

Contents		Page
A.	Explanatory Foreword	2
B.	Statement of Responsibilities for the Statement of Accounts	5
C.	Statement on Internal Control	6
D.	Auditor's Report	8
E.	Statement of Accounting Policies	10
F.	Consolidated Revenue Account	14
G.	Housing Revenue Account	21
H.	Collection Fund Accounts	25
I.	Consolidated Balance Sheet	28
J.	Statement of Total Movements in Reserves	37
K.	Cash Flow Statement	38
L.	Glossary of Terms	42

A. Explanatory Foreword

Introduction

The Statement of Accounts for the year ended 31st March 2006 has been prepared in accordance with the Accounts and Audit Regulations 2003. The format of the accounts reflects the requirements of the Code of Practice in Local Authority Accounting in Great Britain 2004 published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Publication of Statements of Recommended Practice (SORPs) and periodical SORP Update Bulletins, have been endorsed by the Accounting Standards Board (ASB). The SORP sets out proper practices to be followed in producing the financial statements.

The ASB also publishes Financial Reporting Standards (FRSs). The most significant recent change, initially affecting the 2001/2002 Statement of Accounts, was FRS 17 which aims to ensure that pension scheme assets and liabilities are disclosed in the accounts on a consistent basis and that the 'current' cost of pension commitments is reflected in the cost of services.

Statement of Accounts

The statements which follow summarise the Council's accounts for the financial year ended 31st March 2006. The main statements are:-

- **Statement of Responsibilities** - this outlines the responsibilities of the Council and the Director of Finance and Corporate Services in preparing the accounts.
- **Statement on Internal Control** – this provides a reasonable assurance that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control which allows the Council to carry out its functions effectively and which includes arrangements for the management of risk.
- **Statement of Accounting Policies** - this explains the basis of the figures presented in the accounts.
- **Consolidated Revenue Account** - this reports the net costs for the year of all the functions for which the Council is responsible. As such, this statement is fundamental to the understanding of the Council's activities and provides details of how costs are financed from both general government grants and income from local taxpayers.
- **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.
- **Consolidated Balance Sheet** - this explains the Council's financial position at the year-end. It provides details of the balances and reserves at the Council's disposal, its long-term indebtedness, the fixed and net current assets employed in operations and summarised information on the fixed assets held.
- **Movements in Reserves** - this shows a summary of the transactions on the various capital and revenue reserves during the year.
- **Cash Flow Statement** - this shows the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Review of Finance 2005/2006

• Revenue

The final outturn was £282.805m, an under spend of £37,000 against the budget of £282.842m.

The table below summarises the income and expenditure for each directorate of the Council for 2005/2006.

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Chief Executive's	7,040	(4,223)	2,817	3,037	(220)
Finance & Corporate Services	109,353	(98,017)	11,336	11,738	(402)
Children's Services	264,736	(65,404)	199,332	198,596	736
Community Services	117,235	(52,643)	64,592	63,587	1,005
Regeneration & Development	62,644	(14,164)	48,480	49,003	(523)
Levies	706	0	706	765	59
Interest & Financing	21,848	(66,261)	(44,413)	(42,639)	(1,774)
Corporate Provisions	2,058	(2,103)	(45)	(1,245)	1,200
	<u>585,620</u>	<u>(302,815)</u>	<u>282,805</u>	<u>282,842</u>	<u>(37)</u>

A reconciliation to the Consolidated Revenue Account is shown at Note 8 to that statement.

The outturn on the Housing Revenue Account (HRA) was a surplus £831,908 (2004/2005 surplus £404,000), compared to a zero budget (2004/2005 zero budget). This surplus was credited to the HRA Reserve, which stands at £2,077,000 as at 31st March 2006 (£1,246,000 as at 31st March 2005). Detail is given on pages 21 – 24.

• Capital

The Council's capital investment in 2005/2006 was £63,150,000 (2004/2005 £53,117,000). 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) (£15,647,000);
- Grants or contributions from Government bodies or other agencies and organisations (£38,935,000);
- Part proceeds from the sale of capital assets or the repayment of advances, the usable part, following pooling of HRA capital receipts (£3,818,000);
- Contributions from the Revenue Account and specific reserves (£4,750,000).

The Council spent £29,944,000 on the creation of new fixed assets used in the provision of services in the Medway area. Major schemes completed include a number of integrated transport measures, a programme of improvements to the Council's housing stock, the provision of new classrooms, improvements to school infrastructure and improvements to Linked Service Centres. The remainder of capital expenditure is split between capital works in progress £15,860,000 and £17,346,000 relating to deferred charges (see Statement of Accounting Policies 5)

Capital expenditure incurred by the Council in 2005/2006 is summarised below:

Directorate	Total Programme £'000	2005/2006 Forecast £'000	Outturn £'000	Variation £'000
Expenditure				
Chief Executive	3,838	2,062	2,155	93
Children's Services	30,655	19,657	19,901	244
Community Services	9,980	6,874	6,874	0
Finance & Corporate Services	6,215	2,985	2,917	(68)
Regeneration & Development	89,418	44,019	31,303	(12,706)
Total	140,106	75,597	63,150	(12,447)

The capital programme for 2005/2006 and beyond continues to follow the investment priorities set out in the Council's approved capital investment strategy.

These are as follows; Universities at Medway; Medway Renaissance; Medway Innovation Centre; Customer First; building maintenance; the Local Transport Plan including improvements to the A228; investment in the Council's housing stock and investment in schools to support delivery of high standards of education.

Borrowing/Investments

During 2005/2006 the level of debt, i.e. money that the Council owes increased by £14,928,000 from £145,327,000 to £160,255,000. This is due to new debt being taken out to finance the capital programme.

The level of investments has increased from £71,307,000 to £77,625,000 due in the main to provisions made annually for the repayment of debt exceeding the actual repayments within the financial year.

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 Director of Finance and Corporate Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets and
- approve the statement of accounts.

The Director of Finance and Corporate Service's Responsibilities

The Director of Finance and Corporate Services is responsible for the preparation of the Council's Statement of Accounts as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in Great Britain (the Code).

In preparing this Statement of Accounts, the Director of Finance and Corporate Services 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 Director of Finance and Corporate Services has also:

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

Certificate of Director of Finance and Corporate Services

I certify that this Statement of Accounts presents fairly the financial position of the Council at 31st March 2006 and its income and expenditure for the year ended 31st March 2006.

Neil Davies
Director of Finance and Corporate Services

27th June 2006

C. STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

Medway Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Medway Council also has duty under the Local government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Purpose of the system of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it 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 Medway Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at Medway Council for the year ended 31st March 2006 and up to the date of approval of the annual report and accounts.

The Internal Control Environment

The key elements of the internal control environment are:

- Clear business objectives, established in liaison with our strategic partners and published in the Community Plan and Medway's annual Performance Plans. They are underpinned by a set of Core Values, together with which they define the purpose of everything that we do.
- Medway's governance arrangements, with the structure of Leader, Cabinet, Decision Making and Overview and Scrutiny Committees, and a Schemes of Delegation through Corporate Management Team to Medway's officers for the implementation of Member decisions.
- Codes of Conduct and a set of Rules, published in Medway's Constitution and supplemented where appropriate throughout the authority by more detailed guidance Handbooks, policies and procedure notes. Ensuring compliance with these is a continuous management responsibility but independent reviews are carried out by internal and external auditors and other review agencies.
- A risk management process embedding it into the authority's annual service planning system. Managers identified and published in their Business Plans what they perceived as their most significant strategic, operational and financial risks. A Strategic Risk Management Group has been tasked with taking the lead in developing this process further, including the incorporation of cross-directorate analysis, a clear method for monitoring and updating the risks, and the arrangement of further training for managers where necessary. Meanwhile a reporting system has been put in place by which Members will be regularly advised of significant risks and management of them.
- A culture of ensuring economical, effective and efficient use of resources which is engendered through Medway's Core Value "Obtaining Value for Money" and reinforced through many aspects of the Council Rules. The authority's activities are subjected to an ongoing programme of reviews aimed at achieving best value and continuous improvement.

- Specific rules and written procedures for the management of Medway's finances and assets. There is a well-established devolved financial management system in which managers are responsible for controlling their budgets and reporting upwards, ultimately to Cabinet and Overview and Scrutiny Committees.
- A set of key performance indicators against which Medway's performance is measured and reported monthly to senior management and quarterly to Members.

Review of Effectiveness

Medway's Management Team has responsibility for directing the development and maintenance of the internal control environment, and also for ensuring that a review of its effectiveness is conducted at least annually. The review leads to this Statement of Internal Control.

The 2005 review has been informed by:

- the work of Internal Audit, who have also reported to the Audit Sub Committee throughout the year
- the work of the external auditors
- the work of other external review agencies
- the Comprehensive Performance Assessment carried out on behalf of the Audit Commission.

The Council has a responsibility for satisfying itself of the effectiveness of the system of internal control and achieves this by considering and approving the Statement of Internal Control.

Significant Internal Control Issues

Each of Medway's Directorates has identified the most significant known or foreseeable risks to the achievement of its objectives, and has taken account of these in its business plans in order to strengthen internal control where appropriate. These will be monitored and reviewed along with other operational and financial risks on a regular basis.

Medway Council's review has identified sound financial control, efficient use of resources and an overall "good" Comprehensive Performance rating by the Audit Commission. Control does however need to be strengthened in the following areas:

- Risk Management. - a management action plan, which addresses the issues of consistency of identification, evaluation, controlling and monitoring of risks, has been agreed.
- Operational control in aspects of housing, libraries and leisure, and social care for adults and children. In each of these areas management is aware of the deficiencies and is taking steps to improve control.

Judith Armitt
Chief Executive

27th June 2006

Rodney Chambers
Leader

27th June 2006

D. AUDITOR'S REPORT TO MEDWAY COUNCIL

We have audited the statement of accounts on pages 14 – 41, which has been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 10 – 13.

This report is made solely to Medway Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Director of Resources and Auditors

As described on page 5 the Director of Finance and Corporate Services is responsible for the preparation of the statement of accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2004. Our responsibilities, as auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the statement of accounts presents fairly the financial position and results of operations of the Council.

We review whether the Statement on the System of Internal Financial Control on page 6 reflects compliance with CIPFA guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2nd April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the statement of accounts. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the statement of accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts. The other information comprises only the Explanatory Foreword and Glossary of Terms.

Basis of Audit Opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Audit Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statement of accounts. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the statement of accounts, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the statement of accounts.

Opinion

In our opinion the statement of accounts presents fairly the financial position of Medway Council at 31st March 2006 and its income and expenditure for the year then ended.

Certificate

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

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
LONDON SE1 9SY

Date

E. STATEMENT OF ACCOUNTING POLICIES

1. General

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued in August 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) and with guidance notes issued by the above on the application of accounting standards.

The following accounting practices are adhered to in respect of the specific areas of income, expenditure and balances listed below.

Employee Costs - these are charged to the accounts based upon full weeks or months worked, and an accrual made for salaries earned but unpaid at the end of the financial year. The exception to the accruals basis is for employee expenses and overtime allowances where the amounts involved are not material.

Pension Costs – In accordance with relevant government regulations, the pension costs that are charged to the Council's accounts are equal to the contributions paid to the funded pension scheme for those employees (as determined by the fund's actuary), rather than those required to meet the liabilities of the scheme in full. As a result, Local Authority accounts did not comply with SSAP24, Accounting for Pension Costs, and the liabilities of the scheme were not fully reflected in the accounts.

A new accounting standard, FRS 17 Retirement Benefits, requires recognition of pension assets and liabilities in the Balance Sheet and the operating costs of providing retirement benefits, together with changes in the value of assets and liabilities to be reflected in the Consolidated Revenue Account

In order that FRS 17 requirements do not impact upon council tax levels, the movement on the net assets and liabilities (net of the employer's contributions and actuarial gains and losses) is reversed out to the pensions reserve.

Premises Related Costs - all such costs are accrued and accounted for in the period to which they relate, with the exception of utilities (gas, electricity water etc) where the effect is not considered material.

Supplies and Services - the costs of supplies and services are accrued and accounted for in the period during which they were consumed or received. Accruals are made for all material sums unpaid at the year-end where the goods or services have been received or work completed.

Insurance - in order to keep its external premium to the minimum, the Council operates a policy of self-insured retention for its insurable risks through an internal insurance fund. An insurance provision is held to cover the potential claims within the self-insured retention.

Government Grants – are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account in accordance with the principle of total cost, or, in the case of capital grants, to a government grants deferred account. Amounts are released from this account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate.

Customer and Client Receipts - these are accrued and accounted for in the period to which they relate. Provision is made for doubtful debts and known uncollectable debts are written off.

VAT is excluded from the income and expenditure in the accounts where it is able to be recovered. The Council is able to recover VAT on nearly all its expenditure.

2. Fixed Assets

All expenditure, on projects above the de minimis level of £10,000, on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefits to the Council and the service it provides for a period of more than one year. It excludes expenditure on routine repairs and maintenance of fixed assets which is charged directly to service revenue accounts.

Fixed assets are valued on the bases recommended by CIPFA in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. Fixed assets are classified into the groups required by the 2004 Code of Practice on Local Authority Accounting and are included in the accounts on the following bases:

- Council dwellings and other land and buildings used in the provision of services included in the balance sheet are valued on the basis of the net realisable value in existing use or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost.
- Non-operational assets and investment properties are included in the balance sheet at their open market value. In instances where it is lower, depreciated replacement cost has been used. The area of land along Chatham and Rochester waterfront is held for regeneration purposes. The area was revalued in 2002/03 and was based on rental potential of the buildings on the site at the time. With work progressing well on site this asset will be revalued on an annual basis until the works are completed.
- Infrastructure Assets, Community Assets and Vehicles Plant and Equipment are included in the balance sheet at historical cost less depreciation. These assets are not shown at market value and so are not subject to a revaluation review.

The surpluses arising on the initial valuation of fixed assets have been credited to the Fixed Asset Restatement Account. Any surpluses/deficits occurring on revaluation are also taken to this account. Assets are valued according to a rolling programme of revaluations to ensure where applicable each asset is valued every five years.

At the end of each financial year the value at which each category of assets is included in the balance sheet is reviewed. Fixed assets other than land are reviewed each year when no depreciation charge is made, or when the estimated useful life of the asset exceeds 50 years. If the value has changed materially the valuation is adjusted. The reasons for these adjustment include:

- significant decline in the asset's market value over the year;
- obsolescence or physical damage;
- significant adverse change in the statutory or regulatory environment; or
- commitment to significant reorganisation.

Impairment caused by a clear consumption of economic benefits is recognised in the asset management revenue account and the service revenue account. Other impairments are recognised in the fixed asset restatement account.

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis. Where the Government requires that a proportion of the receipt is reserved for the repayment of external loans, this is credited to a capital financing account. Upon disposal, the net book value of assets disposed of is written off against the fixed asset restatement account.

3. Depreciation

Depreciation has been applied to most of the Council's fixed assets using the straight line method over their economic lives. The objective of depreciation is to reflect in the revenue account the cost of the use of tangible fixed assets, (i.e. amount of economic benefit consumed) in a period.

Depreciation is calculated upon the following bases:

Council Dwellings – properties in this asset category are valued using the Beacon valuation method. This means properties are grouped on the basis of size, type and location and an average value is given to each property in the group. Depreciation is charged on a straight – line basis over 40 years;

Other Land and Buildings - all the Council buildings although regularly repaired and maintained, are depreciated on a straight-line basis over their useful economic life. Land is not depreciated;

Vehicles, Plant, and Equipment – depreciation is applied on a straight-line basis over the useful economic lives of the assets. The majority of these range between three and ten years;

Infrastructure Assets - are depreciated on a straight-line basis over a twenty-year period;

Community Assets - buildings are depreciated over their useful economic lives. Land is not depreciated;

Non-Operational Assets - investment properties are not depreciated as any change in value over time is reflected in annual revaluations on an open market value basis.

4. Charges for the Use of Fixed Assets

The capital charges made to service revenue accounts, central support services and trading accounts, equate to the sum of depreciation plus a notional interest charge based on the net amount at which the fixed asset is included in the balance sheet. The notional rates of interest used are 4.95% for Community and Infrastructure assets and 3.5% for all other assets (2004/2005 4.8% and 3.5%, respectively). Actual interest payable on outstanding borrowings, including interest payable under finance leases, and provision for depreciation is charged to an Asset Management Revenue Account. Capital charges for the use of fixed assets included in revenue accounts are credited to the Asset Management Revenue Account.

In order to disclose the authority's corporate net operating expenditure, capital charges to services are reversed out and replaced by depreciation and external interest payable for financing. This reconciliation is performed in the Asset Management Revenue Account.

5. Deferred Charges

Where capital expenditure does not create a tangible fixed asset, as is the case with disabled facilities grants, for example, the accounts record a deferred charge.

Expenditure is written off to the service revenue accounts in the year in which that expenditure is incurred on the basis that no long-term benefit accrues directly to the authority from the expenditure.

6. Basis of the Provision for the Repayment of Debt

The Local Government and Housing Act 1989 governs the borrowing and debt repayment activities of the Council. The Council must set aside a Minimum Revenue Provision (MRP) for the repayment of principal on the amount of loans borrowed by the Council. In respect of non Housing Revenue Account debt the proportion is 4%. With effect from April 2004, the HRA is no longer required to make a Minimum Revenue Provision for debt repayment. Individual services are charged with depreciation and the prescribed notional rates of interest for assets employed in the supply of that service. These capital charges are credited to the Asset Management Revenue Account (see Note 5 to the Consolidated Revenue Account) which, forming part of the Council's Net Operating Expenditure, has no effect on funding requirements from Council Tax.

7. Interest Charges

All interest charges and expenses arising on loans are recharged between the Housing Revenue Account and the General Fund as determined by a statutory formula (referred to as the Item 8 Determination).

External interest payable is debited to the Asset Management Revenue Account. External interest receivable is credited to interest and financing within the Consolidated Revenue Account.

8. Capital Receipts

The sale of assets gives rise to capital receipts. In 2004/2005 new rules were introduced for capital receipts resulting from the sale of HRA assets. These capital receipts are subject to pooling arrangements which require that 75% of receipts from the disposal of dwellings and 50% of receipts received from the disposal of any other interest in housing land are payable to the Office of the Deputy Prime Minister (ODPM). The Council can however net off allowable expenditure such as sale and improvement costs before pooling the receipts to the ODPM. These rules do not apply to capital receipts generated from the sale of General Fund assets and the Council can continue to use 100% of these capital receipts to fund new capital expenditure. Deferred capital receipts are shown separately in the balance sheet and refer specifically to amounts due on the sale of Council houses to tenants when the capital sum is payable over the life of the mortgage given by the Council.

9. Debtors and Creditors

All sums owed to or by the Council are set up in the accounts when due and not when received or paid, i.e. the Council uses the accruals method of accounting for both revenue and capital expenditure. However, no attempt is made at the year-end to apportion periodic charges such as utility and rental accounts, nor employee expenses and overtime allowances. This does not comply with the Code of Practice, but the effect is not considered material.

10. Stocks

Stocks are valued at the lower of cost or net realisable value in accordance with SSAP9.

11. Accounting for Overheads

In accordance with the 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. See Glossary for definitions.

12. Reserves

All amounts set aside to cover future specific expenditure or in support of net revenue expenditure are treated as reserves.

13. Balances

These are amounts held to cover unforeseen costs and cash flow management.

14. Provisions

The Council makes provision in compliance with FRS 12 where there is a present obligation as a result of a past event; where it is probable that a transfer of economic benefits will be required to settle the obligation; and where a reliable estimate can be made of the obligation.

15. Investments

With the exception of loans made by the Council which are shown at cost price, investments are shown in the Consolidated Balance Sheet at market valuation.

16. Leasing

Items that are acquired through operating leases are not shown in the balance sheet in accordance with the SORP. No assets have been acquired through finance leases.

17. Government Grants and Other Contributions

Grants and other contributions relating to fixed assets are credited to a government grant deferred account and released to the Asset Management Revenue Account in line with depreciation.

F. CONSOLIDATED REVENUE ACCOUNT

The Consolidated Revenue Account brings together the income and expenditure relating to all the Council's functions during 2005/2006 including the General Fund, Housing Revenue Account, and the Collection Fund.

Service Expenditure Analysis	Notes	Gross Expenditure 2005/2006 £'000	Gross Income 2005/2006 £'000	Net Expenditure 2005/2006 £'000	Net Expenditure 2004/2005 £'000
Corporate and Democratic Core		11,202	(3,524)	7,678	7,171
Non Distributed Costs		6,995	(5,139)	1,856	190
Central Services to the Public		2,241	(842)	1,399	1,194
Cultural and Related Services		21,534	(4,551)	16,983	15,810
Environmental Services		24,508	(5,345)	19,163	19,011
Planning and Development Services		17,898	(4,473)	13,425	7,554
Education Services	1	258,297	(64,472)	193,825	183,476
Highways, Roads and Transport Services		34,401	(7,327)	27,074	26,310
Housing Services (General Fund)		87,389	(81,792)	5,597	5,731
Housing Services (Housing Revenue Account)		15,119	(10,474)	4,645	1,906
Social Services		95,303	(33,157)	62,146	56,660
Net Cost of Services		574,887	221,096	353,791	325,013
Amounts Due to Precepting Authorities	2			14,346	13,648
External Contributions	3			6,600	7,335
Deficit/(Surplus) on Trading Organisations	4			1,654	(224)
Asset Management Revenue Account	5			(31,263)	(27,394)
Interest and Investment Income				(4,838)	(4,142)
Pensions Interest Costs and Expected Return on Pensions Assets	6			4,030	3,309
Contribution to Housing Pooled Capital Receipts				572	1,088
Net Operating Expenditure				344,892	318,633
Capital Expenditure Charged to Revenue				3,377	3,798
Surplus/(Deficit) transferred to HRA Balances				831	404
Contributions to/(from) Trading Reserves				(159)	(278)
Other Contributions and Appropriations	7			(43,290)	(36,476)
Movements on pensions reserves	6			(3,973)	(4,165)
Amount to be Met from Government Grant and Local Taxpayers				301,678	281,916
Financed by:					
Precept from Collection Fund				(90,211)	(84,982)
Revenue Support Grant				(123,292)	(126,812)
Contribution from NNDR Pool				(83,685)	(70,094)
Deficit for the year	8			4,490	28
General Fund Opening Balance				(7,628)	(7,100)
Contribution to Schools Balances				(4,527)	(29)
Contribution from General Reserve				0	(527)
General Fund Balance at end of year				(7,665)	(7,628)

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Comparison with 2004/2005

Education Services

The increase from 2004/2005 is principally due to an increase in asset rentals of £22.7m as a result of a revaluation of school assets.

2. Amounts Due To Precepting Authorities

	2005/2006	2004/2005
	£'000	£'000
Kent Police Authority	9,349	8,854
Parish Councils	178	156
Kent Fire and Rescue Service	4,819	4,638
	<u>14,346</u>	<u>13,648</u>

3. External Contributions

These include levies paid to statutory bodies and the contribution to KCC debt (principal and interest) relating to the Medway area:

	2005/2006	2004/2005
	£'000	£'000
Kent and Essex Sea Fisheries	33	31
Magistrates Court – now directly funded	0	273
Coroners Court	333	307
Medway Internal Drainage Board	288	279
Environment Agency (Flood Protection)	52	129
Kent County Council Transferred Debt	5,894	6,316
	<u>6,600</u>	<u>7,335</u>

4. Trading Organisations

Trading Organisations are shown in the table below:

	Gross Expenditure	Gross Income	Net (Surplus)/ Deficit	Net (Surplus)/ Deficit
	2005/2006	2005/2006	2005/2006	2004/2005
	£'000	£'000	£'000	£'000
Markets and Street Trading	63	(162)	(99)	(68)
Commercial Property (Note 1)	3,010	(1,413)	1,597	(122)
Revenues and Benefits	3,799	(3,670)	129	278
Building Control (Note 2)	1,113	(642)	471	120
Leisure Services	4,561	(4,008)	553	256
Reprographics	437	(642)	(205)	(79)
Building Surveying	879	(1,262)	(383)	(260)
Temporary Staff Agency	3,796	(4,205)	(409)	(349)
(Surplus)/Deficit	<u>17,657</u>	<u>(16,004)</u>	<u>1,654</u>	<u>(224)</u>

Notes:

1. This deficit is due to a significant increase in asset rentals.
2. Further detail of the Building Control Trading Account is shown on page 18.

5. Asset Management Revenue Account

The Asset Management Revenue Account reverses out the capital charges made to service committees under the capital accounting system and replaces them with depreciation (net of government grants deferred) and real external interest charges paid by the Council. The balance on the Asset Management Revenue Account is transferred to the Consolidated Revenue Account after the net cost of services has been determined. The transactions on the asset management revenue account are summarised below:

	2005/2006	2004/2005
	£'000	£'000
Income		
Capital Charges	64,402	59,447
Government grants – deferred	5,881	5,917
	<u>70,283</u>	<u>65,364</u>
Expenditure		
External Interest Paid	7,198	5,511
Provision for interest payable (1)	(330)	691
Provision for Depreciation	32,152	31,768
	<u>0</u>	<u>0</u>
	<u>39,020</u>	<u>37,970</u>
Balance to the Consolidated Revenue Account	<u>31,263</u>	<u>27,394</u>

1. Provision has been made for interest on borrowing which is accruing but not yet payable.

The Local Government and Housing Act 1989 also requires the Council to charge to the revenue account a Minimum Revenue Provision (MRP) for the redemption of debt. Any excess depreciation charge over this MRP is then appropriated from the Capital Financing Reserve.

	2005/2006
	£'000
Minimum Revenue Provision - 4% of the credit ceiling	6,253
Less: Depreciation	<u>(32,152)</u>
Appropriation from Capital Financing Account (See note 15 on page 35)	<u>(25,899)</u>

6. Local Government Pension Scheme

In common with all local authorities the Council is required to operate or participate in a Pension Scheme to provide specific deferred benefits to its employees by way of retirement pensions, widows' pensions, lump sum retirement payments and death grants. Benefits are paid from the Pension Fund, which receives contributions from both employees and employers. The Council participates in the scheme administered by Kent County Council.

Employees are required by the Local Government Pension Scheme Regulations 1997, to make contributions to the fund by deductions from pay at the rate of 6% for monthly paid and 5% for previously weekly paid staff.

The Council, as employer, is required to make sufficient contributions to the Pension Fund with respect to the future liabilities to pay benefits as determined by the fund actuary. These contributions are calculated to be sufficient to meet a target funding of 100% of the funds liabilities over a specified timeframe.

From 2003/04 the way Pension costs are charged to services has changed in that the actuary now provides annual costs of the fund liabilities. These figures replace the actual costs paid by the employer, shown against current service cost but are taken out again and replaced by the real employers' costs in the Consolidated Revenue Account.

The requirement to change the basis of accounting for pensions is set out in Financial Reporting Standard 17 (FRS 17).

The pension cost reflected in the service accounts is based on the actuarial valuation as at 1 April 2006. The interest cost is based on the discount rate and the present value of the scheme liabilities as at 1 April 2006. Actuarial gains and losses arise from updating the latest actuarial valuations to reflect conditions as at 31 March 2005. The following transactions have been made in the Consolidated Revenue Account during the year:

	2005/2006	2004/2005
	£'000	£'000
<i>Net Cost of Services:</i>		
Current Service Cost	11,900	11,684
Past Service Cost	50	12
Curtailments	660	176
Capitalised Payments	1,352	155
<i>Net Operating Expenditure:</i>		
Interest on Pension Scheme Liabilities	14,790	12,364
Expected Return on Pension Scheme Assets	(10,760)	(9,055)
	<u>4,030</u>	<u>3,309</u>
<i>Amounts to be met from Government Grant and Local Taxpayers:</i>		
Charging Pensions Costs payable to Council Tax	12,667	11,016
Reversal of FRS17 Items	(16,640)	(15,181)
	<u>(3,973)</u>	<u>(4,165)</u>

Teaching staff are entitled to be members of the Teachers Pension Scheme and the administration for this scheme is carried out by the Teachers' Pensions Agency on behalf of the Department for Education and Skills (DfES).

In 2005/2006 the Council paid £9,439,000 (2004/2005 £8,898,000) to the DfES in respect of teachers' pension costs, the contributions rate being 13.5% (2004/2005 13.5%). In addition the Council is responsible for all pension payments relating to Added Years benefits it has awarded. These amounted to £214,000 (2004/2005 £158,000).

7. Contributions and Appropriations

	2005/2006	2004/2005
	£'000	£'000
Contributions to Capital Expenditure		
from General Reserve	(3,377)	(3,669)
from Earmarked Revenue Reserves	0	(18)
	<u>(3,377)</u>	<u>(3,687)</u>
Contributions to Revenue Funding		
from General Reserve	(1,253)	(331)
from Earmarked Revenue Reserves	(468)	1,154
	<u>(1,721)</u>	823
Appropriations		
Government Grant Deferred (See note 11, page 34)	5,881	5,917
Deferred Charges (See note 1, page 29)	(17,251)	(11,737)
MRP / Depreciation Adjustment (See note 5)	(25,899)	(26,573)
MRA / Depreciation Adjustment	0	(131)
Housing Pooled Capital Receipts	(572)	(1,088)
	<u>(37,841)</u>	<u>(33,612)</u>
Total	<u>(42,940)</u>	<u>(36,476)</u>

8. Deficit for the Year

Reconciliation to Review of Finance is as follows:-

	2005/06 £'000	2004/2005 £'000
Underspend against General Fund Budget	(37)	(528)
Budgeted use of Reserves	0	528
Expenditure Financed from School Reserves	4,527	28
Deficit per Consolidated Revenue Account	<u>4,490</u>	<u>28</u>

OTHER NOTES

9. Section 5 Expenditure

This Section of the Local Government Act 1986 requires the Council to keep a separate account of certain items of expenditure on publicity which are shown in the table below.

	2005/06 £'000	2004/2005 £'000
Recruitment Advertising	596	429
Economic Development Publicity	28	32
Tourism Promotion	155	161
Communication Unit and "Medway Matters" etc.	479	406
Other Publicity	243	153
	<u>1,501</u>	<u>1,181</u>

10. Local Authority (Goods and Services) Act 1970

During the year the Council supported a Community Support Scheme for clients with mental health needs. The total gross costs were £2,519,000 (2004/2005 £2,561,000) of which £2,341,000 is reimbursed by Medway PCT and West Kent NHS Social Care Trust, £45,000 income received from clients and Medway Council funded the balance of £133,000.

11. The Building Control Trading Account

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for building control work. The statement below shows the split between the work that can be charged for and the work for which no charges can be made, such as providing general advice and liaising with other statutory authorities. Income shown for non-chargeable building regulations relates to work provided for the Council's Land Charges service.

Building Regulations Charging Account

	2005/2006 Chargeable £'000	2005/2006 Non Chargeable £'000	2005/2006 Total £'000	2004/2005 Total £'000
Expenditure				
Employees	352	145	497	487
Transport	19	8	27	28
Supplies and Services	56	22	78	104
Central and Support Charges	205	248	453	179
Total Expenditure	<u>632</u>	<u>423</u>	<u>1,055</u>	<u>798</u>
Income				
Building Regulation Charges	637	47	684	678
Total Income	<u>637</u>	<u>47</u>	<u>684</u>	<u>678</u>
Surplus/(Deficit) for year	<u>5</u>	<u>(376)</u>	<u>(371)</u>	<u>(120)</u>

12. Related Party Transactions

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 Interests 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.

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

Chatham Historic Dockyard Trust

Four 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. As part of the Council's capital programme, a grant of £200,000 was given to the Trust towards the Dockyard Development Programme.

Kent Police authority

The Kent Police Authority comprises 17 members - 9 are elected councillors (7 from Kent County Council and 2 from Medway Council), 3 magistrates and 5 independent people drawn from across Kent. The Council paid the Authority £9,349,000 by way of precept from the Collection Fund in 2005/2006.

Kent Fire and Rescue Service

Kent Fire and Rescue Service is responsible for delivering fire and rescue services to more than 1.5 million people in Kent and Medway, from 66 fire stations and 13 district fire safety offices. It has 25 Members, 21 appointed by Kent County Council and 4 by Medway Council. The Council paid the Service £4,819,000 by way of precept from the Collection Fund in 2005/2006.

Rochester Bridge Trust

Four members represent the Council on the trust, the main purpose of which is to maintain and improve the bridges and Medway Tunnel and associated river banks in order to facilitate passage over, under or across the River Medway. During the year the Council undertook reimbursable maintenance work, amounting to £311,000 (£293,000 in 2004/2005), on Medway Tunnel on behalf of Rochester Bridge Trust.

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 2005/2006 (£25,000 in 2004/2005).

Central government provides the majority of funding for the Council in the form of grants and prescribes the terms of many transactions that the Council has with other parties e.g. Housing Benefits. Details of transactions with government departments are set out within the Cash Flow Statement.

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

13. Officers' Emoluments

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

Remuneration Band	Number of Employees	
	2005/2006	2004/2005
£50,000 to £59,999	125	87
£60,000 to £69,999	16	20
£70,000 to £79,999	18	9
£80,000 to £89,999	4	2
£90,000 to £99,999	2	2
£100,000 to £109,999	1	1
£110,000 to £119,999	1	0
£120,000 to £129,999	1	0
£130,000 to £139,999	1	1

14. Members' Allowances

In 2005/2006 a total of £741,000 (2004/2005 £709,000) was paid to the Council's 55 Members in respect of allowances.

15. Leasing Contracts

The Council has no significant commitments under finance or operating lease arrangements.

16. Euro Implementation Costs

The introduction of the Euro would have a significant impact on the Council's operations and systems. However, to date, no additional costs have been incurred in the ongoing process of examining and assessing the likely impacts, timescales and risks.

17. Audit Fees

The following amounts have been paid to the Council's external auditors, PricewaterhouseCoopers LLP. The amounts shown are those included within the financial statements for the years indicated and therefore include the cost of audit work relating to preceding financial years.

	2005/2006	2004/2005
	£'000	£'000
Accounts, Performance and Governance Audit.	171,190	229,800
Audit of Grant Claims	85,000	95,600
	<u>256,190</u>	<u>325,400</u>

G. HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) reflects a statutory obligation to account separately for local authority housing provision, as defined in particular in schedule 4 of the Local Government and Housing Act 1989. It shows the major elements of housing revenue expenditure – maintenance, management, subsidy and capital charges, and how these are met by rents and other income.

	Notes	2005/2006 £'000	2004/2005 £'000
Income			
Gross Rental Income			
- Dwelling Rents	2,3	(9,173)	(8,473)
- Non-Dwelling Rents		(229)	(198)
Charges for Services & Facilities		(1,072)	(1,011)
HRA Subsidy Receivable (MRA)	4	0	0
		(10,474)	(9,682)
Expenditure			
Repairs & Maintenance		1,847	1,838
Supervision & Management		3,320	3,105
Rents, Rates, Taxes and Other Charges		77	80
Negative Subsidy Payment to Secretary of State	4	862	850
Rent Rebates	11	0	0
Sums Directed by the Secretary of State	11	324	347
Increased Provision for Bad or Doubtful Debts		96	93
Cost of Capital	6	6,376	3,107
Depreciation	8	1,827	2,204
Debt Management Costs		45	43
		14,774	11,667
Net Cost of Services		4,300	1,985
Net HRA income on the Asset Management Revenue Account	7	(5,501)	(2,319)
HRA Investment Income		0	(49)
Net Operating Expenditure		(1,201)	(383)
HRA Contribution to the Minimum Repayment Provision			0
Adjusting Transfer from Major Repairs Reserve	5	345	(132)
Adjusting Transfer from Pensions Reserve		25	0
Revenue Contributions to Capital	9		111
Total Deficit for Year		(831)	(404)
Balance at 1 st April		(1,246)	(842)
Balance at 31 st March		(2,077)	(1,246)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Introduction

The Code requires the HRA to be consolidated in the Consolidated Revenue 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. The debits will be treated as the capital charge and credited to the Asset Management Revenue Account. Debits for direct revenue financing will still be made to the HRA.

2. Gross Rental Income

The rent income figure is net of voids. The level of voids in 2005/2006 was on average equal to 1.04% (1.07% in 2004/2005). The level of rebates provided was £5,816,356 (2004/2005 £5,723,798) which amounted to 56.36% of rent receivable (2004/2005 57.44%).

The Council managed 3,161 dwellings as at 31st March 2006. The movement in stock is analysed as follows:-

	1 st April 2005	Adjustments	Disposals	31 st March 2006
Houses	1,354		(9)	1,345
Flats	1,364	(3)	(10)	1,351
Maisonettes	216			216
Bungalows	249			249
Total	<u>3,183</u>	<u>(3)</u>	<u>(19)</u>	<u>3,161</u>

3. Tenants' Arrears

Tenants' Arrears at 31st March are analysed as follows:

	2005/2006 £'000	2004/2005 £'000
General Stock	288	294
Garages	5	6
Former Tenancies – General Stock	237	270
Former Tenancies - Garages	1	3
Former Tenancies – Temp a/c HRA	0	14
Housing Benefit Overpayments – General Stock	232	206
Housing Benefit Overpayments – Temp a/c HRA	0	2
Court Costs – General Stock	47	49
Former Tenancy Arrears of Current Tenants – General	32	32
Rechargeable Repairs	22	19
Total HRA	<u>865</u>	<u>895</u>
General Fund	21	32
Total Arrears	<u>886</u>	<u>927</u>
Percentage of Gross Rents (HRA)	8.59%	8.8%

The following provision has been made against possible non-collection of housing debt (including General Fund):-

	£'000
Balance 1 st April 2005	648
Add Provisions made during year	97
Less amounts written off	(135)
Balance 31 st March 2006	<u>610</u>

4. 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 for 2005/2006 can be detailed as follows:

	£'000
Management Allowance (£437.53 per dwelling)	1,401
Maintenance Allowance (£911.36 per dwelling)	2,918
Major Repairs Allowance (MRA £678.31 per dwelling)	2,172
Admissible Allowance	10
Anti Social Behaviour Allowance	0
Charges for capital	1,065
	<hr/> 7,566
<u>Less</u>	
Guideline Rent Income	(8,417)
Interest on Receipts	(11)
Total Subsidy Payable (including MRA) for 2005/2006	<hr/> (8,428)
 Prior Year Adjustments	
 Subsidy Paid in 2005/2006	<hr/> <hr/> (862)

Subsidy is based on an assumed number of dwellings of 3,202.

5. Major Repairs Allowance

The Major Repairs Allowance (MRA) is an element of subsidy introduced in 2001/2002. It should be received annually and in the Government's words 'it represents the estimated long term average amount to maintain the stock in its current condition'. The MRA can only be used to finance capital expenditure, but if not used within one financial year, can be held in the Major Repairs Reserve (MRR) for use in future years. The analysis of movement on the MRR for 2005/2006 is as follows:

	£'000
Opening Balance 1 st April 2005	94
Allocation of MRA	2,172
Amount used to fund Capital Repairs	(1,372)
Closing Balance 31 st March 2006	<hr/> <hr/> 894

6. Cost of Capital Charges

The cost of capital is based upon a 3.5% notional interest charge on the value of dwellings given in the consolidated balance sheet as directed within the directive on Resource Accounting.

7. Adjusting Transfer from AMRA

This is the adjusting figure between the cost of capital charge and the item 8 charge, which is based upon the opening balance of HRA debt, plus any additional borrowing, less income through capital receipts. This figure accrues interest for both the debt and a debt management cost. This figure is then subtracted from the capital charge figure to give the adjusting transfer.

8. HRA Fixed Assets

	Operational Assets			Total £'000
	Dwellings £'000	Other Land and Buildings £'000	Non- Operational Assets £'000	
Balance Sheet Value 1 st April 2005	90,090	0	0	90,090
Revaluation	89,828	0	0	89,828
Restatements	(7,979)	7,514	465	0
Book Value 1 st April 2005	171,939	7	465	179,918
Depreciation	(1,827)	0	0	(1,827)
Additions (see below)	2,324	0	0	2,324
Disposals	(1,175)	0	(465)	(1,640)
Balance Sheet Value 31 st March 2006	171,261	7,514	0	178,775

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 Consolidated Balance Sheet. The market value at 1st April 2005 is estimated to be £320,130,000. The most recent valuation of housing stock was carried out as at April 2005. The next full valuation is due as at April 2010.

9. Funding of HRA Capital Expenditure

	Dwellings £'000	Other Land and Buildings £'000	Non- Operational Assets £'000	Total £'000
Revenue Contributions to Capital	0	0	0	0
Major Repairs Reserve	1,372	0	0	1,372
Borrowing	952	0	0	952
Total	2,324	0	0	2,324

10. Summary of HRA Capital Receipts

	2005/2006 £'000	2004/2005 £'000
Receipts from disposals of houses.	1,243	1,526

11. Sums Directed by the Secretary of State

From 1st April 2005, 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 2005/2006 this amounted to 260,703. In addition Authorities were allowed to apply for a special determination to neutralise the effect of any loss of subsidy due to unsubsidised incentive area costs. This special determination would give transitional relief over two years. For 2005/2006 the amount transferred was £63,384.

H. 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 provisions 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 to precept on the Collection Fund. The Council's precept, excluding Parishes, for 2005/2006 was £75,865,000 (2004/2005 £71,333,000).

INCOME AND EXPENDITURE ACCOUNT	Notes	2005/2006 £'000	2004/2005 £'000
Income			
Council Tax	1	78,119	74,319
Transfers from General Fund: Council Tax Benefit		12,562	11,373
Income Collectable from Business ratepayers	2	61,833	60,942
Total Income for Year		152,514	146,634
Expenditure			
Precepts and Demands			
Medway Council		75,865	71,333
Kent Police Authority (KPA)		9,349	8,854
Kent Fire and Rescue Service (KFRS)		4,819	4,638
Parishes		178	157
		90,211	84,982
Business rates			
Payments to National Pool	3	61,541	60,632
Costs of collection allowance		292	310
Provision for bad and doubtful debts	4	793	581
Total Expenditure for year		152,837	146,505
Surplus / (Deficit) for the year		(323)	129
Surplus / (Deficit) at the beginning of the year		(505)	(634)
Surplus / (Deficit) at end of year	5	(828)	(505)

NOTES TO THE COLLECTION FUND ACCOUNT

1. COUNCIL TAX

In 2005/2006 the Council, the Kent Police Authority and the Kent Fire and Rescue Service set equivalent Band D Council Tax levels of £899.73, £110.68 and £57.15 respectively resulting in a Council Tax at Band D in the Council's area of £1,067.76 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	8,431	6/9	5,621
B	£40,000 to £52,000	31,793	7/9	24,728
C	£52,000 to £65,000	28,871	8/9	25,663
D	£65,000 to £88,000	14,223	1	14,223
E	£88,000 to £120,000	7,159	11/9	8,750
F	£120,000 to £160,000	2,989	13/9	4,317
G	£160,000 to £320,000	1,104	15/9	1,840
H	Exceeding £320,000	41	2	81
Less adjustment for collection rates and MOD properties				(903)
Total Band D Equivalent 2005/2006				<u>84,320</u>
Total Band D Equivalent 2004/2005				83,801

The Tax Base multiplied by the Council Tax levied indicates a gross yield of approximately £75,865,000 for Medway Council. Specific reductions are made, in accordance with Government regulations, for persons on low incomes (Council Tax benefits) granting up to 100% rebate. This is reimbursed by Central Government.

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 £.

	2005/2006 £'000	2004/2005 £'000
Amount Collectable for the year	69,319	73,985
Less: Transitional and other Reliefs	(7,486)	(13,043)
Income Collectable from Non-Domestic Ratepayers	<u>61,833</u>	<u>60,942</u>

The total Non-Domestic Rateable Value at 31st March 2006 was £165,230,934 (31st March 2005, £163,388,749) and the Uniform Business Rate 41.5p (42.2p with supplement) (45.6p) 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:

	£'000
Balance 1 st April 2005	1,471
Add: Provisions made during year	793
Less amounts written off	(788)
Balance 31 st March 2006	<u>1,476</u>

See also Note 5 to the Consolidated Balance sheet.

5. DEFICIT

The deficits attributable to Medway Council, Kent Police Authority and Kent Fire and Rescue Service were £730,000, £87,000 and £11,000 respectively. It is anticipated that the deficit will be recovered in future years.

I. CONSOLIDATED BALANCE SHEET

The Consolidated Balance Sheet provides an overall summary of the financial position of the Council at 31st March 2006. All internal transactions between funds, such as internal charges and loans outstanding, have been eliminated.

	Notes	31 st March 2006		31 st March 2005
		£'000	£'000	£'000
Fixed Assets	1			
Council Dwellings		178,775		90,090
Other Land and Buildings		551,715		566,275
Vehicles, Plant and Equipment		1,804		1,359
Infrastructure and Community Assets		140,860		134,609
Investment Properties		77,038		27,307
Work in Progress		<u>15,922</u>		<u>12,952</u>
			966,114	<u>832,592</u>
Long Term Investments	2		9,334	705
Long Term Debtors	3		1,102	1,244
			<u>976,050</u>	<u>834,541</u>
TOTAL LONG TERM ASSETS				
Current Assets				
Stocks and Work in Progress	4	166		249
Debtors	5	46,145		40,133
Short-term investments	2	68,291		70,602
Cash and Bank		<u>14,612</u>		<u>18,775</u>
		129,204		129,759
Current Liabilities				
Creditors	6	(42,350)		(36,218)
Short Term Borrowing	7	(186)		(179)
Bank Overdraft		<u>(13,603)</u>		<u>(16,393)</u>
		(56,139)		(52,790)
NET CURRENT ASSETS			73,065	76,969
Long Term Borrowing	7		(160,069)	(145,148)
Deferred Liabilities	8		(58,446)	(60,914)
Pensions Liabilities	9		(131,454)	(118,292)
Deferred Capital Receipts	10		(104)	(348)
Government Grant Deferred Account	11		(105,378)	(75,352)
Provisions	12		(3,959)	(3,978)
			<u>590,205</u>	<u>507,478</u>
TOTAL ASSETS LESS LIABILITIES				
Financed by				
Reserves				
Fixed Asset Restatement Account	13		685,283	565,412
Usable Capital Receipts Reserve	14		1,372	1,022
Capital Financing Account	15		(18,167)	5,193
Earmarked Capital Reserves & Contributions	16		24,611	16,845
Earmarked Revenue Reserves	16		5,624	5,987
General Reserve	16		7,008	11,565
Pensions Reserve	9		(131,454)	(118,292)
Revenue Balances				
General Fund Balance	16		7,665	7,628
Housing Revenue Account Balance	16		2,077	1,246
Schools Balances	16		6,717	11,244
Trading Balances	16		(531)	(372)
			<u>590,205</u>	<u>507,478</u>
TOTAL RESERVES AND BALANCES				

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Movement of Fixed Assets 2005/2006

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra-structure £'000	Community Assets £'000	Investment Properties £'000	Work in Progress £'000	Total £'000
Book Value 31/3/2005	90,090	566,275	1,359	132,699	1,910	27,307	12,952	832,592
Revaluations	89,828	(12,321)	0	68	(402)	51,796	0	128,969
Restatements	0	(3,534)	0	49	(713)	(1,709)	0	(5,907)
Book value 1/4/2005	179,918	550,420	1,359	132,816	795	77,394	12,952	955,654
Additions	2,324	21,366	965	17,609	570	0	2,970	45,804
Disposals	(1,640)	(1,197)	0	0	0	(356)	0	(3,193)
Depreciation	(1,827)	(18,874)	(520)	(10,928)	(2)	0	0	(32,151)
Book Value 31/3/2006	178,775	551,715	1,804	139,497	1,363	77,068	15,922	966,114

In accordance with the Accounting Policy detailed on page 11, the Council undertook a revaluation of approximately 20 per cent of its non-housing property portfolio in 2005/06 and a complete revaluation of its housing stock..The Property and Asset Management Section of the Council carried out the majority of the revaluations.

Capital Commitments

As at 31st March 2006 there were specific capital commitments to fund the Universities at Medway (£1,000,000); complete the A228 (£2,033,000); phase II works to Fairview Community Primary School; replacement of Key Stage 1 Block at Danecourt School and Rochester Riverside infrastructure works of approximately £25,000,000.

Finance Leases

There were no finance leases held at 31st March 2006 or 31st March 2005.

Deferred Charges

Capital expenditure which does not impact on the acquisition or enhancement of Council assets is a deferred charge. To the extent that they are incurred as set out in the table below, they are written off to services in the Consolidated Revenue Account.

	2005/2006 £'000	2004/2005 £'000
Balance at 1 st April	0	0
Renovation and Other Grants	5,210	2,757
Schools	1,286	1,971
Strategic Development	2,639	3,920
Compensation Payments	4,995	546
Other Deferred Charges	3,216	2,543
Written off in year	(17,346)	(11,737)
Balance at 31 st March	<u>0</u>	<u>0</u>

Financing of Capital Expenditure

Capital Expenditure was financed as follows:

	£'000		£'000
Financing		Expenditure	
Borrowing	15,647	Fixed Assets	29,944
Capital receipts	3,818	Capital Works in Progress	15,860
Government Grants	33,382	Deferred Charges	17,346
General and other Earmarked Reserves	3,377		
MRR	1,372		
Other Contributions	5,554		
	<u>63,150</u>		<u>63,150</u>

2. Investments

	31 st March 2006 £'000	31 st March 2005 £'000
Long Term Investments		
Administered by External Fund Managers	9,259	630
Loan to Association of District Councils	60	60
Other Investments	15	15
Total Long Term Investments	<u>9,334</u>	<u>705</u>
Short Term Investments		
Administered by External Fund Managers	46,360	52,512
Managed by Internal Fund Managers	21,931	18,090
Total Short Term Investment	<u>68,291</u>	<u>70,602</u>
Total Investments	<u>77,625</u>	<u>71,307</u>

Investments have been classified as either long term, with a maturity date of greater than one year, or short term. All investments are shown at market value with the exception of the £60,000 loan which is shown at cost price.

3. Long-Term Debtors

These include outstanding mortgages for sales of Council housing, loans to housing associations, and other long-term debtors:

	31 st March 2006 £'000	31 st March 2005 £'000
Loans Outstanding		
Mortgages for Sales of Council Housing	147	176
Loans to Housing Associations	0	75
Loans to Other Organisations	246	236
Other Local Authority Loans in respect of services transferred on reorganisation	532	552
Loans to Employees and Members	177	205
Total	<u>1,102</u>	<u>1,244</u>

4. Stocks and Work in Progress

	31st March 2006 £'000	31st March 2005 £'000
Stocks	112	115
Work in Progress	54	134
Total	<u>166</u>	<u>249</u>

5. Debtors

	31st March 2006 £'000	31st March 2005 £'000
Collection Fund Debtors		
- Council Tax payers	7,964	8,139
- Business Rate payers	2,777	2,776
- Collection Fund	828	512
- Government Departments	1,830	5,015
Less bad / doubtful debt provision	<u>(1,476)</u>	<u>(1,471)</u>
	11,923	14,971
Other Debtors		
Government Departments	5,136	3,371
Landfill Allowance Trading Scheme	460	0
Social Services 'Collect'	2,318	2,142
Housing rents	926	1,040
Sundry debtors	26,732	19,989
Less bad / doubtful debt provisions		
- Social Services 'Collect'	(103)	(130)
- Housing Rents	(610)	(648)
- Sundry Debtors	<u>(646)</u>	<u>(602)</u>
	34,213	25,162
	<u>46,145</u>	<u>40,133</u>

6. Creditors

	31st March 2006 £'000	31st March 2005 £'000
Collection Fund		
- Collection Fund	122	393
- Payments in Advance	1,641	2,100
	<u>1,763</u>	<u>2,493</u>
Sundry Creditors	<u>40,587</u>	<u>33,725</u>
	<u>42,350</u>	<u>36,121</u>

7. Borrowing

	Total Outstanding 31st March 2006 £'000	Total Outstanding 31st March 2005 £'000
Lending Options Borrowing Option	45,000	45,000
Long term from Public Works Loan Board (PWLB)	115,069	100,148
Total Long Term Borrowing	<u>160,069</u>	<u>145,148</u>
PWLB maturing within 1 year	79	79
Temporary borrowing from money markets	107	100
Total Short Term Borrowing	<u>186</u>	<u>179</u>
Total	<u>160,255</u>	<u>145,327</u>

Analysis of long term loans by maturity	31st March 2006 £'000	31st March 2005 £'000
Maturing within 1 to 2 years	2,073	79
Maturing within 2 to 5 years	16,641	14,668
Maturing within 5 to 10 years	12,050	13,096
Maturing after 10 years	129,305	117,305
Total	<u>160,069</u>	<u>145,148</u>

8. Deferred Liabilities

Deferred Liabilities are principally the capital payments still to be made following acquisition or transfer of assets as a consequence of Local Government Reorganisation.

9. Pensions Liability

The attributable pension scheme assets are measured, by external actuaries, at their fair value as at 31 March 2006. External actuaries, on an actuarial basis using the projected unit method, measure the attributable scheme liabilities.

	31st March 2006 £'000	31st March 2005 £'000
Balance 1 st April	118,292	99,454
Net Return on Assets	4,030	3,309
Current Service Cost	11,900	10,101
Past Service and Settlements & Curtailments	710	188
Reversal of Payments to Pension Fund	(12,667)	(11,684)
Actuarial (Gains)/Losses	<u>9,189</u>	<u>16,924</u>
Balance 31 st March	<u>131,454</u>	<u>118,292</u>

Contributions from the Council and employees are made to the KCC's Superannuation Scheme. The Scheme makes payments in the year to retired officers. The contributions were based on a formal actuarial valuation as at 31st March 2004. Under Superannuation Regulations contribution rates are set to meet 100% of the overall liabilities of the fund. There was an increase of 1.3% in employer's rate stemming from the 2004 valuation, which is being phased over three years commencing 1st April 2005. The next actuarial valuation is due as at 31st March 2007 and any change in contribution rates as a result of that valuation will take effect from 1st April 2008.

The disclosures required for FRS 17 have been based, by the actuary, on the latest formal actuarial valuation, rolled forward and updated for changes in financial assumptions to arrive at an estimated position as at 31st March 2006. The actuary is satisfied that this approach does not introduce any material distortion to the figures provided, assuming the financial assumptions are broadly in line with the actual performance of the fund.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. These liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. The main assumptions used in their calculations are:

	31st March 2006 %	31st March 2005 %
Rate of inflation	3.1	2.9
Rate of increase in salaries	4.6	4.4
Rate of increase in pensions	3.1	2.9
Rate for discounting scheme liabilities	4.9	5.4

Assets in the Superannuation Fund are valued at fair value, principally market value for investments, and consist of the following categories by proportion together with expected rate of return

	31st March 2006 Distribution	Expected Rate of Return	
		2005/2006	Long Term
Equities	71.5%	7.4%	7.4%
Bonds	12.6%	4.6%	4.6%
Property	9.1%	5.5%	5.5%
Cash	6.8%	4.6%	4.6%
Total	100%		

The difference between the expected and actual return on assets is an increase of £31,010,000 (2004/2005 increase of £5,741,000) being 15.3% (2004/2005 3.8%) of the scheme assets as at 31st March.

Losses arising on liabilities are £9,000 (2004/2005 a gain of £23,770,000) representing 0.0% (2004/2005 8.8%) of the scheme liabilities as at 31st March.

The effect of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities amounted to a loss of £9,189,000 (2004/2005 loss of £16,924,000) representing 2.7% (2004/2005 6.3%) of the scheme liabilities as at 31st March.

Pensions Reserve

In order that FRS 17 has no overall impact on demands on Council Tax, and there is no demand on General reserves, the Pensions Reserve equals the net change in pensions liability recognised in the Consolidated Revenue Account:

	31st March 2006 £'000	31st March 2005 £'000
Balance 1 st April	118,292	99,454
Reversal of FRS 17 Items	16,640	13,598
Actuarial (Gains) / Losses	9,189	16,924
Reversal of Payments to Pension Fund	(12,667)	(11,684)
Balance 31st March	131,454	118,292

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.

10. Deferred Capital Receipts

Deferred Capital Receipts are amounts derived from sales of assets and the repayment of capital grants which will be received in instalments over agreed periods of time. They arise principally from mortgages on sales of council houses and granting of loans to other organisations.

	£'000
Balance 1 st April 2005	348
Less: Principal repaid in respect of loans and mortgages	(244)
Balance 31 st March 2006	<u>104</u>

11. Deferred Government Grants and Contributions

The balance on this account represents the value of capital grants and contributions which have been applied to finance the acquisition or enhancement of fixed assets. The balance is released to revenue over the life of the asset taking into account depreciation.

	£'000
Balance 1 st April 2005	75,352
Grants applied in year	35,907
Transfer to Asset Management Revenue Account	(5,881)
Balance 31 st March 2006	<u>105,378</u>

12. Provisions

Insurance Provision

This provision represents the sum set aside for unsettled, known claims as at 31st March 2006 in line with FRS 12. The majority of the unsettled claims are for public liability. Unsettled claims inherited from the predecessor authorities date back to 1994.

	£'000
Balance of Provision as at 1 st April 2005	2,451
Provided for in year	1,022
Utilised during year	(711)
Balance of Provision as at 31 st March 2006	<u>2,762</u>

Interest Provision

This provision (£1,197,000) represents interest deemed to have accrued on borrowing but which is not yet payable

13. Fixed Asset Restatement Account

The system of capital accounting introduced in 1994/1995 required the establishment of the fixed asset restatement account. The balance represents the difference between the valuation of assets under the previous system of capital accounting and subsequent revaluations, adjustments and disposals. The account will be written down each year by the net book value of assets as they are disposed of and debited or credited with the deficits or surpluses arising from future revaluations.

The movements on the fixed asset restatement account in this year are shown below:

	£'000
Balance at 1 st April 2005	565,412
Revaluation and Restatement of fixed assets	123,064
Transfer of fixed assets	0
Disposal of fixed assets	(3,193)
Balance at 31 st March 2006	<u>685,283</u>

14. Usable Capital Receipts Reserve

Previously capital receipts received in the year were allocated between usable and reserved proportions. With the introduction of pooling arrangements this is no longer the case. £525,133 from this reserve was used to fund capital expenditure in 2005/06. The remaining balance on this reserve will be used to support future capital expenditure.

	£'000
Balance at 1 st April 2005	1,022
HRA capital receipts received	1,834
Less allowable deductions	(34)
Less pooled receipts	(925)
Funding used	(525)
Balance at 31 st March 2006	<u>1,372</u>

15. Capital Financing Account

The capital financing account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans (the Minimum Revenue Provision).

This account also receives the annual loan repayment in respect of the write down of liabilities which arose from services transferred on reorganisation (see note 8 - Deferred Liabilities).

	£'000
Balance at 1 st April 2005	5,193
Capital Financing from:	
Capital receipts	3,818
Revenue and Reserves	4,749
Grants and Contributions	3,028
Transfer from Deferred Government Grants Account	5,881
Transfer from Deferred Liabilities Account	2,410
Appropriation to Revenue Account	(25,900)
Deferred Charges written down to revenue	(17,346)
Balance at 31 st March 2006	<u>(18,167)</u>

16. Reserves/Revenue Balances

Earmarked Capital Reserves

These reserves are earmarked for specific purposes and include the Housing Major Repairs Reserve.

Earmarked Revenue Reserves

These are reserves created to fund specific revenue expenditure e.g. building repair and maintenance, computer replacement, risk management and, with effect from 1st April 2005, the new Landfill Allowance Trading Scheme.

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.

General Fund Balance

This is the 'working balance' of the Council and acts as a contingency to fund unforeseen eventualities.

Housing Revenue Account Balance

Details of this account can be found on pages 21 to 24.

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 balances represent the accumulated surpluses and deficits as at 31st March 2006 and can be used for any purpose, which benefits pupils, under delegated powers.

Trading Account Balances

These balances arise from surpluses and deficits arising on trading activities which are fully disclosed in Note 4 to the Consolidated Revenue Account.

17. Post Balance Sheet Events

There were no known material post balance sheet events as at the certification date for the Statement of Accounts.

J. Statement of Total Movements in Reserves

The Statement of Total Movements in Reserves brings together all the recognised gains and losses of the Council during the financial year. The statement shows the gains/losses unrealised in the Revenue Account and separates the movements between revenue and capital reserves

	Balance at 1 st April 2005 £'000	Contribution to Revenue £'000	Contribution from Revenue £'000	Revaluations and Disposals £'000	Transfers & Other Movements £'000	Financing of Fixed Assets £'000	Balance at 31 st March 2006 £'000
CAPITAL RESERVES							
Fixed Asset Restatement Account	565,412	0	0	119,871	0	0	685,283
Capital Financing Account	5,193	(25,900)	0	0	(9,055)	11,595	(18,167)
Usable Capital Receipts Reserve	1,022	0	0	0	875	(525)	1,372
Housing Major Repairs Reserve	94	0	2,172	0	0	(1,372)	894
Other Earmarked Capital Reserves	1,638	0	0	0	3,239	(3,293)	1,584
Earmarked Capital Contributions	15,113	0	0	0	10,048	(3,028)	22,133
Total Capital Reserves	588,472	(25,900)	2,172	119,871	5,107	3,377	693,099
REVENUE RESERVES							
General Reserve	11,565	(1,728)	474	0	74	(3,377)	7,008
Pensions Reserve	(118,292)	0	0	0	(13,162)	0	(131,454)
General Fund Balance	7,628	0	37	0	0	0	7,665
Housing Revenue A/C Balance	1,246	0	831	0	0	0	2,077
Schools Balances	11,244	(4,527)	0	0	0	0	6,717
Trading Account Balances	(372)	(159)	0	0	0	0	(531)
Earmarked Revenue Reserves	5,987	(823)	460	0	0	0	5,624
Total Revenue Reserves	(80,994)	(7,237)	1,902	0	(13,088)	(3,377)	(102,894)
TOTAL RESERVES	507,478	(33,137)	3,974	119,871	(7,981)	0	590,205

K. CASH FLOW STATEMENT

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

	Notes	2005/2006 £'000	2004/2005 £'000
REVENUE ACTIVITIES			
Cash Outflows			
Employees		233,340	220,008
Other operating payments		185,887	151,425
Housing and Council Tax Benefits		71,069	66,136
Payments to NNDR Pool		58,358	58,729
Precept Paid		14,346	13,649
Payments to Capital Receipts Pool		925	1,088
		<u>563,925</u>	<u>511,035</u>
Cash Inflows			
Goods and Services		(36,762)	(35,715)
Rents		(14,015)	(13,461)
Government Grants	3	(57,789)	(53,139)
DSS Grant - Housing Benefits		(70,175)	(65,530)
Revenue Support Grant		(123,292)	(126,812)
Council Tax Receipts		(77,428)	(72,470)
Non-Domestic Rate Receipts		(61,451)	(60,153)
Receipt from NNDR Pool		(83,685)	(70,094)
Other Revenue Receipts		(49,496)	(22,479)
		<u>(574,103)</u>	<u>(519,853)</u>
Net Cash Outflow / (Inflow)	1	<u>(10,168)</u>	<u>(8,818)</u>
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Cash Outflows			
Interest Paid		7,198	5,511
Cash Inflows			
Interest Received		(4,628)	(4,158)
Net Cash Outflow / (Inflow)		<u>2,570</u>	<u>1,353</u>
CAPITAL ACTIVITIES			
Cash Outflows			
Purchase of fixed assets		43,450	42,458
Purchase of Long term Investments		8,629	630
Other Capital Cash Payments		17,346	11,703
Cash Inflows			
Sales of fixed assets		(4,880)	(2,152)
Government Grants	3	(34,585)	(24,283)
Sale of long term investments		0	0
Other capital Cash Receipts		(3,750)	(4,524)
Net cash outflow / (inflow) from Capital Activities		<u>26,210</u>	<u>23,832</u>
NET CASH OUTFLOW / (INFLOW) BEFORE FINANCING		<u>18,612</u>	<u>16,367</u>

		2005/2006 £'000	2004/2005 £'000
NET CASH OUTFLOW / (INFLOW) BEFORE FINANCING (From previous page)		18,612	16,367
MANAGEMENT OF LIQUID RESOURCES			
Cash Outflow / (Inflow)			
Increase (Decrease) in Short Term Deposits	2	(2,311)	(12,438)
FINANCING			
Cash Outflows			
Repayments of Amounts Borrowed		85	7,530
Cash Inflows			
New Long Term Loans Raised		(15,000)	(10,000)
New Short Term Loans Raised		(13)	(1,803)
Net Cash Outflow / (Inflow) from Financing	2	(14,928)	(4,273)
DECREASE / (INCREASE) IN CASH	2	1,373	(344)

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation from the Income and Expenditure Account surplus to the revenue activities net cash flow

	2005/2006 £'000	2004/2005 £'000
Deficit for the year	(4,490)	(28)
Net movements in reserves	8,266	(2,529)
Minimum Revenue Provision	(6,190)	(5,194)
Increase/(Decrease) in revenue debtors	1,167	8,780
Decrease/(Increase) in revenue creditors	(4,508)	(8,050)
Decrease/(Increase) in provisions	692	553
Increase/(Decrease) in stock	(83)	(12)
Items classified elsewhere on the cash flow statement:		
Financing Net	(2,570)	(1,353)
Capital expenditure met from revenue	(3,377)	(2,073)
Payment to Capital Receipts Pool	925	1,088
Revenue Activities Net Cash Outflow (Inflow)	(10,168)	(8,818)

2. Analysis of Liquid Resources and Financing

	Balance at 1 st April 2005 £'000	Balance at 31 st March 2006 £'000	Movement 2005/2006 £'000
Cash and Bank	18,775	14,612	(4,163)
Bank Overdraft	(16,393)	(13,603)	2,790
Total Cash	<u>2,382</u>	<u>1,009</u>	<u>(1,373)</u>
Short Term Investments	<u>70,602</u>	<u>68,291</u>	<u>(2,311)</u>
Long Term Borrowing	(145,148)	(160,069)	(14,921)
Short Term Borrowing	(179)	(186)	(7)
Total Borrowing	<u>(145,327)</u>	<u>(160,255)</u>	<u>(14,928)</u>
Net Debt	<u><u>(72,343)</u></u>	<u><u>90,955</u></u>	<u><u>(18,612)</u></u>

2. Reconciliation between Cash and Net Debt

	£'000
Movement in Cash and Bank	(1,373)
Loans Repaid	85
New Loans Raised	(15,013)
Movement in Liquid Reserves	(2,311)
Increase in Net Debt	<u><u>(18,612)</u></u>

Liquid Resources Comprise short-term investments that have a maturity date of less than one year

3. Government Revenue and Capital Grants Received

Revenue Grants	2005/2006 £'000	2004/2005 £'000
Mandatory Student Awards	11	7
DHA Contributions	5,106	6,260
Education Standards Fund	11,306	8,680
School Standards Grant	4,969	4,705
Teachers Pay Reform Grant	4,466	4,682
Early Years Grants	336	360
Miscellaneous Education Grants	6,180	5,124
Supporting People	6,151	6,846
Childrens' Fund Grant	711	738
Misc. Social Services Grants	9,484	7,583
Tax Collection & Benefit Administration	2,102	1,805
Private Sector Renewals Grant	553	553
Single Regeneration Budget	695	783
Other Miscellaneous Grants	5,719	5,013
Total Revenue Grants	<u><u>57,789</u></u>	<u><u>53,139</u></u>
Capital Grants		
Transport Supplementary Grant	0	5,930
Sustainable Communities	18,926	3,361
Devolved Capital	4,479	4,947
Liveability Fund	2,209	58
Other Educational Capital Grants	3,399	3,358
Other Miscellaneous Grants	5,572	6,629
Total Capital Grants	<u><u>34,585</u></u>	<u><u>24,283</u></u>

L. 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 fixed or current. A fixed asset has a value for more than one year (for example a building or a long term investment). A current asset can be readily converted into cash (for example stocks or a short term debtor).

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, 1st April to 31st March.

CAPITAL CHARGES

A charge to service revenue accounts to reflect the cost of using fixed assets in the provision of services.

CAPITAL EXPENDITURE

Expenditure to acquire or enhance fixed 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 fixed 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 fixed assets.

CENTRAL SERVICES

BVACOP introduced this new 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 (see Note 1 to the Consolidated Revenue Account).

COLLECTION FUND

A separate fund recording the expenditure and income relating to council tax, non-domestic rates and residual community charges.

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 are 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, goods 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 the accounting period but for which payments had not been received by the end of that period.

DEFERRED CHARGES

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.

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 Council 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 at 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 the 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 spent 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 ACCOUNT

The main account of the Council into which grants and other income is paid and from which the cost of providing services is met.

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE SUPPORT GRANT

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

STOCKS

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

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 other organisations.