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A. Explanatory Foreword

Introduction

The Statement of Accounts for the year ended 31 March 2007 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 on Local Authority Accounting in the United Kingdom 2005 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.

Statement of Accounts

The statements which follow summarise the Council's accounts for the financial year ended 31 March 2007. The main statements are:-

- **Statement of Responsibilities** - this outlines the responsibilities of the Council and the Chief Financial Officer 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.
- **Income and Expenditure 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.
- **Statement of Movements on the General Fund Balance** – this statement incorporates amounts in addition to the Income and Expenditure Account which are required by statute and non-statutory proper practices to be charged or credited to the general fund to determine the movement in the general fund balance.
- **Statement of Total Recognised Gains and Losses (STRGL)** – this statement incorporates those gains and losses which are not reflected in the Income and Expenditure Account and which do not have an overall effect on the operating performance of the Council.
- **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.
- **Cash Flow Statement** - this shows the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Housing Revenue Account** - this is the separate statutory account for income and expenditure relating to council housing.
- **Collection Fund** - this reflects the statutory requirement for the Council to maintain a separate account providing details of receipts of Council Tax and Business Rates and the associated payments to precepting authorities and to the National Non Domestic Rate (NNDR) Pool.

B. Review of Finance 2006/2007

• Revenue

The final General Fund outturn was £148.424m, an under spend of £59,275 against the budget of £148.483m.

The table below summarises the income and expenditure for each directorate of the Council for 2006/2007 (excluding depreciation).

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	123,658	(112,811)	10,847	12,144	(1,297)
Children's Services	245,719	(68,497)	177,222	176,313	909
Community Services	117,697	(52,030)	65,667	63,254	2,413
Regeneration & Development	48,666	(15,984)	32,682	33,258	(576)
Levies	708	0	708	741	(33)
Interest & Financing	21,754	(7,132)	14,622	16,154	(1,532)
Dedicated Schools Grant	0	(153,092)	(153,092)	(153,092)	0
Public Service Agreement Grant	0	(1,595)	(1,595)	(1,628)	33
Contribution to Reserves	368	0	368	344	24
RSG Clawback	995	0	995	995	0
	559,565	411,141	148,424	148,483	(59)

The outturn on the Housing Revenue Account (HRA) was a surplus £757,905 (2005/2006 surplus £830,908), compared to a budget of £1,213,000 (2005/2006 zero budget). This surplus was credited to the HRA Reserve, which stands at £2,835,342 as at 31 March 2007 (£2,077,437 as at 31 March 2006).

• Capital

The Council's capital investment in 2006/2007 was £72,520,000 (2005/2006 £63,150,000). The expenditure was within the definition of the Local Government and Housing Act 1989.

Capital Expenditure has been financed from the following sources:-

- Supported Capital Expenditure (Revenue) and Prudential borrowing (£9,274,000);
- Grants or contributions from Government bodies or other agencies and organisations (£56,626,000);
- Part proceeds from the sale of capital assets or the repayment of advances, the usable part, following pooling of HRA capital receipts (£3,330,000);
- Contributions from the Revenue Account and specific reserves (£3,290,000).

The Council spent £23,724,000 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 and improvements to school infrastructure. The remainder of capital expenditure is split between capital works in progress £27,452,000 and £21,344,000 relating to deferred charges (see Statement of Accounting Policies 5)

Capital expenditure incurred by the Council in 2006/2007 is summarised below:

Directorate	Total Programme £'000	2006/2007 Forecast £'000	Outturn £'000	Variation £'000
Expenditure				
Business Support	5,280	3,247	2,017	(1,230)
Children's Services	30,790	19,770	20,631	861
Community Services	12,158	8,968	7,520	(1,447)
Regeneration & Development	78,031	43,733	42,352	(1,381)
Total	126,259	75,718	72,520	(3,198)

The capital programme for 2006/2007 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 2006/2007 the level of debt, i.e. money that the Council owes increased by £9,944,000 from £160,255,000 to £170,199,000. This is due to new debt being taken out to finance the capital programme.

The level of investments has increased from £76,867,000 to £85,150,000 due in the main to provisions made annually for the repayment of debt exceeding the actual repayments within the financial year.

- **Fixed Assets**

The total value of the Authority's fixed assets has increased in 2006/2007 by approximately £91m. This was principally due to an increase in the value of car parks and the introduction of an asset management database.

C. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

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

The Chief Finance Officer's Responsibilities

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

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

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

The Chief Financial Officer has also:

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

Certificate of the Chief Finance Officer

I certify that this Statement of Accounts presents fairly the financial position of the Council at 31 March 2007 and its income and expenditure for the year ended 31 March 2007.

Mick Hayward
Chief Finance Officer

D. 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 31 March 2007 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 and priorities, 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 priorities and guiding principles, together which 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 Scheme 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, 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.
- Managers identify what they perceive as their most significant strategic, operational and financial risks and these are published in their Service Plans which are then incorporated into Directorate Business Plans. 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.

- A culture of ensuring economical, effective and efficient use of resources which is engendered through one Medway's guiding principles "Giving 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 regularly to senior management and 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 2007 review has been informed by: -

- the work of Internal Audit, who have also reported to the Audit Committee throughout the year,
- the work of the external auditors,
- the work of other external review agencies,
- internal service reviews,
- and 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

Medway Council's review has identified: -

- a good overall 3 star rating and acknowledgement that the council is improving as assessed by the Audit Commission as part of the Comprehensive Performance Assessment (CPA).
- sound financial control, as identified by the external inspectors and internal audit,
- efficient use of resources - acknowledgement by the external auditors that the Council is performing well in this area,
- no authority wide or cross council operational control issues have been identified as part of internal audit's work,
- no governance issues arose during the year.

However, control does need to be strengthened in the following areas:

- An external inspection rated the Council's overall performance in services for Children and Young people as adequate, with both strong features and significant

weaknesses. Following the inspection, the Council developed a comprehensive improvement plan covering the way children were referred to social care services and addressing performance management issues. Significant progress has been made since the inspection on clarity of the referral process, defining clear eligibility criteria for access to services and reduction in the number of child referrals not allocated to a social worker. Work is now focusing on partner organisations to improve preventative work as well as ensuring children in care are receiving the best education.

- The supporting people inspection recommended improvements in needs analysis, user involvement and service information. Good progress has been made in introducing a new system to manage referrals to supporting people services and ensure needs are well met. A service user consultation strategy has also been developed.
- Risk management - The council has changed its procurement approach to a risk based method approach and rolled out training to all directorates. However, risk identification and evaluation continues to be disjointed, fragmented and inconsistent across the Council. Although progress has been made with the risk register being an integral part of the service planning module, consistent identification of risk remains problematic. It is acknowledged that managers may be managing risks as part of their day-to-day activities, but for certain services there is inconsistent evidence to support this activity.
- The Council actively investigates allegations of fraud and corruption and these have resulted in court convictions and although various 'standards related' policies are in place, we found that some staff lack awareness or understanding of them, and therefore may fail to comply with their requirements. Publicising the recently updated policies to staff and contractors is required.

In all the areas noted above, management action plans have been produced to improve control.

Rodney Chambers
Leader

Neil Davies
Chief Executive

E. AUDITOR'S REPORT TO MEDWAY COUNCIL

Independent Auditors' Report to the members of Medway Unitary Council Opinion on the Financial Statements

We have audited the financial statements for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities for the Financial Statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Auditing Standards (United Kingdom and Ireland).

This report, including the opinion, has been prepared for and only for Medway Unitary Council's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Council and its income and expenditure for the year.

We review whether the Statement on Internal Control reflects the Council's compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 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 financial statements. We are not required to consider whether the Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises only the explanatory foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 International Accounting Standards (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, 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 considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Southwark Towers
London Bridge Street
London
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Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's Responsibilities

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

Under the Local Government Act 1999, the Council is required to prepare and publish a best value performance plan summarising the Council's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

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

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Council's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

Best Value Performance Plan

Certificate

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Southwark Towers
London Bridge Street
London SE1 9SY

F. STATEMENT OF ACCOUNTING POLICIES

1. General

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006.

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 employers contributions paid to the funded pension scheme (as determined by the fund's actuary), rather than those required to meet the liabilities of the scheme in full.

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 these requirements do not result in higher 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 valued in 2002/03 based on the rental potential of the buildings on the site at the time. With work progressing well on site this asset is being 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 where applicable. 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 dependant on the age of the property.

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. Notional interest is no longer charged to services. Actual interest payable on outstanding borrowings, including interest payable under finance leases, and provision for depreciation is charged directly to the Income and Expenditure Account. Capital charges for the use of fixed assets included in revenue accounts are no longer credited to 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 and external interest receivable are separate entries in the Income and Expenditure 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 DCLG. The Council can however net off allowable expenditure such as sale and improvement costs before pooling the receipts to the DCLG. 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 historic cost less provision for loss in value.

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 during 2006/2007.

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.

G. CORE FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

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

Net 2005/2006 £000s	Service	Notes	Expenditure 2006/2007 £000s	Income 2006/2007 £000s	Net 2006/2007 £000s
1,390	Central services to the public		1,994	(896)	1,098
333	Court Services		328	0	328
47,101	Cultural, environmental and planning		74,575	(23,498)	51,077
179,084	Education services		255,178	(219,912)	35,266
20,351	Highways, roads and transport services		31,600	(7,789)	23,811
(856)	Local authority housing		10,090	(10,809)	(719)
5,591	Other housing services		90,780	(85,128)	5,652
61,503	Social services		102,612	(33,631)	68,981
7,678	Corporate and Democratic core		9,843	(3,111)	6,732
1,507	Non-distributed costs		1,575	(623)	952
323,682	Net Cost of Services		578,575	(385,397)	193,178
0	Gain/loss on disposal of fixed assets				0
178	Parish council precepts				197
(1,083)	Trading (surpluses) / deficits	2			(1,827)
6,868	Interest payable and similar charges				7,141
925	Contribution of housing capital receipts to Government Pool				855
0	Investment losses				0
(4,838)	Interest and investment income				(4,649)
4,030	Pension interest cost & return on assets				3,200
329,762	Net Operating Expenditure				198,096
(76,043)	Demand on the Collection Fund				(80,422)
(129,173)	Central Government Grant				(20,633)
(83,685)	Non-domestic rates redistribution				(57,214)
40,861	Deficit for the year				39,827

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The General Fund Balance shows whether the Council has over or under spent against the Council Tax that it raised for the year. This reconciliation statement summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/2006 £000s		Note	2006/2007 £000s
40,861	Deficit for the year on the income and expenditure account		39,827
(40,898)	Additional amount credited to the General Fund in accordance with statute and proper practice	1	(39,886)
(37)	Increase in General Fund balance for the year		(59)
(7,628)	General Fund balance brought forward		(7,665)
(7,665)	General Fund Balance carried forward		(7,724)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

2005/2006 £000s			2006/2007 £000s
40,861	Deficit for the year on the income and expenditure account		39,827
0	Surplus arising on the revaluation of fixed assets		0
9,189	Actuarial (gains) / losses on pension fund assets & liabilities		(16,216)
50,050	Total recognised loss for the year		23,611

BALANCE SHEET

The Consolidated Balance Sheet provides an overall summary of the financial position of the Council at 31 March 2007. All internal transactions between funds, such as internal charges and loans outstanding, have been eliminated.

	Notes	31 March 2007		31 March 2006
		£'000	£'000	£'000
Fixed Assets				
Council Dwellings	12	182,506		178,749
Other Land and Buildings	12	644,315		565,391
Vehicles, Plant and Equipment	12	2,083		1,830
Infrastructure and Community Assets	12	139,202		141,520
Investment Properties	12	72,052		77,038
Work in Progress	12	<u>40,392</u>		<u>15,922</u>
			1,080,550	980,450
Long Term Investments	16		75	9,334
Long Term Debtors	17		1,074	1,102
TOTAL LONG TERM ASSETS			<u>1,081,699</u>	<u>990,886</u>
Current Assets				
Stocks and Work in Progress	18	112		112
Debtors	19	47,048		46,838
Short-term investments	16	85,075		67,533
Cash and Bank		<u>14,930</u>		<u>14,624</u>
		147,165		129,107
Current Liabilities				
Creditors	20	(43,119)		(42,219)
Short Term Borrowing	21	(120)		(186)
Bank Overdraft		<u>(15,774)</u>		<u>(13,615)</u>
		(59,013)		(56,020)
NET CURRENT ASSETS			88,152	73,087
Long Term Borrowing	21		(170,079)	(160,069)
Deferred Liabilities	22		(56,107)	(58,446)
Pensions Liabilities	23		(121,600)	(131,454)
Deferred Capital Receipts	24		(89)	(104)
Government Grant Deferred Account	25		(149,180)	(105,378)
Provisions	26		(3,634)	(3,959)
TOTAL ASSETS LESS LIABILITIES			<u>669,162</u>	<u>604,563</u>
Financed by				
<i>Reserves:-</i>				
Fixed Asset Restatement Account	27		783,741	700,144
Usable Capital Receipts Reserve	28		5,949	2,515
Capital Financing Account	29		(46,413)	(18,692)
Earmarked Capital Reserves & Contributions	30		20,903	23,546
Earmarked Revenue Reserves	30		5,935	5,568
General Reserve	30		3,747	7,008
Pensions Reserve	30		(121,600)	(131,454)
<i>Revenue Balances:-</i>				
General Fund Balance	30		7,724	7,665
Housing Revenue Account Balance	30		2,835	2,077
Schools Balances	30		6,686	6,717
Trading Balances	30		(345)	(531)
TOTAL RESERVES AND BALANCES			<u>669,162</u>	<u>604,563</u>

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	2006/2007 £'000	2005/2006 £'000
REVENUE ACTIVITIES			
Cash Outflows			
Employees		242,883	233,340
Other operating payments		196,884	185,887
Housing and Council Tax Benefits		75,552	71,069
Payments to NNDR Pool		64,439	58,358
Precept Paid		15,052	14,346
Payments to Capital Receipts Pool		854	925
		<u>595,664</u>	<u>563,925</u>
Cash Inflows			
Goods and Services		(36,600)	(36,762)
Rents		(14,671)	(14,015)
Government Grants		(218,344)	(57,789)
DSS Grant - Housing Benefits		(74,894)	(70,175)
Revenue Support Grant		(10,049)	(123,292)
Council Tax Receipts		(82,349)	(77,428)
Non-Domestic Rate Receipts		(67,590)	(61,451)
Receipt from NNDR Pool		(57,214)	(83,685)
Other Revenue Receipts		(48,078)	(49,496)
		<u>(609,789)</u>	<u>(574,093)</u>
Net Cash Outflow / (Inflow)		(14,125)	(10,168)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Cash Outflows			
Interest Paid		7,678	7,198
Cash Inflows			
Interest Received		(4,603)	(4,628)
Net Cash Outflow / (Inflow)		3,075	2,570
CAPITAL ACTIVITIES			
Cash Outflows			
Purchase of fixed assets		53,657	43,450
Purchase of Long term Investments		0	8,629
Other Capital Cash Payments		23,935	17,346
Cash Inflows			
Sales of fixed assets		(7,645)	(4,880)
Government Grants	35	(53,390)	(34,585)
Sale of long term investments		(9,259)	0
Other capital Cash Receipts		(1,994)	(3,750)
Net cash outflow / (inflow) from Capital Activities		5,304	26,210
NET CASH OUTFLOW / (INFLOW) BEFORE FINANCING		(5,746)	18,612

	2006/2007 £'000	2005/2006 £'000
NET CASH OUTFLOW / (INFLOW) BEFORE FINANCING (From previous page)	(5,746)	18,612
MANAGEMENT OF LIQUID RESOURCES		
Cash Outflow / (Inflow) Increase (Decrease) in Short Term Deposits	17,542	(2,311)
FINANCING		
Cash Outflows Repayments of Amounts Borrowed	5,066	85
Cash Inflows New Long Term Loans Raised	(15,010)	(15,000)
New Short Term Loans Raised	0	(13)
Net Cash Outflow / (Inflow) from Financing	(9,944)	(14,928)
DECREASE / (INCREASE) IN CASH	1,853	1,373

H. NOTES TO THE CORE FINANCIAL STATEMENTS

1. Additional amount credited to the General Fund in accordance with statute and proper practice
2. Trading operations
3. Publicity (Section 5 expenditure)
4. Local Authority (Goods and Services) Act 1970
5. The Building Control Account
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32. Reconciliation from the Income and Expenditure Account surplus to the revenue activities net cash flow
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34. Reconciliation between Cash and Net Debt
35. Government Revenue and Capital Grants Received

1. Additional amount credited to the General Fund in accordance with statute and proper practice

2005/2006 £000s		2006/2007 £000s
<i>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance.</i>		
0	Amortisation of intangible fixed assets	0
(30,849)	Depreciation and impairment of fixed assets	(32,777)
5,881	Government grants deferred amortisation	9,589
(17,251)	Write down of deferred charges to be financed from capital resources	(21,344)
0	Net loss/gain on sale of fixed assets	0
<u>(12,610)</u>	Net charges made for retirement benefits in accordance with FRS17	<u>(20,300)</u>
(54,829)		(64,832)
<i>Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the movement on the General Fund Balance</i>		
12,147	Minimum revenue provision for capital financing	12,317
3,377	Capital expenditure charged to the General Fund Balance	2,097
(925)	Transfer from usable capital receipts to meet payments to the Pool	(855)
<u>12,667</u>	Employers contributions payable to the Pension Fund	<u>13,938</u>
27,266		27,498
<i>Transfers to or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund Balance</i>		
831	Housing Revenue Account Balance	758
0	Voluntary revenue provision for capital funding	0
<u>(14,165)</u>	Net transfer to or from earmarked reserves	<u>(3310)</u>
(13,335)		(2,552)
(40,898)	Net additional amount required to be credited to the General Fund Balance	(39,886)

2. Trading Operations

	Gross Expenditure	Gross Income	Net (Surplus)/ Deficit	Net (Surplus)/ Deficit
	2006/2007	2006/2007	2006/2007	2005/2006
	£'000	£'000	£'000	£'000
Markets and Street Trading	54	(147)	(93)	(99)
Commercial Property	412	(1,523)	(1,111)	(1,139)
Revenues and Benefits	3,402	(3,545)	(143)	129
Building Control	937	(600)	337	471
Reprographics	474	(553)	(79)	(205)
Building Surveying	945	(1,279)	(334)	(383)
Temporary Staff Agency	4,243	(4,646)	(403)	(409)
(Surplus)/Deficit	10,467	(12,294)	(1,827)	(1,083)

3. 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.

	2006/07	2005/06
	£'000	£'000
Recruitment Advertising	395	596
Economic Development Publicity	28	28
Tourism Promotion	154	155
Communication Unit and "Medway Matters" etc.	495	479
Other Publicity	410	243
	1,482	1,501

4. 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 £2,430,000 (2005/2006 £2,519,000) of which £2,373,000 is reimbursed by Medway PCT and Kent & Medway NHS Social Care Partnership Trust, £42,000 income received from clients and Medway Council funded the balance of £15,000.

5. 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	2006/2007	2006/2007	2006/2007	2005/2006
	Chargeable £'000	Non Chargeable £'000	Total £'000	Total £'000
Expenditure				
Employees	435	145	580	497
Transport	20	7	27	27
Supplies and Services	43	15	58	78
Central and Support Charges	134	127	261	453
Total Expenditure	632	294	926	1,055
Income				
Building Regulation Charges	595	48	643	(684)
Total Income	595	48	643	(684)
(Surplus)/Deficit for year	37	246	283	371

Non - chargeable costs includes all other Building Control functions not defined by regulation. The deficit above varies from the trading loss declared in Note 2 because pension costs under FRS 17 are excluded.

6. 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	
	2006/2007	2005/2006
£50,000 to £59,999	143	125
£60,000 to £69,999	24	16
£70,000 to £79,999	15	18
£80,000 to £89,999	9	4
£90,000 to £99,999	2	2
£100,000 to £109,999	1	1
£110,000 to £119,999	2	1
£120,000 to £129,999	0	1
£130,000 to £139,999	0	1

7. Members' Allowances

In 2006/2007 a total of £751,000 (2005/2006 £741,000) was paid to the Council's 55 Members in respect of allowances.

8. 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, the DCLG awarded the Council a grant of £1,400,000 towards adaptations of the Smithery within the Historic Dockyard.

Kent Police

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 £9,835,000 by way of precept from the Collection Fund in 2006/2007.

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 £5,020,000 by way of precept from the Collection Fund in 2006/2007.

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 £354,000 (£311,000 in 2005/2006), 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 2006/2007 (£25,000 in 2005/2006).

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.

9. Leasing Contracts

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

10. 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.

11. 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.

	2006/2007	2005/2006
	£'000	£'000
Accounts, Performance and Governance Audit.	263,980	256,140
Audit of Grant Claims	84,700	85,000
	<u>348,680</u>	<u>341,140</u>

12. Movement of Fixed Assets 2006/2007

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra-structure £'000	Community Assets £'000	Investment Properties £'000	Assets under Construction £'000	Total £'000
Book Value 31/3/2006	178,749	565,391	1,830	138,901	2,619	77,038	15,922	980,450
Revaluations/ Restatements	4,771	86,052	(9)	(47)	(467)	792	0	91,092
Book value 1/4/2005	183,520	651,443	1,821	138,854	2,152	77,830	15,922	1,071,542
Completions	0	2,385	0	597	0	0	(2,982)	0
Additions	2,705	11,396	644	8,408	569	0	27,452	51,176
Disposals	(1,822)	(76)	0	0	0	(5,596)	0	(7,494)
Depreciation	(1,897)	(20,833)	(382)	(11,377)	(1)	(182)	0	(34,674)
Book Value 31/3/2007	182,506	644,315	2,083	136,482	2,720	72,052	40,392	1,080,550

In accordance with the Accounting Policy detailed on page 12 and as part of the system of capital accounting as set out in the revised Code of Practice produced by the Chartered Institute of Public Finance and Accounting (CIPFA) on Local Authority Accounting, the Council undertook a revaluation of approximately 20 per cent of its non-housing property portfolio in 2006/07 and a complete revaluation of its housing stock. A valuation report has been prepared by Noel Filmer MRICS and Phillip Vipond MRICS, Asset and Property Management, Finance and Corporate Services Directorate, Medway Council, Civic Centre, Strood, Kent, ME2 4AU, with assistance from other qualified members of the valuation team. With the exception of council dwellings, all assets are now held within a single database.

13. Capital Commitments

As at 31 March 2007 there were specific capital commitments to fund the Universities at Medway (£1,000,000); Rochester Riverside infrastructure works (£16,394,000); Strood Riverside infrastructure and River Wall works (£4,821,000); Chatham Regeneration (£4,112,000) and various schemes within Children's Services amounting to approximately £10,000,000 .

14. 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.

	2006/2007 £'000	2005/2006 £'000
Balance at 1 April	0	0
Renovation and Other Grants	1,481	5,210
Schools	6,131	1,286
Strategic Development	6,584	2,639
Compensation Payments	3,962	4,995
Other Deferred Charges	3,398	3,216
Written off in year	(21,344)	(17,346)
Balance at 31 March	<u>0</u>	<u>0</u>

15. Financing of Capital Expenditure

Capital Expenditure was financed as follows:

	£'000		£'000
Financing		Expenditure	
Borrowing	9,274	Fixed Assets	23,723
Capital receipts	3,330	Capital Works in Progress	27,453
Government Grants	53,390	Deferred Charges	21,344
General and other Earmarked Reserves	2,152		
MRR & MRA	2,332		
Other Contributions	2,042		
	<u>72,520</u>		<u>72,520</u>

16. Investments

	31 March 2007 £'000	31 March 2006 £'000
Long Term Investments		
Administered by External Fund Managers	0	9,259
Loan to Association of District Councils	60	60
Other Investments	15	15
Total Long Term Investments	<u>75</u>	<u>9,334</u>
Short Term Investments		
Administered by External Fund Managers	56,463	45,602
Managed by Internal Fund Managers	28,612	21,931
Total Short Term Investment	<u>85,075</u>	<u>67,533</u>
Total Investments	<u>85,150</u>	<u>76,867</u>

Investments have been classified as either long term, with a maturity date of greater than one year, or short term.

17. Long-Term Debtors

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

	31 March 2007 £'000	31 March 2006 £'000
Loans Outstanding		
Mortgages for Sales of Council Housing	132	147
Loans to Other Organisations	208	246
Other Local Authority Loans in respect of services transferred on reorganisation	512	532
Loans to Employees and Members	222	177
Total	<u>1,074</u>	<u>1,102</u>

18. Stocks and Work in Progress

	31 March 2007 £'000	31 March 2006 £'000
Stocks	112	112
Total	<u>112</u>	<u>112</u>

19. Debtors

	31 March 2007 £'000	31 March 2006 £'000
Collection Fund Debtors		
- Council Tax payers	8,117	7,964
- Business Rate payers	2,725	2,777
- Collection Fund	2180	828
- Government Departments		1,830
Less bad / doubtful debt provision	<u>(1,395)</u>	<u>(1,476)</u>
	9,665	11,923
Other Debtors		
Unrealised Investment Gain	1,572	758
Government Departments	4,313	5,136
Landfill Allowance Trading Scheme	335	404
Social Services 'Collect'	2,596	2,318
Housing rents	963	926
Sundry debtors	28,888	26,732
Less bad / doubtful debt provisions		
- Social Services 'Collect'	(106)	(103)
- Housing Rents	(711)	(610)
- Sundry Debtors	<u>(467)</u>	<u>(646)</u>
	37,383	34,915
	<u>47,048</u>	<u>46,838</u>

20. Creditors

	31 March 2007 £'000	31 March 2006 £'000
Collection Fund		
- Collection Fund	25	122
- Government Departments	902	0
- Payments in Advance	<u>1,722</u>	<u>1,641</u>
	2,649	1,763
Sundry Creditors	<u>40,470</u>	<u>40,456</u>
	<u>43,119</u>	<u>42,219</u>

21. Borrowing

	Total Outstanding 31 March 2007 £'000	Total Outstanding 31 March 2006 £'000
Lending Options Borrowing Option	70,500	45,000
Long term from Public Works Loan Board (PWLB)	99,579	115,069
Total Long Term Borrowing	<u>170,079</u>	<u>160,069</u>
PWLB maturing within 1 year	8	79
Temporary borrowing from money markets	112	107
Total Short Term Borrowing	<u>120</u>	<u>186</u>
Total	<u>170,199</u>	<u>160,255</u>

Analysis of long term loans by maturity	31 March 2007 £'000	31 March 2006 £'000
Maturing within 1 to 2 years	30	2,073
Maturing within 2 to 5 years	254	16,641
Maturing within 5 to 10 years	0	12,050
Maturing after 10 years	169,795	129,305
Total	<u>170,079</u>	<u>160,069</u>

22. 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.

23. Pension Scheme

In common with all local authorities the Council is required to 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 to meet future liabilities 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 and current contributions were based on a formal actuarial valuation as at 31 March 2004. There was an increase of 1.3% in employer's rate stemming from the 2004 valuation, which is being phased in over three years commencing 1 April 2005. The next actuarial valuation is due as at 31 March 2007 and any change in contribution rates as a result of that valuation will take effect from 1 April 2008.

However, under Financial Reporting Standard 17, these employer contributions are removed from the cost of services and replaced by an actuarial assessment of the 'Current Service Cost' (£16.4m for 2006/2007) defined as the increase in the present value of scheme liabilities expected to arise in the financial year. (n.b. *adjustments made under FRS 17 are for reporting purposes only and do not impact on the General Fund balance*).

The actuary has assessed the total liability of the fund at £121.6m as at 31 March 2007 derived as follows: -

	31 March 2007	31 March 2006
	£'000	£'000
Balance 1 April	131,454	118,292
Net Return on Assets	3,200	4,030
Current Service Cost	16,400	11,900
Past Service and Settlements & Curtailments	700	710
Reversal of Payments to Pension Fund	(13,938)	(12,667)
Actuarial (Gains)/Losses	(16,216)	9,189
Balance 31 March	<u>121,600</u>	<u>131,454</u>

The liability is assessed using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The main assumptions used in the calculations by the actuary (Hymans Robertson) are:

	31 March 2007	31 March 2006
	%	%
Rate of inflation	3.2	3.1
Rate of increase in salaries	4.7	4.6
Rate of increase in pensions	3.2	3.1
Rate for discounting scheme liabilities	5.4	4.9

Assets in the Superannuation Fund are valued at fair value, principally market value for investments, and at 31 March 2007 consist of the following categories by proportion together with expected rate of return

	Distribution	Expected Return Long Term
Equities	71%	7.4%
Bonds	12%	4.6%
Property	10%	5.5%
Cash	7%	4.6%
Total	100%	

The difference between the expected and actual return on assets was an decrease of £1.4m (2005/2006 increase of £31.01m) being 0.6% (2005/2006 15.3%) of the scheme assets as at 31 March.

Losses arising on liabilities are £200,000 (2005/2006 a loss £9,000) representing 0.1% (2005/2006 0%) of the scheme liabilities as at 31 March.

The effect of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities amounted to a gain of £16.2m (2005/2006 loss of £16,924,000) representing 13.9% (2005/2006 2.7%) of the scheme liabilities as at 31 March.

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.

The total liability of £121.6m is matched by a negative reserve to reflect the potential funding requirement.

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 2006/2007 the Council paid £9,812,000 (2005/2006 £9,439,000) to the DfES in respect of teachers' pension costs, the contributions rate being 13.5% or 14.1% (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 £346,000 (2005/2006 £214,000).

24. 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 April 2006	104
Less: Principal repaid in respect of loans and mortgages	(15)
Balance 31 March 2007	89

25. 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 April 2006	105,378
Grants applied in year	53,390
Transfer to Asset Management Revenue Account	(9,588)
Balance 31 March 2007	149,180

26. Provisions

Insurance Provision

This provision represents the sum set aside for unsettled, known claims as at 31 March 2007 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 April 2006	2,762
Provided for in year	675
Utilised during year	(630)
Balance of Provision as at 31 March 2007	2,807

Interest Provision

This provision £828,000 (£1,197,000 2005/2006) represents interest deemed to have accrued on borrowing but which is not yet payable. This provision will continue to decrease as the loans to which it relates approach maturity in future years.

27. 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 April 2006	700,144
Revaluation and Restatement of fixed assets	91,091
Transfer of fixed assets	0
Disposal of fixed assets	(7,494)
Balance at 31 March 2007	<u>783,741</u>

28. Usable Capital Receipts Reserve

Capital receipts arise from the sale of assets and can be used to finance capital expenditure. £3,330,000 was used for this purpose in 2006/2007. The remaining balance on this reserve will be used to support future capital expenditure.

	£'000
Balance at 1 April 2006	2,515
Plus capital receipts received	7,641
Less allowable deductions	(23)
Less pooled receipts	(854)
Funding used	(3,330)
Balance at 31 March 2007	<u>5,949</u>

29. 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 April 2006	(18,692)
Capital Financing from:	
Capital receipts – General Fund	2,587
- Housing	743
Revenue and Reserves	4,122
Grants and Contributions (See Note 16)	2,042
Transfer from Deferred Government Grants Account	9,588
Transfer from Deferred Liabilities Account	2,314
Appropriation to Revenue Account	(27,774)
Deferred Charges written down to revenue	(21,343)
Balance at 31 March 2007	<u>(46,413)</u>

30. 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 April 2006	Contribution to Revenue	Contribution from Revenue	Revaluations and Disposals	Transfers & Other Movements	Financing of Fixed Assets	Balance at 31 March 2007
CAPITAL RESERVES	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Asset Restatement Account	700,144	0	0	91,092	0	(7,494)	783,741
Capital Financing Account	(18,692)	(27,775)	0	0	(9,441)	9,494	(46,413)
Useable Capital Receipts Reserve	2,515	0	0	0	6,764	(3,330)	5,949
Housing Major Repairs Reserve	894	0	2,168	0	0	(1,970)	1,092
Other Earmarked Capital Reserves	441	0	0	0	876	(1,140)	177
Earmarked Capital Contributions	22,211	0	0	0	51,769	(54,347)	19,633
Total Capital Reserves	707,513	(27,775)	2,168	91,092	49,968	(58,787)	764,179
REVENUE RESERVES							
General Reserve	7,008	(1,164)	0	0	0	(2,097)	3,747
Pensions Reserve	(131,454)	0	0	0	9,854	0	(121,600)
General Fund Balance	7,665	0	59	0	0	0	7,724
Housing Revenue A/C Balance	2,077	0	758	0	0	0	2,835
Schools Balances	6,717	(31)	0	0	0	0	6,686
Trading Account Balances	(531)	0	186	0	0	0	(345)
Earmarked Revenue Reserves	5,568	(2,327)	2,694	0	0	0	5,935
Total Revenue Reserves	(102,950)	(3,522)	3,697	0	9,854	(2,097)	(95,017)
TOTAL RESERVES	604,563	(31,297)	5,865	91,092	59,822	(60,884)	669,162

Earmarked Capital Reserves

These reserves are earmarked for specific purposes and include the Housing Major Repairs Reserve, developer contributions and useable General Fund capital receipts.

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 1 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 Section I.

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 31 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 2 to the core financial statements.

31. Post Balance Sheet Events

On the 15 June 2007 the Council acquired the freehold of the former Lloyds Office building and associated holdings at Gun Wharf Chatham for a consideration of £15.3m.

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

	2006/2007 £'000	2005/2006 £'000
Deficit on Income & Expenditure Account	40,199	40,861
Net additional amount credited to General Fund Balance	(40,258)	(40,898)
General Fund Surplus	(59)	(37)
Schools Deficit	31	(4,527)
Total Deficit	(28)	(4,490)
Net movements in reserves	(92)	8,266
Minimum Revenue Provision	(6,736)	(6,253)
Increase/(Decrease) in revenue debtors	(71)	1,230
Decrease/(Increase) in revenue creditors	(3,332)	(4,508)
Decrease/(Increase) in provisions	325	692
Increase/(Decrease) in stock	0	(83)
Items classified elsewhere on the cash flow statement:		
Financing Net	(3,075)	(2,570)
Capital expenditure met from revenue	(1,970)	(3,377)
Payment to Capital Receipts Pool	854	925
Revenue Activities Net Cash Outflow (Inflow)	(14,125)	(10,168)

33. Analysis of Liquid Resources and Financing

	Balance at 1 April 2006 £'000	Balance at 31 March 2007 £'000	Movement 2006/2007 £'000
Cash and Bank	14,624	14,930	306
Bank Overdraft	(13,615)	(15,774)	(2,159)
Total Cash	1,009	(844)	(1,853)
Short Term Investments	67,533	85,075	17,542
Long Term Borrowing	(160,069)	(170,079)	(10,010)
Short Term Borrowing	(186)	(120)	66
Total Borrowing	(160,255)	(170,199)	(9,944)
Net Debt	(91,713)	(85,968)	5,745

34. Reconciliation between Cash and Net Debt

	£000s
Movement in Cash and Bank	(1,853)
Loans Repaid	5,066
New Loans Raised	(15,010)
Movement in Liquid Reserves	17,542
Decrease in Net Debt	<u>5,745</u>

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

35. Government Revenue and Capital Grants Received

	2006/2007 £'000	2005/2006 £'000
Revenue Grants		
Delegated Schools Grant	153,092	0
DHA Contributions	14,432	5,106
Education Standards Fund	14,357	11,306
School Standards Grant	6,647	4,969
Teachers Pay Reform Grant	0	4,466
Early Years Grants	157	336
Miscellaneous Education Grants	3,048	6,191
Supporting People	4,883	6,151
Children's' Fund Grant	719	711
Misc. Social Services Grants	6,749	9,484
Tax Collection & Benefit Administration	2,093	2,102
Private Sector Renewals Grant	530	553
Single Regeneration Budget	0	695
Other Miscellaneous Grants	9,879	5,719
Public Service Agreement	1,759	0
Total Revenue Grants	<u>218,344</u>	<u>57,789</u>
Capital Grants		
Sustainable Communities	33,896	18,926
Devolved Capital	7,388	4,479
Liveability Fund	1,089	2,209
Other Educational Capital Grants	6,223	3,399
Other Miscellaneous Grants	4,794	5,572
Total Capital Grants	<u>53,390</u>	<u>34,585</u>

I. SUPPLEMENTARY FINANCIAL STATEMENTS

COLLECTION FUND ACCOUNTS

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

There is a statutory duty, under the 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 2006/2007 was £80,225,000 (2005/2006 £75,865,000).

INCOME AND EXPENDITURE ACCOUNT	Notes	2006/2007 £'000	2005/2006 £'000
Income			
Council Tax	1	(82,779)	(78,119)
Transfers from General Fund: Council Tax Benefit		(13,334)	(12,562)
Income Collectable from Business ratepayers	2	(67,457)	(61,833)
Total Income for Year		(163,570)	(152,514)
Expenditure			
Precepts and Demands			
Medway Council		80,225	75,865
Kent Police Authority (KPA)		9,835	9,349
Kent Fire and Rescue Service (KFRS)		5,020	4,819
Parishes		197	178
		95,277	90,211
Business rates			
Payments to National Pool	3	67,171	61,541
Costs of collection allowance		287	292
Provision for bad and doubtful debts	4	196	793
Total Expenditure for year		162,931	152,837
(Surplus) / Deficit for the year		(639)	323
(Surplus) / Deficit at the beginning of the year		828	505
(Surplus) / Deficit at end of year	5	189	828

NOTES TO THE COLLECTION FUND ACCOUNT

1. COUNCIL TAX

In 2006/2007 the Council, the Kent Police Authority and the Kent Fire and Rescue Service set equivalent Band D Council Tax levels of £949.23, £116.37 and £59.40 respectively resulting in a Council Tax at Band D in the Council's area of £1,125.00_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	8,399	6/9	5,599
B	£40,000 to £52,000	31,890	7/9	24,803
C	£52,000 to £65,000	28,840	8/9	25,635
D	£65,000 to £88,000	14,325	1	14,325
E	£88,000 to £120,000	7,197	11/9	8,796
F	£120,000 to £160,000	2,999	13/9	4,332
G	£160,000 to £320,000	1,117	15/9	1,862
H	Exceeding £320,000	42	2	83
Less adjustment for collection rates and MOD properties				(918)
Total Band D Equivalent 2006/2007				<u>84,517</u>
Total Band D Equivalent 2005/2006				84,320

The Tax Base multiplied by the Council Tax levied indicates a gross yield of approximately £95,000,000 for Medway Council and the precepting authorities. Specific reductions are made, in accordance with Government regulations, for persons on low incomes (Council Tax benefits amounting to £13,000,000) granting up to 100% rebate. This is reimbursed by Central Government. The net yield from council tax is, therefore, £82,779,000.

2. INCOME FROM BUSINESS RATES

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

	2006/2007 £'000	2005/2006 £'000
Amount Collectable for the year	71,034	69,319
Less: Transitional and other Reliefs	(3,577)	(7,486)
Income Collectable from Non-Domestic Ratepayers	<u>67,457</u>	<u>61,833</u>

The total Non-Domestic Rateable Value at 31 March 2007 was £168,462,819 (31 March 2006, £165,230,934) and the Uniform Business Rate 42.6p (443.3p with supplement) (41.5p and 42.2p respectively) in the £.

3. CONTRIBUTION TO NON-DOMESTIC RATE POOL

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

4. PROVISION FOR BAD AND DOUBTFUL DEBTS

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

	£'000
Balance 1 April 2006	1,476
Add: Provisions made during year	196
Less amounts written off	(277)
Balance 31 March 2007	<u>1,395</u>

See also Note 5 to the Consolidated Balance sheet.

5. DEFICIT

The deficits attributable to Medway Council and Kent Police Authority were £193,000, £20,000 respectively, with a surplus of £24,000 due to Kent Fire and Rescue Service. This is a considerable reduction in the net deficit at the end of 2005/2006. Action to minimise these losses is continuing and it is anticipated that any remaining deficit will be recovered in future years.

HOUSING REVENUE ACCOUNT

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

1. HRA Income and Expenditure Account

2005/2006 £'000		Notes	2006/2007	
			£'000	£'000
	Income			
(9,173)	Dwelling Rents (Gross)	10	(9,462)	
(229)	Non-Dwelling Rents (Gross)		(227)	
(973)	Charges for Services & Facilities		(942)	
0	Sums directed by the Secretary of State that are income in accordance with UK GAAP		0	
(10,375)	Total Income			(10,631)
	Expenditure			
1,847	Repairs & Maintenance		2,077	
3,193	Supervision & Management		3,380	
77	Rents, Rates, Taxes and Other Charges		84	
1,186	Negative Housing Revenue Account Subsidy Payable	7	1,084	
1,827	Depreciation and impairment of fixed assets	3	1,897	
45	Debt Management Costs		46	
96	Increase in bad debt provision	8	184	
0	Sums directed by the Secretary of State that are expenditure in accordance with UK GAAP		0	
8,271	Total Expenditure			8,752
(2,104)	Net Cost of Housing Revenue Account Services per authority Income and Expenditure Account			(1,879)
98	HRA services share of Corporate and Democratic Core			103
0	HRA share of the operating income and expenditure included in the whole authority Income and Expenditure Account			0
(2,006)	Net Cost of Housing Revenue Account Services			(1,776)
0	(Gain) or loss on sale of HRA fixed assets			0
875	Interest payable and similar charges			839
0	Amortisation of premiums and discounts			0
(99)	Interest and investment income			(160)
0	Pensions interest cost and expected return on pensions assets			0
(1,230)	Surplus for the year on Housing Revenue Account Services			(1,097)

2. Statement of Movement on the Housing Revenue Account Balance

2005/2006 £'000		2006/2007 £'000
(1,230)	Surplus or deficit for the year on HRA Income and Expenditure Account	(1,097)
398	Net additional amount required by statute to be debited or (credited) to the Housing Revenue Account balance for the year	339
(831)	Increase in Housing Revenue Account balance	(758)
(1,246)	Housing Revenue Account surplus brought forward	(2,077)
(2,077)	Housing Revenue Account surplus carried forward	(2,835)

Note to the Statement of Movement on the Housing Revenue Account Balance

2005/2006 £'000		2006/2007	
		£'000	£'000
	Items included in HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
0	Difference between amounts charged to Income and Expenditure for amortisation or premiums and discounts and the charge for the year determined in accordance with statute	0	
0	Difference between any other item of Income and Expenditure determined in accordance with the SORP and determined with statutory HRA requirements (if any)	0	
0	Gain or loss on sale of HRA fixed assets	0	
0	Net charges made for retirement benefits in accordance with FRS 17	0	
0	Sums Directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with UK GAAP	0	
0	Items not included in HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		0
344	Transfer to/(from) Major Repairs Reserve	271	
0	Transfers to/(from) Housing Repairs Account	0	
54	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	67	
0	Voluntary set aside for debt repayment	0	
0	Capital expenditure funded by the Housing Revenue Account	0	
398			339
398	Net additional amount required by statute to be debited or (credited) to the Housing Revenue Account Balance for the year		339

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.

2. Dwelling Stock

The Council managed 3,089 dwellings as at 31 March 2007. The movement in stock is analysed as follows: -

	1 April 2006	Adjustments	Disposals	31 March 2007
Houses	1,354		(10)	1,335
Flats	1,351	(52)	(6)	1,293
Maisonettes	216			216
Bungalows	249	(4)		245
Total	3,161	(56)	(16)	3,089

3. HRA Fixed Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Consolidated Balance Sheet. The market value at 1 April 2006 is estimated to be £327,600,000. The most recent valuation of housing stock was carried out as at April 2006. The next full valuation is due as at April 2010.

	Dwellings	Other Land and Buildings	Total
	£'000	£'000	£'000
Balance Sheet Value 1 April 2006	171,235	7,514	178,749
Revaluation	4,266	505	4,771
Restatements	610	(610)	0
Book Value 1 April 2006	176,111	7,409	183,520
Depreciation	(1,392)	(505)	(1,897)
Additions (see below)	2,705	0	2,705
Disposals	(1,822)	0	(1,822)
Balance Sheet Value 31 March 2007	175,602	6,904	182,506

4. Major Repairs Reserve

The Major Repairs Reserve is an account that receives the Major Repairs Allowance in order to assist funding major Housing Revenue Account repairs. The Major Repairs Reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account. If the depreciation is of a different value to the Major Repairs Allowance, then a transfer from or to the Housing Revenue Account is required to adjust this amount back to the value of the Major Repairs Allowance. The net sum is then available to finance Housing Revenue Account capital expenditure. The analysis of movement on the Major Repairs Reserve for 2006/2007 is as follows:

Major Repairs Reserve	£'000
Opening Balance 1 April 2006	894
HRA Depreciation from Capital Financing Account	1,897
Depreciation Adjusting Transfer from HRA	271
Financing of HRA Capital Expenditure	(1,970)
Balance Carried Forward 31 March 2007	1,092

5. Analysis of Housing Revenue Account Capital Expenditure

Funding Source	Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Total
	£'000	£'000	£'000	£'000
Revenue Contributions to Capital	0	0	0	0
Major Repairs Reserve	1,875	0	95	1,970
Borrowing	604	6	125	735
Total	2,479	6	220	2,705

6. Summary of HRA Capital Receipts

	2005/2006 £'000	2006/2007 £'000
Receipts from the sale of land	6	0
Receipts from the sale of other property	84	
Repayment of discount	34	13
Receipts from the sale of houses other than through the right to buy scheme	466	
Receipts from disposals of houses through the Right To Buy scheme	1,243	1,147
	1,833	1,160

7. Housing Subsidy

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

	2006/2007 £'000	2005/2006 £'000
Management Allowance	1,489	1,401
Maintenance Allowance	3,284	2,918
Major Repairs Allowance	2,168	2,172
Admissible Allowance	5	10
Rental Constraint Allowance	28	0
Charges for capital	1,038	1,065
Total Receivable Allowance	8,012	7,566
<u>Less</u>		
Guideline Rent Income	(8,989)	(8,417)
Interest on Receipts	(0)	(11)
Total Income Allowance to be netted against Receivable Allowance	(8,989)	(8,428)
Total Subsidy (Payable)/Receivable	(977)	(862)

Subsidy for 2006/2007 was based on an assumed number of dwellings of 3,183 compared with 3,202 for 2005/2006.

From 1 April 2004, the responsibility for the cost of rent rebates relating to Council Tenants was transferred from the Housing Revenue Account to the General Fund. In order to ensure a neutral effect, the Secretary of State determined under Item 10 of the Local Government and Housing Act 1989 that where authorities had set rents in excess of a specified preset limit, a transfer equal to the loss of rent rebate subsidy should be made from the Housing Revenue Account to the credit of the General Fund. In 2006/2007 this amounted to £107,454 (£260,703 in 2005/2006). 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, those being 2004/2005 and 2006/2006. For 2005/2006 the amount transferred was £63,384.

8. Tenants' Arrears

Tenants' Arrears at 31 March are analysed as follows:

Type of Debt	2006/2007 £'000	2005/2006 £'000
General Stock	275	288
Garages	6	5
Former Tenancies – General Stock	229	237
Former Tenancies - Garages	2	1
Former Tenancies – Temp a/c HRA	0	0
Housing Benefit Overpayments – General Stock	291	232
Housing Benefit Overpayments – Temp a/c HRA	0	0
Court Costs – General Stock	46	47
Former Tenancy Arrears of Current Tenants – General	31	32
Rechargeable Repairs	26	22
Total HRA	907	865
General Fund	28	29
Total Arrears	935	894
Percentage of Gross Rents (HRA)	8.82%	8.67%

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

	£'000
Balance 1 April 2006	610
Add Provisions made during year	184
Less amounts written off	(83)
	<hr/>
Balance 31 March 2007	<u>711</u>

9. Gross Rental Income

The rent income figure is net of voids. The level of voids in 2006/2007 was on average equal to 0.92% (1.04% in 2005/2006). The level of rebates provided was £6,275,947 (2005/2006 £5,816,356) which amounted to 59.21% of rent collectable (2005/2006 56.36%).

J. 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, 1 April to 31 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.