with the SORP 2007-08 the balance on this account has been transferred as at 31 March 2007 to the Capital Adjustment Account.

22(b) Capital Adjustment Account

The Capital Adjustment Account has been created upon the implementation of the Revaluation Reserve.

	2007-08 £'000	2006-07 £'000
Balance as at April 1	**(38,153)**	-
Minimum Revenue Provision	(259)	-
Government Grants Deferred	(156)	-
Capital Financing - Revenue	(13)	-
Capital Financing - Capital Receipts	(767)	-
Write down of Deferred Charges to be financed from capital resources	29	-
Depreciation	1,204	-
Impairment	(32)	-
Disposal of assets - write out of Carrying Value	563	-
Disposal of assets - write out of balance on Revaluation Reserve	(477)	-
Revaluation Losses - price and consumption impairment	832	-
Restatement of accounts	-	(38,153)
Balance as at March 31	**(37,229)**	**(38,153)**

22(c) Financial Instruments Adjustment Account

	2007-08 £'000	2006-07 £'000
Balance at 1 April	**-**	**-**
Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements	65	-
Balance at 31 March	**65**	**-**

22(d) Usable Capital Receipts Reserve

These are receipts from the sale of assets which are available for financing new capital expenditure. The disposal costs relating to the capital receipts generated during the year are treated as a revenue transaction in the Income and Expenditure Account.

	2007-08 £'000	2006-07 £'000
Balance at 1 April	**(1,421)**	**(88)**
Add: Capital receipts in year	(586)	(1,351)
Less: Capital receipts applied during the year	767	-
2006-07 Housing Pooled Capital Receipts	15	18
Balance at 31 March	**(1,225)**	**(1,421)**

22(e) Other Reserves

These are reserves set aside for specific purposes and are detailed below:

	Balance as at April 1 2007 £'000	Approp'ns to reserve in year £'000	Approp'ns from reserve in year £'000	Balance as at March 31 2008 £'000
Performance Improvement Fund	-	(450)	133	(317)
Repairs and Renewals Fund	(321)	(185)	241	(265)
Partnership Reserve	(10)	(200)	-	(210)
Sewer Requisition Fund	(279)	(299)	293	(285)
Building Maintenance Fund	(318)	(271)	58	(531)
General Reserve	(3,737)	(50)	413	(3,374)
Other Miscellaneous Funds	(218)	(97)	152	(163)
Insurance Fund (Note 21)	(90)	(10)	-	(100)
Risk Management Fund	(10)	(30)	3	(37)
Superannuation	(334)	(110)	26	(418)
IT Development	(24)	-	22	(2)
Parish Council Grant Scheme Reserve	(452)	(1)	-	(453)
TOTAL	(5,793)	(1,703)	1,341	(6,155)

- Performance Improvement Fund - Established in 2007-08 to improve overall performance. Officers were invited to submit a bidding list of proposals;
- Repairs and Renewals Fund - Regular contributions are made to this fund from the Statement of Movement on the General Fund Balance. Large items of expenditure are then charged to the service;
- Partnership Reserve - The purpose of this reserve is to attract additional resources from third parties for joint funded projects. A major condition of its use is that, for each project, expenditure from the fund must be at least matched by external sources;
- Sewer Requisition Fund - This fund is for payments to Southern Water for the annual deficits on sewerage schemes which the Council has requisitioned;
- General Reserve - This reserve is available to fund revenue expenditure and its use is subject to the approval of Members;
- Building Maintenance Fund - This fund was established to meet urgent and unexpected building repairs. Advances from the fund are repaid over a number of years;
- Other Miscellaneous Funds:

  Graves in Perpetuity - Interest on this reserve is used to contribute to the costs of grave maintenance;

  Grassed Areas - This reserve, which was created by developers' contributions, and the interest earned transferred to Parks and Open Spaces, was transferred to General Fund in 2007-08;

  Building Control Surplus – This surplus was accumulated from the Council's fee earning building control service. From 1 October this service has been provided by the Partnership of Gravesham, Swale and Medway councils and as part of the implementation the Council's balance on this reserve was transferred to the partnership;

- Insurance Fund - This fund relates to the 'self insurance' of risks which are not covered by the Council's insurance policies;
- Risk Management Fund - This fund was established to finance risk management activities which will maximise the ability of the Council to gain higher rebates of premiums from the Council's Insurance Company;
- Superannuation - This fund was established to meet the cost of releasing the pension fund benefits to staff who have taken early retirement;

- IT Development - This fund is for financing various initiatives to enhance the services provided by the Council; and,

- Parish Council Grant Scheme - This fund is used to ring-fence any unspent budget from the Parish Grant Scheme (established as part of the Subsidiarity initiative) for use in future years' financing of the Scheme's commitments.

23. Contingent Liability

The Council's dispute with the former operators of its Leisure Management facilities which had been the subject of a legal action has now been settled, with the result that there is no longer any contingent liability for this item. In February, a former employee of the Council submitted a claim against dismissal to the Employment Tribunal. At present, the Employment Tribunal case is part-heard and as such the final outcome of the claim is uncertain. The Council is strongly defending its position.

24. Authorisation of Accounts for Issue

The Statement of Accounts was authorised for issue by D Buckett, the Head of Finance on 11 June 2008.

25. Events after the Balance Sheet Date

There have no disclosable material events between the balance sheet date and the date that the Head of Finance authorised the accounts to be submitted for publication (11 June 2008).

26. Trust Funds

The Council acts as sole trustee of two trust funds. The funds of the Trusts do not represent assets of the Council and have not therefore been included in the Balance Sheet. However, where the Council holds cash on behalf of the Trusts an equivalent creditor to the Trusts has been included as a sundry creditor.

	2007-08 Queenborough Fishery Trust £'000	2006-07 Queenborough Fishery Trust £'000	2007-08 Swale Recreation Trust £'000	2006-07 Swale Recreation Trust £'000
Fund balance brought forward 1 April	83	107	30	15
Income for the year	10	9	3	18
Expenditure for the year	(27)	(33)	(1)	(3)
Fund balance carried forward 31 March	**66**	**83**	**32**	**30**
Value of Assets	70	90	32	31
Value of Liabilities	(4)	(7)	-	(1)

- Queenborough Fishery Trust - To provide for the inhabitants of the Borough of Swale (including in particular the former Borough of Queenborough) for: (i) the relief of aged, poor, sick and disabled inhabitants; (ii) the provision and support of facilities for recreation and other leisure occupation in the interests of social welfare with the objective of improving the conditions of life; and, (iii) the provision and support of educational facilities; and,

- Swale Recreation Trust - To provide facilities for recreation and other leisure occupation in the interests of social welfare with the objective of improving the conditions of life of the inhabitants of the Borough of Swale.

27. Pension Costs

As part of the terms and conditions of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council is required under FRS 17 to recognise the cost of providing the benefits in the year in which they are earned by employees.

The Council participates in the Local Government Pension Scheme administered by Kent County Council. This is a defined benefit statutory scheme whereby the Council and employees pay contributions into a Fund, calculated at a level estimated to balance the pensions liabilities with investment assets.

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, the charge that must be made in the year against Council Tax is based on the employer's contribution determined in accordance with the triennial actuarial valuation and the difference between this and the real cost of retirement benefits is reversed out in the Statement of Movement on the General Fund Balance during the year:

	2007-08 £'000	Restated 2006-07 £'000
Income and Expenditure Account		
Net Cost of Services		
Current Service Cost	1,510	1,700
Past Service Costs	20	-
Net Operating Expenditure		
Interest Cost	4,210	3,900
Expected Return on Assets in the Scheme	(3,370)	(3,020)
Net Charge to the Income and Expenditure Account	2,370	2,580
Statement of Movement on the General Fund Balance		
Reversal of net charges made for retirement benefits in accordance with FRS 17	(2,370)	(2,580)
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	2,260	2,220

The figure for employers' contributions to the scheme for 2006-07 has been restated to include an adjustment identified to reflect the amended figure for employers' contributions to the scheme.

As the age profile of the active membership is rising significantly, the current service cost will increase as the members of the fund approach retirement.

Further information can be found in Kent County Council's Superannuation Fund's Annual Report, which is available upon request from the Investments Section, County Hall, Maidstone, Kent ME14 1XQ.

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

	31 March 08 £'000	31 March 07 £'000
Estimated liabilities in scheme	(68,950)	(78,600)
Estimated assets in scheme	41,920	48,240
Net liability	**(27,030)**	**(30,360)**

The net liability shows the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £27 million has a substantial impact on the net worth of the authority as recorded in the balance sheet, reducing it to £22.2 million. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy as the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

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. assessed by Hymans Robertson, an independent firm of actuaries, and based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in their calculations are:

	31 March 08 % p.a.	31 March 07 % p.a.
Rate of inflation	3.6%	3.2%
Rate of increase in salaries	5.1%	4.7%
Rate of increase in pensions	3.6%	3.2%
Rate for discounting scheme liabilities	6.9%	5.4%

Swale Borough Council prepares its accounts in accordance with CIPFA guidance. Therefore, the discount rate employed for the 2007-08 financial year is the yield available on long-dated, high quality corporate bonds (as measured by the yield on iboxx Sterling Corporates Index, rated AA over 15 years), at the FRS17 valuation date.

The latest formal valuation of the Fund for the purpose of setting employers' actual contributions was as at 31 March 2007, with the next formal valuation due as at 31 March 2010. In preparing the balance sheet at 31 March 2008 and the revenue account to 31 March 2008, allowance is included for the removal of the 'Rule of 85' for new entrants from 1 October 2006, to the extent that any such new entrants were included in the membership data for the formal valuation at 31 March 2007. No allowance is made for the effect of the abolition of the 'Rule of 85' for any new entrants since 31 March 2007. The principal reason for this is that insufficient information is available to allow the actuary to make any such adjustment. However, the effect is likely to be immaterial in actuarial terms.
Swale Borough Council's share of the assets in the Kent County Council Pension Scheme and the expected rate of return were:

	2008		2007	
	Value at 31 March £'000	Expected Return at 31 March %	Value at 31 March £'000	Expected Return at 31 March %
Equity Investments	29,120	7.7%	33,830	7.8%
Bonds	5,880	5.7%	5,990	4.9%
Property	4,530	5.7%	4,930	5.8%
Cash	2,390	4.8%	3,490	4.9%
Total	**41,920**		**48,240**	

The movement in the net pensions liability for the year to 31 March is as follows:

	2007-08 £'000	2006-07 £'000
Net pensions liability at beginning of year	(30,360)	(34,270)
Movements in the year:		
Current service cost	(1,510)	(1,700)
Employer contributions paid	2,030	2,000
Contns paid in respect of Unfunded Benefits	230	220
Past Service Costs	(20)	-
Impact of settlements and curtailments	-	-
Net return on assets	(840)	(880)
Actuarial gains/(losses)	3,440	4,270
Net pensions liability at end of year	**(27,030)**	**(30,360)**

The actuarial gains/ (losses) can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at as 31 March:

	2008		2007		2006		2005		2004		2003	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Difference between the expected and actual return on assets	(5,940)	(14.2)	(310)	(0.6)	7,190	15.8	1,430	4.0	4,660	14.0	(9,560)	(35.2)
Differences between actuarial assumptions about liabilities and actual experience	(1,310)	(1.9)	190	0.3	(352)	(0.4)	(5,217)	7.7	68	0.1	190	0.4
Changes in Financial Assumptions Underlying the Present Value of Scheme Liabilities	10,690	15.5	4,390	5.6	(8,400)	(10.5)	(10,438)	(15.3)	-		-	
	3,440		**4,270**		**(1,562)**		**(14,225)**		**4,728**		**(9,370)**	

28. Reconciliation of Net Surplus/Deficit on the Income and Expenditure Account to the Revenue Activities Net Cash Flow in the Statement

	2007-08 £'000	2006-07 £'000
(Surplus)/Deficit per Income/Expenditure Account	1,560	719
(Surplus)/Deficit per Collection Fund	(115)	(69)
Interest Receivable	510	296
Interest Payable	(118)	(101)
Depreciation, amortisation and impairment	(1,878)	(1,688)
Retirement Benefits	(110)	(360)
Increase/(Decrease) in Stock	1	(3)
(Increase)/Decrease in Creditors	(2,654)	651
(Decrease)/Increase in Debtors	1,322	(2,387)
Other non cash items	(72)	(6)
Net Cash (Inflow)/Outflow from Revenue Activities	**(1,554)**	**(2,948)**

29. Movement in Cash

	As at 31 March 08 £'000	As at 31 March 07 £'000	Movement £'000
Cash Overdrawn	-	(239)	239
Cash in Hand	154	-	154
Movement in Cash	**154**	**(239)**	**393**

30. Analysis of Government Grants

	2007-08 £'000	2006-07 £'000
REVENUE		
Planning Delivery Grant	(373)	(527)
Community Development	(60)	(52)
Recycling	(109)	(104)
Homelessness	(65)	(65)
Sure Start	(670)	(789)
Housing Supporting People	(56)	(57)
Housing Benefits Performance Standards	(112)	-
Concessionary Fares Grants	(68)	-
Housing Regional Board	(200)	-
Smoke Free Legislation Grant	(68)	-
Business Initiatives	(48)	(96)
Other	(26)	(32)
Revenue Grants Sub-Total	(1,855)	(1,722)
CAPITAL		
Disabled Facilities Grant	(600)	(530)
Single Regional Housing Pot	(641)	(1,188)
DEFRA Coast Protection	(820)	-
M2/ A249 Corridor Study	(100)	-
Empty Home Action (part of Regional Housing Board monies)	(251)	-
Capital Grants Sub-Total	(2,412)	(1,718)
Total Government Grants	**(4,267)**	**(3,440)**

31. Long-term Investments

	31 March 08 £'000	31 March 07 £'000
British Government Stocks	3	3
TOTAL	3	3

32. Long-term Debtors - Other

	31 March 08 £'000	31 March 07 £'000
Assisted Car Purchase Loans	57	70
Housing Repair Loans	243	-
Loans to Housing Associations, Voluntary Organisations etc.	-	2
Private Street Works	12	14
Payments in advance under leisure contract (see note 39)	705	705
TOTAL	**1,017**	**791**

33. Stocks and Work in Progress

	31 March 08 £'000	31 March 07 £'000
Stocks	3	2
TOTAL	3	2

34. Debtors

	31 March 08 £'000	Restated 31 March 07 £'000
Government departments	2,626	1,379
Other public bodies	4	149
Business Ratepayers	1,647	1,545
Council Taxpayers	3,054	3,044
Sundry debtors and payments in advance	3,640	3,570
Sub total	10,971	9,687
Provisions for doubtful debts:		
Business Rates	(977)	(1,049)
Council Tax	(679)	(679)
Housing Benefit Overpayments	(653)	(509)
Other	(579)	(443)
Sub total Provisions for doubtful debts	(2,888)	(2,680)
TOTAL	**8,083**	**7,007**

35. Short-term Investments

Liquid resources are short-term investments held for less than one year.
The short-term Investments are placed on the money market with the following institutions:

	31 March 08 £'000	31 March 07 £'000	Movement £'000
Banks	3,500	3,500	-
Money Market Fund	1,471	440	1,031
TOTAL	**4,971**	**3,940**	**1,031**

36. Creditors

	31 March 08 £'000	31 March 07 £'000
Government departments	(259)	(198)
Other public bodies	(789)	(99)
Business Ratepayers	(723)	(539)
Council Taxpayers	(312)	(372)
Sundry Creditors	(4,854)	(3,835)
Deferred liabilities due within one year (Notes 37)	(250)	(97)
TOTAL	**(7,187)**	**(5,140)**

37. Deferred Liabilities

Deferred liabilities relate to two items. Firstly, an arrangement with the Council's contractor for Leisure Management who has agreed to provide phased capital expenditure of £1.826 million at the leisure centres over the 15 year life of the contract. Under the contract, the Council is committed to make regular monthly payments for 15 years to cover repayment of this sum together with associated financing costs. The sum shown in the Balance Sheet is the outstanding principal element in respect of capital expenditure both provided and yet to be provided under the contract. Where capital expenditure is due to be provided in future years, payments in advance have been recognised in the balance sheet as appropriate. Secondly, a finance lease with the Council's contractor for refuse collection for capital expenditure of £0.95 million on new wheeled bins. The Council is committed to make regular monthly payments for 7 years to cover repayment of this sum together with associated financing costs. The sum shown in the Balance Sheet is the outstanding principal element in respect of capital expenditure.

	As at 31 March 08 £'000	As at 31 March 07 £'000	Movement £'000
Deferred liabilities			
- due within one year	(250)	(97)	(153)
- due after more than one year	(2,127)	(1,506)	(621)
Movement in deferred liabilities	**(2,377)**	**(1,603)**	**(774)**

38. Deferred Credits

Deferred capital credits are amounts which are derived from sales of assets due to be received in instalments over agreed periods of time. They arise principally from mortgages on sales of Council houses which, with mortgages granted for the purchase and improvement of private housing, combine to yield the figure given for ‘mortgagors’ under ‘long-term debtors’ in the Balance Sheet.

39. Grants & External Contributions Unapplied

	Contributions Unapplied 01 April 07 £’000	Contributions Received £’000	Capital Financing £’000	Contributions Unapplied 31 March 08 £’000
Capital Grants & Contributions	(1,262)	(2,550)	2,019	(1,793)
Section 106 Agreements	(662)	10	137	(515)
Total	**(1,924)**	**(2,540)**	**2,156**	**(2,308)**

Capital Grants & Contributions represent sums received for the funding of future capital expenditure.

Section 106 Agreements are entered into as part of certain planning approvals and require the developer to provide a sum which will be put towards a specific future purpose. This could be a capital project, a contribution towards future revenue costs, or it may need to be held by the Council until certain conditions are fulfilled, when it would then either be passed to a third party or returned to the developer, depending on the terms of the agreement.

Contributions held for future revenue costs are included in ‘Receipts in Advance’, and contributions held pending return to the developer or a third party have now been transferred to ‘Deposits’, reflecting the revised treatment of Section 106 Agreements as required by the SORP. The balance left in this account represents contributions towards future capital projects.

40. Group Accounts

The SORP contains detailed requirements for the production of group accounts and a review was undertaken to identify any subsidiaries, associates, or joint ventures which would establish whether a group relationship exists for the purposes of the Council’s Statement of Accounts.

With regard to the Faversham Swimming Pool Management Committee (FSPMC), as the Council appoints the majority of the governing body it falls within the definition of a subsidiary. However, as the grant from the Council to FSPMC amounted to £47,000 in 2007-08, and the Council’s commitment to the Committee is to fund any annual deficit, it is considered that this exposure to risk is not material. Accordingly, group accounts have not been prepared. The FSPMC is a charitable trust which operates a swimming pool complex for the benefit of local residents.

It is our opinion that the Council’s exposure to risk as a result of the above grant of £47,000 is not material in comparison to the Council’s net cost of services of £20.2 million.

The audited FSPMC accounts for 2007-08 show revenue income of £514,000 and expenditure of £605,000, giving an operating deficit of £91,000; net assets as at 31 March 2008 amounted to £215,000. At the year end, no amounts were due to or from the Council.

The latest accounts of the Committee can be obtained from the Charity Commission as follows:

Post	Charity Commission Direct P.O. Box 1227 Liverpool L69 3UG
Telephone	0845 3000 218
Internet	www.charity-commission.gov.uk

Please note that you will need to provide the name of the charity and the registration number, being 'The Faversham Swimming Pool Management Committee' - registration number 302742.

41. Local Authority (Goods and Services) Act 1970

Under the above Act, the Council is empowered to supply goods or materials and certain services to other public bodies within the meaning of the Act. There were no transactions for 2007-08.

42. Involvement in Local Area Agreement

The Council is a participant in a Local Area Agreement (LAA) – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007-08, the LAA has completed the final year of its three-year agreement.

The Kent Agreement comprises the Local Area Agreement (LAA) and the Local Public Service Agreement phase 2 (LPSA 2). It brings Kent Partners together to work for the people of the county with the aim of increasing independence and raising personal fulfilment, and acts as a vehicle for taking forward the ambitions contained in the Vision for Kent. It includes key targets agreed jointly between the Kent Partners and government. The LAA comprises four key blocks - children and young people; safer and stronger communities; healthy communities and older people; economic development and sustainable communities. The Kent Agreement goes well beyond a simple list of targets. Government offers a Performance Reward Grant for meeting the LPSA targets, along with the opportunity to negotiate freedom from regulation and prescription.

The Kent Agreement involves many different partners including: Kent County Council, District Councils, Kent Police, Kent Fire and Rescue Service, Learning and Skills Council Kent and Medway, Job Centre Plus, Kent and Medway Strategic Health Authority, Higher Education Kent and Medway, PCT Collaborative, South East England Development Agency and the Government Office of the South East. Kent County Council is the accountable body. The LPSA 2 has been developed alongside the LAA and all of the LPSA 2 targets contribute to the LAA. A Performance Reward Grant is attached to LPSA 2. The total amount available on successful conclusion of all targets is in the region of £36 million. To date no LAA grant money has been received by Swale Borough Council for this agreement.

43. Financial Instruments

(a) Financial Liabilities held at Amortised Cost

	Long-Term		Current	
	2007-08 £000	**2006-07 £000**	**2007-08 £000**	**2006-07 £000**
Borrowing	-	-	-	-
Operational Creditors	-	-	7,187	5,140
Cash overdrawn	-	-	-	239
Total	**-**	**-**	**7,187**	**5,379**

The increase in creditors of £2.0 million is mainly due to the inclusion of the precepting authorities' share of the collection fund surplus (see below) as creditors and because of the invoices authorised for 2007-08, but which were physically paid in 2008-09.

(b) Loans and Receivables held at Amortised Cost

	Long-Term		Current	
	2007-08 £000	**2006-07 £000**	**2007-08 £000**	**2006-07 £000**
Investments	-	-	4,971	3,940
Bond investment at cost	3	3	-	-
Debtors (Gross of bad debt provision)	718	720	10,822	9,688
Soft Loans	242	-	149	-
Car Loans	57	71	-	-
Mortgages	117	143	-	-
Cash in hand	-	-	154	-
Total	**1,137**	**937**	**16,096**	**13,628**

No financial instruments were re-classified during the year and there was no de-recognition of financial instruments.

Operational debtors shown gross before bad debts provision applied (now classed as an impairment loss - see (c) below).

The accounting treatment for soft loans came into effect from April 2007 and previous years' figures have not been restated.

The Council does not pledge collateral for liabilities nor hold collateral that is permitted to sell or re-pledge.
There has been no allowance for credit losses excepting for trade debtors etc. and there has been no defaults or breaches of any financial instruments.

Debtors have risen mainly because of the increase in Housing Benefit grant owed by the Government. The amount received in 2007-08 was based upon an estimate for the year made in February 2007, and the year on year increase of this estimate cannot exceed certain limits set by the Government. Although the estimate for 2007-08 could be adjusted in August 2007, any changes could not take into account any rent increases by landlords after that month even if they were known. Therefore the annual rent review by Swale Housing Association in October 2007 could not be included. The payment of subsidy to match actual expenditure in 2007-08 is due to be received in July 2008.

(c) Gains & Losses on Financial Instruments

The gains and losses recognised in the Income & Expenditure Account in 2007-08 (and STRGL if appropriate) in relation to financial instruments are made up as follows:

	Financial Liabilities [measured at amortised cost] £000	**Financial Assets [Loans & Receivables] £000**	**Total £000**
Interest Costs	-	(1)	(1)
Impairment Losses [Bad Debt Provision]	-	(2,888)	(2,888)
Impairment Losses [Soft Loans]	-	(77)	(77)
Interest Payable and Similar Charges		**(2,966)**	**(2,966)**
Interest Income	-	582	582
Interest Income on soft loans	-	12	12
Gains on De-recognition	-	-	-
Interest & Investment Income	-	594	594
Net Gain / (Loss) for year	**-**	**(2,372)**	**(2,372)**

Comparative information for financial year 2006-07 is as follows:

	Financial Liabilities [measured at amortised cost] £000	Financial Assets [measured at amortised cost] £000	Total £000
Interest Costs	-	(1)	(1)
Impairment Losses [Bad Debt Provision]	-	(2,680)	(2,680)
Interest Payable and Similar Charges	**-**	**(2,681)**	**(2,681)**
Interest Income	-	339	339
Gains on De-recognition	-	-	-
Interest & Investment Income	-	339	339
Net Gain / (Loss) for year	**-**	**(2,342)**	**(2,342)**

(d) Fair Value of Assets & Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. The Council currently has no long-term borrowings by way of loan. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- The fair values for loans and receivables have been determined by reference to the Public Works Loans Board (PWLB) redemption rules which provide a good approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial;

- Where an instrument matures within 12 months, the carrying value is assumed to approximate to fair value; and,

- The fair value of operational liabilities and receivables is taken to be the invoiced or billed amount.

	31 March 08		31 March 07	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Borrowing	-	-	-	-
Operational creditors	7,187	7,187	5,140	5,140
Cash Overdraft	-	-	239	239
Financial Liabilities	**7,187**	**7,187**	**5,379**	**5,379**
Investments	4,971	4,971	3,940	3,940
Bond investments at cost	3	3	3	3
Long Term Debtors	718	718	720	720
Soft Loans - long term	242	242	-	-
Operational debtors (net of provision) - Short term	7,934	7,934	7,007	7,007
Soft Loans (short term)	149	149	-	-
Car Loans	57	57	71	71
Mortgages	117	117	143	143
Cash in hand	154	154	-	-
Financial Assets	**14,345**	**14,345**	**11,884**	**11,884**

Although Council Tax, National non domestic rates and general rates are outside the scope of the accounting provisions as they are statutory debts, they have been included in the debtors and bad debts provision figures for information.

(e) Risks arising from Financial Instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the authority might not have funds available to meet its payment commitments;
- Market risk – the possibility that a financial gain or loss might arise for the Council as a result of movements in interest rates;
- Price risk – the possibility that a financial gain or loss might arise as a result of movements in the price of equity investments; and,
- Foreign exchange risk – the possibility that a financial gain or loss might arise as a result of fluctuations in foreign exchange rates.

The Council's annual treasury management strategy focuses on these risks and seeks to minimise potential adverse effects on the resources available to fund services. The Council provides written principles for overall risk management as well as written policies within its treasury management strategy covering interest rate risk, credit risk and the investment of surplus cash balances.

(i) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the Council's customers. Investments are not placed with banks and financial institutions unless they have a minimum independent score of Short-term F1 as assessed by Fitch Ratings Ltd. The Council has policy of not lending more than £2 million of funds to one borrower or 20% of funds when funds total more than £10 million.

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

The following analysis summarises the Council's potential maximum exposure credit risk, based on the experience gathered over the last five financial years on the level of default on loans & receivables and adjusted for current market conditions.

	Value at 31 March 2008 £'000	**% default based on previous experience**	**% default adjusted for current market conditions**	**Estimated maximum exposure to default £'000**
Deposits with banks and financial institutions:				-
Bank of Scotland (AA)	2,000			
Landsbanki Islands (A)	1,500			
Royal Bank of Scotland (AAA)	1,471			
TOTAL	**4,971**	**-**	**-**	**-**
	Gross debtors	**Average % BDP 5 years to 2006-07**	**% BDP for 2007-08**	**Bad Debt Provision for 2007-08**
Customers:				
Sundry Debtors	1,455	20.91%	30.02%	437
Housing Benefit	1,238	24.05%	53.00%	661
Council Tax	3,054	12.96%	26.64%	814
NNDR	1,647	57.22%	59.33%	977
TOTAL	**7,394**			**2,889**

The Council does not expect any losses in respect of non-performance by counter-parties in relation to deposits.

(ii) Liquidity Risk

As the Council can access borrowing from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. There are no other identified borrowing requirements in place at 31 March 2008.

The maturity analysis of loans and borrowings within financial liabilities is as follows:

	£'000
Less than 1 year	0
1 – 2 years	0
2 – 5 years	0
Over 5 years	0
Total	**0**

All operational liabilities are due to be repaid within one year.

(iii) Market Risk

The Council is exposed to risk due to movements in interest rates on its variable rate investments. As most of the Council's investments have been currently placed at fixed rates, this risk has to a large extent been minimised. Nevertheless, there remain some future risks:

- An increase in interest rates will result in the fair value of borrowings and investments falling;

- A decrease in interest rates will result in the fair value of borrowings and investments increasing; and,

- The value of interest received from investments will rise and fall depending on increases and decreases in interest rates and will impact on the Income and Expenditure Account.

Borrowings and investments are not carried in the Balance Sheet at fair value, so nominal gains and losses on fixed rate financial instruments have no impact on the Income and Expenditure Account or the Statement of Total Recognised Gains and Losses.

The Council carries out its borrowing and investment function within parameters set out in its Treasury Management Strategy, which assesses interest rate exposure to feed into the budget process. Forecasts are updated regularly throughout the year, which allows any significant changes to interest rates to be reflected in current budget projections. The Treasury Management Strategy also advises on the limits for new variable and fixed–rate borrowing for the year, although in 2007-08 there were no proposals to take out any new borrowing and investments are all short term.

If interest rates increased by 1% the effect would be £97,000.

(iv) 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 2008 these bonds were valued at cost at £3,000.

(v) Foreign Exchange Risk

The Council does not hold any financial assets or liabilities held in foreign currency and therefore is not exposed to any gains or losses arising from movements in exchange rates.

Note to the Statement in Movement on the General Fund Balance 2007-08			
2007-08 £'000	2007-08 £'000		*Restated 2006-07 £'000
		Amounts included in the Income and Expenditure Account but required by statue to be excluded when determining the movement on the General Fund Balance for the year	
(2,005)		Depreciation and Impairment of Fixed Assets	(1,124)
156		Government Grant Deferred Amortisation	(163)
(29)		Write down of Deferred Charges to be financed from capital resources	(401)
-		Net gain on sales of fixed assets	13
(65)		Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements	-
(2,370)		Net charges made for retirement benefits in accordance with FRS17	(2,580)
	(4,313)		(4,255)
		Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year	
259		Minimum Revenue Provision for Capital Financing	93
2,260		Employer's contributions payable to the KCC Pension Fund and retirement benefits payable direct to pensioners	2,220
13		Capital Expenditure charge in-year to the General Fund Balance	29
(15)		Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(18)
	2,517		2,324
		Transfers to and from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund Balance for the year	
-		Voluntary revenue provision for capital financing	-
362		Net transfer to/from earmarked reserves	618
	362		618
	(1,434)	**Net additional amount required to be credited to the General Fund Balance for the year**	(1,313)

*The 2006-07 figures have been restated to separately show the employer's contributions to the KCC Pension Fund and retirement benefits payable direct to pensioners which previously had been included in the net charges made for retirement benefits figure.

COLLECTION FUND

	Note	2007-08 £'000	2007-08 £'000	2006-07 £'000	2006-07 £'000
INCOME					
Council Tax	2	(51,596)		(48,519)	
Transfers from General Fund -					
Council Tax Benefits		(8,874)		(8,313)	
			(60,470)		(56,832)
Business rates	3		(28,405)		(27,453)
Previous year's NNDR Relief Fund			(144)		(127)
Contribution towards previous year's Collection Fund deficit:					
Kent County Council		(203)		(184)	
Kent Police Authority		(26)		(23)	
Kent & Medway Towns Fire Authority		(13)		(12)	
Swale Borough Council		(33)		(30)	
			(275)		(249)
TOTAL			**(89,294)**		**(84,661)**
EXPENDITURE					
Precepts and demands -					
Kent County Council		44,132		41,478	
Swale Borough Council		7,092		6,763	
Kent Police Authority		5,592		5,254	
Kent & Medway Towns Fire Authority		2,822		2,682	
			59,638		56,177
NNDR Relief Fund			136		145
Business Rate -					
Payment to national pool		28,235		27,288	
Costs of collection		170		165	
			28,405		27,453
Bad and doubtful debts -	6				
Write offs - Council Tax		163		248	
Provision for non payment - Council Tax		1		46	
			164		294
Adjustment of previous years' Community Charge			-		2
TOTAL			**88,343**		**84,071**
(Surplus) / Deficit for the year			**(951)**		**(590)**
Balance at the beginning of the year			**165**		**755**
Balance at the end of the year (Surplus)/Deficit	5		**(786)**		**165**

In the Balance Sheet, the deficits above attributable to precepting authorities, except Swale Borough Council, have been recorded as debtors.

	2007-08 £'000	2006-07 £'000
Balance at the end of the year Deficit/ (Surplus)	(786)	165
Transfer to Creditors/Debtors in Balance Sheet (see Note 5 Collection Fund)	691	(145)
Balance of SBC in Balance Sheet for Collection Fund	**(95)**	**20**

NOTES TO THE COLLECTION FUND ACCOUNTS

1. General

These accounts, which have been prepared on the accruals basis, show the transactions of the Collection Fund. The Fund balance, together with its debtors and creditors are included in the Balance Sheet.

2. Council Tax

The figure shown is net of Council Tax benefits which is paid for by the Council's General Fund.

The Council Tax is primarily a property based tax and is calculated for an average Band D property by dividing the net expenditure (to be met by the tax) of Kent County Council, Kent Police Authority, Kent & Medway Towns Fire Authority and Swale Borough Council by the Tax Base for Swale which is 45,772. This figure is the equivalent number of Band D properties in the area after allowing for the relative proportions payable by all other bands and the fact that some of those properties may pay a reduced amount because of discounts.

The Basic Council Tax payable for each band in 2007-08 is listed below:

Band	Basic Tax £	Proportion of Band D Charge	Number of Band D Equivalent Dwellings
A	859.83	6/9	4,811.00
B	1,003.14	7/9	9,517.62
C	1,146.44	8/9	12,749.35
D	1,289.75	9/9	8,336.28
E	1,576.36	11/9	5,429.22
F	1,862.97	13/9	2,935.59
G	2,149.58	15/9	1,796.73
H	2,579.50	18/9	196.22
TOTAL			**45,772.01**

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

The level of non-payment provided for in 2007-08 was 0.6% (0.4% in 2006-07).

The original anticipated income = 45,772.01 x £1,302.94 (Band D plus average Parish Precept) = £59,640,000
The actual income = £60,470,000
The variation was due mainly to new house building in the Borough resulting in an increase in the Council Tax Base.

3. Income Collectable from Business Ratepayers

Non-domestic rates are organised on a national basis. The Government specifies a rate poundage and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The rate poundage set for 2007-08 was 44.4p (2006-07 was 43.3p). A new rating list came into force on 1 April 2005, and the rate poundage was adjusted so that the total raised nationally was not increased. Small businesses with a rateable value below £15,000 had a lower rate poundage of 44.1p (2006-07 was 42.6p).

The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into an NNDR Pool administered by the Government. The Government redistributes the sums paid into the Pool back to local authorities on the basis of a fixed amount per head of population.

The Business Rate income, after reliefs and provisions, was £28.4 million for 2007-08 (£27.5 million for 2006-07). The rateable value for the Council's area at the end of the financial year 2007-08 was £86.4 million (£87.1 million in 2006-07). There was a national revaluation that led to a new Local Rating List (Valuation List), which was effective from 1 April 2005.

4. Previous Year's Surplus/Deficit

In accordance with regulations, the estimated balance on the Collection Fund at the year-end has to be determined on 15 January each year. This estimated amount is collected from or distributed to the precepting and charging authorities in the following financial year.

5. Collection Fund Surplus/Deficit

The Collection Fund balance at 31 March 2008 of £786,000 only relates to Council Tax as can be seen below:

	2007-08 £'000	2006-07 £'000
(Surplus)/Deficit re Community Charge transactions	-	-
(Surplus)/Deficit re Council Tax transactions	(786)	165
TOTAL	**(786)**	**165**

The surplus in 2007-08 of £786,000 will form part of the following year's surplus and will be allocated in proportion to the value of the respective demand and precepts made by the four authorities on the Collection Fund as follows:

	2007-08 £'000	2006-07 £'000
Kent County Council	(581)	122
Kent Police Authority	(73)	15
Kent Fire & Rescue Authority	(37)	8
Sub total	**(691)**	**145**
Swale Borough Council	(95)	20
Total (Surplus)/ Deficit	**(786)**	**165**

The above surplus of £691,000 for 2007-08 (deficit £145,000 in 2006-07) attributable to the precepting authorities has been recorded as a creditor in the balance sheet. The movement on the residual balance over the financial year has been added to the Statement of Total Recognised Gains & Losses.

6. Provision for Bad Debts

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

	2007-08 Council Tax £'000	2006-07 Council Tax £'000	2007-08 NNDR £'000	2006-07 NNDR £'000
Balance brought forward 1 April	(679)	(632)	(1,049)	(1,170)
Less Amounts written off	163	248	164	444
Add Increase in Provision	(163)	(295)	(92)	(323)
Balance at 31 March	**(679)**	**(679)**	**(977)**	**(1,049)**

Council Tax bad debt provision was calculated by analysing the debts by the year in which they were raised and then by their recovery stage, against which a judgement was made on the proportion of the debt that was non collectable. In addition, a percentage of non payment (0.6%) was applied to the total tax due less the write-offs in year. The provision for NNDR debt was based on an assessment of each debt in respect of each financial year since 1995-96. The bad debt provision took into account the recovery action, receivership/ administration arrangements and potential absconders. The write-off of sums in excess of £5,000 was authorised by the Executive.

As at 31 March 2008, the total outstanding debt for Council Tax was £3.1 million of which debt 1 year old was £1.7 million, debt 2 to 5 years old was £1.2 million, and debt over 5 years old was £0.2 million.

ANNUAL GOVERNANCE STATEMENT
For the Period ended 31 March 2008

1. SCOPE OF RESPONSIBILITY

1.1 Swale 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.

1.2 In discharging this overall responsibility accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of Swale Borough Council's affairs, the stewardship of the resources at its disposal and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

1.3 To this end, in February 2008 Swale Borough Council approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is available on the Councils website *www.swale.gov.uk.*

1.4 This statement explains how Swale Borough Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit regulations 2003 as amended by the Accounts an Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement on internal control.

1.5 Swale Borough Council has in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to Corporate Governance is both adequate and effective in practice. The Section 151 Officer Head of Audit and the Monitoring Officer have been given responsibility for:

1.5.1 Overseeing the implementation and monitoring the operation of the Local Code.

1.5.2 Reviewing the operation of the Local Code in practice.

1.5.3 Reporting annually to the Executive and the Audit Committee on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

1.6 In discharging this overall responsibility, Swale Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions, and which include arrangements for the management of risk.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Swale Borough Council's policies, aims and objectives to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically .

2.3 The governance framework has been in place at Swale Borough Council for the year ended 31 March 2008 and up to the date of approval of the Annual statement of accounts.

3. THE GOVERNANCE FRAMEWORK

3.1 The key elements of the systems and processes that comprise Swale Borough Council's governance arrangements are summarised below:

3.2 <u>Identifying and communicating our vision and intended outcomes for citizens and service users</u>

3.2.1 During 2007/08, Swale Borough Council consulted upon and produced its first corporate plan “Shaping the Future of Swale” which achieved final council approval on 21 November 2007. This documents reaffirms the vision for Swale, the council’s mission and aim. It also sets out the Council’s 4 corporate priorities, which provide a framework for all council activities between 2007 and 2011 and individual service plans show how each service area is contributing to the corporate priorities. Progress against the corporate plan will be reported in our annual performance plan.

3.3 <u>Reviewing our vision and its implications for our governance arrangements</u>

3.3.1 We are committed to conducting an annual review of our corporate plan to ensure our vision and priorities remain current and continue to respond to local need. We monitor our progress against the corporate priorities and ensure we have appropriate governance arrangements in place to deliver against them through regular reporting to the Corporate Management Team, the Performance Board and the Executive.

3.4 <u>Establish clear channels of communication with all sections of our community and other stakeholders, ensuring accountability and encouraging open consultation</u>

3.4.1 The Corporate Communications Strategy was approved by the Executive on 11 June 2008 subject to amendment. We have set up our first community cohesion forum which brings all sections of the community together and which first met on 4 June 2008. It is our aim to supplement this document with a community engagement strategy during 2008/09 which will formalise our approach to consultation.

3.5 <u>Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication</u>

3.5.1 Swale Borough Council has an agreed Constitution which details how the Council operates, how decisions are made and the procedures, which are to be followed to ensure that these are efficient, transparent and accountable to local people. The Executive is made up of the Leader and Executive members, who are all appointed by the Council. Major decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policies and budget. Any decisions the Executive wishes to take outside the budget or policy framework must be referred to Council as a whole to decide. There are four overview and scrutiny committees who support and monitor the work of the Executive. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered.

3.6 Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

3.6.1 The standards of conduct and personal behaviour expected of members and officers of Swale Borough Council, its partners and the community are defined and communicated through codes of conduct and protocols. These include:

- Members' revised code of conduct
- An effective performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- A fraud and corruption policy
- Member/officer protocols (supported by Officer/ member training)
- A Standards Committee with three independent members and parish council representatives

3.7 Whistle-blowing and receiving and investigating complaints from the public

3.7.1 The Council has a confidential reporting hotline to enable internal and external whistle blowing and an effective formal and informal complaints procedure. The total Local Government Ombudsman cases, based on provisional figures to 31 March 2008 and excluding premature complaints, was fourteen. There were no findings of maladministration, five cases were settled locally, there were five cases of no evidence of maladministration, one case where the Ombudsman exercised his discretion not to continue to investigate and three were outside his jurisdiction.

3.8 Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

3.8.1 The Director of Corporate Services and Borough Solicitor are responsible for ensuring that the Constitution is subject to review. The last review was adopted by Council in September 2005. The significant changes were to Executive Portfolio responsibilities and to update significantly the Scheme of Approved Delegations. As a result of the Monitoring Officers report to the Standards Committee in November 2007, the Executive considered the recommendation to review the Constitution. A cross party Working Group was established and will be reporting its recommendations. Revised Contract Standing Orders are currently under review by the Budget Task Force, which will be followed by a review of the rest of the Financial Standing Orders and Regulations later in the year 2008/09.

3.9 Undertaking the core functions of an audit committee

3.9.1 The Audit Committee is established with terms of reference in accordance with CIPFA guidelines

3.10 Compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

3.10.1 Swale Borough Council has a duty to ensure that it acts at all times in accordance with the law and various regulations in the performance of its functions. It has developed policies and procedures for its officers to ensure that, as far as is possible, all officers understand their responsibilities both to the Council and to the public. The Constitution sets out clearly the various policies and procedures through which the Council ensures compliance, in particular, two key documents are the Financial Regulations and Standing Orders, which are available to all officers via the Council's Intranet, as well as available to the public as part of the Constitution, which is published on the Council's website.

3.10.2 Other documentation includes corporate policies on a range of topics such as Equality and Diversity, Customer Care, Data Protection, Human Rights, and Fraud. All policies are subject to internal review to ensure these are adequately maintained. The Council keeps all staff made aware of significant changes in policy or requirements following new legislation by means of a monthly staff briefing, and where appropriate arranging training for all or key members of staff.

3.10.3 Swale Borough Council’s Risk Management Strategy was recently updated February 2008. This document shows the role both Members and Officers have in the management of risk. A strategic risk log was maintained throughout 2007/8 and reviewed at least on a bi monthly basis by the Performance Board. Operational risk logs were maintained and reviewed by Heads of Service throughout the year where significant issues could be escalated to senior management and Members through monthly reporting.

3.10.4 As part of the year-end process a Service Assurance Statement has been provided by all Heads of Service, detailing their assessment of their services. They are required to give assurance, within their area of competency, that risks have been identified, that sound business arrangements operate in their service areas, and that the service is subject to monitoring and review in order to assess performance.

3.10.5 The Borough Solicitor has also provided his professional opinion on the Council's compliance with its legal obligations. He is satisfied that the Council is complying with relevant legal obligations and acting intra vires on all occasions. It is his duty to alert Members of any situation where there is likely to be a danger of their acting ultra vires.

3.11 Measuring the quality of services for users, for ensuring they are delivered in accordance with our objectives and for ensuring that they represent the best use of resources

3.11.1 Swale Borough Council through its budgetary monitoring and control processes ensures that financial resources were being used to their best advantage, via monthly management reporting to the Corporate Management Team and Executive Members. In addition exception reporting on the Budget is reported monthly to the Performance Board and quarterly to the Executive.

3.11.2 Financial planning is underpinned by service planning, with increased expenditure in any service area being justified to the Corporate Management Team, and where necessary approved by the Executive. Key to the service planning process is a requirement to demonstrate planning for continuous improvement over several financial years. Corporate Management Team is tasked with prioritising resources to ensure that the objectives within Corporate Plan are supported by the individual service plans, and that improvements are in line with corporate objectives. The Budget Task Force chaired by the Executive Member for Performance & Finance was set up in October 2007 to assist in prioritising services in line with the Corporate Plan objectives. This process led to the budget setting for 2008/09, which included a significant realignment of resources to priorities to cover a three year period to March 2011. The Budget Task Force is now an integral part of the Budget planning process.

3.11.3 Through the quarterly Performance Report, corporate and key service objectives are carefully monitored by the Performance Board to ensure that performance targets and indicators are being achieved and suitable action plans are put in place where they are not.

3.11.4 Economic, effective and efficient use of resources is subject to review by the use of the Audit Commission's Value For Money(VFM) tool, through the work of both Internal and External Audit, through benchmarking and the use of comparative techniques with other service providers, and through independent external review. During 2007/08 the Council took part in a Kent-wide benchmarking exercise, known as the “price book” for approximately 20 services and this will be the baseline for future comparison. The Council’s VFM and Service Improvement Strategy has been further developed and approved by the Performance Board in June 2008.

3.12 Financial Management

3.12.1 Overall responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Section 151 Officer. The systems of internal financial control provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, risks are managed, and that material errors or irregularities are either prevented or would be detected within a timely period.

3.12.2 Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes is the responsibility of Service Unit Managers who may chose to delegate responsibility to other managers within the Council. Any significant changes to working practises involving financial matters should be referred to the Section 151 Officer for approval and subject to Internal Audit advice.

3.12.3 In particular, the process in 2007/8 included:

- The setting of annual budgets;
- Monitoring of actual income and expenditure against the annual budget;
- A mid-year review of the annual budget;

- Setting of financial and performance targets, including the introduction of the prudential code and associated indicators and the monitoring of major income sources;

- Monthly reporting of the Council's financial position to Executive Members individually via the Heads of Service reports and collectively to the Performance Board via variation reports;

- Agreed Capital Strategy with clearly defined capital expenditure guidelines and monitoring;

- The overall monitoring of finances against the budget projections within the Medium Term Financial Strategy;

- Managing risk in key financial service areas.

3.13 Effectiveness of Internal Audit

3.13.1 The Internal Audit Team reports to the Director of Corporate Services, and operates under a Charter, which defines its relationship with the Council's officers, and the Audit Committee. The main responsibility of the Internal Audit Team is to provide assurance and advice on the internal control systems of the Council and risk to the Corporate Management Team and Members. Internal Audit reviews and appraises the adequacy, reliability and effectiveness of internal control within systems and recommends improvement. It also supports management in developing systems, providing advice on matters pertaining to risk and control. The controls created by management are evaluated to ensure:

- Council objectives are being achieved;

- Economic and efficient use of resources;

- Compliance with policies, procedures, laws and regulations;

- The safeguarding of Council assets;

- The prevention of fraud, other irregularity, or error

- The integrity, reliability and clarity of information and data.

3.13.2 As part of the wider annual review of the governance arrangements and in particular the System of Internal Control, the Council is required to undertake an annual review of the effectiveness of the system of internal audit. A self assessment by the Head of Audit is subject to review by a team consisting of the Audit Committee Chair, the Monitoring Officer and Head of Finance and for 2008 will be supported by peer review by the East Kent Audit Partnership. The review concluded that an effective system of internal audit has been provided and the opinion of the Head of the Audit in his annual report can be relied upon. The full details of the review will be reported to the Audit Committee, alongside this document.

3.13.3 It is a responsibility of the Audit Committee to monitor the work of Internal Audit and to ensure that any actions agreed are implemented. The Head of Audit's self assessment of the effectiveness of Internal Audit also considered whether the Audit Committee met CIPFA',s checklist of requirements and characteristics for high performing audit committees. He concluded that requirements were met in all essential areas. A survey of Audit Committee members, further training and an assessment of options to further improve both his service to the committee and the committee's own effectiveness is planned for the next Audit Committee in September 2008. The Audit Committees terms of reference are outlined in the Council's Constitution and are in accordance with CIPFA's 2006 guidelines.

3.14 Performance and Risk Management

3.14.1 The Council aims to be a performance led organisation that delivers excellent public services, good value for money and effective community leadership. To achieve this throughout 2007/08 considerable work has been undertaken to procure a new combined performance and risk management computer system. Further work is to fully implement and embed the system and associated framework by December 2008.

3.15 The development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

3.15.1 The Member Development Working Group oversees the development needs of Members and helps design the annual training programme to ensure that it is relevant to the Council's business and priorities. There is a continuous review of training needs. A full programme with a mix of formal training and informative Member Briefings is available to all Members. Specific training is provided to those sitting in a quasi-judicial capacity.

3.15.2 Senior Management training this year has been focussed on identified areas for improvement set out in the Corporate Improvement Plan including service planning, equalities, performance and risk management and objective setting. Further training in some of these areas is planned for 2008/09, including junior management training to support the evolving workforce strategy.

3.16 Incorporating good governance arrangements in respect of partnerships and other group working

3.16.1 A partnership governance protocol and evaluation criteria has been developed to help ensure that all key governance criteria are incorporated into new and existing partnerships. Agreement, adoption and publication with key partners is planned by 31 October 2008.

3.17 The ethical conduct of members and officers of this Council

3.17.1 The Standards Committee and Monitoring Officer periodically review the Council's compliance with the Ten Principles of Good Conduct in Public Life.

4. REVIEW OF EFFECTIVENESS

4.1 Swale Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by:

4.1.1 The work of the Internal Auditors and the Head of the Audit's Annual Report.

4.1.2 The work of managers within the Council within Swale Borough Council who have responsibility for the development and maintenance of the governance environment.

4.1.3 Comments made by the external auditors in their Annual Audit and Inspection Letter and other reports, including the CPA Use of Resources and Direction of Travel Statements.

4.2 The following process have been applied in maintaining and reviewing the effectiveness of the governance framework:

4.3 Council

4.3.1 At a corporate level the Corporate Plan was adopted on 21 November 2007, Service Plans have been prepared for early adoption in 2008/09 and the Constitution review will be considered in the same time frame. The Council's Annual Report and Performance Plan reports on our performance against our key priorities and outlines our priorities and targets for the forthcoming year. The Council has also adopted the revised model code of conduct for members in July 2007.

4.4 Executive and Co-ordinating Scrutiny Committee

4.4.1 The Executive and Co-ordinating Scrutiny Committee receive the quarterly Performance Report, which reports on performance against our key priorities and sets robust and challenging targets. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. A Performance Board consisting of the Executive and senior managers considers performance and strategic risk on a regular basis.

4.5 Audit Committee

4.5.1 The Audit Committee receives quarterly updates from the Head of the Audit on the assurance which can be placed against various systems and processes reviewed during the year, along with an annual assessment at the year end. The Committee keeps a check on those areas that have not achieved a satisfactory level of assurance.

4.6 Standards Committee

4.6.1 The Standards Committee meets as necessary to consider matters relating to governance and the operation of the Code of Conduct. The Monitoring Officer reports amongst other things annually on matters relating to the role, the Constitution, lawfulness and maladministration, good governance and Code of Conduct and Officer and Member interests. Arrangements have put in place and appropriate training given to members on ethics and the role of the Standards Committee in the light of the recent change in legislation for dealing with complaints about the behaviour of members.

4.7 Internal Audit

4.7.1 Based on the work undertaken by Internal Audit, the Head of Audit considers whether positive steps are being taken in areas where a limited assurance has been given, in order to raise that assurance level to substantial. Based on an overview of the work undertaken throughout the year, in conjunction with previous years' work, current risk assessments, and assurance statements provided by Heads of Service the Head of Audit assesses the overall level of internal controls in place.

4.8 External Agencies

4.8.1 Swale Borough Council periodically has its services assessed by the Audit Commission who make recommendations for enhancing the quality of services provided for the community. In 2007/08 we were subject to external inspection from the Audit Commission in relation to Waste Management and Cleansing to which we have responded to positively and will be subject to a Housing Inspection during June 2008.

5. IMPROVEMENTS DURING THE YEAR

5.1 In the period covered by this Annual Governance Assurance Statement, improvements have been made to the Council's arrangements in respect of the following areas, which had been previously identified as areas in which we could be improved:

5.1.1 Service planning, monitoring and reporting to ensure that annual service plans and monitoring reports clearly reflect and align Corporate Plan priorities, financial monitoring, performance, risk and value for money considerations.

5.1.2 Quality Control and procedural manuals have been introduced or enhanced to address previously identified concerns relating to Housing Benefit, Council Tax and Non Domestic rates.

5.1.3 The Council's overall financial reporting has been improved over the last two years with more comprehensive reports and better information going to the Executive on a quarterly basis. Interim monthly reporting is provided to the Performance Board and portfolio holders.

5.2 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Executive and Audit Committee, and a plan to address weaknesses and to ensure continuous improvement of the system is in place.

6. SIGNIFICANT GOVERNANCE ISSUES

6.1 On the basis of this Corporate Governance Position Statement compiled and reviewed by the Council's Corporate Management Team, the Annual Internal Control Report of the Head of Internal Audit and statements produced by the Heads of Service, we are satisfied that the Corporate Governance arrangements for Swale Borough Council are adequate and operating effectively.

6.2 Significant Governance issues and planned priority areas for improvement include:

6.2.1 Full implementation of combined new performance and risk management system and framework by 31 October 2008.

6.2.2 Adoption of Partnership Governance Protocol across all significant partnerships by 31 October 2008.

6.2.3 Comprehensive written procedure and validation guidelines to ensure data quality of national indicators and local performance indicators by 1 July 2008 accompanied by risk based data quality audit by 30 September 2008.

6.2.4 Full review of the Constitution by 31 October 2008.

6.2.5 Implementation of recommendations regarding Contract monitoring arrangement of the grounds maintenance contract and Leisure Trust.

6.2.6 During 2007/8 the Chief Executive was placed on garden leave whilst a disciplinary process took place, which led to his dismissal on 29 April 2008. An appeal has been made to the Employment Tribunal by the former Chief Executive. An interim Chief Executive has subsequently been appointed as Head of Paid Service until future longer term management arrangements are resolved.

6.3 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signatures: Councillor Andrew Bowles Date: 17 September 2008
Leader of the Council

Mike Fisher Date: 17 September 2008
Interim Chief Executive

ACCOUNTING GLOSSARY

Most terms are explained in the 'Statement of Accounting Policies' section of the accounts.

ACCOUNTING STANDARDS:	These are issued by the Consultative Committee of Accountancy Bodies (CCAB) and comprise Financial Reporting Standards (FRS's), developed by the Accounting Standards Board (ASB), and Statements of Standard Accounting Practice (SSAP's), developed by the Accounting Standards Committee (ASC), but now adopted by the ASB.
ACCRUALS:	The inclusion of outstanding debtors and creditors in the year's income, gross expenditure and capital expenditure.
BALANCE SHEET:	A summary of all the assets, liabilities, funds, reserves, etc. of the Council.
BUDGET:	The Council's aims and policies set out in financial terms against which performance is measured. Both capital and revenue budgets are prepared.
BUSINESS RATE GRANT:	The Council's share of the total amount of local business rates collected for the whole of England and Wales.
CAPITAL EXPENDITURE:	Expenditure on the acquisition of a fixed asset or expenditure, which adds to and not merely maintains the value of an existing fixed asset.
CAPITAL RECEIPTS:	The proceeds of the sale of capital assets.
COMMUNITY ASSETS:	Fixed assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.
CONTINGENT LIABILITY:	A contingent liability is either: (a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control; or, (b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.
DEFERRED CHARGES:	Expenditure which may properly be deferred, but which does not result in, or remain matched with, assets controlled by the authority.

DEPRECIATION:	The measure of the cost or revalued amount of the benefits of the fixed assets that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.
EMPLOYEE COSTS:	Pay and associated costs such as National Insurance, superannuation and car allowances.
ESTIMATES:	See BUDGET
FINANCIAL REPORTING STANDARDS (FRS):	See ACCOUNTING STANDARDS
GOVERNMENT GRANTS:	Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.
GROSS EXPENDITURE:	The total cost of providing services before deducting any income.
INCOME:	Monies received or due from rents, fees and charges for services, specific grants and investment interest.
IMPAIRMENT:	A reduction in the value of a fixed asset below its carrying amount on the balance sheet.
INFRASTRUCTURE ASSETS:	Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.
INVESTMENT PROPERTIES:	Interest in Land and/or buildings: (a) in respect of which construction work and development have been completed; and, (b) which is held for its investment potential, with any rental income being negotiated at arm’s length.
LIQUID RESOURCES:	Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

MATERIALITY:	A threshold quality ensuring that information is of such significance as to justify its inclusion in the financial statements. 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.
NET BOOK VALUE:	The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.
NET CURRENT REPLACEMENT COST:	The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.
NET EXPENDITURE:	Gross expenditure for a service less directly related income.
NET REALISABLE VALUE:	The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.
NON-OPERATIONAL ASSETS:	Fixed assets held by a local authority but not used or consumed in the delivery of services or for the service or strategic objective of the authority. Examples of non-operational assets include investment properties and assets that are surplus to requirements pending their sale. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property; it would be deemed an investment property only if the asset is held solely for investment purpose and does not support the service or strategic objectives of the authority and the rental income is negotiated at arm’s length.
OPERATIONAL ASSETS:	Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or a discretionary responsibility or for the service or strategic objectives of the authority.
PRECEPT:	The levy made by those authorities which do not run the local taxation system, e.g. county councils, police authorities, and parishes etc., on those authorities which do so, e.g. district and boroughs, requiring them to collect the required income from local taxpayers on their behalf.
RECHARGE:	An internal charge made by one Service in respect of services provided for another.

REMUNERATION:	All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.
REVENUE EXPENDITURE/INCOME:	The cost or income related to the day-to-day running of services.
REVENUE SUPPORT GRANT:	A grant paid by Central Government to local authorities to help pay for the cost of their services.
RING FENCING:	The statutory restriction of payments from one fund to another.
RUNNING COSTS:	Regular revenue expenditure other than employee costs and capital charges.
SPECIAL ITEMS:	Irregular revenue items, such as large repairs, occurring in one year.
STATEMENTS OF STANDARD ACCOUNTING PRACTICE (SSAP's):	Accounting practices recommended by the major Accountancy Bodies. Not all SSAP's are applicable to local authorities.
TANGIBLE FIXED ASSETS:	Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.
USEFUL ECONOMIC LIFE:	The period over which the local authority will derive benefits from the use of a fixed asset.

NOTE - BRACKETS AROUND FIGURES IN FINANCIAL TABLES INDICATE THAT THE FIGURE IS EITHER A NEGATIVE OR A CREDIT ITEM.

ACTUARIAL GAINS AND 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); or, b) the actuarial assumptions have changed.
CURRENT SERVICE COST (PENSIONS):	The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.
CURTAILMENT:	For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include: a) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business; and, b) termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.
DEFINED BENEFIT SCHEME:	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
DEFINED CONTRIBUTION SCHEME:	A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
DISCRETIONARY BENEFITS:	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits)(Scotland) Regulations 1998, or The Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

EXPECTED RATE OF RETURN ON PENSION ASSETS:	For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.
INTEREST COST (PENSIONS):	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
INVESTMENTS (NON-PENSIONS FUND):	A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments, other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.
INVESTMENTS (PENSIONS FUND):	The investments of the Pensions Fund will be accounted for in the statements of that Fund. However, authorities (other than district councils in Northern Ireland) are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.
PAST SERVICE COSTS:	For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.
PROJECTED UNIT METHOD:	An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to: a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and, b) the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

RETIREMENT BENEFITS:	All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either: (i) an employer's decision to terminate an employee's employment before the normal retirement date; or, (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.
SCHEME LIABILITIES:	The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.
SETTLEMENT:	An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include: a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits; b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and, c) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.
VESTED RIGHTS:	In relation to a defined benefit scheme, these are: a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme; b) for deferred pensioners, their preserved benefits; and, c) for pensioners, pensions to which they are entitled. Vested rights include where appropriate the related benefits for spouses or other dependants.