Agenda Item: 5A

AUDIT COMMITTEE

25 JUNE 2009

STATEMENT OF ACCOUNTS 2008/2009

Report from: Mick Hayward, Chief Finance Officer

Summary

This report presents the 2008/2009 Statement of Accounts for approval. It also advises Members of impending changes to future statements following the adoption of the International Reporting Standards (IFRS).

The Cabinet is considering this report on 23 June 2009 and a verbal update will be made at the meeting.

1. Budget and Policy Framework

1.1 The Accounts and Audit Regulations 2003 (as amended) (the Regulations) require these accounts to be formally approved by the Council or a committee set up for this purpose. The terms of reference of this committee include approval of the Statement of Accounts. In the first instance they are presented to Cabinet, as the body charged with the executive management of the council's budget, to make comment and recommend approval by the Audit Committee.

2. Background

2.1 Local authorities are required under the Regulations to produce an annual statement of accounts that is subject to scrutiny by the external auditors. The auditor will give an opinion on the accounts and additionally interested persons have the right to inspect the accounts and make representations to the auditor. PKF are the auditors responsible for the audit of accounts that must be published by 30 September 2009.

3. Statement of accounts

3.1 These documents are subject to detailed requirements as to content and style mainly prescribed by the Code of Practice on Local Authority Accounting and the Best Value Accounting Code of Practice (BVACOP). The 2007 Code, as reported last year, introduced some revisions predominantly in respect of accounting for capital reserves which required restatement of previous year's balances. The 2008 Code only adds some minor changes to formats and presentation without any similar restatement.

3.2 In accordance with proper accounting practice, the statement of accounts includes the following elements which are subject to scrutiny by the appointed auditor:

- an explanatory introduction and statement by the chief financial officer;
- a statement of responsibilities which outlines responsibility for efficiently managing the affairs of the Council;
- the auditor's opinion which is given at the completion of the audit and must occur by 30 September 2009;
- a statement of accounting policies which highlights practices adopted by the authority;
- an income and expenditure account which combines the income and expenditure relating to all the Council's functions including the General Fund and the Housing Revenue Account. This indicates a 'deficit' for the year approaching £40m which is more than negated by an 'Additional amount credited to the General Fund in accordance with statute and proper practice' (see below);
- a statement of movement on the general fund balance which indicates an increase of approximately £3.5m during 2008/2009;
- statement of total recognised gains and losses which includes a number of significant adjustments, although having no effect on the bottom line of the accounts imply a 'loss' for the year of over 72m;
- the balance sheet which shows the assets, liabilities and net worth of the authority at the end of the financial year with comparatives for 2007/2008;
- the cash flow statement which summarises the inflows and outflows of cash, arising from transactions between the Council and third parties, for revenue and capital and
- notes to the core financial statements which give further explanation and analysis of some of the movement in the income and expenditure account, balance sheet and cash flow statement together with a number of disclosures required by the Code. These notes also include the 'Additional Amount Credited To The General Fund In Accordance With Statute And Proper Practice' which are amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance.

Further supplementary financial statements are required to expand on the information included within the statements above;

- the housing revenue account (HRA) which summarises the major items of expenditure and income relevant to the account with supplementary notes where required and
- the collection fund which records council tax and business rate income and disbursements to precepting authorities (the council's own requirement, Kent Police Authority, Kent Fire and Rescue Service and parish councils) and payments to central government in respect of the contribution to the business rates pool.

3.3 The 2007 Regulations removed the requirement for a Statement of Internal Control and with effect from 2007/2008, local authorities are required to prepare and publish an annual governance statement. This will be considered as a separate report to Members.

3.4 The draft statement of accounts is attached as Appendix 1 to this report. The elements that may be of most interest to Members are the income and expenditure account, statement of movement on the general fund balance, statement of total recognised gains and losses and the balance sheet which can be found on pages 11 and 13 respectively.

3.5 The presentation of the income and expenditure account (I&EA) requires costs to be allocated to service headings that are subsequently netted out through the appropriation or other 'below the line' adjustments. To assist Members in making the comparison to the more familiar management accounting format as shown on page 2.

3.6 Paragraph 2.1 refers to the audit of the statements being completed by the 30 September 2009. The actual audit of the statements is scheduled to commence mid July and clearly the statement of accounts that is presented for approval does not reflect any changes that this audit may require. If there are significant amendments to the statement of accounts these will need to be reported back to Members prior to formal publication.

4. Summary financial position for 2008/2009 (General Fund)

Directorate	**Budget £000s**	**Provisional Outturn £000s**	**Variation £000s**
Children and Adult Services	284,736	280,567	(4,169)
Regeneration, Community and Culture	68,322	68,770	448
Business Support	12,960	11,843	(1,117)
Public Health	427	378	(49)
Interest & Financing	12,644	12,644	0
Levies	879	844	(35)
Area Based Grant	(10,936)	(11,083)	(147)
Planned Use of Reserves	166	1,759	1,593
Asset Rentals	(37,205)	(37,203)	2
DSG	(163,918)	(163,918)	0
Total	**331,993**	**328,519**	**(3,474)**

4.1 Throughout the year, regular monitoring reports have identified the major variations from approved budgets. Recent monitoring reports had forecast an improvement from the earlier overspending predictions and indeed the last report to Cabinet, based on January spend, had indicated a potential underspend of £2.4 million. The final accounts now show a revenue surplus of £3.5 million (summary on page 2 of appendix 1 and Increase in General Fund balance for the year at page 30). The final position is a significant achievement and is a reflection both of the successful efforts to maintain services at minimum cost and the robustness of the budgets that were set. The opportunity has also been taken to ensure that reserves and provisions at the year end are at prudent levels, including capital receipts, and that we have reserved the treasury surplus against an inevitable reduction in investment income in the second half of 2009/2010. For the past five years the Council has maintained a justifiably proud record of balancing the budget but in context the result for 2008/2009 is unprecedented since the very first year of the Council. It is also against a background of challenging resource constraints that have necessitated a constant search for savings and efficiencies. However in terms of turnover it is also wise to reflect that the £3.5 million represents less than 0.6% and that is a very small margin in terms of cost control.

4.2 For Members information, some of the more significant variations to agreed budgets were:

4.2.1 Children and Adults Services

The net underspend for the directorate was £4.17m. The major variances within the directorate were as follows:

- Disability services - Physical Disability under £1.6m
  - Learning Disability under £2.6m

  Both these variations stem from a combination of more cost effective placements, lower than expected take-up of services and the end of some expensive placements.
- Mental Health Services over £1.6m largely as a consequence of Community Support service (CSS) redundancy costs of just over £1m
- Specialist Children's Services under £0.7m – numbers of looked after children were at the lowest they have been for a number of years.
- Learning and Achievement under £2.5m but this was offset by reduced grants of £2.7m albeit most of this grant income will roll over to 2009/2010

4.2.2 Regeneration, Community and Culture

The Directorate underspent by some £252,000 against its 2008/2009 revenue budget of £68.322m. However, a contribution of £700,000 was made to reserves to cover anticipated trading deficits in respect of the initial years of operation for Medway Innovation Centre thus moving the variance to an overspend of £448,000. The major variances within the directorate were as follows:

- Highways over £824,000. The delay in finalising the agreement with the Rochester Bridge Trust for handover of the tunnel has meant that the proposed contribution of £500,000 for maintenance was not available. There were also increased winter gritting and repair costs;
- Leisure & Sports over £331,000 with a shortfall in income against target as recessionary impacts were felt;
- Development Control over £398,000 with a loss of planning delivery grant and increased legal costs;
- Waste under £719,000 with a significant reduction in collection tonnage; and
- Integrated Transport under £992,000 largely as a beneficial impact from new countrywide scheme.

4.2.3 Business Support

The Department ‘s outturn for 2008/2009 was £11.84m, an underspend of £1.12m against its revenue budget of £12.96m. This underspend should be viewed against a background of constraints on expenditure in place throughout the 2008/2009 financial year. The main areas of cost saving were achieved within the following services:

- Human Resources £474,000 (Temporary Staff Agency income £205,000)
- Design & Surveying £251,000 (additional income)
- Customer First £206,000
- Financial Management £166,000

4.2.4 Interest and Financing

Treasury and cash management during 2008/2009 performed to expectation with a surplus of just under £1m and the opportunity has been taken to reserve this surplus as an equalization reserve to offset an inevitable downturn in investment income to occur from the second half of 2009/2010.

4.2.5 Planned Use of reserves

The revenue outturn has provided an opportunity to ease the pressure for the year on Capital Receipts by funding the required £1.759m usage of capital receipts from revenue. Cabinet have already received a report for a number of relatively small additions to the capital programme that total some £1m of investment to be funded in 2009/2010 from the release of these receipts.

4.3 The 2008/2009 revenue underspend of £3.474m has been applied to the General Fund balance to ensure that the balance is at a level of 5% of the 2009/2010 net budget (excluding dedicated schools grant). The excess above this level (£2.319m) has been allocated to the General Reserve and the Balance Sheet (page 13 of Appendix 1) shows this balance at £9.5 million and a General Reserve balance of £3.263m. This represents 5.0% of the non-schools budget for the council. The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Audit Commission have declined to be prescriptive on a guideline level of reserves but 5% is the figure that is generally quoted as a prudent guide. Clearly we remain within this tolerance.

5. Summary financial position for 2008/2009 (HRA)

5.1 The Housing Revenue Account (HRA) is a ring-fenced account to record the ‘landlord’ costs and income associated with the maintenance of our housing stock. It includes costs of management and maintenance for the property portfolio, housing benefit costs in the form of rent rebates and capital financing costs, offset by housing rents and government grant. The summary of that account is set out at page 44 of Appendix 1 and reveals a surplus for the year of £1.2m. This is then incorporated into the balance shown at the foot of the Balance Sheet (page 13) as the Housing Revenue Account balance that now stands at just over £4.3m. This is only available for housing purposes and cannot be used to support General Fund (council tax) costs.

6. Summary financial position for 2008/2009 (Delegated Schools Budget)

6.1 A significant proportion of the overall budget of the council is delegated to schools and is then ring-fenced for that purpose. The total funding provided to schools includes the sum delegated by the council from the Dedicated Schools Grant, plus sixth form grants provided by the Learning and Skills Council and Standards Fund grants from the DCSF. In 2008/2009 schools received funding totalling £182m. Expenditure incurred by schools is included in the figure for Children and Adult Services shown in section 4, above. Any surplus or deficit relating to schools is 'rolled-forward' as part of the schools' balances.

6.2 The reality of the spending position is reflected in the movement in the schools' balances figure at the foot of the Consolidated Balance Sheet (page 13). This shows that the schools balances have reduced from £6.092m as at 31 March 2008 to £5.850m as at 31 March 2009. In addition:

- Net revenue reserves have fallen, as a percentage of the total resources available, from 3.5% to 3.2%
- There has been an increase of £0.420m in the level of reserves held by schools with positive balances;
- There has been an increase of £0.662m in the level of deficits held by schools;
- The number of schools in deficit has increased from seven to ten.

7. Summary financial position for 2008/2009 (Capital)

7.1 The total approved capital programme for 2008/2009 and future years is some £124m. Capital forecasts for individual years are continually monitored and expenditure reprofiled as appropriate. The final capital expenditure for 2008/2009 was £60.49m compared to the 2007/2008 outturn of £87.215m. The variance of £3.334m against the latest forecast expenditure for the year of £57.15m, arose from a variety of schemes, and will largely be rolled forward to be spent in future years. The final outturn includes £20.150m of expenditure to be recorded in the financial statements under a new category: Revenue Expenditure Funded from Capital Under Statute (REFCUS), formerly known as Deferred Charges. This expenditure is no longer treated as Capital in the statement of accounts, but is reported through the Income & Expenditure account.
The tables below exemplify spend across directorates and the funding streams and section 7.3 highlights the major achievements during 2008/2009.

Summary capital outturn position

Directorate	Approved programme 2008/2009 and beyond £000	Forecast Spend 2008/2009 £000	Provisional Outturn 2008/2009 £000	Variance £000
Children and Adults	35,809	24,221	22,410	(1,811)
Regeneration, Community & Culture	75,959	27,615	33,159	5,544
Business Support	12,220	5,314	4,920	(394)
Total	**123,988**	**57,150**	**60,489**	**3,334**

Funding Source	Funding of expenditure £000's
Borrowing (supported and unsupported)	24,878
Government Grants	31,258
Major Repairs Allowance/Reserve	104
Capital Receipts	72
General and Earmarked Reserves	2,209
Developer and Other Contributions	1,968
Total	**60,489**

7.2 Borrowing represents supported capital expenditure (revenue), (SCE(R)) together with unsupported (invest to save) borrowing predominantly for the purchase and refurbishment of Gun Wharf. Government grants represents the proportion of the supported capital expenditure (grant), (SCE(C)), used in financing spend in the year. The balance of government grants that haven't been spent during 2008/2009 will roll forward to support spend in later years. These grants include certain education grants linked to the academic year, and thus available to the end of the summer term.

7.3 The capital investment represents significant achievement towards the planned outputs of the capital programme. These will have featured in the regular monitoring reports to Cabinet and Overview and Scrutiny. Key outputs were:

7.3.1 Children and Adults Services

- Completion of Saxon Way Primary Childrens Centre;
- Kingfisher Primary Childrens Centre;
- Temple Mill Primary Childrens Centre;
- St James CE Primary Childrens Centre;
- Refurbished foundation stage unit at Luton infant school;
- Construction of the new Pilgrim CE Primary School completed
- Construction of the new Burnt Oak Primary School completed, and the previous Arden Junior School premises demolished;
- Progress made on the Old Vicarage extension to provide extra facilities and increased occupancy;
- The establishment of a training facility for cooking courses in Medway located at Walderslade School for Girls (School Food Trust);
- The provision of home access to technology for targeted groups of pupils and
- Replacement of temporary accommodation at Parkwood Junior school with a new classroom, SEN room, and toilets.

7.3.2 Regeneration, Community and Culture

- Completion of Phase 2 of the new-build Medway Innovation Centre;
- Significant progress being made at Medway Park at the Black Lion with the opening date scheduled for early 2010;
- Installation of hand railings and completion of a walkway around the Rochester Riverside site enabling it to become a visitor attraction for the towns;

- Adoption of Medway Council as the HCA's 'accountable body' to deliver the Parklands North Kent and Medway programme within which over £2m has been allocated for the Great Lines Heritage Park Project, creating a 75-hectare world-class park at the heart of Medway;
- Funding confirmed for funding of partner-delivered improvements to Gillingham train station;
- Funding secured for the Medway Children's Play Initiative;
- Completion of a children's play area at Pottery Road, Hoo;
- Establishment of a learning centre/ job shop in Chatham funded by the LSC
- Creation of a community ICT centre at Hook Meadow;
- Improvements to the community ICT suite at Chattenden and
- Acquisition of the Medway Street car park lease & subsequent improvements/ merger with the Globe Lane site.

7.3.3 Business Support

- Successful migration of staff from various administrative offices to the new civic HQ at Gun Wharf;
- St. Georges Centre brought into operational use with more improvements ongoing;
- Commencement of detailed work plans for the demolition of the former Civic Centre;
- ICT Strategic Fund – continuation of projects to ensure Medway has the infrastructure in place to deliver services efficiently and effectively;
- Improvements to housing stock;
- Improvements to private sector housing through renovation grants etc and new housing assistance schemes including the Empty Homes programme, Coldbusters Initiative and Crisis Grants and
- Property adaptations for disabled persons, with more funds added to reduce the backlog of cases.

7.3.4 Member's Priorities

In addition to the above, considerable progress has been achieved on a great number of smaller projects across all directorates and includes:

- Improvements to Echoes at Strood Sports Centre;
- Repairs to Lordswood Leisure Centre sports hall;
- Street lighting, Gillingham Green;
- Zebra crossing, Fairview Avenue;
- Pedestrian crossing, Parrs Avenue;
- Lighting at Parkwood shopping precinct;
- Improvements to Halling service road;
- Corporate promotional work;
- CCTV at The Co-op, Rainham;
- Upgrading public conveniences at Parkwood;
- Speed warning signs at Woodside;
- Resurface & provide lighting to footpath at Pepys Way/Brompton Lane;
- Contribution towards upgrading fencing and gates at Cuxton Rec;
- Contribution towards play equipment at Halling children's play area and
- Funding of 129 projects under the Ward Improvement Fund scheme totalling £156,000.

8. Reserves

8.1 Recent years have seen the Council's reserves diminish, largely as a result of financing capital investment but also in supporting revenue expenditure in the earlier years of Medway Council. The budget setting process for 2009/2010 forecast available general reserve at 31 March 2009 at a minimal balance of £0.7m and a reduction in the level of contingency balance in the form of the Revenue Balance to £7.3m as a consequence of funding the CSS redundancy costs. The report to Council on 26 February indicated an aspiration that the final outturn performance would enable a more healthy position to occur and this has now proved to be the case. As referred to in paragraph 4.3 that aspiration has become reality and whilst the unallocated General Reserve remains at a modest level in comparison to the earlier years of the Council it is in a significantly better position than it has been for a few years and it should remain the policy of the Council to strengthen reserves whenever the opportunity arises.

8.2 The unallocated General Reserve at 31 March 2009 stands at £3.3m with a Revenue Balance (contingency) of £9.5m, representing 5% of the 2009/2010 net budget excluding DSG. In addition, it should also be noted that earmarked reserves have also increased by almost £3.7m

9. International Financial Reporting Standards

9.1 All council's accounts are currently prepared using UK Generally Accepted Accounting Practice (UK GAAP). This is converging with International Financial reporting and will eventually disappear. This process has already occurred within the private sector and central government and the NHS are required to be IFRS compliant for 2009/2010 and Local Government a year later.

9.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) is currently producing a new Code of Practice on Local Authority Accounting which is expected to be published in the autumn. The full extent of the new requirements is, therefore not known at this stage but a considerable additional burden will be placed, not only on finance staff, but on many aspects of the council's business such as in the setting up of trusts, entering into leases, disaggregating component values of assets and recording information on annual leave, etc.

9.3 The average length of Private sector accounts increased by 50% since the introduction of IFRS. CIPFA is currently reviewing the disclosure notes made within the statement of accounts and are seeking to remove some disclosures.

9.4 The main issues to considered under the introduction of IFRS are highlighted in the following table and the significant differences discussed in more detail below;

Significant Differences	Some Differences	No Significant Differences
Fixed Assets	Related Party Disclosures	Stocks
Leases	Impairments	Post Balance Sheet Events
PFI (with effect from 2009/2010)	Intangible Assets	Accounting for Government Grants
Group Accounts	Investment Properties	Provisions
Format of Accounts	Disclosures	Financial Instruments
Employee Benefits		

9.5 The Transition date for Local Government to switch to International Financial Reporting Standards is 31 March 2009 and the first full statement of accounts will be for 2010/2011. Although this is apparently far in advance, for first time adoption of IFRS there is a requirement for 2 years worth of comparative balance sheets to be produced and a reconciliation be completed between the balance sheets under IFRS and UK GAAP. In addition to this there is a requirement for the full retrospection for items where accounting treatment is changed. This is important for lease costs as the treatment of these items will have to be calculated from when the lease started.

9.6 It is also important to note this date as information will be needed to complete the restatement of the balance sheet as at 1st April 2009 including information on employee benefits, fixed asset valuations and leases. This restatement should be completed by the end of December 2009 and will be subject to external audit. A more comprehensive report will be brought to the Committee at that time.

10. Risk Management

10.1 The Corporate Risk Register was amended in February and as part of that review the short-term financial risk was removed reflecting the Council’s record of managing such a risk. That is clearly borne out by the outturn result.

10.2 There remains a risk that the Auditor may find material errors or misstatements in the accounts and the results of the audit of the statements will not be known before they are presented for adoption by the Council as part of the Audit Committee function. Due regard has been had to the regulations and accounting requirements in producing the statements and the position put before the Audit Committee is the officers’ interpretation of these requirements.

10.3 It is likely that Preparation for the implementation of IFRS will form part of the audit commission assessment of the Council’s performance. Failure to prepare adequately will also affect on the quality of the 2010/2011 accounts and the audit of these statements and use of resources scores.

10.4 It is also likely that there will be a cost for the preparations for IFRS, there will be costs for the valuation of assets, systems compliance and a considerable resources of officer time will need to be freed up to work on this project.

11. Recommendations

11.1 That the Audit Committee approves the draft statement of accounts for 2008/2009.

11.2 That the Audit Committee notes the implications of the introduction of IFRS as outlined in Section 9.

Background papers

Revenue and Capital budget monitoring reports to Cabinet during 2008/2009
Medway Council's Statement of Accounts for 2007/2008.

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MEDWAY COUNCIL

Draft

STATEMENT OF ACCOUNTS

2008/2009

Contents

A EXPLANATORY FOREWORD

Introduction

The Statement of Accounts for the year ended 31 March 2009 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 2009. 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 2008/2009

Revenue

The final General Fund outturn was £164.6m, an underspend of £3.5m against the budget of £168.1m.

The table below summarises the income and expenditure for each directorate of the Council for 2008/2009.

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	143,013	(131,170)	11,843	12,960	(1,117)
Children & Adult Services	381,396	(100,829)	280,567	284,736	(4,169)
Regeneration, Community & Cultural Services	106,234	(37,464)	68,770	68,322	448
Public Health	882	(504)	378	427	(49)
Levies	844	0	844	879	(35)
Depreciation Credit	0	(37,203)	(37,203)	(37,205)	2
Interest & Financing	24,848	(12,204)	12,644	12,644	0
Contribution to Reserves	1,759	0	1,759	166	1,593
Dedicated Schools Grant	0	(163,918)	(163,918)	(163,918)	0
Area Based Grant	0	(11,083)	(11,083)	(10,936)	(147)
	658,976	**(494,375)**	**164,601**	**168,075**	**(3,474)**
Funded:-					
RSG				9,668	
NNDR Redistribution				69,452	
Council Tax				88,955	
				168,075	

The outturn on the Housing Revenue Account (HRA) was a surplus £1,199,000 (2007/2008 surplus £269,000), compared to a budget of £1,231,000 (2007/2008 budget £275,000). This surplus was credited to the HRA Reserve, which stands at £4,303,000 as at 31 March 2009 (£3,104,000 as at 31 March 2009).

Capital

The Council's capital investment in 2008/2009 was £60,489,000 (2007/2008 £90,841,000). 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 (£24,878,000);
- Grants or contributions from Government bodies or other agencies and organisations (£33,330,000);
- Part proceeds from the sale of capital assets or the repayment of advances, the usable part, following pooling of HRA capital receipts (£72,000);
- Contributions from the Revenue Account and specific reserves (£2,209,000).

The Council spent £36,761,000 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 £3,578,000 and £20,150,000 relating to a newly defined category of capital expenditure, "Revenue Expenditure Funded from Capital under Statute" (formerly deferred charges). (see Statement of Accounting Policies 5).

Capital expenditure incurred by the Council in 2008/2009 is summarised below:

Directorate	**Total Programme £'000**	**2008/2009 Forecast £'000**	**Outturn £'000**	**Variation £'000**
Expenditure				
Business Support	12,110	5,314	4,920	(394)
Children and Adult Services	35,809	24,221	22,410	(1,811)
Regeneration, Community and Culture	75,959	27,615	33,154	5,539
Total	**123,878**	**57,150**	**60,484**	**3,334**

The capital programme for 2009/2010 and beyond reflects the major investment priorities of the Council which are as follows:

Regeneration of Chatham including the new road network and improvements to the Waterfront; Medway Park Development; the Local Transport Plan including improvements to the A228, Quality Bus Corridor; investment in the Council's housing stock and investment in schools to support delivery of high standards of education.

- **Borrowing/Investments**

During 2008/2009 the level of debt, i.e. money that the Council owes increased by £37,423,000 from £215,188,000 to £252,611,000. 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 £112,941,000 to £134,750 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 decrease in 2008/2009 by approximately £25m. This was principally due to capital investment of £40m and a decrease in the value of all classes of assets as a result of revaluation, depreciation and disposals.

B STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

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

The Chief Finance Officer's Responsibilities

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

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

- selected suitable accounting policies and applied then 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 2009 and its income and expenditure for the year ended 31 March 2009.

Mick Hayward
Chief Finance Officer 15 June 2009

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 2008.

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. However, in preparation for the future requirements of International Financial Reporting Standards (IFRS) the value of annual leave not taken at the year end in respect of teaching staff has been calculated and accrued.

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. Revenue Expenditure Funded from Capital Under Statute

The 2008 Code has introduced this new classification of expenditure where capital expenditure does not create a tangible fixed asset, as is the case with disabled facilities grants, for example. This expenditure was formerly recorded as a deferred charge.

Expenditure is charged to the Income and Expenditure Account with a corresponding credit to the General Fund Balance, from the Capital Adjustment Account, showing as a reconciliation item in the Statement of Movement on the General Fund Balance.

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. New regulations were introduced in February 2008 where Councils are able to agree differing methods of calculating MRP. For 2008/2009 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 2008 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 year on year 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. 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 2008/2009.

16. Investments and Borrowing

Under SORP 2008 financial liabilities are classified as amortised cost or fair value through profit or loss. All financial liabilities have been classified as amortised cost. Financial investments are classified as:

- loans and receivables – financial assets not traded in an active market will usually fall into this category e.g. fixed term deposits;
- available-for-sale – financial assets traded in an active market e.g. Gilt Edged Securities;
- fair value through profit or loss – acquired principally for the purpose of selling or repurchasing in the near term or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit taking or a derivative e.g. fund manager portfolio.

Loans and receivables are shown on the balance sheet at amortised cost but are disclosed at fair value in the notes to the accounts.

Available-for-sale and fair value through profit or loss are shown on the balance sheet at fair value.

Financial liabilities are shown on the balance sheet at amortised cost and disclosed at fair value in the notes to the accounts.

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 2007/2008 £'000	Service	Notes	Expenditure 2008/2009 £'000	Income 2008/2009 £'000	Net 2008/2009 £'000
1,293	Central services to the public		2,254	661	1,593
375	Court Services		384	0	384
55,978	Cultural, environmental and planning		71,687	28,936	42,751
38,354	Education services		274,459	232,254	42,205
24,306	Highways, roads and transport services		36,182	10,890	25,292
(288)	Local authority housing		10,097	11,777	(1,680)
4,031	Other housing services		102,994	97,359	5,635
73,180	Social services		110,443	26,980	83,462
6,884	Corporate and Democratic core		10,971	1,013	9,957
1,040	Non-distributed costs		4,026	3,390	636
205,153	**Net Cost of Services**		**623,497**	**413,262**	**210,235**
(349)	(Gain)/loss on disposal of fixed assets				2,691
216	Parish council precepts				259
(2,112)	Trading (surpluses) / deficits	3			(2,758)
12,709	Interest payable and similar charges	38			12,170
703	Contribution of housing capital receipts to Government Pool				544
(6,529)	Interest and investment income	38			(10,126)
2,700	Pension interest cost & return on assets				6,400
212,491	**Net Operating Expenditure**				**219,415**
(84,141)	Demand on the Collection Fund				(89,214)
(10,243)	Central Government Grant				(20,752)
(61,038)	Non-domestic rates redistribution				(69,452)
57,069	**Deficit for the year**				**39,997**

Statement of Movement on the General Fund Balance

2007/2008 £'000		Note	2008/2009 £'000
57,069	Deficit for the year on the income and expenditure account		39,997
(57,689)	Additional amount credited to the General Fund in accordance with statute and proper practice	1	(43,472)
(620)	Increase in General Fund balance for the year		(3,475)
(7,724)	General Fund balance brought forward		(8,344)
(8,344)	**General Fund Balance carried forward**		**(11,819)**

Statement of Total Recognised Gains and Losses

2007/2008 £'000			2008/2009 £'000
57,069	Deficit for the year on the income and expenditure account		39,997
(24,865)	Amortisation of intangible fixed assets		(17,289)
(82,857)	(Surplus) / deficit arising on the revaluation of fixed assets		19,524
(24,500)	Actuarial (gains) / losses on pension fund assets & liabilities		30,300
(75,153)	**Total recognised (gains) / losses for the year**		**72,532**

Balance Sheet

	Notes	31 March 2009		31 March 2008 Restated
		£'000	£'000	£'000
Fixed Assets				
Council Dwellings	13	203,863		195,145
Other Land and Buildings	13	706,467		724,813
Vehicles, Plant and Equipment	13	1,311		1,117
Infrastructure and Community Assets	13	133,861		135,957
Investment Properties	13	111,775		118,005
Work in Progress	13	4,231		12,051
			1,161,508	1,187,088
Long Term Investments	17		20,004	75
Long Term Debtors	18		882	927
TOTAL LONG TERM ASSETS			1,182,394	1,188,090
Current Assets				
Landfill Usage Allowances	19	0		509
Stocks and Work in Progress	19	144		137
Debtors	20	53,064		43,757
Short-term investments	17 & 37	114,747		112,866
Cash and Bank		16,814		19,842
		184,769		177,111
Current Liabilities				
Creditors	21	(55,808)		(56,562)
Short Term Borrowing	22	(52,351)		(131)
Bank Overdraft		(16,466)		(17,957)
		(124,625)		(74,650)
NET CURRENT ASSETS			60,144	102,461
Unapplied Capital Grants and Contributions			(20,276)	(22,137)
Long Term Borrowing	22 & 37		(200,260)	(215,057)
Deferred Liabilities	23		(51,948)	(53,860)
Pensions Liabilities	24		(132,100)	(99,000)
Deferred Capital Receipts	25		(58)	(66)
Government Grant Deferred Account	26		(87,840)	(76,494)
Capital Contributions Deferred Account	26		(9,970)	(10,103)
Provisions	27		(1,735)	(2,952)
TOTAL ASSETS LESS LIABILITIES			**738,352**	**810,885**
Financed by				
Reserves:-				
Revaluation Reserve	28		65,471	79,993
Usable Capital Receipts Reserve	29		4,714	587
Capital Adjustment Account	30		767,771	805,633
Earmarked Capital Reserves	31		2,847	794
Earmarked Revenue Reserves	31		7,272	5,645
General Reserve	31		3,263	1,713
Pensions Reserve	31		(132,100)	(99,000)
Financial Instrument Adjustment Account	40		(873)	(2,016)
Revenue Balances:-				
General Fund Balance	31		9,500	8,344
Housing Revenue Account Balance	31		4,303	3,104
Schools Balances	31		5,850	6,092
Trading Balances	31		330	(7)
TOTAL RESERVES AND BALANCES			**738,352**	**810,885**

Cash Flow Statement

	Notes	2008/2009 £'000	2007/2008 £'000
REVENUE ACTIVITIES			
Cash Outflows			
Employees		256,274	251,115
Other operating payments		244,862	202,910
Housing and Council Tax Benefits		87,340	79,599
Payments to NNDR Pool		66,235	68,352
Precept Paid		16,663	15,770
Payments to Capital Receipts Pool		543	703
		671,917	618,449
Cash Inflows			
Goods and Services		(35,565)	(35,778)
Rents		(14,997)	(15,427)
Government Grants	36	(234,747)	(227,594)
DSS Grant - Housing Benefits	36	(86,909)	(79,457)
Revenue Support Grant		(9,668)	(10,243)
Council Tax Receipts		(90,015)	(85,778)
Non-Domestic Rate Receipts		(68,923)	(65,247)
Receipt from NNDR Pool		(69,452)	(61,038)
Other Revenue Receipts		(68,477)	(55,289)
		(678,723)	(635,851)
Net Cash Outflow / (Inflow)	33	**(6,806)**	**(17,402)**
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Cash Outflows			
Interest Paid		10,310	8,517
Cash Inflows			
Interest Received		(8,889)	(6,756)
Net Cash Outflow / (Inflow)		**1,421**	**1,761**
CAPITAL ACTIVITIES			
Cash Outflows			
Purchase of fixed assets		41,258	49,188
Purchase of Long term Investments		19,929	0
Other Capital Cash Payments		20,150	31,726
Cash Inflows			
Sales of fixed assets		(4,788)	(3,225)
Government Grants	36	(32,948)	(49,546)
Sale of long term investments		0	0
Other capital Cash Receipts		0	0
Net cash outflow / (inflow) from Capital Activities		**43,601**	**28,143**
NET CASH OUTFLOW / (INFLOW) BEFORE FINANCING	34	**38,216**	**12,502**

	Note	2008/2009 £'000	2007/2008 £'000
NET CASH OUTFLOW / (INFLOW) BEFORE FINANCING (From previous page)		**38,216**	**12,502**
MANAGEMENT OF LIQUID RESOURCES			
Cash Outflow / (Inflow)			
Increase (Decrease) in Short Term Deposits	34	**1,881**	**27,791**
FINANCING			
Cash Outflows			
Repayments of Amounts Borrowed		98,185	10,073
Cash Inflows			
New Long Term Loans Raised		(136,745)	(53,095)
New Short Term Loans Raised			0
Net Cash Outflow / (Inflow) from Financing		**(38,560)**	**(43,022)**
DECREASE / (INCREASE) IN CASH	34	**1,537**	**(2,729)**

F NOTES TO THE CORE FINANCIAL STATEMENTS

1. Additional amount credited to the General Fund in accordance with statute and proper practice
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3. Trading operations
4. Publicity (Section 5 expenditure)
5. Local Authority (Goods and Services) Act 1970 and Pooled Budgets
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43. Analysis of Net Assets Employed

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

2007/2008 £'000		2008/2009 £'000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance.	
24,865	Amortisation of Intangible Fixed Assets	0
(35,224)	Depreciation and impairment of fixed assets	(37,205)
3,431	Government grants deferred amortisation	4,724
(162)	Excess of depreciation charged to HRA services over MRA element of housing subsidy	78
(31,704)	Revenue Expenditure Funded from Capital Under Statute	(20,150)
348	Net (loss)/gain on sale of fixed assets	(2,370)
(92)	Adjustment for LOBO & soft loan interest	1,143
(17,700)	Net charges made for retirement benefits in accordance with FRS17	(21,200)
(56,238)		**(74,980)**
	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	
5,722	Minimum revenue provision for capital financing	7,155
2,741	Capital expenditure charged to the General Reserve	2,209
(703)	Transfer from usable capital receipts to meet payments to the Pool	(544)
16,800	Employers contributions payable to the Pension Fund	18,400
24,560		**27,220**
	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	
0	Voluntary revenue provision for capital financing	0
269	Housing Revenue Account Balance	1,199
2,221	Principal repayment in respect of pre-reorganisation county debt	2,133
(28,501)	Net transfer to or from earmarked reserves	956
(26,011)		**4,288**
(57,689)	**Net additional amount required to be credited to the General Fund Balance**	**(43,472)**

2. Dedicated Schools Grant

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

During 2008/2009 the Council incurred an overspend of £100,466 on DSG services and this is being carried forward as a charge on the DSG for 2009/2010.

An analysis of the DSG for 2008/2009 is provided in the table below.

	Central Expenditure £'000	ISB £'000	Total £'000
Budgeted DSG in 2008/09	19,481	144,437	163,918
Difference between budgeted and actual DSG	-82		-82
Final DSG for 2008/09	19,399	144,437	163,836
Brought forward from 2007/08			0
Carry forward to 2009/10 agreed in advance			0
DSG available in 2008/09	19,399	144,437	163,836
Actual central expenditure	19,205		19,205
Actual ISB deployed to schools		144,731	144,731
Local authority contribution for 2008/09			0
Carry forward to 2009/10	194	(294)	(100)

3. Trading Operations

	Gross Expenditure 2008/2009 £'000	Gross Income 2008/2009 £'000	Net (Surplus)/ Deficit 2008/2009 £'000	Net (Surplus)/ Deficit 2007/2008 £'000
Markets and Street Trading	126	(267)	(141)	(108)
Commercial Property	374	(1,457)	(1,083)	(1,143)
Revenues and Benefits	3,414	(3,865)	(451)	(363)
Building Control	-	-	-	284
Reprographics	308	(253)	55	(25)
Building Surveying	780	(1,348)	(568)	(319)
Temporary Staff Agency	3,709	(4,279)	(569)	(438)
(Surplus)/Deficit	8,710	(11,468)	(2,758)	(2,112)

The delivery of building control services was transferred to STG Building Control, a partnership with Swale Borough Council and Gravesham Borough Council, from October 2007.

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.

	2008/2009 £'000	2007/2008 (restated) £'000
Recruitment Advertising	425	278
Economic Development Publicity	20	12
Tourism Promotion	86	120
Communication Unit and "Medway Matters" etc.	416	454
Other Publicity	156	368
	1,103	1,232

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

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 2008/2009 the gross Section 31 expenditure was £23,716,562 financed by:

Medway Council contribution	£14,627,116
PCT contribution	£8,965,007
Other Income	£124,439

The Council also entered into two further agreements with Medway PCT for the delivery of joint service priorities within the Local Area Agreement:

- An agreement, under Section 256 of the National Health Services Act 2006, for the delivery of various one-off projects, with no recurring expenditure beyond 31st March 2009. £940,000 was paid by the PCT, however only £910,000 was spent during the financial year and the balance has been rolled forward as a receipt in advance to fund a commitment in 2009-10.

- The establishment of an LAA Innovation Fund, under Section 75 of the National Health Services Act 2006. This funding has been committed, over a three year period, to various projects which meet LAA health targets. The PCT made a cash contribution of £1,200,000 in 2008-09. Expenditure during the financial year amounted to £89,452 and the balance of the fund has been rolled forward to fund the second and third years of the programme.

In total the Council's accounts reflect income from local authorities and other public bodies amounting to £17,648,491 (2007/08 £17,619,401).

Income from Other Public Bodies	**2008/2009 £'000**	**2007/2008 £'000**
NHS Medway		
- Learning Disability Section 31 Agreement	(8,965,007)	(8,372,667)
- LAA Innovation Fund Section 75 Agreement	(89,452)	0
- Section 256 Agreement	(910,000)	0
- Other Partnership Contributions	(1,005,699)	(919,347)
- Section 28a and Other Contributions towards Client Care	(2,598,832)	(2,774,438)
- Community Support Service	(541,139)	(2,118,042)
East Kent Coastal PCT Contributions towards Client Care	(443,772)	(85,664)
Kent and Medway Partnership Trust - Staff and Accommodation	(103,100)	(49,276)
Recoupment from Other Local Authorities		
- Children Placed in Care	(187,370)	(170,062)
- Education Placements	(1,305,254)	(1,351,374)
Provision of Support Services to Other Public Bodies	(308,430)	(244,793)
SEEDA Partnership Contributions	(93,074)	(81,556)
Other Local Authority Partner Contributions	(1,097,363)	(1,017,493)
Total Income from Other Public Bodies	(17,648,491)	(17,619,401)

6. The Building Control Charging Account

The Local Authority Building Control Regulations require the disclosure of information regarding charges for building control work. From 1 October 2007 building control services have been provided by STG Building Control in partnership with Gravesham Borough Council and Swale Borough Council. Note 42 provides further detail and the required disclosure.

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:

	Number of Employees	
Remuneration Band	**2008/ 2009**	**2007/2008**
£50,000 to £59,999	136	149
£60,000 to £69,999	85	39
£70,000 to £79,999	9	11
£80,000 to £89,999	11	7
£90,000 to £99,999	7	6
£100,000 to £109,999	2	2
£110,000 to £119,999	1	0
£120,000 to £129,999	1	0
£130,000 to £139,999	0	1
£140,000 to £149,999	1	1

8. Members' Allowances

In 2008/2009 a total of £821,000 (2007/2008 £796,000) 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 – Two members represent the Council on the trust which is set up to secure for the public benefit the preservation and use of the Historic Dockyard at Chatham in a manner appropriate to its archaeological, historical and architectural importance and promote and foster for the public benefit a wide knowledge and understanding of the significance of the dockyard.

Rochester Bridge Trust – Three members represent the Council on the trust, the main purpose of which is to maintain and improve the Medway Tunnel, bridges and associated riverbanks in order to facilitate passage over, under or across the River Medway. During the year the Council undertook reimbursable maintenance work, amounting to £374,000 (£362,000 in 2007/2008), 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 2008/2009 (£25,000 in 2007/2008).

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

Medway Council has made use of leases to acquire property, vehicles, and equipment. Lease rentals paid during the year in respect of current operating leases for Vehicles and Equipment amounted to £1.060m, and relating to Land and Buildings, £0.9m. A further £0.231m was paid in respect of finance leases.

The Council was committed at 31 March 2009 to making payments of £6.65m under operating leases, comprising the following elements:

	Land and Buildings	**Vehicles, Plant & Equipment**
	£000s	**£000s**
Leases expiring in 2009/2010	16	17
Leases expiring between 2010/2011 and 2014/2015	3,440	2,623
Leases expiring after 2014/2015	543	11
	3,999	2,651

The Authority as Lessor – the authority receives an amount of approximately £2.165m in rental income in relation to a number of properties.

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:-

		2008/2009
PKF – 2008/009 Accounts		209,000
PKF – Use of Resources		108,000
Audit Commission – Relationship Management / Direction of Travel & Regeneration Inspection		57,350
Misc.Audit Costs		4,254
	Total	**378,604**

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**
Cost or Valuation								
At 1 April 2008	197,182	767,573	2,782	158,419	2,921	118,005	12,051	**1,258,933**
Additions	839	14,751	372	10,163	1,308	9,328	3,578	**40,339**
Disposals	(558)	(5,928)	0	0	0	(902)	0	**(7,388)**
Reclassifications	0	13,875	0	0	0	(2,477)	(11,398)	**0**
Revaluations	10,505	0	0	0	217	0	0	**10,722**
At 31 March 2009	207,968	790,271	3,154	168,582	4,446	123,954	4,231	**1,302,606**
Depreciation and Impairments								
At 1 April 2008	(2,037)	(42,760)	(1,664)	(25,383)	0	0	0	**(71,844)**
Charge for 2008/09	(2,078)	(23,243)	(179)	(13,784)	0	0	0	**(39,284)**
Disposals	10	266	0	0	0	0	0	**276**
Reclassifications	0	0	0	0	0	0	0	**0**
Revaluations	0	(18,067)	0	0	0	(12,179)	0	**(30,246)**
At 31 March 2009	(4,105)	(83,804)	(1,843)	(39,167)	0	(12,179)	0	**(141,098)**
Balance sheet amount at 31 March 2009	203,863	706,467	1,311	129,415	4,446	111,775	4,231	**1,161,508**
Balance sheet amount at 1 April 2008	195,145	724,813	1,117	133,036	2,921	118,005	12,051	**1,187,088**

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 2008/2009 and a complete review of the valuation of it's 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 2008. 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 2008. 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.

14. Capital Commitments

As at 31 March 2009 there were specific capital commitments to fund the Medway Park Development (£7.501m); Rochester Riverside compensation (£2.457m); Strood Riverside compensation (£1.611m); A228 (£1.768m) and various schemes within Children and Adult Services amounting to approximately £13m.

15. Revenue Expenditure Funded from Capital Under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the balance sheet as an asset (formerly classified as deferred charges). This expenditure generally relates to grants and expenditure on property not owned by the Council and is charged to the Income and Expenditure Account with a corresponding reconciling item in the Statement of Movement on the General Fund Balance. This expenditure amounted to £20,150,000 in 2008/2009 (2007/2008 £31,704,000).

16. Financing of Capital

Capital Expenditure was financed as follows:

	£'000		£'000
Financing		**Expenditure**	
Borrowing	21,436	Fixed Assets	36,761
Capital receipts	0	Capital Works in Progress	3,578
Government Grants	16,586		
General and other Earmarked Reserves	1,325		
MRR & MRA	104		
Other Contributions	888		
	40,339		40,339

17. Investments

		31 March 2009 £'000	31 March 2008 £'000
Long Term Investments			
Administered by External Fund Managers		0	0
Loan to Association of District Councils	Note 39	0	60
Other Investments		20,004	15
Total Long Term Investments		20,004	75
Short Term Investments			
Administered by External Fund Managers		21,988	36,252
Managed by Internal Fund Managers	Note 39	92,758	76,614
Total Short Term Investment		114,746	112,866
Total Investments		134,750	112,941

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

The increase in long-term investments outstanding between 31st March 2008 and 31st March 2009 is due to reducing the level of funds held with managers. These monies were then invested for periods exceeding 365 days.

18. Long Term Debtors

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

	31 March 2009 £'000	31 March 2008 £'000
Loans Outstanding		
Mortgages for Sales of Council Housing	57	111
Loans to Other Organisations	168	168
Other Local Authority Loans in respect of services transferred on reorganisation	473	493
Loans to Employees and Members	184	155
Total	882	927

19. Stocks and work in progress

	31 March 2009 £'000	31 March 2008 £'000
Stocks	145	137
Total	145	137

At 31 March 2008, the balance sheet included current assets of £509,000 (101,848 tonnes at £5 per tonne) representing the value of credits held under the Landfill Allowances Trading Scheme. At 31 March 2009, there was no market value for the 101,713 credits held and this is reflected in the balance sheet.

20. Debtors

	31 March 2009 £'000	31 March 2008 £'000
Collection Fund Debtors		
- Council Tax payers	9,395	8,385
- Business Rates		
- Business Rate payers	3,201	3,190
- Collection Fund	0	44
- Government Departments	336	2,687
Less bad / doubtful debt provision	(2,839)	(2,208)
	10,093	12,098
Other Debtors		
Unrealised Investment Gain	0	0
Government Departments	3,333	3,436
Landfill Allowance Trading Scheme	0	0
Social Services 'Collect'	3,511	2,438
Housing rents	1,582	1,033
Sundry debtors	36,356	25,852
Less bad / doubtful debt provisions		
- Social Services 'Collect'	(566)	(106)
- Housing Rents	(597)	(581)
- Sundry Debtors	(648)	(413)
	42,921	31,659
	53,064	43,757

At the end of March 2009 £3,689,000 overpayment of housing benefit was unrecovered (March 2008 £3,376,000). It is the Council's policy to account for recovery of overspent benefit on a cash basis and therefore this balance of debtors is, in effect, negated by a 100% provision for bad debts. Income within the Income and Expenditure account has consistently been allocated on a cash receipt basis. This is regarded as the most prudent process regarding the outstanding debt.

20. Creditors

	31 March 2009 £'000	31 March 2008 £'000
Collection Fund		
- Collection Fund	252	85
- Government Departments	0	0
- Payments in Advance	1,649	1,742
	1,901	1,827
Sundry Creditors	53,907	54,735
	55,808	56,562

21. Borrowing

		Total Outstanding 31 March 2009 £'000	Total Outstanding 31 March 2008 £'000
Lending Options Borrowing Option		103,738	94,362
Long term from Public Works Loan Board (PWLB)		96,522	120,695
Total Long Term Borrowing	Note 39	200,260	215,057
PWLB maturing within I year	Note 39	20,641	15
Temporary borrowing from money markets		31,710	116
Total Short Term Borrowing		52,351	131
Total		252,611	215,188

Analysis of long term loans by maturity	31 March 2009 £'000	31 March 2008 £'000
Maturing within 1 to 2 years	25,022	53
Maturing within 2 to 5 years	30,119	153
Maturing within 5 to 10 years	0	0
Maturing after 10 years	145,119	214,851
Total	200,260	215,057

22. Deferred Liabilities

Deferred Liabilities are principally the capital payments still to be made following acquisition or transfer of assets as a consequence of Local Government Reorganisation and relates to a proportion of Kent County Council's long-term debt.

23. 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 2008/2009 employees were required by the Local Government Pension Scheme Regulations 1997, to make contributions to the fund by deductions from pay on an increasing scale between 5.5% and 7.5% for monthly paid staff, depending on annual earnings, and 5.25% 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 2007. There was an

increase of 1.9% in the employer's rate stemming from the 2007 valuation, which is being phased in over three years commencing with a 0.6% increase from 1 April 2008. The contribution rate will increase by 0.7% in 2009/2010 and 0.6% in 2010/11.
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' (£10.6m for 2008/2009) 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 £132.1m as at 31 March 2009 derived as follows: The Pension Liability and the Pension Reserve have been restated, as at 1 April 2008, from £98.0m to £99.0m to reflect the actuarial valuation.

	31 March 2009 £'000	Restated 31 March 2008 £'000
Deficit 1 April	99,000	122,600
Net Return on Assets	6,400	2,700
Current Service Cost	10,600	14,800
Past Service and Settlements & Curtailments	4,200	200
Reversal of Payments to Pension Fund	(18,400)	(16,800)
Actuarial (Gains)/Losses	30,300	(24,400)
Deficit 31 March	132,100	99,000
Assets in scheme	(194,500)	(225,700)
Liabilities in scheme	326,600	324,700
	132,100	99,000

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 2009 %	31 March 2008 %	31 March 2007 %	31 March 2006 %
Rate of inflation	3.1	3.6	3.2	3.1
Rate of increase in salaries	4.6	5.1	4.7	4.6
Rate of increase in pensions	3.1	3.6	3.2	3.1
Rate for discounting scheme liabilities	6.9	6.9	5.4	4.9

Assets in the Superannuation Fund are valued at fair value, principally market value for investments, and at 31 March 2009 consist of the following categories by value together with expected rate of return (RofR).

	31 Mar 2009		31 Mar 2008 (Restated)		31 Mar 2007		31 Mar 2006	
	£m	RofR	£m	RofR	£m	RofR	£m	RofR
Equities	128.3	7.0%	156.8	7.7%	161.1	7.8%	144.7	7.4%
Bonds	33.1	5.4%	31.7	5.7%	28.5	4.9%	26.5	4.6%
Property	17.5	4.9%	24.4	5.7%	23.5	5.8%	18.3	5.5%
Cash	15.6	4.0%	12.8	4.8%	16.6	4.9%	14.3	4.6%
Total	**194.5**	**6.3%**	**225.7**	**7.0%**	**229.7**	**7.0%**	**203.8**	**6.6%**

The actuarial gain is analysed as follows:

	31 March 2009 £'000	31 March 2008 £'000	31 March 2007 £'000
Actual returns less expected returns on assets	(62,000)	(32,300)	(1,400)
Experience gains and losses on scheme liabilities	(600)	(2,000)	(200)
Changes in assumptions underlying the present value of liabilities	32,300	58,700	21,800
Actuarial gain / (loss)	**(30,300)**	**24,400**	**20,200**

The difference between the expected and actual return on assets was a decrease of £62.0m being 31.9% of the scheme assets as at 31 March 2009.
The effect of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities amounted to a gain of £32.3m representing 9.9% of the scheme liabilities as at 31 March 2009.

The net liability of £132.1m 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 2008/2009 the Council paid £12,593,000 (2007/2008 £12,349,000) to the DCSF in respect of teachers' pension costs, the contributions rate being 14.1% (2007/2008 14.1%). In addition the Council is responsible for all pension payments relating to Added Years benefits it has awarded. These amounted to £428,000 (2007/2008 £395,000).

24. Deferred Capital Receipts

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

	£'000
Balance 1 April 2008	66
Less: Principal repaid in respect of loans and mortgages	(8)
Balance 31 March 2009	58

25. Deferred Government Grants and Contributions

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

	Deferred Government Grants £'000	Deferred Contributions £'000
Restated Balance 1 April 2008	76,494	10,103
Grants and Contributions applied in year	15,232	705
Transfer to Income and Expenditure a/c	(3,886)	(838)
Balance 31 March 2009	87,840	9,970

26. Provisions

Insurance Provision

This provision represents the sum set aside for unsettled, known claims as at 31 March 2009 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 2008	2,400
Provided for in year	302
Utilised during year	(967)
Balance of Provision as at 31 March 2009	1,735

Section 117 Provision

This provision was 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.

Compensation was paid to the claimant in March 2009 and the £551,800 provision was used in full to make this payment.

27. Revaluation Reserve

The Revaluation Reserve was created in the Balance Sheet on 1 April 2007 with a zero opening balance. The transactions for 2007/2008 and 2008/2009 therefore only include revaluation gains accumulated since 1 April 2008. Gains are recorded against individual assets. Any revaluation losses in excess of the individual balances in this reserve are written off to the Capital Adjustment Account (see Note 30).

	£'000
Balance at 1 April 2008	79,993
Revaluation and Restatement of fixed assets	(14,279)
Disposal of fixed assets	(243)

Balance at 31 March 2009	65,471

28. Usable Capital Receipts Reserve

Capital receipts arise from the sale of assets and can be used to finance capital expenditure. No capital receipts were used for this purpose in 2008/2009 (2007/2008 £7,171,000). The remaining balance on this reserve will be used to support future capital expenditure.

	£'000
Balance at 1 April 2008	587
Plus capital receipts received	4,744
Less allowable deductions	(2)
Less pooled receipts	(543)
Revenue Expenditure Funded from Capital Under Statute	(72)
Balance at 31 March 2009	4,714

29. 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.

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, capital receipts, Government grants and other contributions.

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
Balance at 1 April 2008		805,633
Capital Financing from:	Capital receipts - General Fund	0
	- Housing	72
	Revenue and Reserves	2,310
	Government Grants and Contributions	33,229
Transfer from Deferred Grants and Contributions Accounts		(15,938)
Appropriation to Revenue Account		(25,272)
Revaluations and Disposals		(12,113)
Revenue Expenditure Funded from Capital Under Statute		(20,150)
Balance at 31 March 2009		767,771

30. 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 2008	Contribution to Revenue	Contribution from Revenue	Revaluations and Disposals	Transfers & Other Movements	Financing of Fixed Assets	Balance at 31 March 2009
CAPITAL RESERVES	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revaluation Reserve	79,993	0	0	(14,522)	0	0	65,471
Capital Adjustment Account	805,633	(32,128)	4,724	(12,114)	(33,955)	35,611	767,771
Useable Capital Receipts Reserve	587	0	0	0	4,199	(72)	4,714
Housing Major Repairs Reserve	788	0	2,156	0	0	(104)	2,840
Other Earmarked Capital Reserves	6	0	0	0	5	0	11
Total Capital Reserves	**887,008**	**(32,128)**	**6,880**	**(26,636)**	**(29,751)**	**35,435**	**840,807**
REVENUE RESERVES							
General Reserve	1,713	(471)	149	0	2,319	(447)	3,263
Pensions Reserve	(99,000)	0	0	0	(33,100)	0	(132,100)
General Fund Balance	8,344	0	3,475	0	(2,319)	0	9,500
Housing Revenue A/C Balance	3,104	0	1,199	0	0	0	4,303
Financial Instrument Adjustment a/c	(2,016)	0	1,143	0	0	0	(873)
Schools Balances	6,092	(242)	0	0	0	0	5,850
Trading Account Balances	(7)	0	337	0	0	0	330
Earmarked Revenue Reserves	5,645	0	1,627	0	0	0	7,272
Total Revenue Reserves	**(76,124)**	**(713)**	**7,930**	**0**	**(33,100)**	**(447)**	**(102,455)**
TOTAL RESERVES	**810,885**	**(32,841)**	**14,810**	**(26,636)**	**(62,851)**	**34,988**	**(738,352)**

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 £5.850m as at 31 March 2009 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

31. 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

	2008/2009 £'000	2007/2008 £'000
Deficit on Income & Expenditure Account	39,997	57,069
Net additional amount credited to General Fund Balance	(43,472)	(57,689)
General Fund Surplus	(3,475)	(620)
Schools Deficit	242	594
Total Deficit	**(3,233)**	**(26)**
Net movements in reserves	(2,846)	757
Minimum Revenue Provision	(7,155)	(5,722)
Increase/(Decrease) in revenue debtors	8,730	(4,270)
Decrease/(Increase) in revenue creditors	(439)	(5,049)
Decrease/(Increase) in provisions	1,217	682
Increase/(Decrease) in stock	7	25
Items classified elsewhere on the cash flow statement:		
Financing Net	(1,421)	(1,761)
Capital expenditure met from revenue	(2,209)	(2,741)
Payment to Capital Receipts Pool	543	703
Revenue Activities Net Cash Outflow (Inflow)	**(6,806)**	**(17,402)**

34. Analysis of Liquid Resources and Financing

	Balance at 1 April 2008 £'000	Balance at 31 March 2009 £'000	Movement 2008/2009 £'000
Cash and Bank	19,842	16,814	(3,048)
Bank Overdraft	(17,957)	(16,466)	1,491
Total Cash	1,885	348	(1,537)
Short Term Investments	112,866	114,747	1,881
Notional Long Term Borrowing	(215,057)	(200,260)	14,797
Financial Instrument Adjustment Account		(1,137)	(1,137)
Actual Long Term Borrowing	(215,057)	(201,397)	13,660
Short Term Borrowing	(131)	(52,351)	(52,220)
Total Borrowing	(215,188)	(253,748)	(38,560)
Net Debt	(100,437)	(138,653)	(38,216)

35. Reconciliation between Cash and Net Debt

	£'000
Movement in Cash and Bank	(1,537)
Loans Repaid	98,185
New Loans Raised	(136,745)
Movement in Liquid Reserves	1,881
Increase in Net Debt	38,216

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

36. Government Revenue and Capital Grants Received

Revenue Grants	2008/2009 £'000	2007/2008 £'000
Area Based Grant	11,083	0
Department for Children, Schools and Families		
Delegated Schools Grant	163,836	159,669
School Standards Grant	8,638	8,365
Standards Fund	13,478	12,407
DCSF Other	5,465	8,469
Department of Health	425	5,866
Department for Communities and Local Government		
Supporting People Grant	5,841	7,094
Supporting People Admin Grant	0	176
DCLG Other	434	574
Department for Transport	947	846
Home Office	237	819
Learning and Skills Council	21,013	19,628
Tax Collection & Benefit Administration	2,140	2,216
Housing Benefit Subsidy	86,909	79,458
Department for Environment, Food and Rural Affairs	9	460
Public Service Agreement	612	421
Other Miscellaneous Grants	589	583
Total Revenue Grants	321,656	307,051
Capital Grants and Contributions		
Sustainable Communities	12,562	24,630
Devolved Capital	5,008	4,224
Other Educational Capital Grants	3,976	7,316
Other Miscellaneous Grants and Contributions	11,402	13,376
Total Capital Grants and Contributions	32,948	49,546

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 2009 £000s	31 March 2008 £000s	31 March 2009 £000s		31 March 2008 £000s	
Financial liabilities at amortised cost	200,260	215,057	52,351		131	
Financial liabilities at fair value through profit and loss	0	0	0		0	
Total borrowings	200,260	215,057	52,351		131	
Loans and receivables	20,000	60	92,758		76,614	
Available for sale assets	4	15	0		0	
Fair Value through Profit or Loss	0	0	21,988	(ii)	36,252	(i)
Total investments	20,004	75	114,746		112,866	

(i) 31 March 2008 Fair Value through Profit or Loss is "Bid Price Valuation".
(ii) 31 March 2009 Fair Value through Profit or Loss is "Bid Price Valuation" – funds invested with investment managers have been classified as held for trading.

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:

2008/09 Financial instruments gains and losses

	Financial Liabilities	**Financial Assets**			
	Liabilities measured at amortised cost	**Loans and receivables**	**Available-for-sale assets**	**Fair Value through profit or loss**	**Total**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Interest expense	12,170	0	0	0	12,170
Losses on Derecognition	0	0	0	0	0
Impairment losses	0	0	0	0	0
Interest payable and similar charges	12,170	0	0	0	12,170
Interest income	0	(8,348)	(1)	(1,777)	(10,126)
Gains on Derecognition	0	0	0	0	0
Interest and Investment income	0	(8,348)	(1)	(1,777)	(10,126)
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	12,170	(8,348)	(1)	(1,777)	

Comparative 2007/08 Financial instruments gains and losses

	Financial Liabilities	**Financial Assets**			
	Liabilities measured at amortised cost	**Loans and receivables**	**Available-for-sale assets**	**Fair Value through profit or loss**	**Total**
	£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					
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)	

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 2009.
- financial liabilities interest rates from PWLB new loan rates and LOBO market rates as at the 31 March 2009.
- 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 2009 Carrying amount £000s	Fair value £000s	31 March 2008 Carrying amount £000s
Financial liabilities	220,901	222,024	215,072
Loans and receivables	112,758	118,303	76,674

The fair value of the financial liabilities is higher than the carrying amount because the Council's portfolio of loans is made up of fixed rate loans some of which have a higher 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. The adjustments made in 2008/09 were:

	£000s
Adjustments in relation to PWLB Discounts/Premiums	(1,109)
Adjustment to Restated Amortised Costs and Effective Interest Rate for Stepped LOBOs	(28)
Adjustments in relation to Soft Loans	(6)
	(1,143)

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 2008/2009 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. As a result of the current economic position the criteria to assess credit risk is regularly reviewed and enhanced. Within the Treasury Management and Annual Investment Strategy 2008/11 approved by Cabinet 19 February 2008 strict criteria were set for Counterparty limits of £15m per Counterparty and a minimum Fitch rating of "Long-Term A". Throughout 2008/09 as the economic situation developed this criteria was tightened for in house use. The Treasury Strategy for 2009/10 has further enhanced the investment criteria and increased the limit to £20m, with the use of Fitch long term, individual and support ratings. There is also now a separate consideration for nationalised and part nationalised institutions, where the sovereign rating of an counterparties country is also considered and can replace the counterparties individual rating. Since Cabinet approval the criteria has been strengthened (for in-house use) by the additional consideration of Moody's ratings and Credit Default Swap (CDS) spreads.

The Fitch limits incorporate a number of ratings to determine the security of an institution and the current limits used in house are (although as explained above Moody's ratings and CDS spreads are also considered):

	Minimum Fitch rating			
Duration of investment	**Short-term rating**	**Long-term rating**	**Support**	**Individual**
Up to 1 month	F1	A+, A	1	B/C
Up to 3 months	F1+	AAA, AA+, AA, AA-	1	B/C
Up to 6 months	F1+	AAA, AA+, AA, AA-	1	B/C
Up to 1 year	F1+	AAA, AA+, AA	1	B/C

In order to spread credit risk, the Council has a policy of not lending more than 20% of its surplus balances to one institution, and if this becomes impractical 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 2009	**Historical experience of default**	**Estimated maximum exposure to default and uncollectability**
	£000s	**%**	**£000s**
Deposits with banks and financial institutions*	134,750	0.00	0
Customers	9,416	12.9	1,215
Council Tax	9,395	1.50	141
Total	**153,571**	**0.88**	**1,356**

* This is made up of the following:

	Amount at 31 March 2009
Barclays Bank PLC	10,000
Clydsdale Bank	10,000
Nordea Bank Finland PLC	5,000
Bank of Scotland	10,000
Abbey National	20,000
Allied Irish Bank	10,000
Dexia Bank	10,000
Nationwide Building Society	10,000
Royal Bank of Scotland	15,000
Bank of Ireland	10,000
Royal Bank of Scotland MMF	2,406
Stocks	4
Fund managers	21,988
Total	**134,398**
Accrued interest	352
Total including accrued interest	**134,750**

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 £5.724m of the £9.416m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000s
Less than three months	1,628
Three to six months	985
Six months to one year	813
More than one year	2.298
	5,724

The analysis by age for 2008/09 excluding Collect is currently based on the age analysis used in the 2007/08 accounts and will be updated in due course.

Of the £9.395m Council Tax outstanding at 31 March 2009 £4.443m 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	50	9.3
12 months and within 24 months	0	50	11.3
24 months and within 5 years	0	50	13.6
5 years and within 10 years	0	50	0.0
10 years and above	25	100	65.8

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 £4,165. 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 year ended 31 March 2009, the Council made a contribution of £202,967 to STG in respect of statutory / non fee-earning work. STG returned an operating deficit of £282,355 for the period, the Council's contribution to which was £140,765.

The Building Control Charging Account, which is required to demonstrate that fee levels are appropriate, is presented below for the Partnership.

	Building Regulation Functions		Other Building Control	Total
	Chargeable	Non Chargeable		
	£000s	£000s	£000s	£000s
Staff	1,109	235	96	1,440
Premises	69	15	6	90
Vehicles	45	10	3	58
Supplies & Services	101	21	9	131
Total Expenditure	**1,324**	**281**	**115**	**1,720**
Partner Contributions	0	268	108	376
Fees & Charges	1,062	0	0	1,062
Total Income	**1,062**	**268**	**108**	**1,438**
Deficit	**262**	**13**	**7**	**282**

43. Analysis of Net Assets Employed

	31 March 2009	**31 March 2008**
	£000s	**£000s**
General Fund	547,851	632,872
Housing Revenue Account	190,500	179,010
Total Net Assets	**738,351**	**811,882**

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 2008/2009 was £88,955,000 (2007/2008 £83,925,000).

INCOME AND EXPENDITURE ACCOUNT	Notes	2008/2009 £'000	2007/2008 £'000
Income			
Council Tax Collectable from taxpayers	1	(91,836)	(86,816)
Transfers from General Fund: Council Tax Benefit		(15,214)	(14,003)
Income Collectable from Business ratepayers	2	(70,348)	(66,292)
Total Income for Year		(177,398)	(167,111)
Expenditure			
Precepts and Demands			
Medway Council		88,955	83,925
Kent Police Authority (KPA)		10,954	10,338
Kent Fire and Rescue Service (KFRS)		5,450	5,216
Parishes		259	216
		105,618	99,695
Business rates			
Payments to National Pool	3	68,586	65,401
Costs of collection allowance		289	291
Provision for bad and doubtful debts	4	2,763	1,545
Total Expenditure for year		177,256	166,932
(Surplus) / Deficit for the year		(142)	(179)
(Surplus) / Deficit at the beginning of the year		10	189
(Surplus) / Deficit at end of year	5	(132)	10

Notes to the Collection Fund Account

1. Council Tax

In 2008/2009 the Council, the Kent Police Authority and the Kent Fire and Rescue Service set equivalent Band D Council Tax levels of £1,041.48, £128.25 and £63.81 respectively resulting in a Council Tax Band D in the Council's area of £1,233.54 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	8,593	6/9	5,729
B	£40,000 to £52,000	32,175	7/9	25,025
C	£52,000 to £65,000	28,904	8/9	25,691
D	£65,000 to £88,000	14,590	9/9	14,590
E	£88,000 to £120,000	7,288	11/9	8,907
F	£120,000 to £160,000	3,072	13/9	4,437
G	£160,000 to £320,000	1,127	15/9	1,879
H	Exceeding £320,000	42	18/9	83
Less adjustment for collection rates and MOD properties				(929)
	Total Band D Equivalent 2008/2009			85,412
	Total Band D Equivalent 2007/2008			84,611

The Tax Base multiplied by the Council Tax levied indicates an estimated gross yield of approximately £105,000,000 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 £15,000,000) granting up to 100% rebate. This is reimbursed by Central Government. The actual net yield from council tax in 2008/2009 was £91,836,000.

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 £.

	2008/2009 £'000	2007/2008 £'000
Amount Collectable for the year	77,757	75,086
Less: Transitional and other Reliefs	(7,409)	(8,794)
Income Collectable from Non-Domestic Ratepayers	70,348	66,292

The total Non-Domestic Rateable Value at 31 March 2009 was £166,239,999 (31 March 2008 £168,068,649) and the Uniform Business Rate 45.8p (46.2p with supplement) (2007/2008 44.1p and 44.4p 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:

	Council Tax £'000	NNDR £'000
Balance 1 April 2008	1,570	638
Add: Provisions made during year	1,289	1,473
Less amounts written off	(984)	(1,147)
Balance 31 March 2009	1,875	964

See also Note 21 to the Balance Sheet.

5. Surplus

The surpluses attributable to Medway Council, Kent Police Authority and Kent Fire and Rescue Service at the end of March 2008 were £78,000, £13,000 and £41,000 respectively. The surplus for the year was £142,000 and reverses the accumulated deficit at the end of 2007/2008.

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

2007/2008 £'000		Notes	2008/2009 £'000	2008/2009 £'000
	Income			
(9,971)	Dwelling Rents (Gross)	9	(10,304)	
(224)	Non-Dwelling Rents (Gross)		(210)	
(1,006)	Charges for Services & Facilities		(901)	
(11,201)	**Total Income**		(11,416)	
	Expenditure			
1,898	Repairs & Maintenance		2,094	
3,600	Supervision & Management		3,323	
98	Rents, Rates, Taxes and Other Charges		98	
1,081	Negative Housing Revenue Account Subsidy/Rent Rebate Limitation Subsidy Payable	7	1,641	
2,037	Depreciation and impairment of fixed assets	3	2,078	
46	Debt Management Costs		48	
(59)	Increase/(Decrease) in Provision for Bad or Doubtful Debts	8	106	
8,695	**Total Expenditure**			9,387
(2,506)	Net Cost of Housing Revenue Account Services per authority Income and Expenditure Account			(2,029)
103	HRA services share of Corporate and Democratic Core			103
(2,403)	**Net Cost of Housing Revenue Account Services**			(1,926)
0	(Gain) or loss on sale of HRA fixed assets			0
900	Interest payable and similar charges			845
0	Amortisation of premiums and discounts			(2)
(243)	Interest and investment income			(346)
0	Pensions interest cost and expected return on pensions assets			0
(1,746)	**Surplus for the year on Housing Revenue Account Services**			(1,429)

1. Statement of Movement on the HRA Balance

2007/2008 £'000		2008/2009 £'000
(1,746)	Surplus or deficit for the year on HRA Income and Expenditure Account	(1,429)
1,477	Net additional amount required by statute to be debited or (credited) to the Housing Revenue Account balance for the year	230
(269)	Increase in Housing Revenue Account balance	(1,199)
(2,835)	Housing Revenue Account surplus brought forward	(3,104)
(3,104)	Housing Revenue Account surplus carried forward	(4,303)

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

2007/2008		2008/2009	
£'000		£'000	£'000
	Items included in the HRA Income and Expenditure Account but excluded in the movement on the HRA balance for the year		
19	Net charges made for retirement benefits in accordance with FRS 17	91	
	Items not included in HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
0	(Gains)/Losses on disposal of assets	0	
162	Transfer to/(from) Major Repairs Reserve	78	
18	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	61	
1,278	Capital expenditure funded by the Housing Revenue Account	0	
1,477			230
1,477	Net additional amount required by statute to be debited or (credited) to the Housing Revenue Account Balance for the year		230

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 3,051 dwellings as at 31 March 2009. The movement in stock is analysed as follows:-

	1 April 2008	Adjustments	Disposals	31 March 2009
Houses	1,327	0	(7)	1,320
Flats	1,271	0	0	1,271
Maisonettes	216	0	0	216
Bungalows	244	0	0	244
Total	3,058	0	(7)	3,051

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 2008 is estimated to be £347,920,000. The most recent valuation of housing stock was carried out as at April 2008. The next full valuation is due as at April 2010.

	Dwellings £'000	Other Land and Buildings £'000	Total £'000
Balance Sheet Value 1 April 2008	187,728	7,417	195,145
Revaluation	10,506	0	10,506
Restatements	0	0	0
Book Value 1 April 2008	198,234	7,417	205,651
Depreciation	(1,492)	(586)	(2,078)
Additions (see below)	839	0	839
Disposals	(549)	0	(549)
Balance Sheet Value 31 March 2009	197,032	6,831	203,863

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 2008/2009 is as follows:

Major Repairs Reserve	2008/2009 £'000	2007/2008 £'000
Opening Balance 1 April	788	1,092
HRA Depreciation from Capital Financing Account	2,078	2,037
Depreciation Adjusting Transfer from HRA	78	162
Financing of HRA Capital Expenditure	(104)	(2,503)
Balance Carried Forward 31 March	2,840	788

5. Analysis of HRA Capital Expenditure

Funding Source	2008/2009 £'000	2007/2008 £'000
Operational Assets		
Dwellings	839	4,517
Other Land and Buildings	1	0
Non-Operational Assets	0	0
Total	840	4,517
Funded by:		
Major Repairs Reserve	104	2,503
Borrowing	735	736
Housing Right To Buy Capital Receipts	1	0
Capital expenditure funded by the Housing Revenue Account	0	1,278
Total Funding	840	4,517

6. Summary of HRA Capital Receipts

	2008/2009 £'000	2007/2008 £'000
Receipts from the sale of land	22	0
Receipts from the sale of other property	119	0
Repayment of discount		0
Receipts from the sale of houses other than through the right to buy scheme		0
Receipts from disposals of houses through the Right To Buy scheme	732	941
	873	941

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:

	2008/2009 £'000	2007/2008 £'000
Management Allowance	1,662	1,623
Maintenance Allowance	3,393	3,466
Major Repairs Allowance	2,156	2,199
Admissible Allowance	0	0
Rental Constraint Allowance	0	10
Charges for capital	1,077	1,131
Total Receivable Allowance	8,288	8,429
Less		
Guideline Rent Income	(9,762)	(9,466)
Interest on Receipts	0	(0)
Total Income Allowance to be netted against Receivable Allowance	(9,762)	(9,466)
Total Subsidy (Payable)/Receivable In-Year	(1,474)	(1,037)
Prior Year Adjustments	(13)	42
Total Subsidy (Payable)/Receivable Including Prior Year Adjustments	(1,487)	(995)
Rent Rebate Subsidy Limitation	(154)	(86)
Total Housing Subsidy/Rent Rebate Subsidy (Payable)/Receivable	(1,641)	(1,081)

Subsidy for 2008/2009 was based on an assumed number of dwellings of 3,088 compared with 3,161 for 2007/2008.

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 2008/2009 this amounted to £153,913 (£86,244 in 2007/2008).

8. Tenants' Arrears

Tenants' Arrears at 31 March 2009 were analysed as follows:

Type of Debt	2008/2009 £'000	2007/2008 £'000
General Stock	324	305
Garages	4	6
Former Tenancies – General Stock	244	234
Former Tenancies - Garages	4	2
Housing Benefit Overpayments – General Stock	63	101
Court Costs – General Stock	42	45
Former Tenancy Arrears of Current Tenants – General	30	24
Rechargeable Repairs	33	36
Total HRA	744	753
General Fund	10	24
Total Arrears	754	777
Percentage of Gross Rents (HRA)	7.59%	6.93%

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

	£'000
Balance 1 April 2008	581
Additional Provision made during year	106
Less amounts written off	(90)
Balance 31 March 2009	597

9. Gross Rental Income

The rent income figure is net of voids. The level of voids in 2008/2009 was on average equal to 1.23% (0.92% in 2007/2008). The level of rebates provided was £6,864,196 (2007/2008 £6,473,836) which amounted to 61.77% of rent collectable (2007/2008 57.76%).

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

DEBTOR

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

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.