

MEDWAY COUNCIL

STATEMENT OF ACCOUNTS

2007/2008

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A EXPLANATORY FOREWORD

Introduction

The Statement of Accounts for the year ended 31 March 2008 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 (SORP) 2007 published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Following a number of significant changes affecting the Statement of Accounts for 2006/2007 for all local authorities, further changes came into effect on 1 April 2007. A revaluation Reserve and Capital Adjustment Account replace the Fixed Asset Restatement Reserve and the capital Financing Account. These new accounts are explained in more detail in Section F.

Statement of Accounts

The statements which follow summarise the Council's accounts for the financial year ended 31 March 2008. The main statements are:-

- **Statement of Responsibilities** – this outlines the responsibilities of the Council and the Chief Financial Officer in preparing the accounts.
- **Statement of Accounting Policies** – this explains the basis of the figures presented in the accounts.
- **Income and Expenditure Account** – This account measures Medway Council's financial performance in terms of resources consumed and generated in providing services during the year. It is prepared using essentially the same accounting conventions that a company would use to produce its profit and loss account. However, this accounting basis does not reflect certain items which the Council, as a local authority, is required by statute and non-statutory proper practices to debit or credit to the General Fund. For example, statute allows capital expenditure to be directly funded from revenue but generally accepted accounting practice excludes this from the Income and Expenditure Account. Generally accepted accounting practice also requires depreciation of fixed assets to be included in the Income and Expenditure Account whereas statute precludes depreciation being charged to the General Fund. Therefore, although the outturn on the Income and Expenditure Account is important, to give a full presentation of the Council's financial performance, the impact of statutory requirements and non-statutory proper practices have to be considered.
- **Statement of Movements on the General Fund Balance** – this statement provides a reconciliation between the outturn on the Income and Expenditure Account and the balance established under the relevant statutory provisions and non statutory proper practices. The movement on the General Fund Balance is the equivalent of the surplus or deficit on the previous Consolidated Revenue Account and it is this movement which indicates whether reserves were drawn upon or added to for the year and hence the actual spending power carried forward to future years.
- **Statement of Total Recognised Gains and Losses (STRGL)** – this statement brings together the operational gains and losses for the year recognised in the Income and Expenditure Account and other gains and losses which are only recognised in the Balance Sheet, for example the revaluation of fixed assets or pension actuarial gains or losses, to show the total movement in the Council's net worth for the year.
- **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

Review of Finance 2007/2008

Revenue

The final General Fund outturn was £154,586,000, an underspend of £620,000 against the budget of £155,206,000.

The table below summarises the income and expenditure for each directorate of the Council for 2007/2008.

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	124,178	(117,183)	6,995	8,529	(1,534)
Children's Services	279,152	(72,204)	206,948	206,442	506
Community Services	127,902	(54,020)	73,882	71,435	2,447
Regeneration & Development	63,910	(15,296)	48,614	48,530	84
Levies	821	0	821	763	58
Interest & Financing	20,505	(43,840)	(23,335)	(20,634)	(2,701)
Dedicated Schools Grant	0	(159,669)	(159,669)	(159,684)	15
Contribution to Reserves	828	(500)	328	(175)	503
	<u>617,298</u>	<u>462,712</u>	<u>154,586</u>	<u>155,206</u>	<u>(620)</u>

The outturn on the Housing Revenue Account (HRA) was a surplus £269,000 (2006/2007 surplus £758,000), compared to a budget of £275,000 (2006/2007 budget £1,213,000). This surplus was credited to the HRA Reserve, which stands at £3,104,000 as at 31 March 2008 (£2,835,000 as at 31 March 2007).

Capital

The Council's capital investment in 2007/2008 was £87,215,000 (2006/2007 £72,520,000). 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 (£27,714,000);
- Grants or contributions from Government bodies or other agencies and organisations (£48,007,000);
- Part proceeds from the sale of capital assets or the repayment of advances, the usable part, following pooling of HRA capital receipts (£7,170,000);
- Contributions from the Revenue Account and specific reserves (£4,324,000).

The Council spent £47,474,000 on the creation of new fixed assets used in the provision of services in the Medway area. Major schemes completed included a number of integrated transport measures, a programme of improvements to the Council's housing stock, the provision of new classrooms and improvements to school infrastructure. The remainder of capital expenditure is split between capital works in progress £10,393,000 and £29,348,000 relating to deferred charges (see Statement of Accounting Policies 5). In 2007/2008 some highway maintenance schemes were reclassified to capital having previously been charged to the revenue account.

Capital expenditure incurred by the Council in 2007/2008 is summarised below:

Directorate	Total Programme £'000	2007/2008 Forecast £'000	Outturn £'000	Variation £'000
Expenditure				
Business Support	25,247	23,780	21,290	(2,490)
Children's Services	35,121	23,395	22,152	(1,243)
Community Services	24,452	10,625	10,101	(524)
Regeneration & Development	56,734	32,024	33,672	1,648
Total	141,554	89,824	87,215	(2,609)

The capital programme for 2007/2008 and beyond reflects the major investment priorities of the Council which are as follows:

Universities at Medway; Medway Renaissance; Medway Innovation Centre; Medway Park Development; 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 2007/2008 the level of debt, i.e. money that the Council owes increased by £44,978,000 from £170,079,000 to £215,057,000. This is due to new debt being taken out to finance the capital programme including prudential borrowing and replacing previous years debt repaid early.

The level of investments has increased from £85,075,000 to £112,866,000 due in the main to provisions made annually for the repayment of debt exceeding the actual repayments within the financial year together with an overall increase in the level of creditors year on year.

- **Fixed Assets**

The total value of the Authority's fixed assets has increased in 2007/2008 by almost £100m. This was principally due to capital investment of £58m and an increase in the value of council housing, Rochester Riverside, Civic Amenity Sites and other operational buildings.

B STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

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

The Chief Finance Officer's Responsibilities

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

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

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

The Chief Finance Officer has also:

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

Certificate of the Chief Finance Officer

I certify that this Statement of Accounts presents fairly the financial position of the Council at 31 March 2008 and its income and expenditure for the year ended 31 March 2008.

Mick Hayward
Chief Finance Officer

20 June 2007

D STATEMENT OF ACCOUNTING POLICIES

1. General

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting in the United Kingdom 2006.

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

Employee Cost – 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 year to year are not material.

Pension Costs – 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.

The costs are recognised in full in the year the benefits are agreed. In the Income and Expenditure Account the liability is debited to the net cost of services. However, the charge required to be made against the Council Tax is based on the amount payable for the year, so the FRS 17 costs are reversed out in the Statement of Movements on the General Fund Balance as a transfer to the negative pension reserve. In the Balance Sheet the negative pension reserve is matched by a pension liability

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 Children Schools and Families (DCSF).

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. Administrative buildings costs are allocated to directorates based on floor area with subsequent apportionments to service users on a per capita basis.

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 and 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 and reflected under Central Government Grants in the Income and Expenditure Account.

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 uncollectible 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 day to day maintenance of fixed assets which is charged directly to service revenue accounts. Capital expenditure below the de minimis threshold, together with deferred charges, is written off through the Income and Expenditure Account.

Fixed assets are valued on the basis 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 basis:

- 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.
- 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 adjustments includes:

- 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 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 the Capital Adjustment Account. Upon disposal, the net book value of assets disposed of is written off against the Revaluation Reserve. Gains and losses on disposal of fixed assets are now included within the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.

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 (ie amount of economic benefit consumed) in a period. No depreciation is charged in the year of acquisition of an asset.

Depreciation is calculated upon the following basis:

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 over their useful economic lives;

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

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 net cost of services 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

Local authorities are required each year to set aside some of their revenues as provision for the repayment of debt. In 2004 the Prudential Code was introduced which specified detailed formulae for calculating the Minimum Revenue Provision (MRP) for the repayment of principal on the amount of loans borrowed by the Council. This was not adopted at the time and MRP was calculated using the former credit ceiling methodology. New regulations introduced in February 2008 have required a change to this methodology with a retrospective effect to 2004/2005. For 2007/2008 MRP has been calculated on the basis of the new regulations whereby the debt is split between "grant funded debt" and "prudential borrowing". The Grant funded debt has MRP calculated on the basis of the 2004 regulations and for Prudential funded debt MRP is calculated on either the expected life of the asset or the anticipated lifespan of the invest to save scheme in accordance with the February regulations.

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 'Right to Buy' HRA assets. These capital receipts are subject to pooling arrangements which require that 75% of receipts from the disposal of dwellings. The Council can however net off allowable expenditure such as sale and improvement costs before pooling the receipts to the CLG. Other HRA assets are subject to a 50% pooling arrangement except that payments to CLG can be reduced by an accumulated 'Capital Allowance' comprising allowable expenditure on social housing and regeneration. 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, ie 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 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, but are charges against the appropriate service revenue account in accordance with the SORP. No assets have been acquired through finance leases during 2007/2008.

17. Fair Value

Under SORP 2007 Financial Instruments should be disclosed within the disclosure notes at Fair Value. Fair Values have been determined based upon comparable new borrowing / deposit rates for the same financial instrument from a comparable lender. A consistent approach has been applied to both assets and liabilities.

E CORE FINANCIAL STATEMENTS

Income and Expenditure Account

Net 2006/2007 Restated £'000	Service	Notes	Expenditure 2007/2008 £'000	Income 2007/2008 £'000	Net 2007/2008 £'000
1,098	Central services to the public		2,114	(821)	1,293
328	Court Services		375	0	375
51,093	Cultural, environmental and planning		78,277	(22,535)	55,742
36,157	Education services		268,304	(229,950)	38,354
24,792	Highways, roads and transport services		31,915	(7,609)	24,306
(991)	Local authority housing		11,125	(11,413)	(288)
5,652	Other housing services		95,475	(91,444)	4,031
68,981	Social services		107,667	(34,487)	73,180
6,959	Corporate and Democratic core		9,278	(2,394)	6,884
1,535	Non-distributed costs		22,694	(21,654)	1,040
195,604	Net Cost of Services		627,224	(422,307)	204,917
(890)	(Gain)/loss on disposal of fixed assets				(349)
197	Parish council precepts				216
(2,006)	Trading (surpluses) / deficits	3			(2,112)
10,410	Interest payable and similar charges	38			12,709
855	Contribution of housing capital receipts to Government Pool				703
(4,649)	Interest and investment income	38			(6,529)
3,200	Pension interest cost & return on assets				2,700
202,720	Net Operating Expenditure				212,255
(80,422)	Demand on the Collection Fund				(84,141)
(21,204)	Central Government Grant				(10,243)
(57,214)	Non-domestic rates redistribution				(61,038)
43,880	Deficit for the year				56,833

Statement of Movement on the General Fund Balance

2006/2007 £'000		Note	2007/2008 £'000
43,880	Deficit for the year on the income and expenditure account		56,833
(43,939)	Additional amount credited to the General Fund in accordance with statute and proper practice	1	(57,453)
(59)	Increase in General Fund balance for the year		(620)
(7,665)	General Fund balance brought forward		(7,724)
(7,724)	General Fund Balance carried forward		(8,344)

Statement of Total Recognised Gains and Losses

2006/2007 £'000			2007/2008 £'000
43,880	Deficit for the year on the income and expenditure account		56,833
0	Amortisation of intangible fixed assets		(25,135)
(96,805)	Surplus arising on the revaluation of fixed assets		(82,857)
(20,200)	Actuarial (gains) / losses on pension fund assets & liabilities		(24,500)
(73,125)	Total recognised gains for the year		(75,659)

Balance Sheet

	Notes	31 March 2008		31 March 2007
		£'000	£'000	Restated £'000
Fixed Assets				
Council Dwellings	13	195,145		183,270
Other Land and Buildings	13	724,813		650,028
Vehicles, Plant and Equipment	13	1,117		1,108
Infrastructure and Community Assets	13	132,331		138,184
Investment Properties	13	118,005		72,234
Work in Progress	13	<u>12,051</u>		<u>40,392</u>
			1,183,462	1,085,216
Long Term Investments	17		75	75
Intangible Assets	13		1,019	0
Long Term Debtors	18		927	1,074
TOTAL LONG TERM ASSETS			<u>1,185,483</u>	<u>1,086,365</u>
Current Assets				
Stocks and Work in Progress	19	137		112
Debtors	20	43,102		45,269
Short-term investments	17 & 37	112,866		85,075
Cash and Bank		<u>19,842</u>		<u>14,930</u>
		175,947		145,386
Current Liabilities				
Creditors	21	(53,555)		(42,230)
Short Term Borrowing	22	(131)		(120)
Bank Overdraft		<u>(17,957)</u>		<u>(15,774)</u>
		(71,643)		(58,124)
NET CURRENT ASSETS			104,304	87,262
Unapplied Capital Contributions				
Long Term Borrowing	22 & 37		(23,787)	(19,633)
Deferred Liabilities	23		(215,057)	(170,079)
Pensions Liabilities	24		(53,860)	(56,107)
Deferred Capital Receipts	25		(98,000)	(121,600)
Government Grant Deferred Account	26		(66)	(89)
Capital Contributions Deferred Account	26		(76,494)	(58,501)
Provisions	27		(7,183)	(7,255)
			<u>(2,952)</u>	<u>(3,634)</u>
TOTAL ASSETS LESS LIABILITIES			<u>812,388</u>	<u>736,729</u>
Financed by				
Reserves:-				
Revaluation Reserve	28		79,993	0
Usable Capital Receipts Reserve	29		1,287	5,949
Capital Adjustment Account	30		805,203	825,255
Earmarked Capital Reserves	31		794	1,270
Earmarked Revenue Reserves	31		5,881	5,210
General Reserve	31		1,713	3,747
Pensions Reserve	31		(98,000)	(121,600)
Financial Instrument Adjustment Account	40		(2,016)	0
Revenue Balances:-				
General Fund Balance			8,344	7,724
Housing Revenue Account Balance	31		3,104	2,835
Schools Balances	31		6,092	6,686
Trading Balances	31		(7)	(345)
			<u>812,388</u>	<u>736,729</u>
TOTAL RESERVES AND BALANCES			<u>812,388</u>	<u>736,729</u>

Cash Flow Statement

	Notes	2007/2008 £'000	2006/2007 £'000
REVENUE ACTIVITIES			
Cash Outflows			
Employees		251,115	242,883
Other operating payments		212,983	196,884
Revenue Accounts		(10,073)	
Housing and Council Tax Benefits		79,599	75,552
Payments to NNDR Pool		68,352	64,439
Precept Paid		15,770	15,052
Payments to Capital Receipts Pool		703	854
		<u>618,449</u>	<u>595,664</u>
Cash Inflows			
Goods and Services		(35,778)	(36,600)
Rents		(15,427)	(14,671)
Government Grants	36	(227,114)	(218,344)
DSS Grant - Housing Benefits		(79,457)	(74,894)
Revenue Support Grant		(10,243)	(10,049)
Council Tax Receipts		(85,778)	(82,349)
Non-Domestic Rate Receipts		(65,247)	(67,590)
Receipt from NNDR Pool		(61,038)	(57,214)
Other Revenue Receipts		(55,769)	(48,078)
		<u>(635,851)</u>	<u>(609,789)</u>
Net Cash Outflow / (Inflow)	33	<u>(17,402)</u>	<u>(14,125)</u>
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Cash Outflows			
Interest Paid		8,517	7,678
Cash Inflows			
Interest Received		(6,756)	(4,603)
Net Cash Outflow / (Inflow)		<u>1,761</u>	<u>3,075</u>
CAPITAL ACTIVITIES			
Cash Outflows			
Purchase of fixed assets		49,188	53,657
Purchase of Long term Investments		0	0
Other Capital Cash Payments		31,726	23,935
Cash Inflows			
Sales of fixed assets		(3,225)	(7,645)
Government Grants	36	(49,546)	(53,390)
Sale of long term investments		0	(9,259)
Other capital Cash Receipts		0	(1,994)
Net cash outflow / (inflow) from Capital Activities		<u>28,143</u>	<u>5,304</u>
NET CASH OUTFLOW / (INFLOW) BEFORE FINANCING	34	<u>12,502</u>	<u>(5,746)</u>

		2007/2008 £'000	2006/2007 £'000
NET CASH OUTFLOW / (INFLOW) BEFORE FINANCING (From previous page)		12,502	(5,746)
MANAGEMENT OF LIQUID RESOURCES			
Cash Outflow / (Inflow)			
Increase (Decrease) in Short Term Deposits		27,791	17,542
FINANCING			
Cash Outflows			
Repayments of Amounts Borrowed		10,073	35,556
Cash Inflows			
New Long Term Loans Raised		(53,095)	(45,500)
New Short Term Loans Raised		0	0
		<hr/>	<hr/>
Net Cash Outflow / (Inflow) from Financing		(43,022)	(9,944)
		<hr/>	<hr/>
DECREASE / (INCREASE) IN CASH	34	(2,729)	1,853
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F NOTES TO THE CORE FINANCIAL STATEMENTS

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1. Additional Amount Credited To The General Fund In Accordance With Statute And Proper Practice

2006/2007 £'000		2007/2008 £'000
<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	25,135
(34,588)	Depreciation and impairment of fixed assets	(35,224)
9,589	Government grants deferred amortisation	3,431
271	Excess of depreciation charged to HRA services over MRA element of housing subsidy	(162)
(21,344)	Write down of deferred charges to be financed from capital resources	(31,704)
890	Net (loss)/gain on sale of fixed assets	348
0	Adjustment for LOBO & soft loan interest	(92)
<u>(20,300)</u>	<u>Net charges made for retirement benefits in accordance with FRS17</u>	<u>(17,700)</u>
(65,482)		(55,968)
<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>		
6,735	Minimum revenue provision for capital financing	5,722
2,097	Capital expenditure charged to the General Reserve	2,741
(855)	Transfer from usable capital receipts to meet payments to the Pool	(703)
<u>13,938</u>	<u>Employers contributions payable to the Pension Fund</u>	<u>16,800</u>
21,915		24,560
<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>		
165	Voluntary revenue provision for capital financing	0
758	Housing Revenue Account Balance	269
2,314	Principal repayment in respect of pre-reorganisation county debt	2,221
<u>(3,609)</u>	<u>Net transfer to or from earmarked reserves</u>	<u>(28,535)</u>
(372)		(26,045)
<u>(43,939)</u>	<u>Net additional amount required to be credited to the General Fund Balance</u>	<u>(57,453)</u>

2. Dedicated Schools Grant

The Dedicated Schools Grant (DSG) is a ring-fenced grant, introduced with effect from April 2006 to fund the Schools Budget. The Schools Budget includes the funding delegated to schools (the Individual Schools Budget) and pupil-related services retained by the local authority for early years, pupils with severe and complex educational needs and pupils educated otherwise than at school.

During 2007/2008 the retained services experienced significant budget pressures, particularly those for pupils with severe and complex needs who are placed in specialist provision in the independent and non-maintained sector. Consequently, the LA retained services overspent by £878,400. The overspend has been charged to the Council's General Fund rather than being carried forward as a first charge on the DSG for 2008/2009.

An analysis of the DSG for 2007/2008 is provided in the table below.

Schools Budget funded by the Dedicated Schools Grant

	DSG Allocation £'000	Actual Expenditure £'000	Total Overspend £'000
Individual Schools Budget	140,754	140,754	0
Centrally Retained	18,915	19,793	878
Total DSG	159,669	160,547	878

3. Trading Operations

	Gross Expenditure 2007/2008 £'000	Gross Income 2007/2008 £'000	Net (Surplus)/ Deficit 2007/2008 £'000	Net (Surplus)/ Deficit 2006/2007 £'000
Markets and Street Trading	104	(212)	(108)	(93)
Commercial Property	315	(1,458)	(1,143)	(1,291)
Revenues and Benefits	3,251	(3,614)	(363)	(143)
Building Control	564	(280)	284	337
Reprographics	461	(486)	(25)	(79)
Building Surveying	9,14	(1,233)	(319)	(334)
Temporary Staff Agency	4,131	(4,569)	(438)	(403)
(Surplus)/Deficit	9,740	(11,852)	(2,112)	(2,006)

4. Publicity (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.

	2007/2008 £'000	2006/2007 £'000
Recruitment Advertising	278	395
Economic Development Publicity	12	28
Tourism Promotion	120	154
Communication Unit and "Medway Matters" etc.	454	495
Other Publicity	317	410
	<u>1,181</u>	<u>1,482</u>

5. Local Authority (Goods and Services) Act 1970 and Pooled Budgets

During the year the Council supported a Community Support Scheme for clients with mental health needs. The total gross costs were £2,454,600 (2006/2007 £2,430,000) of which £2,216,600 is reimbursed by Medway PCT and Kent & Medway NHS Social Care Partnership Trust, £30,000 income received from clients and Medway Council funded the balance of £208,000.

The Council entered into partnership with Medway PCT, under Section 31 of the Health Act 1999, with the objective of securing integrated non-acute health and social care services for people with learning disabilities in Medway. Medway Council is the lead commissioning body and host / accountable body for this partnership.

In 2007/2008 the gross Section 31 expenditure was £22,077,800 financed by:

Medway Council contribution	£13,660,700
PCT contribution	£8,372,700
Other Income	£44,400

6. The Building Control 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	2007/2008 Chargeable £'000	2007/2008 Non Chargeable £'000	2007/2008 Total £'000	2006/2007 Total £'000
Expenditure				
Employees	251	84	335	580
Transport	11	4	15	27
Supplies and Services	21	91	112	58
Central and Support Charges	89	62	151	261
Total Expenditure	372	241	613	926
Income				
Building Regulation Charges	(278)	(39)	(317)	(643)
Total Income	(278)	(39)	(317)	(643)
(Surplus)/Deficit for year	94	202	296	283

Non-chargeable costs includes all other Building Control functions not defined by regulation. The deficit above varies from the trading loss declared in Note 4 because pension costs under FRS 17 are excluded.

7. Officers' Emoluments

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

Remuneration Band	Number of Employees	
	2007/2008	2006/2007
£50,000 to £59,999	149	143
£60,000 to £69,999	39	24
£70,000 to £79,999	11	15
£80,000 to £89,999	7	9
£90,000 to £99,999	6	2
£100,000 to £109,999	2	1
£110,000 to £119,999	0	2
£120,000 to £129,999	0	0
£130,000 to £139,999	1	0
£140,000 to £149,999	1	0

8. Members' Allowances

In 2007/2008 a total of £796,000 (2006/2007 £751,000) was paid to the Council's 55 Members in respect of allowances.

9. 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 Interest relating to members and senior officers. These registers are open to inspection by members of the public.

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

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, CLG and SEEDA awarded the Council grants amounting to £2,100,000 towards the National Ship Museum within the Historic Dockyard.

Rochester Bridge Trust – Four members represent the Council on the trust, the main purpose of which is to maintain and improve the Medway Tunnel, bridges and associated riverbanks in order to facilitate passage over, under or across the River Medway. During the year the Council undertook reimbursable maintenance work, amounting to £362,000 (£354,000 in 2006/2007), 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 2007/2008 (£25,000 in 2006/2007).

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 eg 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.

10. Leasing contracts

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

11. 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 risk.

12. Audit and Inspection Fees

The following amounts were paid during the financial year:-

	£
PricewaterhouseCoopers – 2006/2007 Audit (part)	285,500
PKF – 2007/2008 Audit	257,000
Audit Commission – Relationship Management / Direction of Travel	24,338
Audit Commission – Strategic Housing Inspection	28,140
Miscellaneous audit costs	7,327
	602,305

These payments reflect a change in practice with audit costs now charged to the audit year rather than the year in which the audit is undertaken.

13. Movement on Fixed Assets

	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 31/3/2007	183,270	650,028	1,108	135,464	2,720	72,234	40,392	1,085,216
Revaluations/ Restatements	10,430	35,888	0	(597)	(85)	37,237	0	82,873
Book value 1/4/2007	193,700	685,916	1,108	134,867	2,635	109,471	40,392	1,168,089
Completions	0	36,379	0	0	0	0	(38,734)	(2,355)
Additions	4,517	25,246	316	7,531	367	9,497	10,393	57,867
Disposals	(1,035)	(800)	0	0	(81)	(963)	0	(2,879)
Depreciation	(2,037)	(21,928)	(307)	(12,988)	0	0	0	(37,260)
Book Value 31/3/2008	195,145	724,813	1,117	129,410	2,921	118,005	12,051	1,183,462

In accordance with the Accounting Policy detailed in Section D and, as part of the system of capital accounting as set out in the revised Code of Practice produced by CIPFA, the Council undertook a revaluation of approximately 20 per cent of its non-housing property portfolio in 2007/2008 and a complete review of the valuation of its housing stock and surface and multi storey car parks. For the *non-housing property portfolio* a valuation report has been prepared by Noel Filmer MRICS and Phillip Vipond MRICS, Asset and Property Management, Business Support Department, Medway Council, Gun Wharf, Dock Road, Chatham, Kent, ME4 4TR, with assistance from other qualified members of the valuation team. The valuation date is 1 April 2007. The basis of valuation is Existing Use Value (EUV) for operational properties and Market Value (MV) for non-operational properties. *Community assets* have not been valued but historic acquisition costs have been provided. The review of the valuation of the housing stock was completed by Derek Gouldsworthy MRICS and the valuation date was also 1 April 2007. The basis of valuation is Existing Use Value for Social housing (EUV-SH). With the exception of council dwellings, details of all property assets are now held within a single database. Foundation schools are included within fixed assets.

During 2007/2008 the Council purchased 'Gun Wharf' in Chatham for its new civic headquarters. The acquisition and refurbishment costs are estimated to amount to £21.3m, of which costs to 31 March 2008 of £19.370m are incorporated in the table above.

At 31 March 2008 the balance sheet includes intangible assets of £1.019m representing the value of credits held under the Landfill Allowances Trading Scheme. This value is calculated at 101,848 tonnes at an estimated market value of £10 per tonne.

14. Capital Commitments

As at 31 March 2008 there were specific capital commitments to fund the Medway Park Development (£10.447m); Rochester Riverside compensation (£6.897m); Strood Riverside compensation (£1.797m); A228 (£3.636m), New Civic HQ improvement works (£2.162m), Medway Innovation Centre Phase II (£5.017m) and various schemes within Children's Services amounting to approximately £10m.

15. 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 Income and Expenditure Account.

	2007/2008 £'000	2006/2007 £'000
Balance at 1 April	0	0
Renovation and Other Grants	4,626	1,481
Schools	10,204	6,131
Strategic Development	6,455	6,584
Compensation Payments	7,342	3,962
Other Deferred Charges	3,077	3,398
Written off in year (See Note)	(31,704)	(21,344)
Balance at 31 March	0	0

Note: The amount written off to revenue includes £2,355,000 classified as Work In Progress at 1 April 2007.

16. Financing of Capital

Capital Expenditure was financed as follows:

	£'000		£'000
Financing		Expenditure	
Borrowing	27,714	Fixed Assets	47,474
Capital receipts	7,171	Capital Works in Progress	10,393
Government Grants	41,822	Deferred Charges	29,348
General and other Earmarked Reserves	4,019		
MRR & MRA	2,503		
Other Contributions	3,986		
	<u>87,215</u>		<u>87,215</u>

17. Investments

	31 March 2008 £'000	31 March 2007 £'000
Long Term Investments		
Administered by External Fund Managers	0	0
Loan to Association of District Councils Note 39	60	60
Other Investments	15	15
Total Long Term Investments	<u>75</u>	<u>75</u>
Short Term Investments		
Administered by External Fund Managers	36,252	56,463
Managed by Internal Fund Managers Note 39	76,614	28,612
Total Short Term Investment	<u>112,866</u>	<u>85,075</u>
Total Investments	<u>112,941</u>	<u>85,150</u>

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

18. Long Term Debtors

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

	31 March 2008 £'000	31 March 2007 £'000
Loans Outstanding		
Mortgages for Sales of Council Housing	111	132
Loans to Other Organisations	168	208
Other Local Authority Loans in respect of services transferred on reorganisation	493	512
Loans to Employees and Members	155	222
Total	<u>927</u>	<u>1,074</u>

19. Stocks and work in progress

	31 March 2008 £'000	31 March 2007 £'000
Stocks	137	112
Total	<u>137</u>	<u>112</u>

20. Debtors

	31 March 2008 £'000	31 March 2007 £'000
Collection Fund Debtors		
- Council Tax payers	8,385	8,117
- Business Rates		
- Business Rate payers	3,190	2,725
- Collection Fund	44	218
- Government Departments	2,049	0
Less bad / doubtful debt provision	(1,570)	(1,395)
	<u>12,098</u>	<u>9,665</u>
Other Debtors		
Unrealised Investment Gain	0	1,572
Government Departments	3,436	4,313
Landfill Allowance Trading Scheme	0	335
Social Services 'Collect'	2,438	2,596
Housing rents	1,033	963
Sundry debtors	25,197	27,109
Less bad / doubtful debt provisions		
- Social Services 'Collect'	(106)	(106)
- Housing Rents	(581)	(711)
- Sundry Debtors	(413)	(467)
	<u>31,004</u>	<u>35,604</u>
	<u>43,102</u>	<u>45,269</u>

21. Creditors

	31 March 2008 £'000	31 March 2007 £'000
Collection Fund		
- Collection Fund	85	25
- Government Departments	0	902
- Payments in Advance	1,742	1,722
	<u>1,827</u>	<u>2,649</u>
Sundry Creditors	51,728	39,581
	<u>53,555</u>	<u>42,230</u>

22. Borrowing

	Total Outstanding 31 March 2008 £'000	Total Outstanding 31 March 2007 £'000
Lending Options Borrowing Option	94,362	70,500
Long term from Public Works Loan Board (PWLB)	120,694	99,579
Total Long Term Borrowing	Note 39 <u>215,057</u>	<u>170,079</u>
PWLB maturing within 1 year	Note 39 15	8
Temporary borrowing from money markets	116	112
Total Short Term Borrowing	<u>131</u>	<u>120</u>
Total	<u>215,187</u>	<u>170,199</u>

Analysis of long term loans by maturity

	31 March 2008 £'000	31 March 2007 £'000
Maturing within 1 to 2 years	53	30
Maturing within 2 to 5 years	153	254
Maturing within 5 to 10 years	0	0
Maturing after 10 years	214,851	169,795
Total	<u>215,057</u>	<u>170,079</u>

23. 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 and relates to a proportion of Kent County Council's long-term debt.

24. Pension Liability

In accordance with relevant government regulations, the pension costs that are charged to the Council's accounts are equal to the employers contribution 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.

For 2007/2008 employees were 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 staff 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 fund 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 was as at 31 March 2007 and the change in contribution rates as a result of that valuation takes effect from 1 April 2008 and will mean an increase of 0.6%.

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' (£14.8m for 2007/2008) defined as the increase in the present value of scheme liabilities expected to arise in the financial year. (***NB adjustments made under FRS17 are for reporting purposes only and do not impact on the General Fund balance***).

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 Income and Expenditure 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 contribution and actuarial gains and losses) is reversed out to the pensions reserve.

The actuary has assessed the total liability of the fund at £98m as at 31 March 2008 derived as follows:

	31 March 2008	Restated 31 March 2007
	£'000	£'000
Deficit 1 April	121,600	137,500
Net Return on Assets	2,700	3,200
Current Service Cost	14,800	16,400
Past Service and Settlements & Curtailments	200	700
Reversal of Payments to Pension Fund	(16,800)	(16,000)
Actuarial (Gains)/Losses	(24,500)	(20,200)
Deficit 31 March	<u>98,000</u>	<u>121,600</u>
Assets in scheme	(226,700)	(229,700)
Liabilities in scheme	<u>324,700</u>	<u>351,300</u>
	<u>98,000</u>	<u>121,600</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 2008	31 March 2007	31 March 2006	31 March 2005
	%	%	%	%
Rate of inflation	3.6	3.2	3.1	2.9
Rate of increase in salaries	5.1	4.7	4.6	4.4
Rate of increase in pensions	3.6	3.2	3.1	2.9
Rate for discounting scheme liabilities	6.9	5.4	4.9	5.4

Assets in the Superannuation Fund are valued at fair value, principally market value for investments, and at 31 March 2008 consist of the following categories by value together with expected rate of return (RofR).

	31 Mar 2008		31 Mar 2007		31 Mar 2006		31 Mar 2005	
	£m	RofR	£m	RofR	£m	RofR	£m	RofR
Equities	157.5	7.7%	161.1	7.8%	144.7	7.4%	102.8	7.7%
Bonds	31.8	5.7%	28.5	4.9%	26.5	4.6%	19.4	4.8%
Property	24.5	5.7%	23.5	5.8%	18.3	5.5%	14.9	5.7%
Cash	12.9	4.8%	16.6	4.9%	14.3	4.6%	11.9	4.8%
Total	226.7	7.0%	229.7	7.0%	203.8	6.6%	149.0	6.9%

The actuarial gain is analysed as follows:-

	31 March 2008	31 March 2007	31 March 2006
	£'000	£'000	£'000
Actual returns less expected returns on assets	(29,200)	(1,400)	33,000
Experience gains and losses on scheme liabilities	(5,100)	(200)	(90)
Changes in assumptions underlying the present value of liabilities	58,800	21,800	(40,400)
Actuarial gain / (loss)	24,500	20,200	(7,490)

The difference between the expected and actual return on assets was a decrease of £29.2m being 12.9% of the scheme assets as at 31 March 2008.

The effect of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities amounted to a gain of £58.8m representing 18.1% of the scheme liabilities as at 31 March 2008.

The total liability of £98m is matched by a negative reserve to reflect the potential funding requirement.

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.

In 2007/2008 the Council paid £12,349,000 (2006/2007 £11,544,000) to the DCSF in respect of teachers' pension costs, the contributions rate being 14.1% (2006/2007 13.5% or 14.1%). In addition the Council is responsible for all pension payments relating to Added Years benefits it has awarded. These amounted to £395,000 (2006/2007 £346,000).

25. 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 may arise principally from mortgages on sales of council houses and granting of loans to other organisations.

	£'000
Balance 1 April 2007	89
Less: Principal repaid in respect of loans and mortgages	(23)
Balance 31 March 2008	<u>66</u>

26. 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.

	Deferred Government Grants £'000	Deferred Contributions £'000
Restated Balance 1 April 2007	58,501	7,255
Grants and Contributions applied in year	20,869	481
Transfer to Income and Expenditure a/c	(2,877)	(553)
Balance 31 March 2008	<u>76,494</u>	<u>7,183</u>

27. Provisions

Insurance Provision

This provision represents the sum set aside for unsettled, known claims as at 31 March 2008 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 2007	2,807
Provided for in year	1,884
Utilised during year	(2,291)
Balance of Provision as at 31 March 2008	<u>2,400</u>

Section 117 Provision

This provision has been created to meet the contingent liability in response to an Ombudsman decision regarding a claim under section 117 of the Mental Health Act 1983. The claimant was found to be ordinarily resident in Medway at the point of his admission to hospital under the Mental Health Act and therefore, the Council had a duty to provide aftercare services to the claimant on his discharge from hospital.

The provision represents the cost of reimbursing the claimant his care costs, back-dated to the date of his discharge from hospital in 2000. This is estimated at £551,800 but there is the possibility that this cost may be shared with others.

28. Revaluation Reserve

The balance sheet figures for 31 March 2007 have been adjusted from those included in the statement of Accounts for 2006/2007 to accommodate the implementation of the Revaluation Reserve. The Revaluation Reserve replaces the Fixed Asset Restatement Account and the credit balance of £790,218,000 as at 31 March 2007 has been written off to the Capital Financing Account. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The transactions for 2007/2008 therefore only include revaluation gains accumulated since 1 April 2007.

The movements on the revaluation reserve in this year are shown below:

	£'000
Balance at 1 April 2007	0
Revaluation and Restatement of fixed assets	82,873
Disposal of fixed assets	(2,880)
Balance at 31 March 2008	<u>79,993</u>

29. Usable Capital Receipts Reserve

Capital receipts arise from the sale of assets and can be used to finance capital expenditure. £7,171,000 was used for this purpose in 2007/2008 (2006/2007 £3,330,000). The remaining balance on this reserve will be used to support future capital expenditure.

	£'000
Balance at 1 April 2007	5,949
Plus capital receipts received	3,228
Less allowable deductions	(16)
Less pooled receipts	(703)
Funding used	(7,171)
Balance at 31 March 2008	<u>1,287</u>

30. Capital Adjustment Account

The Capital Adjustment Account was created upon implementation of the Revaluation Reserve with an opening balance incorporating the Fixed Asset Restatement Account and the Capital Financing Account adjusted by restating the balances of the Government Grant Deferred Account and the Capital Contributions Deferred Account following recommendations arising from the 2006/2007 Audit. The 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.

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 23 – Deferred Liabilities).

	£'000
Restated Balance at 1 April 2007	825,255
Capital Financing from: Capital receipts - General Fund	6,645
- Housing	526
Revenue and Reserves	6,523
Government Grants and Contributions	45,444
Transfer from Deferred Grants and Contributions Accounts	(21,600)
Appropriation to Revenue Account	(25,886)
Deferred Charges written down to revenue	(31,704)
Balance at 31 March 2008	<u>805,203</u>

31. Movement on 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.

	Restated Balance at 1 April 2007	Contribution to Revenue	Contribution from Revenue	Revaluations and Disposals	Transfers & Other Movements	Financing of Fixed Assets	Balance at 31 March 2008
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CAPITAL RESERVES							
Revaluation Reserve	0	0	0	79,993	0	0	79,993
Capital Adjustment Account	825,255	(31,538)	3,430	0	(51,082)	59,138	805,203
Useable Capital Receipts Reserve	5,949	0	0	0	2,509	(7,171)	1,287
Housing Major Repairs Reserve	1,092	0	2,199	0	0	(2,503)	788
Other Earmarked Capital Reserves	178	0	0	0	(23)	(149)	6
Total Capital Reserves	832,474	(31,538)	5,629	79,993	(48,596)	49,315	887,277
REVENUE RESERVES							
General Reserve	3,747	(830)	1,537	0	0	(2,741)	1,713
Pensions Reserve	(121,600)	0	0	0	23,600	0	(98,000)
General Fund Balance	7,724	0	620	0	0	0	8,344
Housing Revenue A/C Balance	2,835	0	269	0	0	0	3,104
Financial Instrument Adjustment a/c	0	(2,016)	0	0	0	0	(2,016)
Schools Balances	6,686	(594)	0	0	0	0	6,092
Trading Account Balances	(345)	0	338	0	0	0	(7)
Earmarked Revenue Reserves	5,210	0	671	0	0	0	5,881
Total Revenue Reserves	(95,743)	(3,440)	3,435	0	23,600	(2,741)	(74,889)
TOTAL RESERVES	736,731	(34,978)	9,064	79,993	(24,996)	46,574	812,388

Revaluation Reserve – See note 28

Capital Adjustment Account – See note 30

Useable Capital Receipts Reserve – See note 29

Housing Major Repairs Reserve

Details of this account can be found Section G.

Other Earmarked Capital Reserves

These reserves are earmarked for specific purposes.

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.

Pension Reserve

This reserve recognises the difference between the assets and liabilities of the pension fund. It is a negative value as the liabilities of the fund exceed the assets as detailed in note 24.

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 Section G.

Financial Instruments Adjustment Account – See note 40

Schools Balances

Schools are allowed to carry forward, from one year to the next, any shortfall in expenditure relative to the school's budget share for the year, plus or minus any balance brought forward from previous years. These surpluses total £6.092m as at 31 March 2008 and can only be used for any purposes that benefit pupils under delegated powers.

Trading Account Balances

These balances arise from surpluses and deficits arising on trading activities which are fully disclosed in Note 3 to the Core Financial Statements.

Earmarked Revenue Reserves

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

32. Post Balance Sheet Events

There are no known post balance sheet events.

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

	2007/2008 £'000	2006/2007 £'000
Deficit on Income & Expenditure Account	56,833	43,880
Net additional amount credited to General Fund Balance	(57,453)	(43,939)
General Fund Surplus	(620)	(59)
Schools Deficit	594	31
Total Deficit	(26)	(28)
Net movements in reserves	757	(93)
Minimum Revenue Provision	(5,722)	(6,735)
Increase/(Decrease) in revenue debtors	(4,270)	(71)
Decrease/(Increase) in revenue creditors	(5,049)	(3,332)
Decrease/(Increase) in provisions	682	325
Increase/(Decrease) in stock	25	0
Items classified elsewhere on the cash flow statement:		
Financing Net	(1,761)	(3,075)
Capital expenditure met from revenue	(2,741)	(1,970)
Payment to Capital Receipts Pool	703	854
Revenue Activities Net Cash Outflow (Inflow)	(17,402)	(14,125)

34. Analysis of Liquid Resources and Financing

	Balance at 1 April 2007 £'000	Balance at 31 March 2008 £'000	Movement 2007/2008 £'000
Cash and Bank	14,930	19,842	4,912
Bank Overdraft	(15,774)	(17,957)	(2,183)
Total Cash	(844)	1,885	2,729
Short Term Investments	85,075	112,866	27,791
Long Term Borrowing	(170,079)	(215,057)	(44,978)
Short Term Borrowing	(120)	(131)	(11)
Total Borrowing	(170,199)	(215,188)	(44,989)
Net Debt	(85,968)	(100,437)	(14,469)

35. Reconciliation between Cash and Net Debt

	£'000
Movement in Cash and Bank	2,729
Loans Repaid	10,073
New Loans Raised	(53,095)
Movement in Liquid Reserves	27,791
Financial Instruments Adjustment Account	(1,967)
Increase in Net Debt	(14,469)

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

36. Government Revenue and Capital Grants Received

	2007/2008 £'000	2006/2007 £'000
Revenue Grants		
Delegated Schools Grant	159,699	153,092
DHA Contributions	14,975	14,432
Education Standards Fund	14,041	14,357
School Standards Grant	8,366	6,647
Miscellaneous Education Grants	6,617	3,205
Supporting People	7,094	4,883
Children's' Fund Grant	756	719
Misc. Social Services Grants	8,949	6,749
Tax Collection & Benefit Administration	2,201	2,093
Private Sector Renewals Grant	0	530
Other Miscellaneous Grants	4,416	9,879
Public Service Agreement	0	1,759
Total Revenue Grants	227,114	218,344
Capital Grants and Contributions		
Sustainable Communities	24,630	33,896
Devolved Capital	4,224	7,388
Other Educational Capital Grants	7,316	6,223
Other Miscellaneous Grants and Contributions	13,376	4,794
Total Capital Grants and Contributions	49,546	53,390

37. Financial instruments balances

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

	Long-Term		Current	
	31 March 2007 £000s	31 March 2008 £000s	31 March 2007 £000s	31 March 2008 £000s
Financial liabilities at amortised cost	170,079	215,057	120	131
Financial liabilities at fair value through profit and loss	0	0	0	0
Total borrowings	170,079	215,057	120	131
Loans and receivables	60	60	28,612	76,614
Available for sale assets	15	15	0	0
Fair Value through Profit or Loss	0	0	58,035 (i)	36,252 (ii)
Total investments	75	75	86,647	112,866

(i) 31 March 2007 Fair Value through Profit or Loss is "Mid Price Valuation" rather than "Bid Price Valuation".

(ii) 31 March 2008 Fair Value through Profit or Loss is "Bid Price Valuation".

38. Financial instruments gains/losses

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows:

2007/08 Financial instruments gains and losses

	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Fair Value through profit or loss	
	£000s	£000s	£000s	£000s	£000s
Interest expense	12,709	0	0	0	12,709
Losses on Derecognition	0	0	0	0	0
Impairment losses	0	0	0	0	0
Interest payable and similar charges	12,709	0	0	0	12,709
Interest income	0	(4,047)	(1)	(2,481)	(6,529)
Gains on derecognition	0	0	0	0	0
Interest and Investment income	0	(4,047)	(1)	(2,481)	(6,529)
Gains on revaluation			0		
Losses on revaluation			0		
Amounts recycled to The I+E account after Impairment			0		
Surplus arising on revaluation of financial assets			0		
Net gain/ (loss) for the year	12,709	(4,047)	(1)	(2,481)	

Note: The "Interest Expense" figure of £12.709m includes the £1.9m adjustment referred to in Note 40. The actual Interest Earned is £10.786m.

Comparative 2006/07 Financial instruments gains and losses

	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Fair Value through profit or loss	
	£000s	£000s	£000s	£000s	£000s
Interest expense	10,410	0	0	0	10,410
Losses on Derecognition	0	0	0	0	0
Impairment losses	0	0	0	0	0
Interest payable and similar charges	10,410	0	0	0	10,410
Interest income	0	(2,180)	(1)	(2,468)	(4,649)
Gains on derecognition	0	0	0	0	0
Interest and Investment income	0	(2,180)	(1)	(2,468)	(4,649)
Gains on revaluation			0		
Losses on revaluation			0		
Amounts recycled to The I+E account after Impairment			0		
Surplus arising on revaluation of financial assets			0		
Net gain/ (loss) for the year	10,410	(2,180)	(1)	(2,468)	

39. Fair Value of assets and liabilities carried at amortised cost

Financial Liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- financial asset interest rates from comparable fixed term deposit rates as at the 31 March 2008.
- financial liabilities interest rates from PWLB new loan rates and LOBO market rates as at the 31 March 2008.
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2008 Carrying amount £000s	Fair value £000s	31 March 2007 Carrying amount £000s
Financial liabilities	215,072	214,446	170,079
Loans and receivables	76,674	78,441	28,672

The fair value of the financial liabilities is less than the carrying amount because the Council's portfolio of loans is made up of fixed rate loans some of which have a lower interest rate than prevailing market rates.

The fair value of the loans and receivables is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rate available for similar loans at the balance sheet date.

40. The Financial Instrument Adjustment Account

The Financial Instruments Adjustment Account is a new reserve to hold the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulation to be charged to the General Fund Balance.

	£000s
Adjustment to Restated Amortised Costs and Effective Interest Rate for Stepped LOBOs	1,967
Adjustments in relation to Soft Loans	49
	<hr/>
	2,016

41. Nature and extent of risks arising from financial instruments

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

- credit risk – the possibility that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by Medway Council in the 2007/2008 treasury management strategy. Medway Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

i) Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits for up to 3 months are not made with banks and financial institutions unless they are rated independently with a minimum Fitch rating of A. Deposits over 3 months and up to 2 years require a rating of AA- and AA for up to 5 years. The Council has a policy of not lending more than 20% of its surplus balances to one institution, with a minimum of 4 counterparties at any one time.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollected debts over previous financial years.

	Amount at 31 March 2008	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£000s	%	£000s
Deposits with banks and financial institutions	112,305	0.00	0
Customers	5,980	7.97	476
Council Tax	8,385	1.50	126
Total	126,670	0.47	602

One credit limit was exceeded during the reporting period the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £3.634m of the £5.980m balance is past its due date for payment. The past due amount can be analysed by age as followed:

	£000s
Less than three months	1,027
Three to six months	616
Six months to one year	562
More than one year	1,429
	3,634

Of the £8.385m Council Tax outstanding at 31 March 2008 £4.117m is over one year old.

(ii) Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The maturity structure of fixed rate borrowing as stated in the strategy:

	Lower Limit (%)	Upper Limit (%)	Actual %
Under 12 Months	0	25	0.06
12 months and within 24 months	0	25	0.03
24 months and within 5 years	0	25	0.07
5 years and within 10 years	0	50	0.00
10 years and above	40	100	99.84

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

(iii) Market risk

Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and expenditure Account will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the income and expenditure account will rise
- investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. Loans and receivables are carried at amortised cost and therefore nominal gains and losses in fair value will not impact on the Income & Expenditure Account or STRGL.

The Council has a number of strategies for managing interest rate risk. Council policy is to not exceed a maximum of £90m of borrowings in variable rate loans. The Council currently has no variable interest rate borrowing or investments. However, if it did then the risk of loss is reduced by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and therefore provide some compensation for a proportion of any higher costs.

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

(iv) Price Risk

The Council does not generally invest in equity shares but does have HM Treasury Stock to the value of £16,817. The Council has some exposure to losses arising from movements in the prices of the HM Treasury Stock.

(v) Foreign Exchange Risk

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

42. South Thames Gateway Building Control (STG)

On the 1 October 2007 Medway Council entered into a joint arrangement with Gravesham Borough Council and Swale Borough Council for the delivery of building control services. The arrangement is managed by a Joint Committee but, as no separate legal entity has been established, no group accounts are required.

For the six month period to 31 March 2008, the Council made a contribution of £80,471 to STG in respect of statutory / non fee earning work. STG returned an operating surplus of £18,721 for the period which is held for future reinvestment in the service.

G SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Accounts

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

There is a statutory duty, under the provision of the Local Government Finance Act 1988, to maintain a Collection Fund which separate from other accounts of the Council. Payments to and from the Collection Fund, which is operated on an accruals basis, are strictly defined in the Act. The Council, in common with Kent Police Authority and Kent Fire and Rescue Service has a precept on the Collection Fund. The Council's precept, excluding Parishes, for 2007/2008 was £83,925,000 (2006/2007 £80,225,000).

INCOME AND EXPENDITURE ACCOUNT	Notes	2007/2008 £'000	2006/2007 £'000
Income			
Council Tax Collectable from taxpayers	1	(86,816)	(82,779)
Transfers from General Fund: Council Tax Benefit		(14,003)	(13,334)
Income Collectable from Business ratepayers	2	(65,693)	(67,457)
Total Income for Year		(166,512)	(163,570)
Expenditure			
Precepts and Demands			
Medway Council		83,925	80,225
Kent Police Authority (KPA)		10,338	9,835
Kent Fire and Rescue Service (KFRS)		5,216	5,020
Parishes		216	197
		99,695	95,277
Business rates			
Payments to National Pool	3	65,401	67,171
Costs of collection allowance		291	287
Provision for bad and doubtful debts	4	946	196
Total Expenditure for year		166,333	162,931
(Surplus) / Deficit for the year		(179)	(639)
(Surplus) / Deficit at the beginning of the year		189	828
(Surplus) / Deficit at end of year	5	10	189

Notes to the Collection Fund Account

1. Council Tax

In 2007/2008 the Council, the Kent Police Authority and the Kent Fire and Rescue Service set equivalent Band D Council Tax levels of £991.89, £122.18 and £61.65 respectively resulting in a Council Tax Band D in the Council's area of £1,175.72 excluding Parishes.

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

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

Band	Value	Total (net of discounts)	Multiplier	Band D Equivalents
A	Not exceeding £40,000	8,431	6/9	5,620
B	£40,000 to £52,000	31,802	7/9	24,735
C	£52,000 to £65,000	28,854	8/9	25,648
D	£65,000 to £88,000	14,380	1	14,380
E	£88,000 to £120,000	7,221	11/9	8,826
F	£120,000 to £160,000	3,022	13/9	4,364
G	£160,000 to £320,000	1,124	15/9	1,874
H	Exceeding £320,000	43	2	85
Less adjustment for collection rates and MOD properties				(921)
Total Band D Equivalent 2007/2008				<u>84,611</u>
Total Band D Equivalent 2006/2007				84,517

The Tax Base multiplied by the Council Tax levied indicates an estimated gross yield of approximately £99,000,000 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 £14,000,000) granting up to 100% rebate. This is reimbursed by Central Government. The actual net yield from council tax in 2007/2008 was £86,813,000.

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 £.

	2007/2008 £'000	2006/2007 £'000
Amount Collectable for the year	75,086	71,034
Less: Transitional and other Reliefs	(9,393)	(3,577)
Income Collectable from Non-Domestic Ratepayers	<u>65,693</u>	<u>67,457</u>

The total Non-Domestic Rateable Value at 31 March 2008 was £168,068,649 (31 March 2007, £168,462,819) and the Uniform Business Rate 44.1p (44.4p with supplement) (2006/2007 42.6p and 43.3p 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 2007	1,395
Add: Provisions made during year	946
Less amounts written off	(771)
Balance 31 March 2008	<u>1,570</u>

See also Note 21 to the Balance Sheet.

5. Deficit

The deficits attributable to Medway Council and Kent Police Authority at the end of March 2008 were £42,000 and £2,000 respectively, with a surplus of £34,000 due to Kent Fire and Rescue Service. This is a further considerable reduction in the net deficit at the end of 2006/2007. 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

2006/2007 £'000		Notes	2007/2008	
			£'000	£'000
	Income			
(9,462)	Dwelling Rents (Gross)	9	(9,971)	
(227)	Non-Dwelling Rents (Gross)		(224)	
(942)	Charges for Services & Facilities		(1,006)	
(10,631)	Total Income			(11,201)
	Expenditure			
2,077	Repairs & Maintenance		1,898	
3,418	Supervision & Management		3,632	
84	Rents, Rates, Taxes and Other Charges		98	
1,084	Negative Housing Revenue Account Subsidy Payable	7	1,081	
1,897	Depreciation and impairment of fixed assets	3	2,037	
46	Debt Management Costs		46	
184	Increase/(Decrease) in Provision for Bad or Doubtful Debts	8	(59)	
8,790	Total Expenditure			8,733
(1,841)	Net Cost of Housing Revenue Account Services per authority Income and Expenditure Account			(2,468)
103	HRA services share of Corporate and Democratic Core			103
(1,738)	Net Cost of Housing Revenue Account Services			(2,365)
181	(Gain) or loss on sale of HRA fixed assets			0
839	Interest payable and similar charges			900
(160)	Interest and investment income			(243)
0	Pensions interest cost and expected return on pensions assets			0
(878)	Surplus for the year on Housing Revenue Account Services			(1,708)

2. Statement of Movement on the HRA Balance

2006/2007 £'000		2007/2008 £'000
(878)	Surplus or deficit for the year on HRA Income and Expenditure Account	(1,708)
120	Net additional amount required by statute to be debited or (credited) to the Housing Revenue Account balance for the year	1,440
(758)	Increase in Housing Revenue Account balance	(269)
(2,077)	Housing Revenue Account surplus brought forward	(2,835)
(2,835)	Housing Revenue Account surplus carried forward	(3,104)

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

2006/2007 £'000		2007/2008	
		£'000	£'000
	Items included in the HRA Income and Expenditure Account but excluded in the movement on the HRA balance for the year		
(38)	Net charges made for retirement benefits in accordance with FRS 17	0	
	Items not included in HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
(181)	(Gains)/Losses on disposal of assets	0	
271	Transfer to/(from) Major Repairs Reserve	162	
68	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	0	
0	Capital expenditure funded by the Housing Revenue Account	1,278	
120			1,440
120	Net additional amount required by statute to be debited or (credited) to the Housing Revenue Account Balance for the year		1,440

Notes to the Housing Revenue Account

1. Introduction

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

2. Dwelling Stock

The Council managed 3,059 dwellings as at 31 March 2008. The movement in stock is analysed as follows:-

	1 April 2007	Adjustments	Disposals	31 March 2008
Houses	1,335		(8)	1,335
Flats	1,292	(18)	(3)	1,292
Maisonettes	216			216
Bungalows	245			245
Total	3,088	(18)	(11)	3,059

The adjustments relate to sheltered units that have been removed from the housing system as they have become vacant and will not be re-let due to the schemes not being able to meet the Decent Homes Standard. The disposals relate to properties sold through the right to buy scheme.

3. HRA Fixed Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Balance Sheet. The market value at 1 April 2007 is estimated to be £341,395,600. The most recent valuation of housing stock was carried out as at April 2007. The next full valuation is due as at April 2010.

	Dwellings £'000	Other Land and Buildings £'000	Total £'000
Balance Sheet Value 1 April 2007	176,366	6,904	183,270
Revaluation	9,238	1,193	10,430
Restatements	0	0	0
Book Value 1 April 2007	185,604	8,097	193,700
Depreciation	(1,451)	(586)	(2,037)
Additions (see below)	4,517	0	4,517
Disposals	(941)	(94)	(1,035)
Balance Sheet Value 31 March 2008	187,728	7,417	195,145

4. Major Repair Reserve

The Major Repairs Reserve is an account that receives the Major Repairs Allowance in order to assist funding major Housing Revenue Account repairs. The Major Repairs Reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account. If the depreciation is of a different value to the Major Repairs Allowance, then a transfer from or to the Housing Revenue Account is required to adjust this amount back to the value of the Major Repairs Allowance. The net sum is then available to finance Housing Revenue Account capital expenditure. The analysis of movement on the Major Repairs Reserve for 2007/2008 is as follows:

Major Repairs Reserve	2007/2008 £'000	2006/2007 £'000
Opening Balance 1 April 2007	1,092	894
HRA Depreciation from Capital Financing Account	2,037	1,897
Depreciation Adjusting Transfer from HRA	162	271
Financing of HRA Capital Expenditure	(2,503)	(1,970)
Balance Carried Forward 31 March 2008	788	1,092

5. Analysis of HRA Capital Expenditure

Funding Source	2007/2008 £'000	2006/2007 £'000
Operational Assets		
Dwellings	4,517	2,705
Other Land and Buildings	0	0
Non-Operational Assets	0	0
Total	4,517	2,705
Funded by:		
Major Repairs Reserve	(2,503)	(1,970)
Borrowing	(736)	(735)
Capital expenditure funded by the Housing Revenue Account	(1,278)	0
Total Funding	(4,517)	2,705

6. Summary of HRA Capital Receipts

	2007/2008 £'000	2006/2007 £'000
Receipts from the sale of land	0	0
Receipts from the sale of other property	0	0
Repayment of discount	0	13
Receipts from the sale of houses other than through the right to buy scheme	0	0
Receipts from disposals of houses through the Right To Buy scheme	941	1,147
	941	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:

	2007/2008 £'000	2006/2007 £'000
Management Allowance	1,623	1,489
Maintenance Allowance	3,466	3,284
Major Repairs Allowance	2,199	2,168
Admissible Allowance	0	5
Rental Constraint Allowance	10	28
Charges for capital	1,131	1,038
Total Receivable Allowance	8,429	8,012
<u>Less</u>		
Guideline Rent Income	(9,466)	(8,989)
Interest on Receipts	(0)	(0)
Total Income Allowance to be netted against Receivable Allowance	(9,466)	(8,989)
Total Subsidy (Payable)/Receivable	(1,037)	(977)

Subsidy for 2007/2008 was based on an assumed number of dwellings of 3,161 compared with 3,183 for 2006/2007.

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 2007/2008 this amounted to £86,244 (£107,454 in 2006/2007).

8. Tenants' Arrears

Tenants' Arrears at 31 March 2008 were analysed as follows:

Type of Debt	2007/2008 £'000	2006/2007 £'000
General Stock	305	275
Garages	6	6
Former Tenancies – General Stock	234	229
Former Tenancies - Garages	2	2
Housing Benefit Overpayments – General Stock	101	291
Court Costs – General Stock	45	46
Former Tenancy Arrears of Current Tenants – General	24	31
Rechargeable Repairs	36	26
Total HRA	754	907
General Fund	24	28
Total Arrears	777	935
Percentage of Gross Rents (HRA)	6.93%	8.82%

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

	£'000
Balance 1 April 2007	711
Less Reduction of Provisions made during year	(59)
Less amounts written off	(71)
	<hr/>
Balance 31 March 2008	<u>581</u>

The reduction in the calculated provision for the write-off of doubtful debts is due to the removal of housing benefit overpayment arrears accruing on or after 1 April 2004, which if deemed irrecoverable, fall within the responsibility of the general fund. These were included within the figures calculated at the end of the previous financial year.

9. Gross Rental Income

The rent income figure is net of voids. The level of voids in 2007/2008 was on average equal to 0.92% (0.92% in 2006/2007). The level of rebates provided was £6,473,836 (2006/2007 £6,284,253) which amounted to 57.76% of rent collectable (2006/2007 59.21%).

H 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 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.

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 is the same.

CREDIT APPROVAL

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

CREDITOR

Amounts owed by the Council for works done, 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 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 Councils services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Council (Revenue Support Grant).

HOUSING ADVANCES

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

HOUSING BENEFITS

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

HOUSING REVENUE ACCOUNT

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

INCOME

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

INFRASTRUCTURE ASSETS

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

LIABILITY

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

LOBOS

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

MINIMUM REVENUE PROVISION (MRP)

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

NON-DOMESTIC RATE

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

NON-OPERATIONAL ASSETS

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

OPERATING LEASE

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

OPERATIONAL ASSETS

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

PRECEPT

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

PROVISION

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

PROVISION FOR CREDIT LIABILITIES

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

PUBLIC WORKS LOAN BOARD (PWLb)

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

RATEABLE VALUE

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

RELATED PARTY TRANSACTIONS

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

RESERVES

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

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE SUPPORT GRANT

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

STOCKS

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

TEMPORARY LOAN

Money borrowed for a period of less than one year.

TOTAL COST

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

The cost of that activity or service will then be consistently applied in reporting performance indicators, Best Value Performance Plans, statistics and returns and used as a benchmark against other organisations.