

# **MEDWAY COUNCIL**

**STATEMENT OF ACCOUNTS**

**2010/2011**



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## A EXPLANATORY FOREWORD

### Introduction

The Statement of Accounts summarises the Council's income and expenditure for the year and its financial position as at the year end. The accounts have been prepared in accordance with the Accounts and Audit Regulations 2003. The format of the accounts reflects the new requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011: Based on International Financial Reporting Standards, published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Code introduces further changes to the format of the Statement of Accounts following the partial introduction of International Financial Reporting Standards (IFRS) in 2009/2010. Major changes from the 2009/2010 accounts, produced under UK GAAP principles, are explained where appropriate and comparative figures for that year have been restated in accordance with IFRS. The impact of the adoption of IFRS on the comparative figures for 2009/2010 is summarised in Section I of the Statement of Accounts.

### Statement of Accounts

The statements which follow summarise the Council's accounts for the financial year ended 31 March 2011. Further explanation of the purpose of each statement is included within the relevant section and notes explaining transactions follow the statements where appropriate. The main statements are:

- **Statement of Responsibilities** – outlines the responsibilities of the Council and the Chief Financial Officer in preparing the accounts. The Chief Financial Officer has to certify that the accounts present a 'true and fair view' of the financial position of the Council as at 31 March 2011 and its expenditure and income for the year.
- **Statement of Accounting Policies** – these are the specific principles, bases, conventions, rules and practices adopted by the Council in preparing and presenting financial statements.
- **Annual Governance Statement** - This statement explains how the Council has complied with the code CIPFA/SOLACE *Framework for Delivering Good Governance in Local Government*. and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a governance statement.
- **Movement in Reserves Statement** – this summarises the movement in the year on the various reserves held by the Council.
- **Comprehensive Income and Expenditure Statement** – this shows the costs of the various services the Council provides.
- **Balance Sheet** – this summarises the Council's financial position at the year end. It provides details of the assets and liabilities held by the Council and the usable and unusable reserves held at the balance sheet date.
- **Cash Flow Statement** – this shows the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Housing Revenue Account** – this is the separate statutory account for income and expenditure relating to council housing.

- **Collection Fund** – this reflects the statutory requirement for the Council to maintain a separate account providing details of receipts of Council Tax and Business Rates and the associated payments to precepting authorities and to the National Non Domestic Rate (NNDR) Pool.

## Review of Finance 2010/2011

The following sections summarise the major financial transactions of the Council. Further information is included within the notes to the relevant financial statements.

### Revenue

To achieve breakeven against budget, the required contribution from reserves was £1.509m, compared to the planned contribution of £4.047m. a reduction of £2.538m.

The table below summarises the income and expenditure for each directorate of the Council for 2010/2011.

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	173,795	(156,728)	17,067	17,540	(473)
Children & Adult Services	398,977	(112,961)	286,016	288,492	(2,476)
Regeneration, Community & Cultural Services	109,003	(36,143)	72,860	73,537	(677)
Public Health	1,328	(927)	401	403	(2)
Sub-total Services	683,103	(306,759)	376,344	379,972	(3,628)
Levies	906	0	906	900	6
Depreciation Credit	0	(33,943)	(33,943)	(33,943)	0
Interest & Financing	19,899	(4,130)	15,769	15,358	411
Planned Use of Reserves	0	(1,509)	(1,509)	(4,047)	2,538
Dedicated Schools Grant	0	(158,345)	(158,345)	(158,345)	0
Use of Collection Fund Surplus	0	(310)	(310)	(983)	673
	<b>703,908</b>	<b>(504,996)</b>	<b>198,912</b>	<b>198,912</b>	<b>0</b>
Funded:-					
Area Based Grant				16,199	
RSG				10,794	
NNDR Redistribution				74,336	
Council Tax				97,583	
				<b>198,912</b>	

The outturn on the Housing Revenue Account (HRA) was a surplus £1,240,912 (2009/2010 surplus £823,999), compared to a budget of £1,243,000 (2009/2010 budget £206,000). Reorganisation costs of £211,825 were charged direct to the HRA reserve which, having taken account of the 2010/11 surplus, stands at £6,155,894 as at 31 March 2011 (£5,126,807 as at 31 March 2010).

## Capital

The Council's capital investment in 2010/2011 was £79,949,000 (2009/2010 £63,404,000). The expenditure was within the definition of the Local Government and Housing Act 1989.

Capital Expenditure has been financed from the following sources: -

- Supported Capital Expenditure (Revenue) and Prudential borrowing (£13,895,000);
- Grants or contributions from Government bodies or other agencies and organisations (£60,092,000);
- Part proceeds from the sale of capital assets or the repayment of advances, the usable part, following pooling of HRA capital receipts (£5,751,000);
- Contributions from the Revenue Account and specific reserves (£211,000).

The Council spent £48,259,000 on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included a number of integrated transport measures, a programme of improvements to the Council's housing stock, the provision of new classrooms and improvements to school infrastructure. The remainder of capital expenditure is split between capital works in progress £3,763,000 and £27,927,000 relating to "Revenue Expenditure Funded from Capital under Statute" (formerly deferred charges). (see Statement of Accounting Policies 25).

Capital expenditure incurred by the Council in 2010/2011 is summarised below:

Directorate	Total Programme £'000	2010/2011 Forecast £'000	Outturn £'000	Variation £'000
Business Support	16,826	7,968	7,769	(199)
Children and Adult Services	51,725	23,607	27,115	3,508
Regeneration, Community & Culture	64,645	47,519	45,064	(2,455)
<b>Total</b>	<b>133,197</b>	<b>79,095</b>	<b>79,949</b>	<b>854</b>

The capital programme for 2011/2012 and beyond reflects the major investment priorities of the Council which are as follows:

Regeneration of Chatham including the Dynamic Bus Facility, the Local Transport Plan including improvements to the A228, Quality Bus Corridor; investment in the Council's housing

stock and investment in schools, especially primary and academies, to support delivery of high standards of education.

- **Borrowing/Investments**

During 2010/2011 the level of debt, i.e. money that the Council owes decreased by £25,303,000 from £202,034,000 to £176,731,000. This is due to the current strategy of financing capital from investment balances rather than new debt. Additionally as debt falls due for repayment it is not being replaced, whilst interest rates are low.

The level of investments has subsequently decreased from £89,059,000 to £69,526,000 primarily due to the above strategy.

- **Fixed Assets**

The total value of the Authority's fixed assets has decreased in 2010/2011 by approximately £68 million. Although there was capital investment of some £48m, there was a greater decrease in the value of all classes of assets as a result of revaluation, impairment, depreciation and disposals.



**B STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS****The Council's Responsibilities**

The Council is required to:

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

**The Chief Finance Officer's Responsibilities**

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

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

The Chief Finance Officer has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

**Certificate of the Chief Finance Officer**

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.



Mick Hayward  
Chief Finance Officer

28 June 2011



## **C Independent auditor's report to the Members of Medway Council**

### **Opinion on the Council's accounting statements**

We have audited the accounting statements of Medway Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (based on International Financial Reporting Standards).

This report is made solely to the members of Medway Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditor**

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

### **Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the accounting statements. In addition, we read all the financial and non-financial information in the Foreword by the Chief Financial Officer and the Statement of Accounts to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on accounting statements**

In our opinion the accounting statements:

- give a true and fair view of the state of Medway Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

## **Opinion on other matter**

In our opinion, the information given in the Foreword by the Chief Financial Officer and the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Matters on which we report by exception**

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## ***Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources***

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

## **Respective responsibilities of the Council and auditor**

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

Our responsibility requires us to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance and financial management arrangements. It therefore excludes arrangements relating specifically to the delivery of front-line services, unless we have identified a significant risk with implications for corporate arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Medway Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

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

.....  
Robert Grant  
for and on behalf of PKF (UK) LLP  
London, UK

November 2011



## **D ANNUAL GOVERNANCE STATEMENT 2010/2011**

### **1. Scope of responsibility**

Medway Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, 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 a regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council approved a local code of corporate governance at its meeting on 13 November 2008, and this is consistent with the principles of the CIPFA/SOLACE *Framework for Delivering Good Governance in Local Government*. A copy of the current Code is on our website at [www.medway.gov.uk](http://www.medway.gov.uk) and can also be obtained from the Monitoring Officer at Medway Council, Gun Wharf, Dock Road, Chatham (01634) 332133.

This statement explains how the 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 and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a governance statement.

### **2. The purpose of the governance framework**

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

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

The following section of the statement summarises Medway Council's governance framework that has been in place for the year ended 31 March 2011 and up to the date of approval of this Statement. The framework described reflects the arrangements in place to meet the six core principles of effective governance.

### **3. The Council's framework for ensuring compliance with the core principles of effective governance**

#### ***(a) Focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the local area***

The council works with its partners through the Local Strategic Partnership to set the vision and priorities for the area. The council manages, on behalf of the LSP, a process of bringing together performance data, demographic information and consultation findings to determine key shared priorities.

Medway's sustainable community strategy for 2010-26 was approved by the LSP board in March and full Council in April 2010. This sets the medium to long term strategic framework for the area.

The council's well established 'framework for managing performance' at Medway Council sets out how the community strategy helps to inform and shape the council's own priorities.

In 2011 the council again produced the council plan, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2011 the council refreshed the council plan to agree the version for 2010-13. The plan was informed by consultation including the 2010 residents opinion poll. It forms an essential part of the council's governance framework, setting out the council's priorities and the measures against which success will be judged.

#### ***(b) Members and Officers working together to achieve a common purpose with clearly defined functions and roles.***

The Council has ensured that the necessary roles and responsibilities for its governance are identified and allocated so that it is clear who is accountable for decisions that are made. The Council has done this by:

- Appointing a four year Leader of the Council, and executive Members (Cabinet Members), with defined executive responsibilities, including appointing a lead member for Children's Services, with responsibility for making sure the statutory functions for Children's Services are carried out.
- Agreeing a scheme of delegated executive responsibilities to directors and senior officers, and protocols that make clear the respective roles of Members and officers and ensure effective communication between them.
- Annually appointing committees to discharge the Council's regulatory responsibilities
- Annually appointing committees to discharge the Council's overview and scrutiny responsibilities
- Setting clear role definitions for chairs of committees and councillors in their different roles
- Ensuring that the Constitution is regularly reviewed
- Making the Chief Executive (the Head of Paid Service) responsible and accountable to the Council for all aspects of operational management.
- Making a senior officer (the Monitoring Officer) responsible to the authority for ensuring the lawfulness and fairness of decision-making, and that agreed procedures are followed and that all applicable statutes and regulations are complied with.



- Making a senior officer (the Section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.
- Making a senior officer responsible to the authority for ensuring that the statutory functions of children's services and adults services are carried out
- Ensuring significant partnerships and contracts with other public bodies, voluntary and community organisations, and the private sector have clear governance accountabilities, including effective and equitable financial arrangements
- Having in place effective and comprehensive arrangements for the scrutiny of services including a Scrutiny Officer

***(c) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour***

The Council promotes and maintains high standards of ethical conduct of members and officers through the work of its Standards Committee. The Council fosters a culture of behaviour based on shared values, ethical principles and good conduct.

The Council has done this by establishing and keeping under review:

- The Council's Constitution
- A Members' Code of Conduct
- An Officers' Code of Conduct
- A protocol governing Member/Officer Relations
- A Members' Planning Code of Good Practice
- A Members Licensing Code of Good Practice
- Monitoring Officer Protocol
- Media Guidelines
- Contract Standing Orders and Financial Regulations

The Monitoring Officer is responsible for the review of the constitution, and for ensuring that it is kept up to date.

Conduct of Members is monitored by the Standards Committee, which also investigates allegations of misconduct by Members. The Council's Standards Committee has always had an independent chairman, and it has a total of six independent members. The Standards Committee has produced an annual report of its work for 2010/11, which was considered by the Council in April 2011. The Committee has also introduced guidance on ward work, and member use of council resources.

The Council takes fraud and corruption very seriously and has the following policies that aim to prevent or deal with such occurrences:

- An anti-fraud and corruption policy
- A whistle blowing policy

The outcome of complaints made under the whistle blowing policy is reported to the Audit Committee on an annual basis, in order that they can keep it under review. This has recently been refreshed and strengthened by the Council, and the Monitoring Officer has responsibility for reporting all whistle blowing, including data protection breaches, to Members.

**(d) *Taking informed and transparent decisions which are subject to effective scrutiny and managing risk***

The Council has ensured that the decision-making process includes a rigorous risk assessment including:

- Financial, legal and staffing implications
- Diversity and racial impact assessment
- Risks, mitigations and opportunities

All reports to the Council or Cabinet are checked by the Chief Finance Officer and the Monitoring Officer for financial and legal implications. The Council has been rigorous and transparent about how decisions are taken and recorded. Cabinet reports now also include a mandatory paragraph on risk to enable the Council to consider the implications of its decisions.

The Council has:

- Ensured the Cabinet make decisions in an open and transparent way and that information relating to those decisions is made available to the public, unless statutory rules allow otherwise
- Ensured that all decisions of regulatory committees of the Council are made in public and that information relating to those decisions is made available to the public, unless statutory rules allow otherwise
- Ensured that legal, financial and risk implications are recognised in all reports on which decisions are based
- Recorded all decisions that are made by committees.
- Rules and procedures, which govern how decisions are made.
- Developed and maintained an effective overview and scrutiny function which encourages constructive challenge
- Maintained an effective Standards Committee and Audit Committee

The Council has continued to develop its risk management strategy to enable the Council to manage and control risks in order to maximise the quality of its service provision and uphold its reputation, making a powerful contribution to continuous service improvement and the achievement of best value. The strategy is reviewed annually.

The Council has ensured that under the risk management system:

- Officers formally identify and manage risks
- Elected Members are involved in the risk management process
- A risk assessment of every key or strategic decision is undertaken
- Risks to financial and other key internal controls are mapped
- Business continuity planning is reflected; and
- The Cabinet reviews and, if necessary, updates its risk management processes at least annually
- Detailed risk assessment of budgets are carried out with signed acceptance form from managers highlighting risk areas

***(e) Developing the capacity and capability of Members and officers to be effective.***

The Council has ensured that those charged with the governance of the Council have the skills, knowledge and experience they need to perform well.

The Council has done this by:

- Retaining the Member Development Charter
- Developing leadership skills and capacity across the Council through an annual learning and development programme for staff
- Ensuring that the Chief Finance Officer and Monitoring Officer are both members of the Corporate Management Team
- Developing our approach to workforce planning
- Obtaining Gold status for Investor in People accreditation across all directorates
- Encouraging quality mark accreditation for services
- Maintaining and developing our personal development review system
- Cascading regular information to Members and staff by paper and electronic means, having regard to diversity issues
- Holding a full induction programme for all members to attend

***(f) Engaging with local people and other stakeholders to ensure robust public accountability.***

The Council is committed to increasing public involvement in decision-making and devolving power to individuals and local organisations. We have sought and responded to the views of stakeholders and the community. The Council has done this by:

- Improving effective corporate consultation including maintaining effective mechanisms for ongoing engagement eg community cohesion group, Children in Care Council, Young Commissioners, Learning Disability Partnership Board, Tenants Forums, Medway Ambassadors Scheme and community profiling in Luton
- Carrying out in depth consultation exercises as required to inform policy development and service change – eg Maintaining effective data exchange through the Corporate Research and Information Group to plan and coordinate consultation and to share findings
- Making use of local forums at ward, parish and neighbourhood level to maintain communication with all the Council's communities and other stakeholders e.g. rural liaison committee with parishes, community futures workshops in our most deprived areas to inform the development of community owned action plans, participation in Partner and Communities Together (PACT) meetings
- Maintaining and reviewing an effective complaints procedure

#### **4. Review of effectiveness**

Medway Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the Corporate Management Team who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Authority has responsibility for conducting at least annually a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the internal auditors, the corporate management team, the Chief Finance Officer, the Monitoring Officer and by comments made by the external auditors and other review agencies and inspectorates.

Throughout 2010/11 the Council has received and considered a number of reports including:-

- (a) Sustainable Community Strategy 2010-16
- (b) Changes to the Executive arrangements under the Local Government & Public Involvement in Health Act 2007
- (c) The annual report of the Monitoring Officer
- (d) Exemptions to standing orders
- (e) Statement of Accounts 2009/10
- (f) Budget report 2011/12 and Medium Term financial strategy
- (g) Addressing in year grant reductions
- (h) Appointment of a Scrutiny Officer
- (i) Review of the Council's procurement processes
- (j) Petitions Scheme

Cabinet has considered and approved a number of reports in its role as the executive:-

- (a) Revenue budget monitoring
- (b) Capital programme monitoring
- (c) Annual performance assessment of adult social care
- (d) Children's Services assessment
- (e) Annual Audit Letter 2010
- (f) Six monthly review of the risk register
- (g) Annual Review of the Risk Management Strategy
- (h) Medium Term Financial Plan
- (i) Statement of Accounts
- (j) Report on Woodlands School

The Audit Committee have considered a wide variety of issues including:-

- (a) Annual review of the whistle blowing policy to include breaches of data protection
- (b) Internal Audit Annual Plan 2010/11
- (c) Audit Commission Audit and Inspection Plan
- (d) Annual Governance Statement
- (e) Report on Woodlands School

The Standards Committee have considered a number of issues relating to members, in particular have had a larger number of referrals for the year 2010/11. A further round of training for members was provided as part of the induction process in May 2011 and all members were invited.

An annual review of the code of corporate governance checks the control environment within the two directorates and the business support department, and the results of this review has been used to inform our assessment of significant control issues for the Council.

The following is an extract from the Head of Internal Audit's annual report for 2010/11.

"Key Financial Systems – 4 out of the 7 key systems examined had opinions of good or satisfactory (Appendix A). However 3 of the systems audited were assessed as 'Insufficient', exhibiting weaknesses in debt recovery processes (including creditor/salary overpayments) and the current work on the Care Director system has raised concerns that similar issues exist there too. No other significant issues have arisen to date on the audits that are still in progress.

Corporate Governance – Our audit work has confirmed that this is satisfactory.

Risk Management – Our audit work has confirmed that this is satisfactory.

Fraud & Prevention of Corruption – Our audit work has found this to be Insufficient (i.e. Controls are in place to mitigate identified risks and they are complied with to varying degrees. However, there are one or more gaps in the control process that leave the system exposed to significant residual risk. Action is required to mitigate material risks.)

Internal audit reviews the effectiveness of controls to minimise risk and the results of these are reported to the Audit Committee together with any action plan to address risks.

The Council also undertakes an annual review of corporate governance. The detailed findings indicate that, in general, Medway's Constitution, political and management structure and decision-making processes address the requirements of the revised CIPFA/SOLACE framework and demonstrate the Council's commitment to openness and transparency. The six core principles set out in the CIPFA/SOLACE framework were assessed as "satisfactory".

Assurances have been provided from the Corporate Management Team that key elements of the control framework were in place during the year in their divisions and control weaknesses were identified and addressed.

## **5. Governance: Key Areas of Focus**

In September 2010 the Cabinet and Audit Committee received a report from the Monitoring Officer on Woodland School and its procurement of an extension to the school buildings. The report highlighted weaknesses in rigorous oversight of the project by the Council, principally in the Learning and Achievement division, which led to a significant overspend. In order to address the control weaknesses by ensuring that robust procedures are in place, the Cabinet has set up a cabinet advisory group, chaired by the Portfolio Holder for Children's Services, which will assist the Cabinet to monitor capital schemes in the Children's and Adults Directorate.

In 2010/11 we identified a number of areas where employee fraud had taken place and reports were brought to the Audit Committee. We have commissioned PKF, our external auditors, to check our internal systems to ensure that our anti-fraud and corruption measures are robust and we will implement any findings from their report.

Homes and Communities Agency funding of £37m was allocated for regeneration work in Medway (2008 - 11). A small number of schemes remain to be completed but all are nearing completion. Work is on-going to quantify the likely total spend but funding is received once work is completed, sometimes several months in arrears and our claims have not all been submitted. The accounts as of 31 March 2011 accurately reflect the situation at that time that the total expenditure for all projects was inside approved budgets. Should any overspend materialise as projects are completed these will be investigated and a report brought to Audit Committee and Cabinet

The Authority faces an extremely challenging year in 2011/12 as it seeks to manage significant budget reductions, increasing demand for some services and new ways of working, whilst ensuring it complies with its statutory duties. The following represent the key issues to be addressed in relation to significant governance issues:-

(a) A significant reduction in Government grant funding for 2011/12 totalling £20.6m. The Council has plans in place to respond to this challenge but the budget reductions in 2011/12 will require careful monitoring and immediate action if they fall behind during implementation.

(b) Better for Less, the Council's transformation programme, is ongoing and in 2011/12 we will move into the implementation phase to improve our customer contact and administration across the Council. The programme is challenging and ambitious and will deliver substantial savings to the Council of £13.9M (cumulative), as well as transforming and improving our services.

## 6. Certification

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year 2010/11 although we recognise the areas for additional focus identified in section 5.

We are satisfied that these enhancements 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.

.....  
Leader of the Council

.....  
Chief Executive

## E STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011. The Code is based on approved accounting standards, comprising International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS's) approved by the International Accounting Standards Board. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Council is required to disclose information relating to the impact of any accounting policy change that will be required by a new standard that has been issued but not yet adopted. The 2011/2012 Code introduces new requirements relating to FRS 30 Heritage Assets. The financial statements should set out the Council's policy for the acquisition, preservation, management and disposal of heritage assets. This should include a description of the records maintained by the Council of its collection of heritage assets and information on the extent to which access to the assets is permitted. The accounting policies relating to heritage assets should be stated, including details of the measurement bases used. For heritage assets that are not reported in the balance sheet, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets that are not reported in the balance sheet. The Heritage assets held by Medway Council have been estimated at a value of £12,563,000.

### 2. Qualitative Characteristics of Financial Statements

- **Understandability** - although a reasonable knowledge of accounting and local government is assumed, all reasonable steps have been taken to ensure that the financial statements are as comprehensible as possible.
- **Relevance** - the objective of the financial statements is to provide information on the Council's financial position, performance and cash flow that is useful for assessing the stewardship of public funds and for making economic decisions.
- **Materiality** – omissions or misstatements of items are only material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.
- **Reliability** - financial information can be depended upon to represent faithfully the substance of the transactions and other events that have taken place. The information is free from bias, free from material error, is complete within the bounds of materiality and cost and has been prepared in a prudent manner.
- **Comparability** - the Statement of Accounts contains prior year information to enable comparisons to be made.

### 3. Accounting Concepts

The following underlying assumptions are made in the preparation of the Council's accounts:

- **Accrual basis** - the financial statements, except the Cash Flow Statement, have been prepared on an accrual basis. The accrual basis requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

- **Going Concern** – the financial statements have been prepared on a going concern basis. It is assumed that the functions of the Council will continue in operation for the foreseeable future.

#### **4. Accruals of Income and Expenditure**

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice. That is, 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 are payments of regular quarterly accounts (e.g. telephones, electricity, ICT contracts for software and hardware) and Penalty Charge Notice income. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

#### **5. Capital Grants Received in Advance**

The Council receives funds from property developers to provide education, highway and other community assets as part of their development. These funds are held for periods of time as specified within the planning consent and used to provide and or maintain those assets.

#### **6. Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. IAS 7 indicates that an investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition. Monies held by the Council's investment managers are classified as investments.

#### **7. Charges to Revenue for Non-Current Assets**

Service revenue accounts, central support services and trading accounts are charged with depreciation attributable to the asset used by the relevant service and revaluation and impairment losses on assets where there are no accumulated gains in the Revaluation Reserve against which losses can be written off.

Depreciation and impairment losses have no effect on council tax levels as compensating adjustments are made between the General Fund and the Capital Adjustment Account. However, the Council is required to make annual contributions from revenue towards the repayment of debt. Notional interest is not charged to services but actual interest payable on outstanding borrowings, including interest payable under finance leases is charged directly to the Comprehensive Income and Expenditure Statement.



## 8. Customer and Client Receipts

With the exception of some income, e.g. car park penalty charge notices which is recorded on a cash basis, income is accrued and accounted for in the period to which it relates. Provision is made for doubtful debts and known uncollectible debts are written off.

## 9. Employee Benefits

Three categories of employee benefits exist under the 2010/2011 Code:

### Benefits payable during employment

Covers short-term employee benefits, such as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as expenses in the year in which the employee renders service to the council. Accruals are made for holiday entitlements etc. but these sums are reversed out through the Movement in Reserves Statement. This category of benefits also includes those earned by current employees but payable twelve months or less after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.

### Termination benefits

Covers amounts that are payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. These are often lump-sum payments but also include salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the Council. Redundancy and other termination costs are accrued to the year that the notice is served.

### Post Employment Benefits

Employees of the Authority are members of two separate pension scheme. Both schemes provide members with defined benefits (retirement lump sums and pensions), related to pay and service. The schemes are as follows:

- The Council contributes to the Teachers' Pension Scheme at rates set by the scheme actuary and advised by the Scheme Administrator. The scheme pays benefits on the basis of pre-retirement salaries of teaching staff. While the scheme is of the Defined Benefit type, it is accounted for as a Defined Contribution Scheme and no liability for future payments of benefits is recognised in the Balance Sheet.
- The Local Government Pensions Scheme is administered by Kent County Council. The liabilities of the Kent pension fund attributable to the Authority 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.

The assets of Kent pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate

- unitised securities – current bid price
- property – market value.

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

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which 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 Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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 – debited to the Pensions Reserve
- contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from 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 pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements but since 6 January 2007 has ceased to award additional service

in the event of early retirement on other than ill-health grounds. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) 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.

## **10. Estimation Techniques**

Significant estimates are involved in the calculation of some parts of the Council's accounts. These include the calculation of the pension assets and liabilities by the fund's actuary, the valuation of non-current assets, the provision for bad and doubtful debts and the calculation of embedded leases. Details of each of these are shown in the relevant notes to the principal financial statements.

## **11. Events After the Balance Sheet Date**

These are events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Statement of Accounts is authorised for issue. Events arising between the Balance Sheet date and final approval of the Statement of Accounts will be reflected in the statements if they provide additional evidence of conditions that existed at the Balance Sheet date and materially affect the amounts reported. Where conditions arose after the Balance Sheet date the Statement of Accounts is not adjusted to reflect such events but, where material, disclosure is made by way of a note to the accounts.

Those that provide evidence of conditions that existed at the end of the financial year – the Statement of Accounts is adjusted to reflect such events;

## **12. Exceptional Items**

Where material, items of income and expenditure are disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts.

## **13. Financial Instruments**

### **Financial Assets**

The Council's financial assets (investments) are classified into Loans and Receivables - assets that have fixed or determinable payments but which are not quoted in an active market Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments and Fair value through profit or loss, these are financial instruments that are actively being traded in order to make a profit rather than holding to obtain the yield, these are all managed by our Fund Manager. Financial assets are maintained in the Balance Sheet at fair value.

*Loans and receivables* – are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. 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.

The Council has made a small number of loans to eligible employees, for the purchase of motor vehicles for example and charitable organisations at less than market rates (soft loans). The value of these loans has been considered to be immaterial and the calculation of the present value of interest foregone, required by the Code, has not been undertaken.

*Available-for-Sale Assets*– these have a quoted active market price and do not have fixed or determinable payments. These are measured and carried on the balance sheet at fair value using determinations from independent experts.

*Fair Value through profit or loss* – these are financial instruments that are held for trading in order to make a short term profit. This would be as part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short term profit taking.

## Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## 14. Foreign Currency Transactions

When foreign currency transactions occur the Council will convert the amount received or paid to the prevailing sterling amount as at the date of the transaction.

## 15. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and

- the grants or contributions will be received.

Government grants and third party contributions and donations to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied or there is reasonable assurance that they will be met.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Capital grants received where no conditions exist will be credited to the Comprehensive Income and Expenditure statement in the year of receipt. This income will subsequently be transferred to the Capital Adjustment Account through the Movement in Reserves Statement when applied to finance capital expenditure or to the capital Grant Unapplied Account.

Capital grants, where conditions exist, and capital contributions (such as Section 106 Developer Contributions) received will be credited to the Comprehensive Income and Expenditure Account in the year that the capital expenditure is incurred. This income will subsequently be transferred to the Capital Adjustment Account through the Movement in Reserves Statement.

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

## **16. Investment Property**

Investment property (land and/or buildings) are used solely to earn rental income or for capital appreciation or both. The Council's major investment property is Gillingham Business Park, which is let on a long lease. Investment properties are not depreciated but are revalued annually according to market conditions at the year end.

## **17. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. A right to use an asset in return for payment may be subject to this lease policy even though a formal lease agreement may not exist.

### **Finance Leases**

As lessee, the Council records finance leases as assets and liabilities at amounts equal to the fair value of the property plant or equipment or, if lower, the present value of the minimum lease payments. Lease payments shall be apportioned between the finance charge (interest) and the reduction of the outstanding liability. The Council will recognise assets under finance leases in the balance sheet at an amount equal to the net investment of the lease.

Assets recognised under a finance lease shall be depreciated. The depreciation policy for leased assets shall be consistent with the policy for owned assets. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset shall be depreciated over

the shorter of the lease term and its useful economic life. After initial recognition, assets recognised under a finance lease are subject to revaluation in the same way as any other asset.

### Operating Leases

Lease payments under an operating lease are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from the use of the asset. Charges are recorded on a straight-line basis over the lease term unless another basis is more representative of the benefits received by the Council.

### Embedded Leases

These are assets that although not owned by the Council are used primarily by the authority for service provision. Examples are vehicles used by the Council's highways maintenance and waste contractors. In these cases estimated values for the vehicles have been used along with a leased term in line with the contract period. Assets are recognised in the balance sheet at the net book value and offset by a deferred liability. The lease charge forms part of the contract payment on behalf of these vehicles on a straight-line basis over the life of the asset. These assets are depreciated in line with our normal capital policy.

## 18. Overheads and Support Services

In accordance with the CIPFA Best Value Accounting Code of Practice 2010/2011 (BVACOP), all overheads not defined as Non Distributed Costs are fully recharged to service expenditure. Unapportionable Central Overheads, which are clearly defined in the Code, together with Democratic Representation and Management and Corporate Management Costs, are service expenditure headings in their own right, to which overheads have been allocated, and are not apportioned further.

## 19. Prior Period Adjustments, Changes in Accounting Policy and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates will be accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where changes is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior year period as if the new policy had always been applied.

Material errors discovered in prior year periods are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## 20. Property Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### Recognition

Expenditure, generally above the de-minimis level of £25,000 on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided

that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

Where decreases in value are identified, they are accounted for by:

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

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

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

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

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction). Depreciation is charged in the year of disposal and not in the year of acquisition.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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.

### Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried



at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal 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 Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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 General Fund Balance in the Movement in Reserves Statement.

## **21. Provisions, Contingent Liabilities and Contingent Assets**

*Provisions* – are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made, but where the timing of the transfer is uncertain. For instance, the Council may be involved in an insurance claim that could eventually result in the making of a settlement or the payment of compensation. The specific purposes of the Council's provisions are explained in a note to the principal financial statements.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

*Contingent Liabilities* – arise when an event occurs that gives the Council a possible financial obligation that may or may not be incurred depending on the outcome of a future event such as a court case. Contingent liabilities also arise in circumstances where a provision would ordinarily be made but either it is unlikely that expenditure will be required or the amount of the obligation cannot be reliably measured.

Contingent liabilities are not recognised in the Balance Sheet but disclosed as a note to the accounts.

*Contingent Assets* – arise when an event has taken place that gives the Council a possible asset that may or may not be confirmed depending on the outcome of a future event not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed as a note to the accounts.

## **22. 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 Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus or Deficit on the Provision of Service in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the notes to the principal financial statements.

## **23. Revenue Expenditure Funded from Capital Under Statute**

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

## **24. VAT**

VAT payable (for both revenue and capital) is included in the accounts as an expense only to the extent that it is not recoverable from the Government. The Council is able to recover VAT on nearly all its expenditure. VAT receivable is excluded from income as it is all payable to HM Revenue and Customs.

## F PRINCIPAL FINANCIAL STATEMENTS

Figures for 2009/2010 have been restated, where appropriate, to reflect the requirements of the new International Financial Reporting Standards. Explanations of major changes accompany each statement.

### Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce council tax) and other reserves. The surplus/(deficit) on the Provision of Services line shows the true economic cost of providing council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax and rent setting purposes, respectively. The net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

A summary of the purpose of each reserve is as follows:

*General Fund Balance* – This is the 'working balance' of the Council and acts as a contingency to fund unforeseen eventualities.

*General Reserve* – This is the available, non-earmarked reserve of the Council and can be utilised to support revenue or capital expenditure at the Council's discretion.

*Schools Balances* – Schools are allowed to carry forward, from one year to the next, any shortfall in expenditure relative to the school's budget share for the year, plus or minus any balance brought forward from previous years. These surpluses can only be used for purposes that benefit pupils under delegated powers.

*Earmarked General Fund Reserves* – These are reserves created to fund specific revenue or capital expenditure.

*Housing Revenue Account* – This reserve contains any surplus or deficit arising from the provision of council housing by the Council. It can only be used for local authority housing provision.

*Capital Receipts Reserve* – Proceeds from the sale of Council assets are paid into this reserve which can be used to finance capital expenditure or repay debt.

*Major Repairs Reserve* – This reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account and can only be used to fund major Housing Revenue Account repairs.

*Insurance Fund* – This reserve includes sums held to meet potential and contingent liabilities in respect of insurance claims.

*Capital Grants Receipts in Advance* – This reserve contains Government grants and other contributions which are held to finance future capital expenditure.

*Unusable Reserves* – The major reserves included in this category are the Revaluation Reserve, Pension Reserve and Capital Adjustment Account. Their purpose is of a technical accounting nature and cannot be used to support the services of the Council. They are explained in more detail in note 15.

# Movement in Reserves Statement for the years Ending 31 March 2010 and 31 March 2011

Notes	General Fund Balance	General Reserve	Schools Balances	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Insurance Fund	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Restated Balance as at 1 April 2009</b>	<b>9,500</b>	<b>3,263</b>	<b>5,850</b>	<b>8,295</b>	<b>4,303</b>	<b>4,719</b>	<b>2,840</b>	<b>2,152</b>	<b>12,132</b>	<b>53,054</b>	<b>611,113</b>	<b>664,167</b>
<b>Movement in Reserves 2009/2010</b>												
Surplus/(Deficit) on provision of services	(26,310)	0	0	0	(37,545)	0	0	0	0	(63,855)	0	(63,855)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	0	0	(103,012)	(103,012)
<b>Total Comprehensive Income and Expenditure</b>	<b>(26,310)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(37,545)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(63,855)</b>	<b>(103,012)</b>	<b>(166,867)</b>
Adjustments between accounting & funding bases under regulations	1 30,736	0	0	0	38,882	(2,920)	(2,702)	0	14,704	78,701	(89,791)	(11,091)
<b>Net Increase/decrease before transfer to Earmarked Reserves</b>	<b>4,426</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,337</b>	<b>(2,920)</b>	<b>(2,702)</b>	<b>0</b>	<b>14,704</b>	<b>14,846</b>	<b>(192,803)</b>	<b>(177,958)</b>
Transfers to/from Earmarked Reserves	2 (3,926)	3,848	(620)	1,173	(512)	0	501	(464)	0	0	0	0
<b>Increase/(Decrease) in Year</b>	<b>500</b>	<b>3,848</b>	<b>(620)</b>	<b>1,173</b>	<b>825</b>	<b>(2,920)</b>	<b>(2,201)</b>	<b>(464)</b>	<b>14,704</b>	<b>14,846</b>	<b>(192,803)</b>	<b>(177,958)</b>
<b>Balance at 31 March 2010</b>	<b>10,000</b>	<b>7,111</b>	<b>5,230</b>	<b>9,469</b>	<b>5,128</b>	<b>1,799</b>	<b>639</b>	<b>1,688</b>	<b>26,836</b>	<b>67,900</b>	<b>418,310</b>	<b>486,210</b>
<b>Movement in Reserves 2010/2011</b>												
Surplus/(Deficit) on provision of services	53,367	0	0	0	(32,692)	0	0	0	0	20,675	0	20,675
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	0	0	85,928	85,928
<b>Total Comprehensive Income and Expenditure</b>	<b>53,367</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(32,692)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20,675</b>	<b>85,928</b>	<b>106,603</b>
Adjustments between accounting & funding bases under regulations	1 (50,821)	0	0	0	33,725	(1,721)	378	0	10,018	(8,421)	(7,820)	(16,242)
<b>Net Increase/decrease before transfer to Earmarked Reserves</b>	<b>2,546</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,033</b>	<b>(1,721)</b>	<b>378</b>	<b>0</b>	<b>10,018</b>	<b>12,254</b>	<b>78,108</b>	<b>90,361</b>
Transfers to/from Earmarked Reserves	2 (2,546)	(982)	1,972	1,154	(5)	0	0	407	0	0	0	0
<b>Increase/(Decrease) in Year</b>	<b>0</b>	<b>(982)</b>	<b>1,972</b>	<b>1,154</b>	<b>1,028</b>	<b>(1,721)</b>	<b>378</b>	<b>407</b>	<b>10,018</b>	<b>12,254</b>	<b>78,108</b>	<b>90,361</b>
<b>Balance at 31 March 2011</b>	<b>10,000</b>	<b>6,129</b>	<b>7,202</b>	<b>10,623</b>	<b>6,156</b>	<b>78</b>	<b>1,017</b>	<b>2,095</b>	<b>36,854</b>	<b>80,154</b>	<b>496,417</b>	<b>576,571</b>



## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Restated 2009/2010					2010/2011		
Gross Exp £'000	Gross Inc £'000	Net Exp £'000	Service	Notes	Gross Exp £'000	Gross Inc £'000	Net Exp £'000
3,616	(1,526)	2,090	Central services to the public		3,888	(1,742)	2,146
73,186	(27,024)	46,162	Cultural, environmental, regulatory and planning services		78,631	(27,733)	50,899
340,330	(237,165)	103,165	Education and children's services		326,446	(251,099)	75,347
36,435	(12,045)	24,390	Highways and transport services		43,497	(13,440)	30,057
48,287	(11,646)	36,641	Local authority housing (HRA)		44,068	(11,897)	32,171
122,918	(114,540)	8,378	Other housing services		128,675	(113,827)	14,848
92,281	(29,675)	62,606	Adult social care		91,838	(27,623)	64,215
16,473	(3,322)	13,151	Corporate and Democratic core		9,095	(1,644)	7,451
31,902	(31,990)	(88)	Non-distributed costs		32,044	(37,887)	(5,843)
0	0	0	Exceptional Item Pension	32	(47,486)	0	(47,486)
<b>765,429</b>	<b>(468,934)</b>	<b>296,495</b>	<b>Net Cost of Services</b>		<b>710,697</b>	<b>(486,892)</b>	<b>223,805</b>
704	0	704	Other operating expenditure	3	1,729	0	1,729
21,129	(3,843)	17,286	Financing and investment income and expenditure	4	20,181	(2,199)	17,982
0	(250,629)	(250,629)	Taxation and non-specific grant income	5	0	(264,190)	(264,190)
		<b>63,855</b>	<b>(Surplus)/Deficit on Provision of Services</b>				<b>(20,674)</b>
		(29,525)	(Surplus)/Deficit on revaluation of Property, Plant and Equipment				(464)
		132,537	Actuarial (gains)/losses on pension assets/liabilities	32			(85,464)
		<b>103,012</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>(85,928)</b>
		<b>166,867</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>(106,602)</b>

**Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations.

<b>Balance Sheet Summary</b>	<b>Notes</b>	<b>31 March 2011 £'000</b>	<b>31 March 2010 Restated £'000</b>	<b>1 April 2009 Restated £'000</b>
Property Plant and Equipment	6	874,549	909,883	970,734
Investment Property	7	5,735	5,916	5,854
Long Term Investments	8	4	10,004	20,004
Long Term Debtors	8	762	788	882
<b>Long Term Assets</b>		<b>881,050</b>	<b>926,591</b>	<b>997,474</b>
Short Term Investments	8	52,599	22,237	112,340
Inventories		130	152	144
Short Term Debtors	9	52,371	61,579	51,211
Cash and Cash Equivalents	11	20,620	56,757	3,677
Assets Held for Sale	12	1,845	3,748	2,668
<b>Current Assets</b>		<b>127,565</b>	<b>144,473</b>	<b>170,040</b>
Cash and Cash Equivalents	11	0	0	0
Short Term Borrowing	8	(11,659)	(26,895)	(52,351)
Short Term Creditors	10	(55,650)	(57,947)	(55,731)
<b>Current Liabilities</b>		<b>(67,309)</b>	<b>(84,842)</b>	<b>(108,082)</b>
Long Term Creditors	8	(47,746)	(49,709)	(52,006)
Provisions	13	(3,274)	(2,941)	(1,735)
Long Term Borrowing	8	(165,072)	(175,139)	(200,260)
Other Long Term Liabilities	8	(140,821)	(266,322)	(133,121)
Capital Grants Receipts in Advance		(7,822)	(5,901)	(8,143)
<b>Long Term Liabilities</b>		<b>(364,735)</b>	<b>(500,012)</b>	<b>(395,265)</b>
<b>Net Assets</b>		<b>576,572</b>	<b>486,210</b>	<b>664,167</b>
Usable Reserves	14	80,155	67,900	53,054
Unusable Reserves and Statutory Adjustment Accounts	15	496,417	418,310	611,113
<b>Total Reserves</b>		<b>576,572</b>	<b>486,210</b>	<b>664,167</b>



## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Council

<b>2009/10</b> <b>£'000</b>		<b>2010/11</b> <b>£'000</b>
63,855	Net (Surplus) or deficit on the provision of services	(20,674)
(130,990)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements	(29,317)
<u>59,839</u>	Adjustments for items included in the net Surplus or deficit on the provision of service that are investing or financing activities	<u>64,169</u>
(71,151)	Net cash flows from Operating Activities (Note 16)	34,852
(96,337)	Investing Activities (Note 17)	(3,233)
<u>50,553</u>	Financing Activities (Note 18)	<u>25,192</u>
<b>(53,080)</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>36,137</b>
<u>3,677</u>	Cash and cash equivalents at the beginning of the reporting period	<u>56,757</u>
<b><u>56,757</u></b>	<b>Cash and cash equivalents at the end of the reporting period (Note 11)</b>	<b><u>20,620</u></b>

**G NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS**

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## 1. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments made to the comprehensive income and expenditure recognised by the Council in accordance with proper accounting practice to the resources that are specified by statute as being available to the Council to meet future revenue and capital expenditure.

Adjustments for 2010/2011	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Adjustments primarily affecting the Capital Adjustment Account</b>						
Depreciation and Impairment	33,551	2,239				(35,790)
Revaluation Losses	2,597	34,070				(36,667)
Capital Grants & Contributions Applied	(57,713)				(295)	58,008
Capital Grants & Contributions Unapplied	(7,548)				10,313	0
Revenue Expenditure Funded from Capital Under Statute	28,631					(28,631)
Derecognition & other adjustments						(22,682)
<b>Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement</b>						
Statutory provision for the financing of capital investment	(7,838)					7,838
Voluntary provision above MRP						0
Revenue contribution to finance capital	(917)					917
<b>Adjustments primarily involving the Capital Receipts Reserve</b>						
Profit/Loss on disposal of assets	151	65	(216)			(657)
Contribution to disposal costs		10	(10)			0
Financing of capital expenditure			(5,751)			5,751
Payments to Capital Receipts Pool	180		(180)			0
Capital Receipts			4,436			
<b>Adjustments primarily involving the Major Repairs Reserve</b>						
Reversal of MRA credited to HRA		(2,240)		2,240		(0)
Use of MRR to finance new capital expenditure				(1,862)		1,862
<b>Adjustments primarily involving the Pensions Reserve</b>						
Reversal of retirement benefits	(23,009)	(233)				23,242
Employer's pension contributions	(19,555)	(198)				19,753
Post Employment Benefit	(23)					
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>						
Difference between statutory amounts and amounts recognised as income and expenditure	104	12				(116)
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>						
Difference between statutory amounts and amounts recognised as income and expenditure	609					(609)
<b>Adjustments primarily involving the Accumulated Absences Account</b>						
Amount by which officer remuneration charged to the Comprehensive I&E account on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(40)					(40)
<b>Total Adjustments 2010/2011</b>	<b>(50,821)</b>	<b>33,725</b>	<b>(1,721)</b>	<b>378</b>	<b>10,018</b>	<b>(7,820)</b>

	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
Adjustments for 2009/2010	£000s	£000s	£000s	£000s	£000s	£000s
<b>Adjustments primarily affecting the Capital Adjustment Account</b>						
Depreciation and Impairment	33,947	1,711				(35,658)
Revaluation Losses	44,975	38,808				(83,781)
Capital Grants & Contributions Applied	(48,776)				(4,144)	52,920
Capital Grants & Contributions Unapplied	(10,177)				18,848	
Revenue Expenditure Funded from Capital Under Statute	22,989					(22,989)
Derecognition & other adjustments						(17,261)
<b>Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement</b>						
Statutory provision for the financing of capital investment	(8,568)					8,568
Voluntary provision above MRP	(1,975)					1,975
Revenue contribution to finance capital	(1,188)					1,188
<b>Adjustments primarily involving the Capital Receipts Reserve</b>						
Profit/Loss on disposal of assets	(844)	50	794			(2,895)
Contribution to disposal costs		5	(5)			
Financing of capital expenditure			(4,609)			4,609
Payments to Capital Receipts Pool	191		(191)			
Capital Receipts			1,092			
<b>Adjustments primarily involving the Major Repairs Reserve</b>						
Reversal of MRA credited to HRA		(1,711)		1,711		0
Use of MRR to finance new capital expenditure				(4,413)		4,413
<b>Adjustments primarily involving the Pensions Reserve</b>						
Reversal of retirement benefits	19,240	240				(19,480)
Employer's pension contributions	(18,649)	(233)				18,882
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>						
Difference between statutory amounts and amounts recognised as income and expenditure	103	12				(115)
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>						
Difference between statutory amounts and amounts recognised as income and expenditure	(532)					532
<b>Adjustments primarily involving the Accumulated Absences Account</b>						
Amount by which officer remuneration charged to the Comprehensive I&E account on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements						(699)
<b>Total Adjustments 2009/2010</b>	<b>30,736</b>	<b>38,882</b>	<b>(2,919)</b>	<b>(2,702)</b>	<b>14,704</b>	<b>(89,791)</b>

## 2. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/2011.

	Balance 1 April 2009 £'000	Transfers Out 2009/2010 £'000	Transfers in 2009/2010 £'000	Balance 31 March 2010 £'000	Transfers in 2010/2011 £'000	Transfers out 2010/2011 £'000	Balance 31 March 2011 £'000
<b>General Fund</b>							
General Reserve	3,263	0	3,848	7,111	799	(1,781)	6,129
Schools Balances	5,850	(620)	0	5,230	1,972	0	7,202
Other Earmarked Reserves	8,295	(518)	1,692	9,469	6,401	(5,247)	10,623
<b>Total</b>	<b>17,408</b>	<b>(1,138)</b>	<b>5,540</b>	<b>21,810</b>	<b>9,172</b>	<b>(7,028)</b>	<b>23,954</b>

## 3. Other Operating Expenditure

2009/2010 £'000		2010/2011 £'000
279	Parish Council Precepts	317
921	Levies	906
191	Payment to the Government Housing Capital receipts Pool	180
(794)	Gains/losses on disposal of non-current assets	216
107	HRA share of corporate and democratic core	110
<b>704</b>	<b>Total</b>	<b>1,729</b>

## 4. Financing and Investment Income and Expenditure

2009/2010 £'000		2010/2011 £'000
11,233	Interest payable and similar charges	10,904
39	Interest element of finance leases (lessee)	121
9,868	Pension interest costs and expected return on pensions assets	9,037
(3,554)	Interest receivable and similar income	(1,813)
(300)	Income and expenditure in relation to investment properties and changes in fair value	(267)
0	Gains or losses on trading accounts	0
<b>17,286</b>	<b>Total</b>	<b>17,982</b>

**5. Taxation and Non-Specific Grant income**

<b>2009/2010</b>		<b>2010/2011</b>	
<b>£000s</b>		<b>£000s</b>	
(94,859)	Council tax income	(97,601)	
(66,805)	Non domestic rates	(74,336)	
(29,812)	Non-ringfenced Government Grants	(26,993)	
(59,153)	Capital grants and contributions	(65,261)	
<b>(250,629)</b>	<b>Total</b>	<b>(264,191)</b>	

## 6. Property, Plant and Equipment

<b>Movement on Balances 2010/2011</b>	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant and Equipment</b>	<b>Infrastructure Assets</b>	<b>Community assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total Tangible Assets</b>
<b>Cost or Valuation</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
As at 1 April 2010	138,538	648,710	4,777	191,509	6,256	2,095	13,039	1,004,925
Additions	2,597	17,685	3,319	36,936	2,376	0	3,763	66,675
Revaluation increases/decreases recognised in the Revaluation Reserve	0	(1,099)	0	0	1,557	(208)	0	250
Revaluation increases/decreases recognised in the Surplus/Deficit on the Provision of Services	(34,150)	(2,057)	(8)	0	(141)	(192)	0	(36,548)
Derecognition – disposals	(369)	(287)	0	0	(2)	0	0	(657)
Derecognition - Surplus Assets	0	(3,006)	0	0	(15)	3,021	0	0
Assets reclassified (to)/from Held for Sale	0	(905)	0	0	0	(940)	0	(1,845)
Other movements in cost or valuation	0	(18,112)	0	0	0	0	(11,414)	(29,526)
<b>As at 31 March 2011</b>	<b>106,617</b>	<b>640,928</b>	<b>8,088</b>	<b>228,445</b>	<b>10,032</b>	<b>3,776</b>	<b>5,388</b>	<b>1,003,274</b>
<b>Accumulated Depreciation/ Impairments</b>								
As at 1 April 2010	(1,711)	(37,306)	(2,530)	(53,495)	0	0	0	(95,042)
Depreciation charge	(2,239)	(17,211)	(528)	(16,013)	0	0	0	(35,991)
Depreciation written out to the Revaluation Reserve	0	212	0	0	0	0	0	212
Depreciation written out to the Surplus//Deficit on the Provision of Services	0	195	0	3	0	0	0	198
Impairment losses/(reversals) recognised recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition – disposals	0	5	0	0	0	0	0	5
Derecognition - Surplus Assets	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	121	0	0	0	0	0	121
Other movements in depreciation and impairment	0	1,771	0	0	0	0	0	1,771
<b>At 31 March 2011</b>	<b>(3,950)</b>	<b>(52,212)</b>	<b>(3,058)</b>	<b>(69,505)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(128,725)</b>

## Net Book Value

<b>At 31 March 2011</b>	<b>102,667</b>	<b>588,716</b>	<b>5,030</b>	<b>158,940</b>	<b>10,032</b>	<b>3,776</b>	<b>5,388</b>	<b>874,549</b>
<b>At 31 March 2010</b>	<b>136,827</b>	<b>611,404</b>	<b>2,246</b>	<b>138,014</b>	<b>6,256</b>	<b>2,095</b>	<b>13,039</b>	<b>909,883</b>

## Comparative Movements 2009/2010

<b>Movement on Balances 2009/2010</b>	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant and Equipment</b>	<b>Infrastructure Assets</b>	<b>Community assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total Tangible Assets</b>
<b>Cost or Valuation</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
As at 1 April 2009	172,774	694,892	4,489	168,582	4,423	1,760	4,231	1,051,152
Additions	5,148	2,358	288	21,467	2,046	0	8,808	40,115
Revaluation increases/decreases recognised in the Revaluation Reserve	0	24,157	0	1,460	1,164	0	0	26,781
Revaluation increases/decreases recognised in the Surplus/Deficit on the Provision of Services	(38,808)	(61,972)	0	0	(1,361)	0	0	(102,141)
Derecognition – disposals	(176)	(7,028)	0	0	0	(1,760)	0	(8,964)
Derecognition - Surplus Assets	(400)	(1,695)	0	0	0	2,095	0	0
Assets reclassified (to)/from Held for Sale	0	(2,003)	0	0	(15)	0	0	(2,018)
Other movements in cost or valuation	0	0	0	0	0	0	0	0
<b>As at 31 March 2010</b>	<b>138,538</b>	<b>648,710</b>	<b>4,777</b>	<b>191,509</b>	<b>6,256</b>	<b>2,095</b>	<b>13,039</b>	<b>1,004,925</b>
<b>Accumulated Depreciation/ Impairments</b>								
As at 1 April 2009	0	(39,134)	(2,157)	(39,167)	0	0	0	(80,458)
Depreciation charge	(1,711)	(18,421)	(373)	(14,380)	0	0	0	(34,885)
Depreciation written out to the Revaluation Reserve	0	2,692	0	52	0	0	0	2,744
Depreciation written out to the Surplus//Deficit on the Provision of Services	0	18,057	0	0	0	0	0	18,057
Impairment losses/(reversals) recognised recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition – disposals	0	0	0	0	0	0	0	0
Derecognition - Surplus Assets	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	(500)	0	0	0	0	0	(500)
<b>At 31 March 2010</b>	<b>(1,711)</b>	<b>(37,306)</b>	<b>(2,530)</b>	<b>(53,495)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(95,042)</b>

## Net Book Value

<b>At 31 March 2010</b>	<b>136,827</b>	<b>611,404</b>	<b>2,246</b>	<b>138,014</b>	<b>6,256</b>	<b>2,095</b>	<b>13,039</b>	<b>909,883</b>
<b>At 1 April 2009</b>	<b>172,774</b>	<b>655,758</b>	<b>2,332</b>	<b>129,415</b>	<b>4,423</b>	<b>1,760</b>	<b>4,231</b>	<b>970,693</b>



## Capital Commitments

At 31 March 2011 the Council has entered into a number of major contracts for the construction and enhancement of Property, Plant and equipment in 2011/2012 and future years budgeted to cost £21.140 million. Similar commitments as at 31 March 2010 were £27.653 million. The major commitments are in respect of Walderslade Primary School, Sir Joseph Williamsons Mathematical School, academies programme, improvements to the A228 and the regeneration of Chatham Town Centre.

## Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. With the exception of the housing stock that was valued by external valuers DTZ, all other valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

### *Inspections*

In accordance with the relaxations agreed between the RICS and CIPFA, not all properties were inspected in their entirety. This was neither practical nor considered necessary for the purpose of this revaluation. However, external visual Inspections were carried out on all these properties.

### *Information from other parts of the Council*

For the purposes of this Certificate, we have in some instances had to rely upon information regarding the properties provided to us by other Departments within Medway Council and our valuations are dependent on the accuracy of the information supplied and/or the assumptions made. If these prove to be incorrect or inadequate then they could affect the accuracy of the valuations.

### *Title*

We have not undertaken any local searches or inspected Title Deeds, Planning Consents, Statutory Notices, Licences or other documents relating to the properties (except where indicated). We cannot therefore comment as to whether the construction or condition, use or intended use of the property was, is or will become unlawful or is in breach any covenant.

Unless stated otherwise, we have assumed that good title can be shown with no unusual or onerous restrictions, encumbrances or outgoing.

### *Planning proposals*

We have not made formal written enquiries of the Planning Department to ascertain if there are any proposals likely to affect specific properties.

Unless stated in the individual valuations, we have assumed there are no planning proposals that are likely to have an effect on the value of a property.

### *Construction and state of repair*

We have not undertaken a structural survey nor tested the service installations.

Where properties have been inspected those parts of the property that are covered, unexposed or inaccessible have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts.

No allowances have been made for rights, obligations or liabilities arising from the Defective Premises Act 1972.

We have assumed all properties comply with the Disability Discrimination Act 1995.

Unless we are aware that a building has a limited economic life, or this is clear from inspection, we have assumed a reasonable standard of repair and that all reasonable internal and external repairs and maintenance have been carried out. We have further assumed that such repairs do not constitute improvement to the building and do not have a material effect on asset value.

#### *Deleterious or hazardous substances*

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and we are therefore unable to report that the properties are free from risk in this respect.

For the purpose of this valuation we have assumed that such investigation would not disclose the presence of any such material in any adverse conditions.

#### *Environmental Assessment*

Unless stated on the appropriate Valuations, we are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on these properties and which may draw attention to any contamination or possibility of any such contamination.

We have not carried out any investigation into past or present uses of the properties or of any neighbouring land to establish whether there is any potential for contamination and therefore we have assumed, unless stated otherwise, that no contaminative or potentially contaminative uses, underground mining, or other engineering works have ever been carried out on or adversely affect these properties.

We have assumed, unless stated otherwise, that there has been no recent flooding affecting these properties and that inclusion on any map identifying possible flood occurrences will have no effect on value.

#### *Plant and machinery*

Plant and machinery installed to provide services normally expected with that type or quality of building or land holding has been valued as an integral part of the asset unless the plant and machinery element has been identified as forming a significant proportion of the overall value of the asset. In such limited cases a separate value and assessment of economic life have been provided for that plant and machinery.

Plant and machinery primarily serving a commercial or industrial process has been excluded.

#### *Vat, taxation and costs of realisation*

No allowance has been made for liability for taxation, which may arise on disposal, whether actual or notional. VAT and Capital Gains Tax are specifically excluded and no deductions have been made for any potential realisation costs.

#### *Lotting (if applicable)*

Where applicable, properties have been lotted. No allowance or discount has been made for any flooding of the market which might, in practice, happen if a number of properties were offered for sale simultaneously. The figure reported is the aggregate of the values on separate properties.

## Valuation Commentary

A number of other assumptions have been adopted to ensure consistency in approach:

- a) No specific allowance has been made for any under or over capacity arising from the use and occupation of individual operational properties. Where appropriate, this is reflected in the assessment of remaining useful life and depreciation for age and obsolescence.
- b) Depreciation of replacement build costs has been calculated according to age bands rather than a straight-line approach. No deduction is made for properties up to 10 years old and thereafter the factor increases with age up to a maximum 50%. The cap assumes that basic health & safety/legal requirements have been complied with and that basic service provision is able to continue on the site.
- c) Remaining useful life has been calculated to reflect the age of the building, current condition, functional suitability for the existing use, and original 'designed life' expectations (i.e. conventional build, restricted life, or temporary structure). Conventionally constructed buildings are assumed to have a maximum life of 60 years, reducing in bands after 10 years

## Removal of Schools Transferring to Academies

Schools with a value of £18.198m have achieved academy status between 01.04.11 and 01.11.11 and will therefore need to be removed from the balance sheet for the 2011/2012 financial statements.

## 7. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

Investment properties	2010/2011 £'000	2009/2010 £'000
Rental income from investment property	387	294
Direct operating expenses arising from investment property	0	0
<b>Net gain/(loss)</b>	<b>387</b>	<b>294</b>

The following table summarises the movement in the fair value of investment property over the year:

Investment Properties	31 March 2011 £'000	31 March 2010 £'000
Balance at start of year	5,916	5,926
Net gains/(loss) from fair value adjustments	(119)	(10)
Transfers (to)/from Property, Plant and Equipment	(62)	0
<b>Balance at end of year</b>	<b>5,735</b>	<b>5,916</b>

## 8. Financial Instruments

The following categories of financial instrument are carried in the balance sheet:

Financial Instruments	Long-term		Current	
	31 March	31 March	31 March	31 March
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
<b>Investments</b>				
Loans and Receivables	0	10,000	30,139	1
Available for sale financial assets	4	4	0	0
Fair value through profit or loss	0	0	22,460	22,236
<b>Total Investments</b>	<b>4</b>	<b>10,004</b>	<b>52,599</b>	<b>22,237</b>
<b>Debtors</b>				
Loans and Receivables	762	788	0	0
<b>Total Debtors</b>	<b>762</b>	<b>788</b>	<b>0</b>	<b>0</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	(165,072)	(175,139)	(11,659)	(26,895)
Financial liabilities at fair value through profit and loss	0	0	0	0
<b>Total Borrowings</b>	<b>(165,072)</b>	<b>(175,139)</b>	<b>(11,659)</b>	<b>(26,895)</b>
<b>Other Long –Term Liabilities</b>				
FRS 17 pensions liability	(136,776)	(265,235)	0	0
Finance lease liability	(4,045)	(1,087)	0	0
<b>Total Other Long-Term Liabilities</b>	<b>(140,821)</b>	<b>(266,322)</b>	<b>0</b>	<b>0</b>
<b>Long-Term Creditors</b>				
Financial liabilities at amortised cost	(47,746)	(49,709)		
Financial liabilities carried at contract amount	0	0	0	0
<b>Total Long-Term Creditors</b>	<b>(47,746)</b>	<b>(49,709)</b>	<b>0</b>	<b>0</b>

Financial Instruments held for less than 3 months are classified as Cash and Cash Equivalent.  
Please see note 12.

## Income, Expenses, gains and Losses

	2010/11					2009/10				
	Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and receivables £000s	Financial Assets: Available for sale £000s	Assets and Liabilities at Fair Value through Profit and Loss £000s	Total £000s	Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and receivables £000s	Financial Assets: Available for sale £000s	Assets and Liabilities at Fair Value through Profit and Loss £000s	Total £000s
Interest expense	(10,084)				(10,084)	(10,483)				(10,483)
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>(10,084)</b>				<b>(10,084)</b>	<b>(10,483)</b>				<b>(10,483)</b>
Interest income		1,347	1	261	1,609		3,114	1	275	3,390
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>1,347</b>	<b>1</b>	<b>261</b>	<b>1,609</b>	<b>0</b>	<b>3,114</b>	<b>1</b>	<b>275</b>	<b>3,390</b>
<b>Net gain/(loss) for the year</b>	<b>(10,084)</b>	<b>1,347</b>	<b>1</b>	<b>261</b>	<b>(8,475)</b>	<b>(10,483)</b>	<b>3,114</b>	<b>1</b>	<b>275</b>	<b>(7,093)</b>

## Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

## Appendix 2

	31 March 2011		31 March 2010	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB debt	72,138	69,804	97,410	98,933
Non-PWLB debt	104,457	109,610	104,492	112,647
Total debt	176,595	179,414	201,902	211,580
Long-term creditors	47,746	47,746	49,709	49,709
<b>Total liabilities</b>	<b>224,341</b>	<b>227,160</b>	<b>251,611</b>	<b>261,289</b>

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

	31 March 2011		31 March 2010	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and receivables	47,062	46,975	66,820	66,659
Long-term debtors	762	762	788	788
<b>Total assets</b>	<b>47,824</b>	<b>47,737</b>	<b>67,608</b>	<b>67,447</b>

The fair value of the assets is lower than the carrying amount because the Authority's portfolio of investments includes some fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the balance sheet date.

The fair values for loans and receivables have been determined by reference to similar practices, as above, which provide a reasonable 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.

## 9. Debtors

	31 March 2011 £'000	31 March 2010 Revised £'000
Central government bodies	26,567	28,450
Other Local Authorities	1,983	2,749
NHS bodies	974	2,884
Public corporations and trading funds	2,017	1,951
Other entities and individuals	20,830	25,546
<b>Total Debtors</b>	<b>52,371</b>	<b>61,579</b>

At the end of March 2011 £3,643,000 overpayment of housing benefit was unrecovered (March 2010 £3,146,000). It is the Council's policy to account for recovery of overspent benefit on a cash basis and therefore this balance of debtors is, in effect, negated by a 100% provision for bad debts. Income within the Income and Expenditure account has consistently been allocated

on a cash receipt basis. This is regarded as the most prudent process regarding the outstanding debt. Amounts received in 2010/2011 were £719,000 (2009/2010 £835,000)

## 10. Creditors

	31 March 2011 £'000	31 March 2010 £'000
Central government bodies	6,926	5,361
Other Local Authorities	6,134	6,228
NHS bodies	3,148	3,561
Public corporations and trading funds	8,910	7,975
Other entities and individuals*	30,532	34,822
<b>Total Creditors</b>	<b>55,650</b>	<b>57,947</b>

## 11. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

<b>Cash and Cash Equivalents</b>	31 March 2011 £'000	31 March 2010 £'000
Cash held by the Council	24	23
Bank current accounts	3,673	(84)
Short-term deposits with financial institutions	16,923	56,818
<b>Total Cash &amp; Cash Equivalents</b>	<b>20,620</b>	<b>56,757</b>

## 12. Assets Held for Sale

	2010/11 £'000	Current 2009/10 £'000	2010/11 £'000	Non- Current 2009/10 £'000
<b>Balance Outstanding at start of year</b>	3,748	2,668	0	0
Assets newly classified as held for sale			0	0
▪ Property, Plant and Equipment	1,845	2,018	0	0
▪ Intangible Assets			0	0
▪ Other assets/liabilities in disposal groups			0	0
Revaluation Losses			0	0
Revaluation Gains			0	0
Impairment Losses			0	0
Assets declassified as held for sale:				
▪ Property, Plant and Equipment			0	0
▪ Intangible Assets			0	0
▪ Other assets/liabilities in disposal groups			0	0
Assets sold	(3,748)	(953)	0	0
Transfers from non-current to current			0	0
Other movements	0	15	0	0
<b>Balance Outstanding at year end</b>	<b>1,845</b>	<b>3,748</b>	<b>0</b>	<b>0</b>

## 13. Provisions

	Insurance Provision £000s	Other Provisions £000s	Total £000s
<b>Balance as at 1 April 2010</b>	<b>2,893</b>	<b>48</b>	<b>2,941</b>
Additional provision made in 2010/2011	1,237	419	1,656
Amounts used in 2010/2011	(1,323)	0	(1,323)
Unused amounts reversed in 2010/2011	0	0	0
Unwinding of discounting in 2010/2011	0	0	0
<b>Balance as at 31 March 2011</b>	<b>2,807</b>	<b>467</b>	<b>3,274</b>

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2011 in line with FRS 12. The majority of the unsettled claims are for public liability.

## 14. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.



## 15. Unusable Reserves

	31 March 2011	31 March 2010
	£'000	£'000
Revaluation Reserve	90,197	92,487
Capital Adjustment Account	548,608	595,906
Pensions Reserve	(136,776)	(265,235)
Financial Instruments Adjustment Account	(1,103)	(988)
Collection Fund Adjustment Account	0	609
Accumulated Absences Account	(4,509)	(4,469)
<b>Total Unusable Reserves</b>	<b>496,417</b>	<b>418,310</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

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

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

	2010/2011		2009/2010	
	£'000	£'000	£'000	£'000
<b>Revaluation Reserve</b>				
Balance as at 1 April		92,487		66,202
Upward revaluation of assets	11,254		37,969	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(10,790)		(8,444)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		464		29,525
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost	0		1,539	
Accumulated gains on assets sold or scrapped	(2,753)		(4,780)	
Amount written off to the Capital Adjustment Account		(2,753)		(3,241)
<b>Balance as at 31 March</b>		<b>90,197</b>		<b>92,487</b>

## Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 2 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Capital Adjustment Account	2010/2011		2009/2010	
	£'000	£'000	£'000	£'000
Balance as at 1 April		595,906		681,576
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(35,790)		(35,658)	
Revaluation gains/(losses) on Property, Plant and Equipment	(36,548)		(83,781)	
Revenue Expenditure funded from Capital Under Statute	(28,631)		(22,989)	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(657)		(2,895)	
		(101,626)		(145,323)
Adjusting amounts written out of the Revaluation Reserve	2,753		3,241	
Other adjustments	(22,682)		(17,261)	
Net written out amount of the cost of non-current assets consumed in the year		(19,929)		(14,020)
Capital financing applied in the year:				
Use of Capital Receipts Reserve to finance new capital expenditure	5,751		4,609	
Use of the Major Repairs Reserve to finance new capital expenditure	1,862		4,413	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	57,713		48,776	
Application of grants to capital financing from the Capital Grants Unapplied Account	295		4,144	
Provision for the financing of capital investment charged against the General Fund and HRA balances	7,838		10,543	
Capital expenditure charged against the General Fund and HRA balances	917		1,188	
		74,376		73,672
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(120)		0
<b>Balance as at 31 March</b>		<b>548,608</b>		<b>595,906</b>

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>Pensions Reserve</b>	<b>2010/2011 £'000</b>	<b>2009/2010 £'000</b>
<b>Balance as at 1 April</b>	<b>(265,235)</b>	<b>(132,100)</b>
Actuarial gains or losses on pension assets and liabilities	85,464	(132,537)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	23,242	(19,480)
Employer's pensions contributions and direct payments to pensioners payable in the year	19,753	18,882
<b>Balance as at 31 March</b>	<b>(136,776)</b>	<b>(265,235)</b>

## Financial Instruments Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

<b>Financial Instruments Adjustment Account</b>	<b>2010/2011 £'000</b>	<b>2009/2010 £'000</b>
<b>Balance as at 1 April</b>	<b>(988)</b>	<b>(873)</b>
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(115)	(115)
<b>Balance as at 31 March</b>	<b>(1,103)</b>	<b>(988)</b>

## Collection Fund Adjustment Account

This account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Collection Fund Adjustment Account	2010/2011 £'000	2009/2010 £'000
<b>Balance as at 1 April</b>	<b>609</b>	<b>77</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(609)	532
<b>Balance as at 31 March</b>	<b>0</b>	<b>609</b>

## Accumulated Absences Account

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

Accumulated Absences Account	2010/2011 £'000	2009/2010 £'000
<b>Balance as at 1 April</b>	<b>(4,469)</b>	<b>(3,770)</b>
Settlement or cancellation of accrual made at the end of the preceding year	(40)	(699)
<b>Balance as at 31 March</b>	<b>(4,509)</b>	<b>(4,469)</b>

## 16. Cash Flow – Operating Activities

The net surplus or deficit on the provision of services within the Comprehensive Income and Expenditure Statement includes some transactions that do not result in cash flows when deriving the net cash flows from operating activities. The table below details these non-cash movements and items that are investing and financing activities.

2009/10 £'000		2010/11 £'000
(34,272)	Depreciation and amortisation	(35,956)
(83,836)	Impairment and downward valuations	(36,655)
729	Carrying amount of PPE, Investment Property and Intangible assets sold	218
(19,480)	Pensions Reserve	42,995
(115)	Financial Instrument Adjustments	(115)
285	Other adjustments	5,513
(1,862)	Contributions to / (from) provisions	(2,243)
8	Increase / decrease in inventories	(21)
10,457	(Increase) / decrease in debtors/payments in advance	(8,419)
(2,904)	(Increase) / decrease in creditors/income in advance	5,366
<b>(130,990)</b>	<b>Adjustments to net surplus or deficit on the provision of services for non-cash movements</b>	<b>(29,317)</b>
55,978	Capital grants & contributions credited to surplus/deficit on the provision of services	59,949
3,861	Proceeds from the sale of PPE, Investment Property and Intangible Assets	4,220
<b>(71,151)</b>	<b>Adjustments to net surplus or deficit on the provision of services for items that are investing or financing activities</b>	<b>34,852</b>
	The cash flows for operating activities include the following items:	
10,480	Interest received	7,779
(3,528)	Interest paid	(2,158)

## 17. Cash Flow – Investing Activities

2009/10 £'000		2010/11 £'000
66,121	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	80,933
586,350	Purchase of short-term and long-term investments	581,230
(3,861)	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(4,220)
(688,969)	Proceeds from the sale of short-term and long-term investments	(601,227)
(55,978)	Other receipts from investing activities	(59,949)
<b>(96,337)</b>	<b>Net cash flows from investing activities</b>	<b>(3,233)</b>

## 18. Cash Flow – Financing Activities

2009/10 £'000		2010/11 £'000
(48,605)	Cash receipts of short- and long-term borrowing	(10,005)
	Other receipts from financing activities	
	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	
99,007	Repayments of short- and long-term borrowing	35,046
151	Other payments for financing activities	151
<b>50,553</b>	<b>Net cash flows from financing activities</b>	<b>25,192</b>

## 19. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are made by the Council on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve, amortisations and revenue expenditure funded from capital under statute (REFCUS) are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Council's directorates recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure 2010/2011	Children and Adult Services £'000	Regeneration, Community and Culture £'000	Business Support £'000	Public Health £'000	Total £'000
Fees, charges & other service income	(48,377)	(32,943)	(41,304)	(744)	(123,368)
Government Grants	(64,584)	(3,201)	(115,424)	(183)	(183,392)
<b>Total Income</b>	<b>(112,961)</b>	<b>(36,144)</b>	<b>(156,728)</b>	<b>(927)</b>	<b>(306,760)</b>
Employee Expenses	195,953	22,636	32,974	431	251,994
Other service expenses	182,946	60,606	129,970	857	374,379
Support service recharge	6,986	5,696	10,067	40	22,789
Depreciation	13,092	20,066	784	0	33,942
<b>Total Expenditure</b>	<b>398,977</b>	<b>109,004</b>	<b>173,795</b>	<b>1,328</b>	<b>683,104</b>
<b>Net Expenditure</b>	<b>286,016</b>	<b>72,860</b>	<b>17,067</b>	<b>401</b>	<b>376,344</b>
<b>Directorate Income and Expenditure 2009/2010 Comparative Figures</b>					
Fees, charges & other service income	(51,368)	(30,840)	(36,843)	(905)	(119,956)
Government Grants	(55,202)	(2,706)	(112,020)	(89)	(170,017)
<b>Total Income</b>	<b>(106,570)</b>	<b>(33,546)</b>	<b>(148,863)</b>	<b>(994)</b>	<b>(289,973)</b>
Employee Expenses	205,947	24,941	22,989	516	254,393
Other service expenses	161,081	56,638	132,769	888	351,376
Support service recharge	6,631	6,044	8,331	35	21,041
Depreciation	18,529	18,081	663	0	37,273
<b>Total Expenditure</b>	<b>392,188</b>	<b>105,704</b>	<b>164,752</b>	<b>1,439</b>	<b>664,083</b>
<b>Net Expenditure</b>	<b>285,618</b>	<b>72,158</b>	<b>15,889</b>	<b>445</b>	<b>374,110</b>

### Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2010/2011 £'000	2009/2010 £'000
Net expenditure in Directorate analysis	376,344	374,110
Net expenditure of services and support services not included in the Analysis	(1,241)	(1,729)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(151,298)	(75,886)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(152,539)	(77,615)
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>223,805</b>	<b>296,495</b>

## Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

	Directorate Analysis	Services not in Analysis- HRA	Amounts not Reported to Management	Net Cost of Services	Corporate Amounts	Total
2010/2011	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(98,577)	(11,990)	(2,814)	(113,381)	0	(113,381)
Interest and investment income	0	0	0	0	(2,199)	(2,199)
Income from Council tax	0	0	0	0	(97,601)	(97,601)
Government grants and contributions	(208,183)	(4)	(160,753)	(368,940)	(166,589)	(535,529)
Pension Adjustment	0	0	(4,569)	(4,569)	0	(4,569)
<b>Total Income</b>	<b>(306,760)</b>	<b>(11,994)</b>	<b>(168,136)</b>	<b>(486,890)</b>	<b>(266,389)</b>	<b>(753,280)</b>
Employee Expenses	251,994	1,455	177	253,626	0	253,626
Other service expenses	374,379	6,382	27,927	408,688	11,201	419,888
Support service recharge	22,789	677	0	23,466	0	23,466
Depreciation, amortisation and impairment	33,942	2,239	2,170	38,351	396	38,747
Precepts and levies	0	0	0	0	1,223	1,223
Payments to Housing Capital Receipts Pool	0	0	0	0	180	180
Gain or loss on disposal of fixed assets	0	0	34,051	34,051	(128)	33,923
Pension Adjustments	0	0	(47,486)	(47,486)	9,037	(38,449)
<b>Total Expenditure</b>	<b>683,104</b>	<b>10,753</b>	<b>16,838</b>	<b>710,695</b>	<b>21,909</b>	<b>732,604</b>
<b>(Surplus)/Deficit on the provision of services</b>	<b>376,344</b>	<b>(1,241)</b>	<b>(151,298)</b>	<b>223,805</b>	<b>(244,481)</b>	<b>(20,676)</b>
	Directorate Analysis	Services not in Analysis - HRA	Amounts not Reported to Management	Net Cost of Services	Corporate Amounts	Total
2009/2010 Comparative Figures	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(89,381)	(11,646)	(10,711)	(111,738)	(2,168)	(113,906)
Interest and investment income	0	0	3,528	3,528	(3,843)	(315)
Income from Council tax	0	0	0	0	(94,859)	(94,859)
Government grants and contributions	(194,445)	0	(166,279)	(360,724)	(153,602)	(514,326)
<b>Total Income</b>	<b>(283,826)</b>	<b>(11,646)</b>	<b>(173,462)</b>	<b>(468,934)</b>	<b>(254,472)</b>	<b>(723,406)</b>
Employee Expenses	254,393	1,766	0	256,159	0	256,159
Other service expenses	345,229	5,279	17,594	368,102	21,295	389,397
Support service recharge	21,041	660	0	21,701	0	21,701
Depreciation, amortisation and impairment	37,273	2,212	79,982	119,467	(10)	119,457
Precepts and levies	0	0	0	0	1,201	1,201
Payments to Housing Capital Receipts Pool	0	0	0	0	191	191
Gain or loss on disposal of fixed assets	0	0	0	0	(844)	(844)
<b>Total Expenditure</b>	<b>657,936</b>	<b>9,917</b>	<b>97,576</b>	<b>765,429</b>	<b>21,833</b>	<b>787,262</b>
<b>(Surplus)/Deficit on the provision of services</b>	<b>374,110</b>	<b>(1,729)</b>	<b>(75,886)</b>	<b>296,495</b>	<b>(232,639)</b>	<b>63,856</b>



## **20. Pooled Budgets**

From 1 April 2009, commissioning responsibility for all learning disabled clients requiring social care transferred to local authorities. This meant that the Section 31 agreement, which Medway PCT entered into with Medway Council, was no longer necessary and the transfer of PCT funding to the Council was dictated by the Department of Health. The sum of the transfers made by Medway, Eastern and Coastal Kent and West Kent for 2010/2011 was £8,893,663.

During 2008/2009, the Council also entered into an agreement with Medway PCT for the delivery of joint service priorities within the Local Area Agreement, via the establishment of an LAA Innovation Fund, under Section 75 of the National Health Services Act 2006. This funding was committed, over a three year period, to various projects which met LAA health targets. The PCT made a contribution of £1,200,000. Expenditure during 2008/2009 amounted to £89,452 and a further £388,426 was spent during 2009/2010. In this, the final year of the agreement, the Council has incurred expenditure of £372,122 and the unspent balance of £350,000 has been returned to Medway PCT.

## **21. Members' Allowances**

In 2010/2011 a total of £812,000 (2009/2010 £827,000) was paid to the Council's 55 members in respect of allowances. Full details can be found on the Council's website from the following link:

<http://www.medway.gov.uk/councilanddemocracy/councillors/membersallowances.aspx>

## 22. Officers' Remuneration

The remuneration paid to the Authority's senior employees is as follows:

Post	Salary	Fees and Allowances	Expenses	Total Excluding Pension Contribution	Pension Contribution	Total
	£	£	£	£	£	£
Chief Executive	146,640	8,397	168	155,205	31,382	186,587
Director of Children's Services	118,406	13,130	0	131,536	26,561	158,097
Director of Regeneration, Community & Culture	114,726	13,130	75	127,931	25,777	153,708
Assistant Director Customer First, Leisure, Democracy & Governance	84,977	10,479	0	95,456	19,370	114,826
Assistant Director Lifelong Learning	74,691	13,667	51	88,409	17,858	106,267
Assistant Director Development, Economy & Transport	84,977	5,213	56	90,246	18,248	108,494
Assistant Director Front Line Services	84,977	5,213	0	90,190	18,248	108,438
Assistant Director Communications, Performance & Partnerships	84,977	8,403	0	93,380	18,928	112,308
Assistant Director Housing & Corporate Services	84,560	18,503	0	103,063	20,990	124,053
Chief Finance Officer	82,629	19,379	0	102,008	20,765	122,773
Head of Medway Renaissance	82,629	18,457	273	101,359	20,577	121,936
Assistant Director Organisational Services	82,629	8,403	0	91,032	18,427	109,459
Assistant Director Children's Care	78,836	5,213	35	84,084	16,940	101,024
Assistant Director Commissioning & Strategic Development	72,400	5,213	0	77,613	15,569	93,182
Assistant Director Inclusions	67,774	5,213	25	73,012	14,584	87,596
Assistant Director Social Care	64,968	11,213	0	76,181	13,986	90,167

Comparative figures for 2009/2010 are as follows

<b>Post</b>	<b>Salary</b>	<b>Fees and Allowances</b>	<b>Expenses</b>	<b>Total Excluding Pension Contribution</b>	<b>Pension Contribution</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Chief Executive	140,646	14,006	75	154,727	30,419	185,146
Director of Children's Services	114,807	13,130	0	127,937	25,068	153,005
Director of Regeneration, Community & Culture	109,915	13,130	119	123,164	24,055	147,219
Assistant Director Customer First, Leisure, Democracy & Governance	84,977	10,622	0	95,599	18,854	114,453
Assistant Director Lifelong Learning	83,702	15,871	209	99,782	19,676	119,458
Assistant Director Development, Economy & Transport	83,683	5,213	59	88,955	17,466	106,421
Assistant Director Front Line Services	83,587	5,213	0	88,800	17,447	106,247
Assistant Director Communications, Performance & Partnerships	82,207	8,431	0	90,638	17,923	108,561
Assistant Director Housing & Corporate Services	82,213	16,905	37	99,155	19,582	118,737
Chief Finance Officer	80,291	19,754	0	100,045	19,774	119,819
Head of Medway Renaissance	80,076	18,443	654	99,173	19,513	118,686
Assistant Director Organisational Services	80,052	8,463	0	88,515	17,442	105,957
Assistant Director Children's Care	77,963	5,213	0	83,176	16,282	99,458
Assistant Director Commissioning & Strategic Development	71,057	5,213	0	76,270	14,853	91,123
Assistant Director Inclusions	64,742	5,156	0	69,898	13,697	83,595
Assistant Director Social Care	64,149	5,213	0	69,362	13,422	82,784

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

<b>Remuneration Band</b>	<b>Number of Employees</b>			
	<b>Schools</b>		<b>Non-Schools</b>	
	<b>2010/2011</b>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2009/2010</b>
£50,000 to £54,999	111	95	29	27
£55,000 to £59,999	43	55	14	19
£60,000 to £64,999	36	38	42	40
£65,000 to £69,999	33	20	10	8
£70,000 to £74,999	18	12	2	0
£75,000 to £79,999	4	6	1	0
£80,000 to £84,999	1	3	1	0
£85,000 to £89,999	6	4	0	0
£90,000 to £95,999	1	3	0	0
£95,000 to £99,999	4	4	0	0
£100,000 to £104,999	0	2	0	0
£105,000 to £109,999	1	0	0	0
£110,000 to £114,999	1	2	0	0
£115,000 to £119,999	1	1	0	0
£120,000 to £124,999	2	0	0	0
£125,000 to £129,999	1	0	0	0
<b>Total</b>	<b>263</b>	<b>245</b>	<b>99</b>	<b>94</b>

## 23. External Audit Costs

The following amounts were paid in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections:

	2010/2011 £'000	2009/2010 £'000
PKF - Statement of Accounts	239	216
PKF - Use of Resources	90	93
PKF - Risk Based Use of Resources	20	20
PKF - Grants (Including grants report)	85	84
<b>Total</b>	<b>434</b>	<b>413</b>
Audit Commission - Managing Performance / Strategic Housing Re-inspection	0	60

## 24. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

During 2010/2011 the Council incurred an underspend of £698,000 on DSG services. After taking account of the deficit of £68,000 brought forward from 2009/2010 a surplus of £630,000 was carried forward to 2011/2012.

An analysis of the DSG for 2010/2011 is provided in the table below.

	Central Expenditure £'000	ISB £'000	Total £'000
Budgeted DSG in 2010/11	22,407	150,545	172,952
Difference between budgeted and actual DSG	(33)	(14,574)	(14,607)
Final DSG for 2010/11	22,374	135,971	158,345
Brought forward from 2009/10	(68)	0	(68)
Carry forward to 2011/12 agreed in advance	0	0	0
DSG available in 2010/11	22,306	135,971	158,277
Actual central expenditure	21,216	0	21,216
Actual ISB deployed to schools	0	136,430	136,430
Local authority contribution for 2010/11	0	0	0
Carry forward to 2011/12	1,090	(459)	631

## 25. Grant Income

	2010/11 £'000	2009/10 £'000
Credited to Taxation and Non Specific Grant Income		
Formula Grant / Revenue Support Grant	10,794	15,420
Redistributed National Non-Domestic Rates	74,336	66,805
PSA Reward Grant	0	2,541
Area Based Grant	16,199	11,852
Recognition of Capital Grants and Contributions	65,261	59,153
<b>Total</b>	<b>166,589</b>	<b>155,770</b>
Credited to Services		
Department for Children, Schools and Families		
- Dedicated Schools Grant	158,345	164,588
- School Standards Grant	7,892	8,426
- Standards Fund	18,153	15,185
- DCSF Other	8,207	7,198
Department of Health	762	1,004
Department for Communities and Local Government	0	0
- Supporting People Grant	70	5,891
- Supporting People Admin. Grant	0	0
- DCLG Other	300	333
Department of Transport	1,546	692
Home Office	2,032	2,323
Learning and Skills Council	28,217	21,003
Tax Collection & Benefit Administration	2,715	2,372
Benefit Subsidy	109,645	102,825
DEFRA	8	9
Public Service Agreement	41	108
Other Miscellaneous Grants	10,661	8,926
Department for Culture, Media and Sport	0	229
Contributions from NHS Partners	13,572	13,548
Contributions from the Youth Justice Board	823	697
Contributions from Other Local Authorities	2,203	2,068
Miscellaneous Contributions	1,336	1,609
<b>Total</b>	<b>366,528</b>	<b>359,033</b>

The Authority has received a number of grants, contributions or donations that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. The balances at the year end are as follows:.

	31/03/2011 £,000	31/03/10 £,000
<b>Capital Grants Receipts in Advance</b>		
Section 106	7,524	2,554
	<b>7,524</b>	<b>2,554</b>

## 26. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or

influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

## Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 17 on reporting for resources allocation decisions.

## Members

The Council holds a statutory register of members' declarations covering employment, sponsorship, property and land holdings, contracts with the Council etc. Members and senior officers declare any pecuniary interest in committee items prior to their debate. The Council also holds a Register of Interest relating to members and senior officers. These registers are open to inspection by members of the public.

All members agree to the terms of the National Code of Local Government Conduct and the Council has introduced a Code of Conduct agreeing guidelines for good working practice between members and officers.

One Member of the Council is a non-executive director of NHS Medway. During the year the Council received £16.731 million from NHS Medway (see Note 4) and paid £821,000 in respect of various services.

One member of the Council has declared that a member of his household is the Chief Executive of Medway District CAB Ltd. The Council made payments to the organisation amounting to £270,600 during 2010/2011.

Members of Medway Council represent the Council on the boards of the following organisations:

*Chatham Historic Dockyard Trust (CHDT)* – Two members represent the Council on the trust which is set up to secure for the public benefit the preservation and use of the Historic Dockyard at Chatham in a manner appropriate to its archaeological, historical and architectural importance and promote and foster for the public benefit a wide knowledge and understanding of the significance of the dockyard. The Council made payments to the Trust amounting to £143,000 during 2010/2011.

*Fort Amherst Heritage Trust* – One member represents the Council on the Trust, which manages the 18<sup>th</sup> century fort as a popular visitor attraction. The Council made payments to the Trust amounting to £30,700 during 2010/2011

*Rochester Bridge Trust (RBT)* – Three members represent the Council on the trust, the main purpose of which is to maintain and improve the Medway Tunnel, bridges and associated riverbanks in order to facilitate passage over, under or across the River Medway. There were no financial transactions between the Council and the Trust during 2010/2011. In 2009/2010 the Council acquired the freehold of Medway Tunnel at a peppercorn and received £3.274 million from RBT in that year as a contribution towards future maintenance costs.

*Thames Gateway Kent Partnership (TGKP)* – The leader of the Council, in common with neighbouring authorities and Kent County Council, is a board member of TGKP. The aims and objectives of the partnership are to provide a strong and effective partnership to bring about a high-quality sustainable economic development and regeneration of the whole Thames Gateway Kent areas, to promote economic and social investment and equality of opportunity and to create employment, community and environmental benefits for local people, businesses and employees, reflecting their needs and aspirations. The Council contributed £25,000 to the Partnership in 2010/2011.

## Officers

One senior officer is a board member of Locate in Kent, a company funded and supported by Kent County Council, South East England Development Agency (SEEDA), East Kent Partnership, Medway Council, local councils and the Kent Developers Group which provide a free, comprehensive and confidential relocation service to help businesses benefit from the Kent's unique locational advantages. The Council contributed £31,500 to the company in 2010/2011.

## Other Public Bodies

Other than transactions disclosed elsewhere within these accounts (e.g. note 17), there are no other disclosures required in accordance with FRS 8 – Related Party Transactions.

## 27. Capital Expenditure and Capital Financing

The following table shows the total amount of capital expenditure incurred in the year together with the resources used to finance it.

	2010/2011 £'000	2009/2010 £'000
<b>Capital Investment</b>		
Property Plant and Equipment	52,022	40,415
Investment Properties	0	0
Revenue Expenditure Funded from Capital under Statute (See Note)	27,927	22,989
<b>Total</b>	<b>79,949</b>	<b>63,404</b>
	2010/2011 £'000	2009/2010 £'000
<b>Sources of Finance</b>		
Capital receipts	5,751	4,609
Government grants and other contributions	60,092	44,178
Sums set aside from revenue	211	5,601
Direct revenue contributions	0	0
Borrowing	13,895	9,016
	<b>79,949</b>	<b>63,404</b>

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

The CFR at 31 March 2011 was £239,623,906 (31 March 2010 £230,068,000).

Note : The Revenue Expenditure Funded from Capital under Statute includes £703,000 Asset Under Construction as at 31 March 2010 which has since been reclassified as an asset not recognised in the Council's accounts.

## 28. Leases

### Council as Lessee

#### Finance Leases

The Council has a small number of finance leases for the acquiring of Plant and Equipment, however, these are all below the authorities approved de-minimis level of £25,000 and have therefore been recognised within the accounts as operating leases.

The Council has finance lease arrangements however, in respect of what is termed embedded leases. Embedded leases are where assets, although not owned by the Council, are used primarily by the Council for service delivery. Embedded leases are contained within our Waste, Highways and Grounds Maintenance contracts. Where we have not been able to ascertain the value and useful life of the assets, estimates have been used. Assets are recognised in the Balance Sheet at the net depreciated value and offset by a deferred liability.

The assets held through embedded leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	<b>31 March 2011 £'000</b>	<b>31 March 2010 £'000</b>
Vehicles, Plant & Equipment	3,700	896

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	<b>31 March 2011 £'000</b>	<b>31 March 2010 £'000</b>
Finance lease liabilities (net present value of minimum lease payments) :		
• current	0	0
• non-current	3,155	3,312
Finance costs payable in future years	1,118	1,659
Minimum Lease Payments	4,273	4,971



The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
	£'000	£'000	£'000	£'000
Not later than one year	698	698	647	157
Later than one year and not later than five years	3,064	2,744	2,126	2,364
Later than five years	511	1,529	382	791
	<b>4,273</b>	<b>4,971</b>	<b>3,155</b>	<b>3,312</b>

## Operating Leases

The Council has made use of leases to acquire property, vehicles, and equipment. The future minimum lease payments due under non-cancellable leases in future years are:

	2010/2011	2009/2010
	£'000	£'000
Not later than one year	1,840	1,970
Later than one year and not later than five years	3,582	4,270
Later than five years	5,408	2,027
<b>Total</b>	<b>10,830</b>	<b>8,267</b>

## Council as Lessor

### Operating Leases

The Council leases out property under operating leases for the provision of the following services:

- Community services such as sports facilities, community centres and tourism;
- Economic development to provide suitable affordable accommodation form local businesses;

The future minimum lease payments receivable are:

	2010/2011	2009/2010
	£'000	£'000
Not later than one year	828	536
Later than one year and not later than five years	1,660	689
Later than five years	16,988	17,918
<b>Total</b>	<b>19,476</b>	<b>19,143</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/2011 £983,221 contingent rents were receivable by the Authority (2009/2010 £1,059,407).

## 29. Impairment Losses

During 2010/2011 the Council recognised impairment losses of £37,185,000 in the Surplus or Deficit on the Provision of Services mainly relating to Housing Revenue Account dwellings. The breakdown by class of asset is detailed in the table below:

<b>Class of Asset</b>	<b>2010/2011 £'000</b>
Council Dwellings	34,150
Other Land and Buildings	2,215
Vehicles, Plant and Equipment	8
Infrastructure Assets	0
Community Assets	141
Surplus Assets	272
Investment Properties	399
Assets Held for Sale	0
<b>Total</b>	<b>37,185</b>

## 30. Termination Benefits

During the year the Council terminated the contracts of a number of employees across a number of services. The council incurred a cost of £1,707,000 (2009/2010 £1,185,000) in respect of redundancy, payment in lieu of notice and added years pension costs.

## 31. Defined Contribution Pension Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010/2011 the Council paid £11,748,790 (2009/20 £12,643,000) to the DfE in respect of teachers' pension costs, the contributions rate being 14.1% (2009/2010 14.1%). There were no contributions remaining payable at the year-end. In addition the Council is responsible for all pension payments relating to Added Years benefits it has awarded. These amounted to £549,993 (2009/2010 £478,400).

## 32. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered locally by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the

Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

### Transactions Relating to Post Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2010/2011 £'000	2009/2010 £'000
<b>Comprehensive Income and Expenditure Statement</b>		
Cost of Services		
Current service costs	21,822	9,395
Past service costs and settlements and curtailments	(54,192)	94
Financing and Investment Income and Expenditure		
Interest cost	27,515	22,581
Expected return on scheme assets	(18,387)	(12,590)
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services	<u>(23,242)</u>	<u>19,480</u>
Other Post Employment benefit charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and losses	<u>(85,464)</u>	<u>132,537</u>
Total Post Employment benefit charged to the Comprehensive Income and Expenditure Statement	<u>(85,464)</u>	<u>132,537</u>
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	(23,242)	19,480
Amount charged against the General Fund Balance for pensions in the year		
Employers' contributions payable to scheme	19,753	18,882

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a gain of £85,464,000.

## Assets and Liabilities in Relation to Post-employment Benefits

### Reconciliation of present value of the scheme liabilities

	2010/2011 £'000	2009/2010 £'000
<b>Opening balance 1 April</b>	<b>539,049</b>	<b>326,600</b>
Current service cost	21,822	9,395
Interest cost	27,515	22,581
Contributions by scheme participants	5,727	5,626
Actuarial gains and losses	(93,761)	189,032
Benefits paid	(12,575)	(13,663)
Past service cost	(47,486)	0
Curtailments	357	183
Settlements	(10,561)	(705)
<b>Closing balance 31 March</b>	<b>430,087</b>	<b>539,049</b>

### Reconciliation of fair value of the scheme assets

#### Reconciliation of fair value of the scheme assets

	2010/2011 £'000	2009/2010 £'000
<b>Opening balance 1 April</b>	<b>273,814</b>	<b>194,500</b>
Expected of return	18,387	12,590
Actuarial gains and losses	(8,297)	56,495
Employer contributions	19,753	18,882
Contributions by scheme participants	5,727	5,626
Benefits paid	(12,575)	(13,663)
Receipt of bulk transfer value	(3,498)	(616)
<b>Closing balance 31 March</b>	<b>293,311</b>	<b>273,814</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual loss on scheme assets in the year was £8.297 million (2009/2010 gain of £56.495 million)

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £17.386 million.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and

Discretionary Benefits liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Kent County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

	2010/2011	2009/2010
Long-term expected rate of return on assets in the scheme		
Equities	7.40%	7.50%
Gilts	4.40%	4.50%
Bonds	5.50%	5.50%
Property	5.40%	5.50%
Cash	3.00%	3.00%
Life expectancy at 65 for current pensioners		
Men	19.8 years	21.5 years
Women	23.9 years	24.4 years
Life expectancy at 65 for future pensioners		
Men	21.9 years	22.6 years
Women	25.8 years	25.5 years
Inflation		
Price increases (RPI used in 2009/10, but CPI in 2010/11)	2.70%	3.90%
Salary increases	5.00%	5.40%
Pension increases	2.70%	3.90%
Rate for discounting scheme liabilities	5.50%	5.50%

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/2011 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010:

	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007
	%	%	%	%	%
Differences between the expected and actual return on assets	(2.80%)	20.60%	(31.90%)	(14.30%)	(0.60%)
Experience gains and losses on liabilities	7.60%	0.40%	(0.20%)	(0.60%)	(0.10%)

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

### 33. Contingent Liabilities

There were no known material contingent liabilities as at 31 March 2011

### 34. Contingent Assets

There were no known material contingent assets as at 31 March 2011.

### 35. Nature and Extent of 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 authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- re-financing risk – the possibility that the authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved annually by Medway Council in its Treasury Management Strategy. Medway Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

#### Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. As a result of the current economic position the criteria to assess credit risk is regularly reviewed and enhanced. Within the Treasury Management Strategy 2010/2011 approved by Cabinet 16 February 2010 the new CIPFA Treasury Management in the Public Services Code of Practice was formally adopted. The strategy is approved annually and sets out the Council's investment priorities, which are the security of capital and the liquidity of its investments ahead of yield. Full Council approved the 2011/12 Strategy on the 24 February 2011.

Counterparties continue to be monitored using the creditworthiness service provided by Sector Treasury Services, which combines credit ratings, credit watches, credit outlook and Credit Default Swap (CDS) spreads. Officers monitor all credit ratings, market data and other intelligence continuously. The maximum amount for investments per counterparty is £25 million for the in-house team and 20% of the managed portfolio with any counterparty for Investec (the current fund manager). The Council also considers country limits and will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings. The country limit is reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save for the United Kingdom with no limit.

The following analysis summarises the Council's prudent provision for what we believe to be our maximum exposure to credit risk, based on experience of default and uncollected debts over previous financial years.

	Amount at 31 March 2011	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£'000	%	£'000
Deposits with banks and financial institutions*	69,526	0.00	0
Customers	7,990	16.58	1,325
Council Tax	9,550	23.40	2,235
<b>Total</b>	<b>87,066</b>	<b>4.09</b>	<b>3,559</b>

\* This is made up of the following:

	Amount at 31 March 2011 £'000
Lloyds TSB	20,000
Natwest	16,600
Svenska Handelsbanken	10,000
Stocks	4
Fund managers	22,460
<b>Total</b>	<b>69,064</b>
Accrued interest	462
<b>Total including accrued interest</b>	<b>69,526</b>

The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £7.072 million of the £7.990 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than three months	2,963
Three to six months	685
Six months to one year	1,050
More than one year	2,374
	<b>7,072</b>

Of the £10.316 million Council Tax outstanding at 31 March 2011 £5.316 million is over one year old.

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

### Liquidity risk

The Council manages its liquidity position through the risk management procedures above as well as through a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and 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. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The maturity structure of fixed rate borrowing as stated in the strategy:

	Lower Limit %	Upper Limit %	Actual %
Under 12 Months	0	50	5.87
12 months and within 24 months	0	50	5.78
24 months and within 5 years	0	50	5.77
5 years and within 10 years	0	50	4.04
10 years and above	25	100	78.55

All trade and other payables are due to be paid in less than one year.

## Market risk

### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure account will rise
- borrowings at fixed rates – the fair value of the borrowings will fall (no impact on revenue balances)
- investments at variable rates – the interest income credited to the Income and Expenditure account will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance, subject to influences from Government grants (i.e. HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. Council policy is to not exceed a maximum of 40% of borrowings in variable rate loans. The Council currently has no variable interest rate borrowing or investments. However, if it did then the risk of loss is reduced by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and therefore provide some compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, this strategy is then used to monitor against the budget throughout the year. This allows for any adverse changes to be accommodated.



**Price Risk**

The Council does not generally invest in equity shares or marketable bonds but does have HM Treasury Stock to the value of £3,957. The Council has some exposure to losses arising from movements in the prices of the HM Treasury Stock.

**Foreign Exchange Risk**

The Council has cash denominated in Euro currency so is exposed to exchange rate risk and potential loss of value on the cash held. The balances held in Euro currency are kept to a minimum.



## H SUPPLEMENTARY FINANCIAL STATEMENTS

### Collection Fund Accounts

These Accounts represent the transactions of the Collection Fund and have been consolidated with the Council's Main Accounts.

There is a statutory duty, under the provision of the Local Government Finance Act 1988, to maintain a Collection Fund, which is separate from other accounts of the Council. Payments to and from the Collection Fund, which is operated on an accruals basis, are strictly defined in the Act. The Council, in common with Kent Police Authority and Kent Fire and Rescue Service has a precept on the Collection Fund. The Council's precept, excluding Parishes, for 2010/2011 was £97,893,000 (2009/2010 £94,048,000).

In its capacity as billing authority Medway Council acts as an agent for the other major Precepting authorities (Police and Fire) and Central Government as it collects and distributes council tax and business rates on their behalf. The 2009 SORP recognised this agency relationship and required the introduction of the Collection Fund Adjustment Account and the reclassification of debtor and creditor balances.

INCOME AND EXPENDITURE ACCOUNT	Notes	2010/2011 £'000	2009/2010 £'000
<b>Income</b>			
Council Tax Collectable from taxpayers	1	(97,869)	(95,587)
Transfers from General Fund: Council Tax Benefit		(18,820)	(17,811)
Income Collectable from Business ratepayers	2	(69,888)	(70,306)
<b>Total Income for Year</b>		<b>(186,577)</b>	<b>(183,704)</b>
<b>Expenditure</b>			
<b>Precepts and Demands</b>			
Medway Council		97,893	94,048
Kent Police Authority (KPA)		12,152	11,593
Kent Fire and Rescue Service (KFRS)		5,985	5,688
Parishes		317	279
		116,347	111,608
<b>Business rates</b>			
Payments to National Pool	3	69,598	69,374
Costs of collection allowance		290	288
<b>Provision for bad and doubtful debts (Council Tax only)</b>	4	1,126	1,805
<b>Total Expenditure for year</b>		<b>187,361</b>	<b>183,075</b>
<b>(Surplus) / Deficit for the year</b>		<b>784</b>	<b>(629)</b>
(Surplus) / Deficit at the beginning of the year		(761)	(132)
<b>(Surplus) / Deficit at end of year</b>	5	<b>23</b>	<b>(761)</b>

## Notes to the Collection Fund Account

### 1. Council Tax

In 2010/2011 the Council, the Kent Police Authority and the Kent Fire and Rescue Service set equivalent Band D Council Tax levels of £1,119.15, £138.68 and £67.95 respectively resulting in a Council Tax Band D in the Council's area of £1,325.78 excluding Parishes.

The Council Tax Base is calculated by multiplying the number of dwellings in each valuation band by a factor specified by Government, making an allowance for discounts for reduced occupancy, etc and expressing the total as an equivalent number of Band D dwellings.

The Council's Tax Base used for billing purposes is as follows:

Band	Value	Total (net of discounts)	Multiplier	Band D Equivalents
A	Not exceeding £40,000	8,765	6/9	5,843
B	£40,000 to £52,000	32,560	7/9	25,324
C	£52,000 to £65,000	29,370	8/9	26,107
D	£65,000 to £88,000	15,202	9/9	15,202
E	£88,000 to £120,000	7,430	11/9	9,081
F	£120,000 to £160,000	3,186	13/9	4,601
G	£160,000 to £320,000	1,148	15/9	1,913
H	Exceeding £320,000	40	18/9	80

Less adjustment for collection rates and MOD properties

(957)

**Total Band D Equivalent 2010/2011**

**87,194**

Total Band D Equivalent 2009/2010

86,098

The Tax Base multiplied by the Council Tax levied indicates an estimated gross yield of approximately £115,000,000 for Medway Council and the precepting authorities. Specific reductions are made, in accordance with Government regulations, for persons on low incomes (Council Tax benefits approaching £19,000,000) granting up to 100% rebate. This is reimbursed by Central Government. The actual net yield from council tax in 2010/2011 was £97,869,000.

### 2. Income from Business Rates

In accordance with the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate in the £.

	2010/2011 £'000	2009/2010 £'000
Amount Collectable for the year	87,151	80,679
Less: Transitional and other Reliefs	(17,263)	(10,373)
<b>Income Collectable from Non-Domestic Ratepayers</b>	<b>69,888</b>	<b>70,306</b>

The total Non-Domestic Rateable Value at 31 March 2011 was £169,284,729 (31 March 2010 £169,274,729) and the Uniform Business Rate 40.7p (41.4p with supplement) (2009/2010 48.1p and 48.5p respectively) in the £.

### 3. Contribution to Non-Domestic Rate Pool

The income raised from the collection of Non-Domestic Rates (NDR) is paid to the National Pool after making an allowance towards the cost of collection.

### 4. Provision for Bad and Doubtful Debts

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

	<b>Council Tax £'000</b>
<b>Balance 1 April 2010</b>	<b>2,054</b>
Add: Provisions made during year	1,126
Less amounts written off	(947)
<b>Balance 31 March 2011</b>	<b><u>2,233</u></b>

### 5. Surplus/Deficit

The surplus attributable to Medway Council at the end of March 2011 was £500 and deficits due from Kent Police Authority and Kent Fire and Rescue Service were £18,400 and £4,700 respectively. The deficit for the year was £784,000 including a distribution of £430,000 to the precepting authorities.

## Housing Revenue Account

The Statutory Housing Revenue Account (Statutory HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. It includes the credit and debit items required to be taken into account in determining the surplus or deficit on the Statutory HRA for the year. The amounts included in the Statutory HRA differ from the amounts in respect of HRA services included in the Income and Expenditure Account for the authority as a whole, which includes income and expenditure in accordance with the Code rather than in accordance with statute and non-statutory proper practices. For this reason the HRA statement has two parts:

### 1. HRA Income and Expenditure Statement

This statement shows in more detail the income and expenditure on HRA services included in the whole authority Surplus or Deficit on the Provision of Services.

	Notes	2010/2011		2009/2010
		£'000		£'000
Expenditure				
Repairs & Maintenance		2,074		2,190
Supervision & Management		3,790		3,689
Rents, Rates, Taxes and Other Charges		154		124
Negative Housing Revenue Account Subsidy/Rent Rebate Limitation Subsidy Payable	7	1,613		1,671
Depreciation and impairment of fixed assets	3	36,309		40,519
Debt Management Costs		51		49
Increase/(Decrease) in Provision for Bad or Doubtful Debts	8	78		46
<b>Total Expenditure</b>		<b>44,068</b>		<b>48,287</b>
Income				
Dwelling Rents (Gross)	9	(10,690)		(10,446)
Non-Dwelling Rents (Gross)		(192)		(210)
Charges for Services & Facilities		(995)		(990)
HRA Subsidy Receivable		(5)		0
Contributions Towards Expenditure		(15)		0
<b>Total Income</b>		<b>(11,897)</b>		<b>(11,646)</b>
<b>Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>			<b>32,171</b>	<b>36,641</b>
HRA services share of Corporate and Democratic Core			110	107
HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement			(542)	0
<b>Net Cost of Housing Revenue Account Services</b>			<b>31,739</b>	<b>36,748</b>
(Surplus)/Deficit on revaluation of Property, Plant and Equipment			65	50
Interest payable and similar charges			862	789
Interest and investment income			(65)	(164)
Actuarial (gains)/losses on pension assets/liabilities			91	122
<b>Deficit/(Surplus) for the year on Housing Revenue Account Services</b>			<b>32,692</b>	<b>37,545</b>

## 2. Movement on the Housing Revenue Account Statement

This statement shows the how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year-end.

	2010/2011 £'000	2009/2010 £'000
<b>Surplus on HRA as at 1 April</b>	<b>(5,127)</b>	<b>(4,303)</b>
(Surplus)/Defecit on the HRA Income and Expenditure Account	32,692	37,545
Adjustments between accounting basis and funding basis under regulations	(33,726)	(38,882)
Net increase before transfers to or from reserves	(1,034)	(1,337)
Transfers to or from reserves	5	513
<b>Surplus on HRA at 31 March</b>	<b>(6,156)</b>	<b>(5,127)</b>

## 3. Adjustments between accounting basis and funding basis under regulations

	2010/2011 £'000	2009/2010 £'000
Revaluation Losses	(34,070)	(38,808)
Profit/(Loss) on sale of HRA non-current assets	(65)	(55)
Contribution of Disposal Costs	(10)	0
Reversal of Retirement Benefits	233	0
Employers Pension Costs	198	(7)
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	(12)	(12)
	<b>(33,726)</b>	<b>(38,882)</b>

## 4. Transfers to or from reserves

	2010/2011 £'000	2009/2010 £'000
Transfer to/(From) Major Repairs Reserve	0	501
Transfer to/(From) Earmarked Reserves	5	12
	<b>5</b>	<b>513</b>

## Notes to the Housing Revenue Account

### 1. Introduction

The Code requires the HRA to be consolidated in the Income & Expenditure Account but provides for a treatment that ensures that the statutory ring-fence is maintained. The HRA will continue to bear debits and credits for capital according to the Item 8 Determination loans fund charges applicable to the financial year.

### 2. Dwelling Stock

The Council managed 3,046 dwellings as at 31 March 2011. The movement in stock is analysed as follows:

Stock Type	01-Apr-10	Adjustments	Additions	Disposals	31-Mar-11
Houses	1,317			(2)	1,315
Flats	1,273			(1)	1,272
Maisonettes	216			(1)	215
Bungalows	244				244
Total	3,050	0	0	(4)	3,046

### 3. HRA Fixed Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Balance Sheet. The market value at 1 April 2010 is estimated to be £308,371,350. A valuation of the housing stock was carried out as at 1 April 2010 by DTZ, a firm of independent valuers. An impairment of £34,150,000 arose as a result of the change to the governments market value adjustment factor from 45% to 32%.

	Dwellings £'000	Other Land and Buildings £'000	Total £'000
Balance Sheet Value 1 April 2010	131,193	5,634	136,827
Revaluation	0	0	0
Impairments	(34,150)	0	(34,150)
Restatements	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0
Book Value 1 April 2010	97,043	5,634	102,677
Depreciation	(1,810)	(429)	(2,239)
Additions (see below)	2,597	0	2,597
Disposals	(369)	0	(369)
Balance Sheet Value 31 March 2011	97,462	5,205	102,667



#### 4. Major Repair Reserve

The Major Repairs Reserve is an account that receives the Major Repairs Allowance in order to assist funding major Housing Revenue Account repairs. The Major Repairs Reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account. If the depreciation is of a different value to the Major Repairs Allowance, then a transfer from or to the Housing Revenue Account is required to adjust this amount back to the value of the Major Repairs Allowance. The net sum is then available to finance Housing Revenue Account capital expenditure. The analysis of movement on the Major Repairs Reserve is as follows:

<b>Major Repairs Reserve</b>	<b>2010/2011 £'000</b>	<b>2009/2010 £'000</b>
Opening Balance 1 April	639	2,840
HRA Depreciation from Capital Financing Account	2,239	1,711
Depreciation Adjusting Transfer from HRA	0	501
Financing of HRA Capital Expenditure	(1,862)	(4,413)
Balance Carried Forward 31 March	1,016	639

#### 5. Analysis of HRA Capital Expenditure and Funding

<b>Funding Source</b>	<b>2010/2011 £'000</b>	<b>2009/2010 £'000</b>
Operational Assets		
Dwellings	2,558	5,148
Other Land and Buildings	39	0
Non-Operational Assets	0	0
Total	2,597	5,148
Funded by:		
Major Repairs Reserve	1,862	4,413
Borrowing	735	735
Housing Right To Buy Capital Receipts	0	0
Revenue contributions from the HRA	0	0
Total Funding	2,597	5,148

#### 6. Summary of HRA Capital Receipts

	<b>2010/2011 £'000</b>	<b>2009/2010 £'000</b>
Receipts from the sale of land	22	4
Receipts from the sale of other property	714	354
Repayment of discount	8	26
Receipts from the sale of houses other than through the right to buy scheme	0	0
Receipts from disposals of houses through the Right To Buy scheme	246	336
Total Capital Receipts	990	720

## 7. Housing Subsidy

The Housing Revenue Account pays subsidy to the Government. Subsidy is based upon Government Formulae that are used to calculate a number of elements in a notional account. The main elements of Housing Subsidy are detailed in the table below.

Subsidy for 2010/2011 was based on an assumed number of dwellings of 3,053 compared with 3,058 for 2009/2010.

From 1 April 2004, the responsibility for the cost of rent rebates relating to Council Tenants was transferred from the Housing Revenue Account to the General Fund. In order to ensure a neutral effect, the Secretary of State determined under Item 10 of the Local Government and Housing Act 1989 that where authorities had set rents in excess of a specified preset limit, a transfer equal to the loss of rent rebate subsidy should be made from the Housing Revenue Account to the credit of the General Fund. In 2010/2011 this amounted to £216,337 (£153,811 in 2009/2010).

<b>Housing Subsidy</b>	<b>2010/2011 £'000</b>	<b>2009/2010 £'000</b>
Management Allowance	1,804	1,728
Maintenance Allowance	3,612	3,501
Major Repairs Allowance	2,239	2,212
Admissible Allowance	0	0
Rental Constraint Allowance	0	0
Charges for capital	1,092	999
Total Receivable Allowance	8,747	8,440
<u>Less</u>		
Guideline Rent Income	(10,143)	(9,951)
Interest on Receipts	(1)	(6)
Total Income Allowance to be netted against Receivable Allowance	(10,144)	(9,957)
<b>Total Subsidy (Payable)/Receivable In-Year</b>	<b>(1,397)</b>	<b>(1,517)</b>
Prior Year Adjustments	5	0
<b>Total Subsidy (Payable)/Receivable Including Prior Year Adjustments</b>	<b>(1,392)</b>	<b>(1,517)</b>
Rent Rebate Subsidy Limitation	(216)	(154)
<b>Total Housing Subsidy/Rent Rebate Subsidy (Payable)/Receivable</b>	<b>(1,608)</b>	<b>(1,671)</b>

## 8. Tenants' Arrears

Tenants' Arrears at 31 March were analysed as follows:

Type of Debt	2010/2011 £'000	2009/2010 £'000
General Stock	362	330
Garages	5	10
Former Tenancies – General Stock	287	268
Former Tenancies - Garages	5	4
Housing Benefit Overpayments – General Stock	57	55
Court Costs – General Stock	39	41
Former Tenancy Arrears of Current Tenants – General	32	34
Rechargeable Repairs	33	31
Total Arrears	820	773
Percentage of Gross Rents (HRA)	6.95%	6.83%

The following provision has been made against possible non-collection of Housing Revenue Account debt:

	2010/2011 £'000	2009/2010 £'000
Balance 1 April	585	597
Additional Provision made during year	77	46
Add Credit write-offs	55	0
Less amounts written off	(93)	(58)
Balance 31 March	624	585

## 9. Gross Rent Debit

The rent income figure is net of voids. The level of voids in 2010/2011 was on average equal to 0.94% (1.39% in 2009/2010). The level of rebates provided was £7,996,953 (2009/2010 £7,257,627), which amounted to 67.83% of rent and HB related service charges collectable (2009/2010 65.18%).

## 10. Prior Period Adjustment

An error relating to the interpretation of the Existing Use Value (Social Housing) discount factor as part of the revaluing housing properties as at 1 April 2009 has been identified. This error has meant that the value of council dwellings in 2009/2010 has been overstated by approximately £38 million.

## Error on Reports of the Cost of Services for the Financial Year 2009/10

Whilst reviewing the valuation of the council dwellings as at 01 April 2010, it was noticed that the Existing Use Value (Social Housing) discount factor for 2010/11 had been reduced from 45% to 32% (as published by Communities and Local Government in January 2011). Whilst recalculating the valuation for 2010/11, in the light of this alteration, it was noted that the impairment was very large compared with the valuation in the financial statements for 2009/10.

As part of this review it was decided to look at the valuation as at 01 April 2009 to see if there was a reason for the significant variances in value. It was discovered that there had been a misinterpretation of the valuation guidance and instead of discounting the beacon values by 55% in order to use the revised figure of 45% for the South East, the beacon values were in fact discounted by 45%, meaning that the discounted figure was in fact 55% of the beacon value.

The net result was that the value of the council dwellings detailed in the 2009/10 financial statements was overstated by £38.483 million.

In order to correct this error, the Council has restated the prior year information for 2009/10 for the £38 million in each of the reported service lines in the Comprehensive Income and Expenditure Statement. The following are the relevant extracted lines from the Comprehensive Income and Expenditure Statement. The Comprehensive Income and Expenditure Statement with appropriate restatement for 2009/10 can be found on page 37 to these financial statements.

### Effect on Comprehensive Income and Expenditure Statement

	2009/10 Net Expenditure Prior to Restatement £'000	Restated 2009/10 Net Expenditure £'000	Amount of Restatement £'000
Local Authority Housing	(2,167)	36,316	38,483

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom requires that an authority present a balance sheet at the beginning of the earliest comparative period when an authority makes a retrospective restatement. However, in this case the prior period error did not impact on the opening Balance Sheet for 2009/10. The error took place at year end 2009/10 and therefore impacted on the reported Property Plant and Equipment balance, which has been reduced by £38.483m. The Capital Adjustment Account within the Unusable Reserves and Statutory Adjustment Accounts was also overstated by the same amount. The following table demonstrates the effects on the following line items in the Balance Sheet for the financial year 2009/10. The restated (for the relevant line items) prior period Balance Sheet is provided with the current year information on page 38 of the financial statements.

### Effect on line items in the Balance Sheet 31 March 2010

	2009/10 Prior to Restatement £'000	Restated 2009/10 £'000	Amount of Restatement £'000
Property Plant and Equipment	948,366	909,883	(38,483)
Unusable Reserves and Statutory Adjustment Accounts	(456,983)	(418,500)	38,483

The following restatement was also required for the Movement in Reserves Statement for both the surplus/deficit on provision of services and the adjustments between accounting & funding bases under regulations. The restated (for the relevant line items) prior period Movement in

Reserves Statement is provided with the current year information on page 35 of the financial statements.

**Effect on line items in the Movement in Reserves Statement 31 March 2010**

	Prior to Restatement 31 March 2010 £'000	Restated 31 March 2010 £'000	Amount of Restatement £'000
Balance at the end of the previous reporting period 31 March 2009	53,054	53,054	0
Surplus/(Deficit) on provision of services	(25,372)	(63,855)	(38,483)
Adjustments between accounting & funding bases under regulations	40,217	78,700	38,483
Transfers to/(from) Earmarked Reserves	0	0	0
Increase/(Decrease) in Year	14,845	14,845	0
Balance at 31 March 2010	67,899	67,899	0



## **I GLOSSARY OF TERMS**

### **ACCRUAL**

A sum included in the final accounts attributable to the year but for which payment has yet to be made or income received. Accruals are made for revenue and capital expenditure and income.

### **ASSET**

An item having value measurable in monetary terms. Assets can be defined as current or non-current. A current asset can be readily converted into cash (for example stocks or a short term debtor). A non-current asset has a value for more than one year (for example a building or a long term investment).

### **AUDIT OF ACCOUNTS**

An independent examination of the Council's financial affairs.

### **BUDGET**

The spending plans of the Council over a specific period of time – generally the financial year, 1 April to 31 March.

### **CAPITAL EXPENDITURE**

Expenditure to acquire or enhance non-current assets that will be used to provide services beyond the current financial year.

### **CAPITAL FINANCING**

The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure, including borrowing, leasing using capital receipts, grants or contributions from third parties, or directly from revenue budgets.

The capital charge shows the real benefit that each service has gained in the year from the use of fixed assets. The capital financing charge debited to services is effectively the opportunity cost to the authority of services having tied up the authority's resources in particular non-current assets.

### **CAPITAL PROGRAMME**

The capital schemes the council intends to carry out over a specified period of time.

### **CAPITAL RECEIPT**

The proceeds from the disposal of land or other non-current assets.

## **CENTRAL SERVICES**

BVACOP introduced this Service Expenditure Analysis category which incorporates the following divisions and sub-divisions of service:

Corporate and Democratic Core incorporating

Democratic Representation and Management which includes all aspects of members' activities including civic ceremonials, members' allowances and all officer support to this function and;

Corporate management which includes all the functions of the Chief Executive, external audit, treasury management and 'corporate' bank charges.

Unapportionable Central Overheads which is substantially the cost of past service contribution to the pension fund, charges for added years and early retirements. The former was previously allocated to services.

## **COLLECTION FUND**

A separate fund for the collection and distribution of amounts due in respect of council tax and National Non-Domestic Rates (NNDR).

## **COMMUNITY ASSETS**

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

## **CONSISTENCY**

The concept that ensures the accounting treatment of like items within an accounting period and from one period to the next one is the same.

## **CREDIT APPROVAL**

Credit approvals give the Council permission to borrow to finance new capital expenditure.

## **CREDITOR**

Amounts owed by the Council for works done, good received or services rendered before the end of the accounting period but for which payments had not been made by the end of that period.

## **DEBTOR**

Amounts due to the Council for works done, goods received or services rendered before the end of accounting period but for which payments had not been received by the end of that period.

## **DEPRECIATION**

The loss in value of an asset, in the accounting period, due to age, wear and tear, deterioration or obsolescence.



**FINANCE LEASE**

A lease which transfers substantially all the risks and rewards of ownership of a fixed asset to the Council.

**GOVERNMENT GRANTS**

Grants made by the government towards either revenue or capital expenditure to support the cost of the provision of local Councils services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Council (Revenue Support Grant).

**HOUSING ADVANCES**

Loans made by the Council to individuals or Housing Associations towards the cost of acquiring, constructing or improving dwellings.

**HOUSING BENEFITS**

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

**HOUSING REVENUE ACCOUNT**

A separate account which includes all the expenditure and income arising from the provision of council housing by the Council.

**INCOME**

Amounts which the Council receives or expects to receive from any source, including rents, fees, charges, sales and grants.

**INFRASTRUCTURE ASSETS**

Assets belonging to the Council, such as highways and footways, which do not necessarily have a resale value.

**LIABILITY**

An amount owed by the Council which will be paid some time in the future.

**LOBOS**

A form of loan offered by the market that provides discounted rates of interest in the earlier years of the term of the loan. These are more formally known as Lender Options Borrower Options.

**MINIMUM REVENUE PROVISION (MRP)**

The MRP is a statutory amount relating to the principal element of loans outstanding, which is a specific percentage of the Council's credit ceiling at the end of the previous year. This percentage is 2% for the Housing Revenue Account and 4% for other services.

**NON-DOMESTIC RATE**

The Non-Domestic Rate (Business Rate) is a standard rate in the pound set by the Government on the assessed rateable value of business properties.

**NON-OPERATIONAL ASSETS**

Fixed assets held by the Council, but not directly occupied or used in the delivery of services. Examples are investment properties, or assets which are surplus to requirements, pending sale or redevelopment.

**OPERATING LEASE**

A lease where the ownership of an asset remains with the lessor, not the Council.

**OPERATIONAL ASSETS**

Fixed assets held by the Council and directly occupied or used in the delivery of its services.

**PRECEPT**

The levy made by precepting authorities on billing authorities, for example the Kent Police Authority levies a precept on Medway Council.

**PROVISION**

An amount set aside for liabilities or losses which are certain to arise, but which due to their nature cannot be quantified with certainty.

**PROVISION FOR CREDIT LIABILITIES**

This represents the sum set aside for the repayment of debt.

**PUBLIC WORKS LOAN BOARD (PWLb)**

A central government agency which provides loans for one year and above to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

**RATEABLE VALUE**

The annual assumed rental value of a property which is used for NDR purposes.

**RELATED PARTY TRANSACTIONS**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a price is charged. The principal issue is the degree of control or influence by one party over the other. For transactions not disclosed elsewhere in these accounts, a related party with the Council is either a member or senior officer of the Council.

**RESERVES**

Surpluses and deficits which have been accumulated over past years. Reserves of a revenue nature are available and can be spend or earmarked at the discretion of the Council. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

**REVENUE EXPENDITURE**

The day-to-day expenses of providing services.

**REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

Capital expenditure which is of benefit beyond the current accounting period, but which does not result in a tangible non-current fixed asset to the Council. An example of a deferred charge would be capital expenditure on improvement grants.

### **REVENUE SUPPORT GRANT**

A grant paid by Central Government to authorities, contributing towards the cost of services.

### **STOCKS**

Comprises the following categories: goods and other assets purchased for resale; consumable stores; long term contract balances and finished good.

### **TEMPORARY LOAN**

Money borrowed for a period of less than one year.

### **TOTAL COST**

The total cost of an activity or service incorporates all income and expenditure relating to that activity/service including employee costs, premises, transport, supplies and services, capital charges and an appropriate share of all overheads, less income from fees and charges and specific grants.

The cost of that activity or service will then be consistently applied in reporting performance indicators, Best Value Performance Plans, statistics and returns and used as a benchmark against Capital expenditure which is of benefit beyond the current accounting period, but which does not result in a tangible fixed asset to the Council. An example of a deferred charge would be capital expenditure on improvement grants.



## **J      IMPACT OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Statement of Accounts for 2010/2011 is the first to be prepared on an IFRS basis. Adoption of the IFRS based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of accounts for 2009/2010.

An explanation of the differences between the amounts presented in the 2009/2010 financial statements and the equivalent amounts presented in the 2010/2011 financial statements is set out in the following tables and accompanying notes.

*Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the date of transition to IFRS (1 April 2009)*

	Previous GAAP £000s	Absences £000s	Effect of Transition to IFRS			IFRS £000s
			Leases £000s	Grants £000s	Other £000s	
Property Plant and Equipment	1,005,452		1,021		(35,739)	970,734
Investment Property	72,566				(66,712)	5,854
Assets held for Sale	0					0
Long Term Investments	20,004					20,004
Long Term Debtors	882					882
<b>Long Term Assets</b>	<b>1,098,904</b>	<b>0</b>	<b>1,021</b>	<b>0</b>	<b>(102,451)</b>	<b>997,474</b>
Short Term Investments	114,747				(2,407)	112,340
Assets Held for Sale	0				2,668	2,668
Inventories	144					144
Short Term Debtors	51,211					51,211
Cash and Cash Equivalents	17,736				(14,059)	3,677
<b>Current Assets</b>	<b>183,838</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(13,799)</b>	<b>170,040</b>
Bank Overdraft	(16,466)				16,466	0
Short Term Borrowing	(52,351)					(52,351)
Short Term Creditors	(55,457)	(3,112)			2,838	(55,731)
Provisions (<1 Year)	0					0
<b>Current Liabilities</b>	<b>(124,274)</b>	<b>(3,112)</b>	<b>0</b>	<b>0</b>	<b>19,304</b>	<b>(108,082)</b>
Capital Grants etc Unapplied	(20,276)			20,276		0
Government Grant Deferred	(84,867)			84,867		0
Capital Contributions Deferred	(9,970)			9,970		0
Long Term Creditors	(52,006)					(52,006)
Provisions (>1 Year)	(1,735)					(1,735)
Long Term Borrowing	(200,260)					(200,260)
Net Pensions Liability	(132,100)					(132,100)
Embedded Lease Liability	0		(1,021)			(1,021)
Capital Grants Receipts in Advance	0			(8,143)		(8,143)
<b>Long Term Liabilities</b>	<b>(501,214)</b>	<b>0</b>	<b>(1,021)</b>	<b>106,970</b>	<b>0</b>	<b>(395,265)</b>
<b>Net Assets</b>	<b>657,254</b>	<b>(3,112)</b>	<b>0</b>	<b>106,970</b>	<b>(96,945)</b>	<b>664,167</b>
Capital Grants etc Unapplied	0			12,132		12,132
Other Usable Reserves	38,084				2,838	40,922
<b>Usable Reserves</b>	<b>38,084</b>	<b>0</b>	<b>0</b>	<b>12,132</b>	<b>2,838</b>	<b>53,054</b>
Capital Adjustment Account*	682,745			94,838	(92,875)	684,708
Accumulated Absences Account	(657)	(3,112)				(3,769)
Other Unusable Reserves*	(62,918)				(6,909)	(69,827)
<b>Unusable Reserves</b>	<b>619,170</b>	<b>(3,112)</b>	<b>0</b>	<b>94,838</b>	<b>(99,784)</b>	<b>611,113</b>
<b>Total Reserves</b>	<b>657,254</b>	<b>(3,112)</b>	<b>0</b>	<b>106,970</b>	<b>(96,945)</b>	<b>664,167</b>

\*Will not agree to opening balances in Unusable Reserves (Note 16) as transactions actioned in 2010/2011.

*Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the date of transition to IFRS (31 March 2010)*

	Previous GAAP	Effect of Transition to IFRS				IFRS
		Absences	Leases	Grants	Other	
	£000s	£000s	£000s	£000s	£000s	£000s
Property Plant and Equipment	1,012,128		896		(103,141)	909,883
Investment Property	70,872				(64,956)	5,916
Assets held for Sale	0					0
Long Term Investments	10,004					10,004
Long Term Debtors	788					788
<b>Long Term Assets</b>	<b>1,093,792</b>	<b>0</b>	<b>896</b>	<b>0</b>	<b>(168,097)</b>	<b>926,591</b>
Short Term Investments	79,056				(56,819)	22,237
Assets Held for Sale	0				3,748	3,748
Inventories	152					152
Short Term Debtors	61,651				(72)	61,579
Cash and Cash Equivalents	23,658				33,099	56,757
<b>Current Assets</b>	<b>164,517</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(20,044)</b>	<b>144,473</b>
Bank Overdraft	(23,719)				23,719	0
Short Term Borrowing	(26,895)					(26,895)
Short Term Creditors	(58,768)	(3,781)			4,602	(57,947)
Provisions (<1 Year)	0					0
<b>Current Liabilities</b>	<b>(109,382)</b>	<b>(3,781)</b>	<b>0</b>	<b>0</b>	<b>28,321</b>	<b>(84,842)</b>
Capital Grants etc Unapplied	(32,737)			32,737		0
Government Grant Deferred	(96,286)			96,286		0
Capital Contributions Deferred	(9,476)			9,476		0
Long Term Creditors	(49,709)					(49,709)
Provisions (>1 Year)	(2,941)					(2,941)
Long Term Borrowing	(175,139)					(175,139)
Net Pensions Liability	(265,235)					(265,235)
Embedded Lease Liability	0		(1,087)			(1,087)
Capital Grants Receipts in Advance	0			(5,901)		(5,901)
<b>Long Term Liabilities</b>	<b>(631,523)</b>	<b>0</b>	<b>(1,087)</b>	<b>132,598</b>	<b>0</b>	<b>(500,012)</b>
<b>Net Assets</b>	<b>517,404</b>	<b>(3,781)</b>	<b>(191)</b>	<b>132,598</b>	<b>(159,820)</b>	<b>486,210</b>
Capital Grants etc Unapplied	0			26,836		26,836
Other Usable Reserves	36,534				4,530	41,064
<b>Usable Reserves</b>	<b>36,534</b>	<b>0</b>	<b>0</b>	<b>26,836</b>	<b>4,530</b>	<b>67,900</b>
Capital Adjustment Account	629,487		(191)	105,762	(139,152)	595,906
Accumulated Absences Account	(687)	(3,781)				(4,468)
Other Unusable Reserves	(147,930)				(25,198)	(173,128)
<b>Unusable Reserves</b>	<b>480,870</b>	<b>(3,781)</b>	<b>(191)</b>	<b>105,762</b>	<b>(164,350)</b>	<b>418,310</b>
<b>Total Reserves</b>	<b>517,404</b>	<b>(3,781)</b>	<b>(191)</b>	<b>132,598</b>	<b>(159,820)</b>	<b>486,210</b>

*Reconciliation to total comprehensive income and expenditure under IFRS for the year ended 31 March 2010*

	Previous GAAP	Absences	Net Expenditure Effect of Transition to IFRS			IFRS
			Leases	Grants	Other	
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Gross Expenditure, gross income and net expenditure of continuing operations</b>						
Central services to the public	2,086				4	2,090
Court services	458				(458)	0
Cultural, environmental, regulatory and planning services	46,520			1,947	(2,437)	46,030
Education and children's services	84,702	669		1,124	20,190	106,685
Highways and transport services	22,080		(40)	2,268	23	24,331
Local authority housing (HRA)	(1,263)				37,579	36,316
Other housing services	8,131			0	247	8,378
Adult social care	88,040				(25,434)	62,606
Corporate and democratic core	11,279			(2,051)	3,923	13,151
Non-distributed costs	674				(762)	(88)
<b>Cost of Services</b>	<b>262,707</b>	<b>669</b>	<b>(40)</b>	<b>3,288</b>	<b>32,875</b>	<b>299,499</b>
<b>Other Operating Income and Expenditure</b>	<b>(309)</b>				1,013	<b>704</b>
<b>Financing and Investment Income and Expenditure</b>	<b>14,754</b>		40		2,492	<b>17,286</b>
<b>Taxation and Non-Specific Grant Income</b>	<b>(191,476)</b>			<b>(59,153)</b>		<b>(250,629)</b>
<b>(Surplus)/Deficit on the Provision of Services</b>	<b>85,676</b>	<b>669</b>	<b>0</b>	<b>(55,865)</b>	<b>36,380</b>	<b>66,860</b>
<b>(Surplus)/Deficit on Revaluation of Non-Current Assets</b>	<b>(51,708)</b>				30,609	<b>(21,099)</b>
<b>Amortisation of Grant Non-Current Assets</b>	<b>(26,655)</b>			26,655		<b>0</b>
<b>Actuarial (Gains)/Losses on Pension Assets and Liabilities</b>	<b>132,537</b>					<b>132,537</b>
<b>Movement in Accumulated Absences Reserve</b>	<b>0</b>				699	<b>699</b>
<b>Other Comprehensive Income and Expenditure</b>	<b>54,174</b>	<b>0</b>	<b>0</b>	<b>26,655</b>	<b>31,308</b>	<b>112,137</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>139,850</b>	<b>669</b>	<b>0</b>	<b>(29,210)</b>	<b>67,688</b>	<b>178,997</b>



## Notes:

- 1 Short Term accumulated Compensated Absences refers to the benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit is holiday pay. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.  
  
The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.
- 2 Under the Code, local authorities are required to record the value of property, plant and equipment used by third parties in the provision of council services if those assets are exclusively employed within that authority. The assets are recorded in the balance sheet at their written down value. The operating costs of the service are included within the Cost of Services in the Comprehensive Income and Expenditure Statement although the interest element of the notional lease charge is removed and shown within Financing and Investment Income and Expenditure.
- 3 Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable unless there are conditions attached to their use. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets that they were used to fund.  
  
As a consequence of the Code, the balance on the Government Grants and Contributions Deferred Accounts as at 31 March 2009 have been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet. The government grants and contributions previously recognised as income have been removed from the Comprehensive Income and Expenditure Statement. Where conditions apply to the use of grants and contributions, predominantly Section 106 agreements etc., the balance of those amounts not yet applied to capital expenditure has been transferred to the Capital Grants and Contributions Unapplied Account. As these grants and contributions applied, they will be recognised through the relevant service line of the Comprehensive Income and Expenditure Statement.
- 4 Other restatements predominantly relate to the removal of foundation and other schools not directly controlled by the Council. This has resulted in a reduction of some £97 million in the value of Property Plant and Equipment recorded in the balance sheet as at 1 April 2009 and a corresponding reduction in the Capital Adjustment Account and Revaluation Reserve. The latter being contained within Other Unusable Reserves. In addition, the reclassification of a number of non-current assets from Investment Property to Property, Plant and Equipment has necessitated an adjustment between the Capital Adjustment Account and the Revaluation Reserve.

Bank balances and overdraft are now classified as cash and cash equivalents which comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. An investment normally meets the definition of

a cash equivalent when it has a maturity of three months or less from the date of acquisition.

Levies, amounting to £921,000 in 2009/2010 formerly included within Cost of Service are now reclassified as Other Operating Expenditure in the Comprehensive Income and Expenditure Statement.