

Audit Committee – Supplementary agenda No 2

A meeting of the Audit Committee will be held on:

Date: 25 September 2014

Time: 7.00pm

Venue: Meeting Room 2 - Level 3, Gun Wharf, Dock Road, Chatham ME4 4TR

Items

6. Annual Governance Report 2013/2014

**(Pages
3 - 22)**

Please find enclosed amended pages of the Statement of Accounts. Suggested changes have been made by BDO, our external auditors, and are highlighted in green on the attached.

7. Corporate Fraud

**(Pages
23 - 24)**

Please find attached a replacement Table 5, Annex A.

For further information please contact Anthony Law, Democratic Services Officer on Telephone: 01634 332008 or Email: democratic.services@medway.gov.uk

Date: 25 September 2014



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www.medway.gov.uk

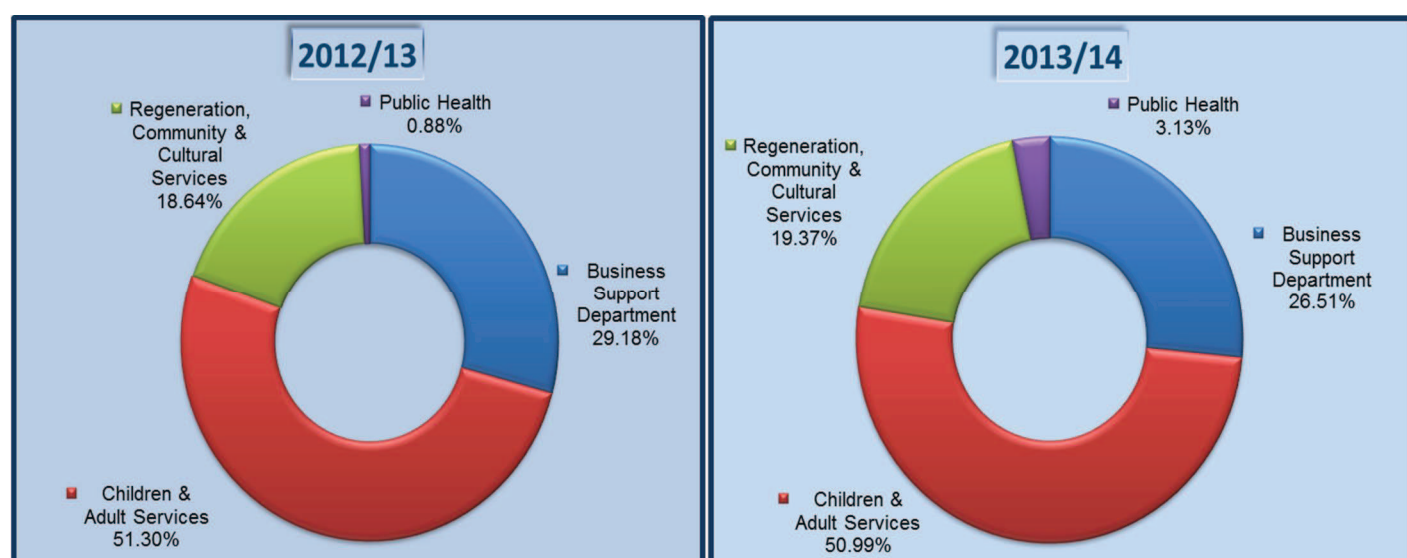
A summary of this information can be made available in other formats from **01634 333333**

If you have any questions about this meeting and you want to speak to someone in your own language please ring **01634 335577**

বাংলা	331780	ગુજરાતી	331782	ਪੰਜਾਬੀ	331784	كوردی	331841	ارو	331785	Русский	332374
中文	331781	हिंदी	331783	Polski	332373	এহুশফদ	331786	فارسی	331840	Lietuviškai	332372

Agenda Item 6.

The graphs below show the breakdown of the gross expenditure to the individual costs of services. Note 21 of the Statement of Accounts gives further detail.



The outturn on the Housing Revenue Account (HRA) was a surplus £1,257,978 (2012/2013 surplus £1,311,180), compared to a budget of £1,058,673 (2012/2013 budget £1,468,484). Having taken account of the 2013/14 surplus, a transfer of £2m to the General Fund in respect of Community Hubs, a contribution to capital expenditure of £1.664m, and a transfer in of £28,343 from the HRA ICT fund, the Housing Revenue Account balance stands at £1,968,685 as at 31 March 2014 (£4,346,363 as at 31 March 2013).

Capital

The Council's capital investment in 2013/2014 was £45,229,052 (2012/2013 £73,615,889). The expenditure was within the definition of the Local Government and Housing Act 1989.

Capital Expenditure has been financed from the following sources:

Funding source	Funding £'000 £'000
Borrowing (supported and unsupported)	3,015
Government Grants and Other Contributions	33,660
Major Repairs and Other Contributions	5,213
Capital Receipts	2,324
Developer Contributions	554
Revenue and Reserves	463
Total	45,229

The Council spent £8,308,963 on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included a 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 £33,151,408 and £3,768,681 relating to "Revenue Expenditure Funded from Capital under Statute" (formerly deferred charges). (see Statement of Accounting Policies 23).

Capital expenditure incurred by the Council in 2013/2014 is summarised below:

Directorate	Approved Programme	Forecast Spend	Outturn	Variation to Forecast	Slippage to
	2013/14+ £'000	2013/14 £'000	2013/14 £'000	2013/14 £'000	2013/14 £'000
Expenditure					
Business Support	5,667	2,821	2,607	(213)	(213)
Children and Adult Services	41,796	22,276	20,807	(1,469)	(1,469)
Regeneration, Community and Culture	50,374	25,541	21,578	(3,963)	(3,963)
Member Priorities	626	395	237	(159)	(159)
Total	98,463	51,033	45,229	(5,804)	(5,804)

The capital programme for 2013/2014 and beyond reflects the major investment priorities of the Council which include a significant schools programme, including three new academies, continuation of the primary change programme and the SEN strategy, ICT investment to facilitate the new 'Better for Less' operating models and a sizeable highways programme.

Borrowing/Investments

During 2013/2014 the level of debt, i.e. money that the Council owes decreased by £9,549,000 from £175,681,000 to £166,132,000. This is due to the current strategy of financing capital from investment balances rather than new debt and not replacing debt that falls due for repayment, during 2013/14 £10,000,000 of debt was repaid and £8,000,000 used to fund capital expenditure.

Reflecting this repayment of debt the level of investments and liquid funds has decreased from £58,512,000 to £39,174,000 primarily due to the above strategy.

Full details of the Treasury Management performance and outturn figures can be found within the Treasury Management Outturn report 2013/14 considered by Audit Committee on the 17 July 2014.

Non-Current Assets

The total value of the Authority's non-current assets has decreased in 2013/2014 by approximately £25 million. The main decreases related to derecognitions/disposals/transfer of academies (£38m) and depreciation (£46m). This was partially offset by capital investment (£41m) and revaluation increases (£20m).

Notes	General Fund Balance		Housing Revenue Account		Earmarked General Fund Reserves		Earmarked Housing Revenue Account Reserves		Schools Balances		General Reserve		Insurance Fund		Capital Receipts Reserve		Major Repairs Reserve		Capital Grants Unapplied		Total Usable Reserves		Unusable Reserves		Total reserves		
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
	5,000	4,346	20,824	37	7,438	3,465	2,194	63	286	24,208	67,861	397,796	465,657														
Balance at 31 March 2013																											
Movement in reserves during 2013/2014																											
Surplus/(Deficit) on provision of services	(44,564)	5,402	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(39,162)	0	(39,162)			
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	34,804	34,804			
Total Comprehensive Income and Expenditure	(44,564)	5,402	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(39,162)	34,804	(4,358)			
Adjustments between accounting & funding bases under regulations	1	50,794	504	0	0	(103)	0	(63)	(148)	(6,502)	38,666	(38,666)	0														
Net Increase/decrease before Transfers to Earmarked Reserves	6,230	(414)	504	0	0	(103)	0	(63)	(148)	(6,502)	(496)	(3,862)	(4,358)														
Transfers to/from Earmarked Reserves	2	(6,230)	8,536	(37)	(316)	(260)	270	(0)	0	(0)	0	0	0														
Increase/(Decrease) in 2013/14	(0)	(2,377)	9,040	(37)	(316)	(363)	270	(63)	(148)	(6,502)	(496)	(3,862)	(4,357)														
Balance at 31 March 2014	5,000	1,969	29,864	0	7,122	3,102	2,464	0	138	17,706	67,366	393,935	461,301														

Comprehensive Income and Expenditure Statement

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

2012/2013			Service	Notes	2013/2014		
Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
2,275	(1,372)	903	Central services to the public		3,480	(1,713)	1,767
35,212	(8,699)	26,513	Cultural and related services		27,009	(8,337)	18,672
31,189	(7,717)	23,472	Environmental & regulatory services		32,830	(8,406)	24,424
15,679	(7,562)	8,117	Planning services		3,509	(6,660)	(3,152)
229,469	(157,624)	71,845	Children's and education services		228,197	(157,343)	70,854
47,189	(11,093)	36,096	Highways and transport services		44,679	(11,024)	33,654
10,227	(13,292)	(3,065)	Local authority housing (HRA)		5,195	(14,108)	(8,912)
134,555	(125,655)	8,900	Other housing services		115,923	(108,436)	7,487
88,140	(19,726)	68,414	Adult social care		88,386	(20,137)	68,250
7,559	(1,610)	5,949	Corporate and democratic core		7,093	(1,271)	5,822
9,435	(8,115)	1,320	Non-distributed costs		1,569	(4,503)	(2,935)
3,334	(3,631)	(296)	Public Health		16,671	(19,342)	(2,671)
614,263	(366,095)	248,168	Cost of Services		574,541	(361,280)	213,261
22,197	0	22,197	Other operating expenditure	3	37,812	(0)	37,812
22,254	(4,698)	17,556	Financing and investment income and expenditure	4	21,490	(4,931)	16,559
0	(258,892)	(258,892)	Taxation and non-specific grant income	5	0	(228,470)	(228,470)
658,713	(629,685)	29,029	(Surplus) or Deficit on Provision of Services		633,844	(594,682)	39,162
Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services							
(9,058)			(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets	17			(11,036)
0			Impairment losses on non-current assets charged to the Revaluation Reserve				0
(16,438)			Actuarial (gains)/losses on pension assets/liabilities	34			(23,768)
(25,496)							(34,804)
Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services							
0			(Surplus)/Deficit on revaluation of available for sale financial assets				0
0							0
(25,496)			Other Comprehensive Income and Expenditure				(34,804)
3,533			Total Comprehensive Income and Expenditure				4,358

Cash Flow Statement

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

2012/13 £'000		2013/14 £'000
29,029	Net (Surplus) or deficit on the provision of services	39,162
(131,746)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements (Note 18)	(63,806)
55,739	Adjustments for items included in the net Surplus or deficit on the provision of service that are investing or financing activities (Note 18)	26,886
(46,978)	Net cash flows from Operating Activities	2,242
31,805	Investing Activities (Note 19)	(42,580)
24,986	Financing Activities (Note 20)	5,086
9,813	Net (increase) or decrease in cash and cash equivalents	(35,252)
15,010	Cash and cash equivalents at the beginning of the reporting period	5,197
5,197	Cash and cash equivalents at the end of the reporting period (Note 12)	40,449

1. Adjustments between Accounting Basis and Funding Basis under Regulations

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

Adjustments for 2013/2014	Usable Reserves							Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Earmarked General Fund Reserves	General Reserve	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non-current assets	42,183	3,362						(45,545)
Revaluation movements on Property, Plant and Equipment	(3,217)	(5,148)						8,365
Movements in fair value of Investment Properties	(1,028)							1,028
Amortisation of Intangible Assets	222							(222)
Capital Grants and Contributions Applied	(19,687)							19,687
Revenue Expenditure Funded from Capital Under Statute	3,769							(3,769)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	36,731	1,628						(38,359)
Derecognition & other adjustments	214				(3)		(117)	(94)
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment	(7,650)							7,650
Capital expenditure charged against the General Fund and HRA balances	(1,888)	(5,213)						7,101
ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL GRANTS UNAPPLIED ACCOUNT:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(8,879)						8,879	0
Application of grants to capital financing transferred to the Capital Adjustment Account							(13,101)	13,101
Other Adjustments	1,434		504		225		(2,163)	0

Adjustments for 2013/2014	Usable Reserves							Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Earmarked General Fund Reserves	General Reserve	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:								
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	355	5						(360)
Total Adjustments 2013/2014	50,794	(5,816)	504	(103)	(63)	(148)	(6,502)	(38,666)

2. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General fund and Housing Revenue Account balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2013/14.

	Balance 1 April 2012	Transfers in 2012/2013	Transfers out 2012/2013	Balance 31 March 2013	Transfers in 2013/2014	Transfers out 2013/2014	Balance 31 March 2014
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund							
General Reserve	7,855	3,237	(7,626)	3,465	400	(763)	3,102
Schools Balances	7,707	440	(709)	7,438	1,485	(1,801)	7,122
Insurance Fund	2,067	127	0	2,194	271	(1)	2,464
Other Earmarked Reserves	9,783	21,299	(10,220)	20,862	19,508	(10,506)	29,864
Total	27,412	25,102	(18,555)	33,959	21,665	(13,071)	42,552

3. Other Operating Expenditure

	2012/2013	2013/2014
	£'000	£'000
Parish Council Precepts	359	348
Levies	841	943
HRA Share of Corporate and Democratic Core	0	98
Payment to the Government Housing Capital receipts Pool	186	225
Gains/losses on disposal of non-current assets	20,811	36,198
Total	22,197	37,812

4. Financing and Investment Income and Expenditure

	2012/2013	2013/2014
	£'000	£'000
Interest payable and similar charges	11,593	12,018
Net interest on the net defined benefit liability (asset)	9,853	9,203
Interest element of finance leases (lessee)	121	0
Other investment expenditure	687	0
Interest receivable and similar income	(4,220)	(3,288)
Income and expenditure in relation to investment properties and changes in their fair value	(477)	(1,373)
Total	17,557	16,559

5. Taxation and Non-Specific Grant income and expenditure

	2012/2013	2013/2014
	£000s	£000s
Council tax income	(99,468)	(89,418)
Non-domestic rates income and expenditure	(79,208)	(38,985)
Non-ringfenced government grants	(27,016)	(71,593)
Capital grants and contributions	(53,200)	(28,474)
Total	(258,892)	(228,470)

Shown in the table above are significant movements between 2012/13 and 2013/14 relating to Non-domestic rates income and expenditure and Non-ring fenced government grants. These movements directly reflect the changes brought about in 2013/14 to local government finance and the introduction of new regimes around non-domestic rates

10. Financial Instruments

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

Financial Instruments	Long-term		Current	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	£'000	£'000	£'000	£'000
Investments				
Loans and Receivables	0	0	0	30,286
Available for sale financial assets	4	5	0	0
Fair value through profit or loss	0	0	0	23,024
Total Investments	4	5	0	53,310
Cash & Cash Equivalents				
Cash & Cash Equivalents	0	0	40,449	5,197
Total cash & Cash Equivalents	0	0	40,449	5,197
Debtors				
Loans and Receivables	196	279	23,971	21,882
Total Debtors	196	279	23,971	21,882
Borrowings				
Financial liabilities at amortised cost	(164,854)	(164,138)	(1,278)	(11,543)
Total Borrowings	(164,854)	(164,138)	(1,278)	(11,543)
Creditors				
Financial liabilities at amortised cost	(40,254)	(41,901)	(41,226)	(41,407)
Total Creditors	(40,254)	(41,901)	(41,226)	(41,407)

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

Fair Value of Assets and Liabilities

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

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

The fair values calculated are as follows:

	31 March 2014		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial liabilities	209,336	201,062	217,079	220,757
Long-term Creditors	40,254	40,254	41,901	41,901

The fair value is lower than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the balance sheet date. The reverse was true at 31 March 2013.

	31 March 2014		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and receivables	23,971	23,971	52,168	52,348
Long-term debtors	196	196	279	279

At 31 March 2013 the fair value of the assets was higher than the carrying amount because the Authority's portfolio of investments includes some fixed rate loans where the interest rate receivable is higher than the rates available at that date for similar loans. These investments were redeemed during 2013/14 leaving only short term debtors where the fair value matches the carrying amount.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

	2012/13	2013/14	
	£'000	£'000	£'000
Balance as at 1 April	511,652		505,895
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
• Charges for depreciation and impairment of non-current assets	(42,191)	(45,617)	
• Revaluation movements on Property, Plant and Equipment	(18,146)	8,437	
• Amortisation of Intangible Assets	(126)	(222)	
• Revenue Expenditure funded from Capital Under Statute	(8,902)	(3,769)	
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(22,897)	(38,359)	
	(92,262)		(79,530)
Adjusting amounts written out of the Revaluation Reserve	10,230	11,968	
HRA Self Financing Settlement	0	0	
Other adjustments	(0)	(94)	
Net written out amount of the cost of non-current assets consumed in the year	10,230		11,874
Capital financing applied in the year:			
• Use of Capital Receipts Reserve to finance new capital expenditure	1,842	2,324	
• Use of the Major Repairs Reserve to finance new capital expenditure	5,077	5,213	
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	39,496	19,688	
• Application of grants to capital financing from the Capital Grants Unapplied Account	19,059	13,101	
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,715	7,650	
• Capital expenditure charged against the General Fund and HRA balances	3,085	1,888	
	76,274		49,864
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	0		1,028
Balance as at 31 March	505,895		489,132

Pensions Reserve

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

18. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2012/13 £'000	2013/14 £'000
Interest received	(4,670)	(845)
Interest paid	9,057	9,424

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	2012/13 £'000	2013/14 £'000
Depreciation and amortisation	(43,142)	(37,428)
Impairment and revaluations	(17,192)	(607)
(Increase) / decrease in creditors	(4,517)	6,123
Increase / (decrease) in debtors	(4,672)	8,911
Increase / (decrease) in inventories	21	(17)
Movement in pension liability	(41,110)	2,155
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(22,897)	(36,943)
Financial Instrument Adjustments	3	(104)
Other non-cash items charged to the net surplus or deficit on the provision of services	740	(33)
Contributions (to) / from provisions	1,023	(5,863)
	(131,746)	(63,806)

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	2012/13 £'000	2013/14 £'000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,539	2,182
Any other items for which the cash effects are investing or financing cash flows	53,200	24,704
	55,739	26,886

19. Cash Flow – Investing Activities

	2012/13 £'000	2013/14 £'000
Purchase of property, plant and equipment, investment property and intangible assets	77,493	45,229
Purchase of short-term and long-term investments	30,000	0
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(2,335)	(2,182)
Proceeds from short-term and long-term investments	(25,000)	(30,286)
Other receipts from investing activities	(48,381)	(55,341)
Net cash flows from investing activities	31,805	(42,580)

20. Cash Flow – Financing Activities

	2012/13 £'000	2013/14 £'000
Cash receipts of short- and long-term borrowing	0	(716)
Other receipts from financing activities	(3,078)	(4,198)
Cash payments for the reduction of outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	0	0
Repayments of short- and long-term borrowing	9,877	10,000
Other payments for financing activities	18,187	0
Net cash flows from financing activities	24,986	5,086

21. Amounts Reported for Resource Allocation Decisions

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

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

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

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

	2012/13 £'000	2013/14 £'000
Net expenditure in Directorate analysis	354,969	376,425
Net expenditure of services and support services not included in the Analysis	(1,311)	(1,258)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(105,015)	(161,020)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(106,326)	(162,278)
Cost of Services in Comprehensive Income and Expenditure Statement	248,643	214,147

Reconciliation to Subjective Analysis

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

2013/14	Directorate Analysis	Services not in Analysis- HRA	Amounts not Reported to Management	Allocation of Recharges	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(108,053)	(14,108)	4,944	30,799	(86,418)	(1,631)	(88,049)
Interest and investment income	0	(37)	37	0	0	(3,288)	(3,288)
Income from Council tax	0	0	0	0	0	(89,418)	(89,418)
Income from NNDR	0	0	0	0	0	(38,985)	(38,985)
Government grants and contributions	(126,201)	0	(148,660)	0	(274,862)	(100,100)	(374,961)
Pension Adjustment	0	0	0	0	0	0	0
Total Income	(234,255)	(14,145)	(143,679)	30,799	(361,280)	(233,421)	(594,701)
Employee Expenses	175,717	1,623	(2,293)	0	175,047	9,203	184,250
Interest Expense	0	0	0	0	0	12,018	12,018
Other service expenses	362,917	7,291	(7,917)	0	362,291	645	362,937
Support service recharge	30,187	611	0	(30,799)	(0)	0	(0)
Depreciation, amortisation and revaluations	41,781	3,362	(7,443)	0	37,699	0	37,699
Precepts and levies	0	0	0	0	0	1,259	1,259
Payments to Housing Capital Receipts Pool	77	0	0	0	77	0	77
Gain or loss on disposal of fixed assets	0	0	(867)	0	(867)	36,197	35,330
Pension Adjustment	0	0	294	0	294	0	294
Total Expenditure	610,680	12,887	(18,227)	(30,799)	574,541	59,322	633,863
(Surplus)/Deficit on the provision of services	376,425	(1,258)	(161,906)	0	213,261	(174,099)	39,162

27. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14.

	2012/13 £,000	2013/14 £,000
Credited to Taxation and Non Specific Grant Income		
<u>Department for Communities and Local Government</u>		
- Capitalisation Provision Redistribution Grant	0	334
- Formula Grant / Revenue Support Grant	1,535	63,311
- Redistributed National Non-Domestic Rates	79,208	0
- PSA Reward Grant	0	0
- Area Based Grant	0	0
- Community Rights Grant	0	16
- Council Tax Support New Burdens Funding	0	159
- Collection Fund Grant	2,477	0
- Safer Communities Grant	0	0
- New Homes Bonus	2,369	3,931
- Non -Domestic Rates Top-Up Grant		0
- Small Business Rate Relief Grant		0
<u>Department for Education</u>		
- Early Intervention Grant	11,204	0
- Education Support Grant	0	3,451
<u>Department for Environment, Food and Rural Affairs</u>		
- Inshore Fisheries Conservation Authorities Grant	0	32
- Lead Local Flood Authorities Grant	0	77
<u>Department of Health</u>		
- Learning Disability and Health Reform Grant	9,320	0
- Healthwatch Grant	0	177
Other Grants and Levies	112	138
Recognition of Capital Grants and Contributions	53,200	28,474
Total	159,425	100,100

Home Start Medway - provides a unique service for families, recruiting and training volunteers to support parents with young children at home. One Member is a trustee of the organisation and during 2013/14 the Council made payments to the organisation of £125,578 (£125,620 in 2012/13).

Norma's Catering Ltd and associated companies – One member and his wife are associated with this company that on occasions provides catering to the Council. The Council made payments to the Organisation amounting to £486 during 2013/14 (£2,072 in 2012/13). The Council received £5,750 in 2013/14 (£4,271 in 2012/13). There were no amounts outstanding at 31 March 2014. At 31 March 2013 the Council owed the Company £843.

Sunlight Development Trust– is a community owned organisation that works with partners across all Sectors. Its overriding aim is to improve health, inequality and well being. One member is Chair of the Trustees. The Council made payments to the Trust amounting to £229,277 during 2013/14 (£173,329 in 2012/13). The Council received payments of £61 in 2013/14 (£8,750 in 2012/13)

Woodland Youth Centre - provides a range of activities for children. One Member is a trustee of this organisation. The Council made payments to this organisation amounting to £12,303 during 2013/14 (£26,451 in 2012/13)..

One Member of the Council is a Chair of Governors for Chatham Grammar School for Girls. During the year the Council paid £27,340 (£26,131 in 2012/13) to the School. At 31 March 2014 the Council was owed £958. At 31 March 2013 the Council owed the School £1,457.

Womens Royal Voluntary Service (WRVS) - is an age-positive charity that offers a range of practical services to help and support older people to live well, maintain their independence and play a part in their local community. The Partner of one Member has an association with this organisation. The Council made payments to this organisation amounting to £80,108 during 2013/14 (£40 in 2012/13). The Council received payments of £515 in 2013/14. At 31 March 2014 the Council was owed £187 (31 March 2013 £nil).

Rochester HANDS Volunteer Centre - Hands Rochester Volunteer Centre acts as a recruiting agency between voluntary, statutory and other not for profit organisations. They match volunteers to people and organisations in communities throughout the Medway Towns. One Members' partner is Chair of this organisation, the Council made payments to this organisation of £37,567 in 2013/14 (£29,451 in 2012/13)

Kent & Medway Fire & Rescue Authority - Four Members are Medway representatives for the Kent & Medway Fire and Rescue Authority. Excluding precept payments the Council received £51,223 income from this organisation in 2013/14. (£34,416 in 2012/13). At 31 March 2014 the Council was owed £21,428 (31 March 2013 £nil).

Frindsbury Extra Parish Council - One Members' spouse is a Parish Councillor of Frindsbury Extra Parish Council. Excluding precept payments the Medway Council made to this organisation in 2013/14 was £12,988 (£137,538 in 2012/13).

Officers

One senior officer is a Council member of The University of Kent Governing Body. The total value of transaction from the University to the Council was £191,313 in 2013/14 (£134,212 in 2012/13). Transactions to the University from the Council totalled £23,675 2013/14 (£1,995 in 2012/13). At 31 March 2014 the Council was owed £28,800 (31 March 2013 £nil).

One senior officer is a Council member of Mid Kent College Governing Body. The Council made payments of £88,254 to the College in 2013/14 (£69,019 in 2012/13). The total value of transactions to the Council from the College was £9,913 in 2013/14 (£1,793 in 2012/13). At 31 March 2014 the Council was owed £478 (31 March 2013 £nil).

The Partner of one senior officer is the Director of Circle Housing Association. Circle Housing Association are a registered provider of affordable housing and manage more than 65,000 homes across the country, of which 166 homes are located within Medway representing 0.25% of the social housing within the area. As one of 27 Housing Associations holding stock in Medway, Circle are not actively developing further homes within the area and the last new homes were completed in 2010. The Council has formal nominations agreements with Housing Associations holding stock within Medway, including Circle which secure the right to nominate tenants to their stock in accordance with the Council's Allocations Policy.

One senior officer is a Council appointed Director of Medway Norse - the joint venture company established between the Council and Norse plc to deliver Facilities Management activities. The Council made payments of £5,398,398 to Medway Norse in 2013/14. The total value of transactions to the Council from the Medway Norse was £20,183 in 2013/14. At 31 March 2014 the Council was owed £20,661 (31 March 2013 £nil).

Design South East (Formerly Kent Architecture Centre) - is a not-for-profit organisation and is the region's leading source of built environment design support for local authorities, the development sector and communities. The company supports policy development and plan making, neighbourhood plans and public buildings, housing and public space projects by offering a clear, constructive and consistent voice on design issues. One Senior Officer is a Non-Exec Board Director of this organisation, the Council made payments to this organisation of £78,668 in 2013/14 (£20,250 in 2012/13)

Other Public Bodies

Other than transactions disclosed elsewhere within these accounts (e.g. note 24), there are no other disclosures required in respect of Related Party Transactions.

The Authority has a 20% equity share in Medway Norse Limited. The company provides corporate cleaning, building maintenance, security services, window cleaning, printing services and catering to the council. The Company supplies services to the Council which is included in the cost of services.

Other Public Bodies (subject to common control by Central Government)

The Council operates a number of joint funding initiatives with Medway Clinical Commissioning Group, details are included in note 22.

The Council receives grant income from various government departments as detailed in note 27.

The Council became responsible for a proportion of Kent County Council's debt when Medway Council was formed in 1998. The amount outstanding at 31 March 2014 was £41,732,448 (31 March 2013 £43,471,300). In addition £30,902 was due to Kent County Council and £473,041 due from them at 31 March 2014.

28. Capital Expenditure and Capital Financing

The following table shows the total amount of capital expenditure incurred in the year together with the resources used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

	2012/2013 £'000	2013/2014 £'000
Capital Investment		
Property Plant and Equipment	64,497	40,032
Heritage Assets	0	258
Investment Properties	216	0
Intangible Assets	0	1,170
Revenue Expenditure Funded from Capital under Statute	8,902	3,769
Total	73,616	45,229
Sources of Finance		
Capital receipts	(1,842)	(2,324)
Government grants and other contributions	(63,631)	(38,002)
Sums set aside from revenue	(3,085)	(1,888)
Direct revenue contributions	0	0
Borrowing	(5,057)	(3,015)
Total	(73,616)	(45,229)

The CFR at 31 March 2014 was £248,537,038 (31 March 2013 £252,011,000).

29. Leases

Authority as Lessee

Finance Leases

The Authority holds the Luton Library building under a finance lease. The asset is carried as Property Plant and Equipment in the balance sheet at the following net amounts:

	31 March 2013 £'000	31 March 2014 £'000
Other Land & Buildings	447	438

The Authority is committed to making payments under the lease of £1 per annum.

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

* This is made up of the following:	Amount at 31 March 2014 £'000
Barclays	19,300
Handlesbanken	20,000
Stocks	4
Fund managers	0
Total	39,304
Accrued interest	116
Total including accrued interest	39,420

The Council does not generally allow credit for customers, such that £8.189 million of the £16.584 million balance is past its due date for payment. The past amount can be analysed by age as follows:

	£'000
Less than three months	1,726
Three to six months	1,220
Six months to one year	1,688
More than one year	3,555
	8,189

The Council provision for bad debts stood at £1,973,057 at 31 March 2014 (£1,905,734 at 31 March 2013). The provision is calculated by applying the aged debt analysis and applying percentages to agreed categories of debt.

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

Liquidity risk

The Authority manages its liquidity position through the risk management procedures above as well as through a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority sets limits on the proportion of its fixed rate borrowing during specified periods in its Treasury Strategy. These limits ensure that the Authority is not required to repay or refinance a significant proportion of its debt at one time. The structure of fixed rate borrowing as stated in the strategy and the maturity analysis of financial liabilities is as follows:

	Lower Limit	Upper Limit	Actual 31/03/14	Actual 31/03/13
	%	%	%	%
Under 12 Months	0	75	0.00	5.80
12 months and within 24 months	0	50	0.00	0.00
24 months and within 5 years	0	50	0.00	0.00
5 years and within 10 years	0	50	8.93	4.06
10 years and above	0	100	91.07	90.13

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Annex A

External Investigation Outcomes

AMENDED Table 5 – Benefits, Council Tax Reduction and Single Person Discount overpayments identified and recorded by the Corporate Anti-Fraud Team during the 1st Quarter 2014/15 – With comparison to the same quarter in previous financial years.

Types of overpayment	1st Qtr 2012/13 £	1st Qtr 2013/14 £	1st Qtr 2014/15 £
Housing Benefit / Council Tax Benefit / Council Tax Reduction (HB/CTB/CTRS)	186,151	93,233	196,805
Single Person Discount (SPD)	0	0	2,385
DWP benefits	85,344	90,027	143,331
Other (e.g. Tax Credits)	26,279	13,169	23,963
Totals	297,774	196,429	366,484

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