

# Audit Committee – Supplementary agenda No.1

**A meeting of the Audit Committee will be held on:**

**Date:** 24 September 2015

**Time:** 7.00pm

**Venue:** Civic Room - Level 2, Gun Wharf, Chatham ME4 4TR

## Items

**6. Annual Governance Report 2014/2015**

**(Pages  
3 - 182)**

This report considers the issues raised in the Council's External Auditor's Annual Governance Report, which incorporates the findings following the 2014/2015 audit of the Statement of Accounts.

The Chairman is asked to accept this report as urgent because the next meeting of this Committee will not take place until 12 January 2016 and the issues raised in the Council's External Auditor's Annual Governance Report must be considered by this Committee prior to publication of the Statement of Accounts by 30 September 2015. The report could not be despatched with the agenda as officers needed sufficient time to prepare the report following discussions with the External Auditor.

**For further information please contact Michael Turner, Democratic Services Officer on Telephone: 01634 332817 or Email: [democratic.services@medway.gov.uk](mailto:democratic.services@medway.gov.uk)**

**Date: 18 September 2015**



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**AUDIT COMMITTEE**  
**24 SEPTEMBER 2015**  
**ANNUAL GOVERNANCE REPORT 2014/15**

Report from: Phil Watts, Chief Finance Officer

Author: Jonathan Lloyd, Principal Accountant

**Summary**

This report considers the issues raised in the Council's External Auditor's Annual Governance Report, which incorporates the findings following the 2014/15 audit of the Statement of Accounts.

The Accounts and Audit Regulations 2011 (as amended) require that the Audit Committee consider these issues prior to publication by 30 September 2015.

**1. Budget and Policy Framework**

- 1.1 The Audit Commission's Code of Audit Practice and International Standard of Auditing (ISA 260) requires the results of the audit to be reported to those charged with governance. This Committee has been delegated with the responsibility for considering these reports and agreeing the Council's response. In addition, the Committee, on behalf of the Council, must explain reasons for not adjusting the Statement of Accounts for the issues raised within the auditor's report, all factual adjustments have been adjusted.
- 1.2 The Accounts and Audit Regulations 2011 (as amended) require that the Audit Committee consider these issues prior to 30 September 2015. A revised set of the Statement of Accounts will be sent to Members once the ongoing work with the Council's External Auditor is concluded.
- 1.3 The Chairman is asked to accept this report as urgent because the next meeting of this Committee will not take place until 12 January 2016 and the issues raised in the Council's External Auditor's Annual Governance Report must be considered by this Committee prior to publication of the Statement of Accounts by 30 September 2015. The report could not be despatched with the agenda as officers needed sufficient time to prepare the report following discussions with the External Auditor.

**2. Background**

- 2.1 The draft Statement of Accounts for 2014/15 were considered and approved by this Committee on 14 July 2015. At that stage the accounts were subject to final verification and Members were advised that any proposed changes as a result of the audit would be reported at a later stage.

2.2 The audit commenced in mid July and together with the audits of various grant claims has continued to September. A number of issues are still being reviewed by the Council's External Auditor, BDO and these are detailed within the Auditor's Annual Governance Report attached at Appendix 1 to this report. The Auditor will update Audit Committee on progress at the meeting on 24 September 2015.

### **3. Auditors Report 2014/15**

3.1 The Auditor's Annual Governance Report (AGR) is attached at Appendix 1 and contains the Auditor's review of:

- Financial Statements;
- Control Environment;
- Governance Reporting;
- Whole of Government Accounts (WGA);
- Use of Resources; and
- Associated appendices.

3.2 The Council's response to the issues identified, as proposed by officers, are included at Appendix IV of the AGR report.

### **4. Financial Statements**

4.1 The overview of the AGR states that, subject to satisfactory conclusion of outstanding work as detailed within the AGR, an **unqualified** audit opinion will be issued in relation to the financial statements. The main issues arising from the audit are summarised in paragraph 4.2 below.

#### **4.2 Accounting practices and financial reporting**

4.2.1 Material errors. There were no material errors within the Statement of Accounts.

4.2.2 Non-Trivial errors. There were a number of non-trivial errors within the Statement of Accounts which have, for the most part, now been corrected.

4.2.3 Trivial errors The AGR does not set out trivial errors found during the audit. However, officers have adjusted the accounts to recognise all trivial errors.

4.2.4 A revised set of the Statement of Accounts (Appendix 2 to this report) will be sent to Members once the ongoing work with the Council's External Auditor is concluded. Significant amendments will be highlighted. We have not highlighted all the changes within the statements, as the trivial errors would result in an unmanageable quantity of alterations to disclosures as well as the main Statement of Accounts. The agreed adjustments to the statements reduced the deficit for the year by £550,000.

#### **4.3 Annual Governance Statement**

4.3.1 The auditors are satisfied that the Annual Governance Statement is consistent with the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA/SOLACE)

## **5. Use of Resources**

5.1 Auditors are required to review the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based upon the following two Audit Commission criteria:

- The organisation has proper arrangements in place for securing financial resilience;
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

5.2 BDO will be issuing an unqualified value for money conclusion as indicated at page 22 of the AGR.

## **6. Management Representations Letter**

6.1 To comply with regulations, the Chief Finance Officer of each local authority must provide the external auditors with a signed declaration which supports their work in relation to the audit of the annual accounts.

6.2 The Draft Management Representations Letter is attached at Appendix VI of the AGR and the Committee is required to consider the content of the letter in the context of the issues raised in this report. Once agreed, the letter will be submitted to BDO.

## **7. Audit Fees**

7.1 The final audit fee is £202,184 consisting of £189,934 audit fees and £12,250 certification fees. These fees are in line with the report to this committee on 19 March 2015.

## **8. Financial and Legal Implications**

8.1 The financial implications are contained within the body of the report.

8.2 Auditors are required to comply with the Statement of Auditing Standards, and thus provide an opinion on the Council's Statement of Accounts.

8.2 The legal implications are set out in the body of the report.

## **9. Audit Completion**

9.1 Work to complete the audit outlined in the overview on page 3. However, BDO have indicated that the audit certificate will be given by 30 September 2015.

## **10. Risk Management**

10.1 There remains a low risk that the Auditor may find material errors or misstatements in the accounts as a result of the continuing work highlighted on page 3, which may not be identified prior to the adoption by this committee. 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.

## **11. Recommendations**

- 11.1 That the Audit Committee notes the issues raised and judgements made by the Auditor as presented in Appendix 1, and agrees the proposed response as set out at Appendix IV to the External Auditor's Annual Governance Report (AGR).
- 11.2 That the Audit Committee agrees the revised Statement of Accounts as set out in Appendix 2.
- 11.3 That the Audit Committee agree the Management Representations Letter, attached at Appendix VI of the AGR.

## **Appendices**

Appendix 1 – BDO Final Report to the Audit Committee - Audit for the year ended 31 March 2015

Appendix 2 – Statement of Accounts for the year ended 31 March 2015

## **Background papers**

Medway Council's Draft Statement of Accounts for 2014/2015

Report on Draft Statement of Accounts to this Committee 14 July 201

<http://democracy.medway.gov.uk/mgConvert2PDF.aspx?ID=3211&T=10>

## **Lead officer contact**

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# Medway Council

FINAL REPORT TO THE AUDIT COMMITTEE  
Audit for the year ended 31 March 2015

24 September 2015

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# OVERVIEW

## Significant audit findings

This summary covers the significant findings from our audit of Medway Council ('Council') for the year ended 31 March 2015. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Independence	We have not identified any potential threats to our independence as auditors.
Financial statements audit status	<p>We have substantially completed our work, although there are some outstanding items to be received and/or completed at the time of drafting this report. Further detail on the status of our work is set out on the following page.</p> <p>We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified in our Audit Plan.</p> <p>The draft financial statements were presented for audit on 30 June 2015. However, some amendments were required to some of the main statements and Management did not provide a reworked and balanced Movement in Reserves Statement (MiRS), Cash Flow Statement and Collection Fund Statement until early September. Arrangements for ensuring a balanced set of accounts need to be improved to allow the Council to move towards the much accelerated preparation and audit timetable due to be introduced from 2017/18.</p> <p>Our final audit materiality is £12,200,000 (see Appendix III) and we have reported all non-trivial unadjusted audit differences greater than £250,000.</p> <p>No material misstatements or unadjusted audit differences were identified as a result of our audit work which had an impact on the reported deficit. However a material misclassification was identified on the face of the Comprehensive Income and Expenditure Statement (CIES) whereby internal recharges relating to the non-distributed income and expenditure had been incorrectly shown gross rather than net resulting in an amendment of £31.6m to reduce both income and expenditure. This was corrected by Management.</p> <p>There is one unadjusted audit difference identified in the current year which would decrease the draft deficit on the provision of services in the CIES by £1,250,000. There is also one unadjusted audit difference brought forward from the prior year of £1,156,000 which has an impact on the reported performed for the current year. The combined impact of both of these unadjusted audit errors would be to reduce the reported deficit by £2,406,000 to £95,800,000 (from £98,206,000). There are also two unadjusted disclosure issues in relation to the Senior Officer Remuneration Note (note 23) and the Related Party Transaction Note (note 27) which are not disclosed in line with the Code due to over disclosure. The unadjusted audit differences are recorded in Appendix II.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.</p>
Control environment	We identified one significant deficiency in internal controls during the course of our audit, which related to the preparation of the financial statements. Further details can be seen on page 14.
Governance reporting	We are satisfied that the Annual Governance Statement and the explanatory foreword within the financial statements are not misleading or inconsistent with other information we were aware of from our audit of the financial statements, subject to some minor amendments that have been requested as a result of our review. We are satisfied that the annual governance statement complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).
Whole of Government Accounts (WGA)	Our review of the Council's WGA Data Collection Tool (DCT) is in progress.

AREA OF AUDIT	SUMMARY
Use of resources	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. We anticipate issuing an unqualified value for money conclusion.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

# OVERVIEW

## Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS	TIMETABLE TO COMPLETE								
<p>We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2015. The following matters are outstanding at the date of this report.</p> <ul style="list-style-type: none"><li>• Final review of our audit work at engagement partner level, and clearance of any review points arising</li><li>• Review of final draft statement of accounts for agreed amendments, including the Annual Governance Statement</li><li>• Receipt of one third party confirmation from a banking institution</li><li>• Clarification on some closed bank accounts relating to Schools</li><li>• Subsequent events review</li><li>• Technical clearance and engagement quality control review partner sign off</li><li>• Management representation letter, as attached in Appendix VI, to be approved and signed.</li></ul>	<p>The anticipated timetable to complete is as follows:</p> <table><thead><tr><th>ACTIVITY</th><th>DATE</th></tr></thead><tbody><tr><td>Audit Committee meeting</td><td>24 September 2015</td></tr><tr><td>Completion and issue of the auditor's report</td><td>30 September 2015</td></tr><tr><td>Submission of WGA assurance report</td><td>2 October 2015</td></tr></tbody></table>	ACTIVITY	DATE	Audit Committee meeting	24 September 2015	Completion and issue of the auditor's report	30 September 2015	Submission of WGA assurance report	2 October 2015
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## INDEPENDENCE

### Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2015.

#### FEES AND NON AUDIT SERVICES

A summary of fees for audit and non-audit services for the period from 1 April 2014 to date is set out below:

	£
Audit fees	189,934
Certification fees	<sup>(1)</sup> 12,250
Fees for non-audit services:	<sup>(2)</sup> TBC
<b>TOTAL FEES</b>	<b>202,184</b>

<sup>(1)</sup> work remains on going on the housing benefit subsidy return and the fees shown above is the current scale fee.

<sup>(2)</sup> Non audit fees are in relation to the audit of Teachers’ Pension Return and Pooling of Housing Capital Receipts Claim Form which are now outside of the certification regime and are subject to a separate Engagement letter. The fee will be based on the actual costs taken to audit the claim forms. The deadline for completion of both of these is 30 November 2015.

#### OTHER RELATIONSHIPS

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

#### LONG ASSOCIATION THREATS

The Audit Commission’s Standing Guidance requires that the audit engagement partner should not act for more than 5 years (or 7 with the approval of PSAA) and the audit manager for 10 years.

Key audit staff	Years involved
David Eagles - Audit engagement partner	1
Liana Nicholson - Audit Manager	1

#### INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

# AUDIT SCOPE AND OBJECTIVES

## Code of audit practice requirements

### SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

**1** The financial statements give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended.

**2** The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.

**3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

**4** The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.

**5** The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.

**6** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.

**7** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# FINANCIAL STATEMENTS

## Key audit and accounting matters

### SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2014/15 Audit Plan issued in March 2015. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have included an additional significant risk in relation to actuarial assumptions used for IAS 19 purposes (see below).

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

**Key:** ■ Significant risk/issue    ■ Significant accounting estimates and management judgements    ■ Other relevant audit and accounting issues

### SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<b>MANAGEMENT OVERRIDE OF CONTROLS</b>	<p>ISA (UK&amp;I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.</p>	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>
<b>REVENUE RECOGNITION</b>	<p>Auditing standards presume that there is a risk of fraud in relation to revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p> <p>We identified that the areas of greatest risk were fees, charges and service income. The Council has put into place a number of controls to mitigate the risk in these areas, including daily reconciliations between the receipting system and the general ledger, a debtor requisition authorisation process, and monthly debtor control account reconciliations.</p>	<p>We substantively tested an increased sample of income streams from source (i.e. from the request of a provision of service from a customer) to the general ledger to ensure that income was complete and had been accurately recorded and earned in the year.</p> <p>We substantively tested an increased sample of income to supporting documentation to confirm that income had been accurately recorded and earned in the year.</p> <p>We substantively tested a sample of receipts either side of the year end to ensure that income was complete and accounted for in the correct period.</p>	<p>No issues have been identified from our testing of income streams and year end cut off with regard to the recognition of revenue in the relevant financial year.</p> <p>Through our testing we did, however, identify that the Council accounts for debtor balances relating to housing benefit overpayments on a cash basis rather than on an accruals basis. As a result there is no debtor balance recognised in the balance sheet. This has been raised as an unadjusted audit difference of £1.25m and further details can be seen on page 9 below.</p>

**SIGNIFICANT AUDIT RISK AREAS**

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<p><b>PROPERTY, PLANT AND EQUIPMENT VALUATIONS</b></p>	<p>The calculation of the fair value of land and buildings is subject to a high level of estimation uncertainty in that there is a high susceptibility to an inherent lack of precision in its measurement. There is a risk of material misstatement if inappropriate or inaccurate estimates or assumptions are used in the calculation of these fair values.</p> <p>Management make valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by external and internal valuers with specialist knowledge and experience valuing local authority estates, whom have regard to local prices and building tender indices in the public sector.</p>	<p>We reviewed the estimates and assumptions used to calculate the fair value of land and buildings to ensure that those used by the Valuer are reasonable.</p> <p>We also compared the fair values used within the financial statements to industry suggested values to ensure that the balances used by the Council in the financial statements are reasonable.</p> <p>We tested an increased sample of valuations performed by the Valuer for the year ended 31 March 2015 by agreeing the amounts back to the valuation certificates and ensuring that the basis of valuation used for the assets was reasonable.</p>	<p>Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.</p>

## SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<p>PREPARING AND FINALISING THE FINANCIAL STATEMENTS</p>	<p>In the prior year, we identified a high number of non-trivial errors in the accounts submitted for audit and in the accounts that were amended as a result of the audit. Management intends to build more time into the closedown timetable to ensure the effective preparation of the accounts and processing of audit adjustments (as necessary).</p>	<p>A meeting was also held after the completion of the 2013/14 audit to identify areas where improvements could be made to help with the smooth running of the audit. Actions were agreed, for example for the Council to endeavour to produce the financial statements earlier in order to achieve the 30 June deadline, which was achieved.</p> <p>We have held regular progress meetings with Management throughout the course of the audit to ensure that audit queries and issues arising were raised as early as possible to give Management as much time as possible for the processing of any audit adjustments. We also ensured that we reviewed the disclosure of the financial statements against the requirements of the Code early on in the audit to ensure that any issues were identified and dealt with promptly.</p> <p>Although we received the financial statements in advance of the 30 June deadline, there were a number of non-trivial errors and imbalances on some of the key statements (details included below) including the Movements of Reserves Statement, The Cash Flow Statement and The Collection Fund Statement which were required to be reworked by the accounts staff. This included, for example, the reapportionment of £1.82m within transfers in the Movement in Reserves Statement (MiRS) to earmarked reserves. For some of these statements the updated versions were not received until early September.</p> <p>Before commencing the audit we identified that the non-distributed income and expenditure on the face of the CIES had been incorrectly grossed up, resulting in a required amendment of £31.6m to both income and expenditure (note that this had no impact on the reported deficit). This is the same error that arose in the prior year.</p>	<p>We continue to identify a high number of non-trivial errors, although it is important to recognise that the amount of errors has reduced compared to the previous year.</p> <p>In order to meet the earlier deadlines which will be imposed on the preparation of the financial statements in two years' time, the Council should be working towards good quality financial statements and supporting working papers at an earlier stage. In order to meet this, consideration needs to be given as to what resources will be required to meet the new upcoming deadlines.</p> <p>The Council should also ensure that adequate checks and reviews are put in place on the draft financial statements that are presented for audit, including completing checks on known errors that have arisen in previous years.</p> <p>Some recommendations have been raised around the preparation of financial statements and these can be seen in Appendix IV.</p> <p>Pages 9 - 11 below include a number of significant issues identified which arose due to inadequacies in arrangements for the preparation of the financial statements.</p> <p><b>We consider that this significant risk has not been mitigated by the Council and we expect this to recur for 2015/16.</b></p>



SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<p>PREPARING AND FINALISING THE FINANCIAL STATEMENTS (CONTINUED)</p>		<p>We reviewed the draft financial statements against the CIPFA Disclosure Checklist to ensure compliance with the Code in terms of the format of the accounts and related disclosures. We also agreed any disclosure notes not audited elsewhere to underlying working papers, and carried out additional audit testing where necessary to gain assurance over significant disclosure items.</p>	<p>Our testing identified a number of non-trivial errors in the primary statements and supporting disclosure notes which were required to be adjusted.</p> <p>These errors and required adjustments included:</p> <ul style="list-style-type: none"> <li>• General tidy of the accounts to remove nil lines and to improve the presentation of the financial statements.</li> <li>• Removal of immaterial disclosure notes and accounting policies.</li> <li>• Through our audit testing we identified that debtor and creditor balances had been incorrectly netted off against each other in the short term debtors and short term creditor’s notes. This resulted in an amendment of £5.7m to correctly show the balances gross.</li> <li>• Adjustments to the capital financing note (note 28) to correctly show the capital financing requirement for 2014/15.</li> <li>• Adjustments to financial instruments (note 10) as follows: £5.7m to remove creditor balances that arise under statute, £2.6m to correctly show the debtor balance net of the bad debt provision and £192k to remove payments made in advance. An adjustment was also required to this note to take account of the error found within debtors and creditors noted above.</li> <li>• Amounts reported for resource allocation decisions (note 21) to ensure that it agrees to the amounts reported in the CIES and the associated notes.</li> <li>• Adjustments between accounting basis and funding basis under regulations (note 1) to take account of the amendments made to the MiRS.</li> </ul> <p>All of the above adjustments were corrected by Management.</p> <p>A number of other non-trivial adjustments were required and have been detailed below.</p>

## SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<p>PREPARING AND FINALISING THE FINANCIAL STATEMENTS (CONTINUED)</p>		<p><b>Collection Fund Statement</b></p> <p>We reviewed the material elements of the Collection Fund statement to confirm that it is in compliance with the requirements of the Code.</p> <p>A number of errors were identified regarding the presentation of the Collection Fund.</p>	<p>Some presentation amendments were required to the Collection Fund Statement including adjustments to the main statement and the supporting notes. The main changes to the disclosures were as follows:</p> <ul style="list-style-type: none"> <li>• The correction of the prior year comparative figures that were incorrectly adjusted for when the balances were immaterial. Instead the corrections were posted in year.</li> <li>• The inclusion of each of the precepting bodies share of the surplus/deficit of the collection fund balance on the face of the Collection Fund Statement.</li> </ul> <p>Management corrected for the required disclosure amendments.</p>
		<p><b>Collection Fund Statement - brought forward balances</b></p> <p>The Council have used the CIPFA model for completing the required accounting entries for the Collection Fund for 2014/15. We reviewed the entries used in this model and identified there to be an incorrect amount in the opening balance of £3,496k. The movement in the year should have been £3,687k, however owing to incorrect opening balance the movement in year is reported as £672k (per note 17, note 1 and the MiRS).</p>	<p>Management has corrected for this error by posting an adjustment in year through the Collection Fund Adjustment Account (note 17) of £3,015k to ensure that the closing balance for 31 March 2015 is correct.</p>

**SIGNIFICANT AUDIT RISK AREAS**

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<p>PREPARING AND FINALISING THE FINANCIAL STATEMENTS (CONTINUED)</p>		<p><b>Movement in Reserves Statement</b></p> <p>A number of errors and inconsistencies corrected by Management affect the Movement in Reserves Statement (MiRS). We reviewed the MiRS to ensure its consistency, completeness and accuracy compared with other areas of the accounts and supporting documentation.</p> <p>We also reviewed the transfers to and from reserves for validity and compliance with guidance and regulations.</p>	<p>In closing the accounts Management found a number of non-trivial imbalances on the apportionments through the MiRS and the adjustments between accounting basis and funding basis (note 1). The key amendments made were as follows:</p> <ul style="list-style-type: none"> <li>• Re-apportionment of £550k initially recorded as an ‘other balance’ which related to a number of areas of the accounts including capital grants and HRA.</li> <li>• Re-apportionment of £1,819k within transfers to earmarked reserves, which was conversely corrected within note 1.</li> <li>• Amendment to combine HRA, Schools, Insurance and General earmarked reserves into one earmarked reserve.</li> </ul> <p>Following adjustments being made by management to the MiRS our testing, has confirmed that the Statement is correct and there are no inconsistencies with other notes within the financial statements.</p>
		<p><b>Cash Flow Statement</b></p> <p>A number of errors and inconsistencies corrected by Management affect the Cash Flow Statement. We therefore completed our audit on the revised statement once it had been amended by Management.</p> <p>On completion of our review we noted that there was an imbalance on the Cash Flow Statement of £1.2m noted as ‘other adjustments’. Management was not able to identify what the difference related to. Through our audit testing we identified that this related to finance leases.</p>	<p>Management made the required adjustment to move the £1.2m into financing activities. After the adjustment made we are satisfied that the Cash Flow Statement is accurately stated.</p>

## SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<p><b>NEW ACCOUNTING STANDARDS</b></p>	<p>The Code of practice for Local Authority Accounting 2014/15 includes the new consolidation suite of accounting standards (IFRS 10, 11 and 12). This introduces a new definition of control, which should be used to determine whether entities and joint arrangements should be consolidated within the Council's financial statements.</p> <p>The Council will need to review its investments in other entities and contractual arrangements to determine whether it has rights to, or is exposed to, variable returns and the power to affect the amount of those returns. This includes a review of the arrangements with Medway Norse.</p> <p>In addition, the new standards mean that the Council needs to carry out a detailed review of arrangements in place at each voluntary controlled, voluntary aided and foundation school to determine whether the schools (and therefore the Council) control their non-current assets. This may result in a material value of school buildings being brought on the Balance Sheet, including restatement.</p>	<p>We have reviewed the Council's justification for its accounting treatment of all material investments in other entities, and underlying records, to determine whether the new definition of control under IFRS 10 and 11 has been sufficiently considered and appropriately applied.</p> <p>We also considered the detailed review performed by the Council on the arrangements in place for each voluntary controlled and voluntary aided school (note that the Council does not have any foundation schools) which concluded that the schools do not control their non-current assets.</p>	<p>We are satisfied that, where applicable, joint arrangements have been correctly accounted for and disclosed within the financial statements. We are also satisfied with the conclusions drawn by the Council that the voluntary controlled and voluntary aided schools do not control their non-current assets.</p>
<p><b>ACTUARIAL ASSUMPTIONS USED FOR IAS19 PURPOSES</b></p>	<p>The actuarial assumptions used for IAS19 purposes are subject to a high level of estimation uncertainty in that there is high susceptibility to an inherent lack of precision in their measurement. As a result there is a risk of material misstatement if the assumptions used by the Actuary are inappropriate.</p> <p>Kent County Council Pension Fund engaged with Barnett Waddingham as a management expert.</p>	<p>We used an auditors' expert to assess the reasonableness of the assumptions used by the actuary of the Local Government Pension Fund.</p> <p>We requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with the Council's knowledge.</p>	<p>We are satisfied that the actuary is independent of the Council, objective and is experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are reasonable and are not significantly different from those being applied by the actuaries of other local authorities.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
PRESENTATION OF THE FINANCIAL STATEMENTS	<p>We reviewed the Council's accounts to consider whether there are any immaterial disclosure notes and accounting policies that are not required.</p> <p>From our review we found that there were some notes and accounting policies that were irrelevant and immaterial to the financial statements.</p>	<p>Management have made some amendments to the financial statements to remove some of the immaterial disclosure notes and accounting policies. However the following items remain and should be reviewed in 2015/16 to ensure that the financial statements are de-cluttered:</p> <ul style="list-style-type: none"> <li>Accounting policy 14 on inventories is immaterial and should be removed.</li> <li>Accounting policy 18 on leases should remove any reference to the authority acting as a lessor in relation to finance leases as the Council do not have any such arrangements.</li> <li>Accounting policy 20 on property, plant and equipment should be revisited to tailor and cut down the narrative around accounting for schools and componentisation.</li> </ul>
RELATED PARTY TRANSACTIONS	<p>We reviewed the Council's note disclosing related party transactions (note 27) to ensure that it complied with IAS 24. We also ensured that the disclosures were accurately stated and that the disclosure note contained complete information.</p>	<p>From our review of the note we identified that many of the items disclosed did not meet the definition of a related party transaction as set out in IAS 24 and therefore there is over-disclosure of items in the note. Management need to consider whether the items disclosed for individual members meet the definition of a related party in terms of the controlling influence that they may have over each related body. The Council also need to consider whether the items disclosed are material to either of the party.</p> <p>We have raised a recommendation around this disclosure note in Appendix IV. Management have chosen not to amend this note in 2014/15 and therefore this issue has been reported as an unadjusted disclosure error in Appendix II.</p>
SENIOR OFFICERS REMUNERATION	<p>We reviewed the Council's note disclosing the Senior Officers' Remuneration (note 23) back to supporting documentation and checked the format and disclosure of the note against the Code requirements and LAAP 85.</p>	<p>From our review of the note we identified that the Council had disclosed all Officers who earn over £50,000 irrespective of whether they meet the criteria for disclosure within para I135 of the Code. As a result, the Council has over-disclosed Officers' remuneration within this note. Management has made some amendments to this note as a result of our review e.g. removing the Head of Audit who is not a Head of Paid Service. However, Management have stated that they will revisit the disclosure of this note in 2015/16 once they have completed a full review of who should be disclosed within this note.</p> <p>We have raised a recommendation around this disclosure note in appendix IV. This issue has been reported as an unadjusted disclosure error in Appendix II.</p>

## OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
BAD DEBT PROVISION	<p>We also reviewed the Council's workings for their bad debt provisions. There are several separate bad debt provisions which have been deducted from the debtor balances. These include General Fund debtors, NNDR and Council Tax.</p>	<p>Our testing of bad debt provisions identified that the Council accounts for debtor balances relating to housing benefit overpayments to be accounted for on a cash basis, which is not in line with the accruals concept. As a result the debtors balance is off-set by a 100% provision for these debtor balances, resulting in a net £nil debtor balance within the balance sheet.</p> <p>Currently the Council has a balance of £7m of unrecovered overpayments relating to housing benefits. We reviewed the collection rate for these debtor balances in 2014/15 and also compared the provisions in place at other Councils of a similar size. We concluded that the Council should be applying a provision of approximately 75% and therefore a debtor balance of £1.75m should be recognised in the balance sheet.</p> <p>The Council has chosen not to amend for this error and therefore this has been reported as an unadjusted audit difference in Appendix II. We have also raised a recommendation in Appendix IV to ensure that Management reviews the accounting treatment that is applied in this area going forward.</p>

## FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.

# CONTROL ENVIRONMENT

## Significant deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you and are set out in the table of significant deficiencies below.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control. We only restate weaknesses already reported by internal audit where we consider these to be significant deficiencies.

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
PREPARATION OF THE FINANCIAL STATEMENTS	<p>The preparation of the financial statements was identified as a significant risk in our Audit Plan issued in March 2015.</p> <p>The Chief Finance Officer completes a review of the financial statements before being passed to audit. However this review is not detailed and is not evidenced to confirm the checks that have been performed to ensure the accuracy of the financial statements.</p> <p>As this area was identified as a significant risk of material misstatement and there is a lack of evidence of controls in place, we are required to report this as a significant control deficiency.</p>	<p>There is no evidence of a robust review of the draft financial statements in place, which could result in a higher number of errors within the financial statements, including presentational issues</p>	<p>Ensure a detailed review of the draft financial statements is carried out with evidence of review by the Chief Finance Officer. The review should incorporate high level sense checks to ensure that items included in disclosure notes agree to the main statements and that known errors that have arisen in previous years have been addressed.</p>

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations in respect of these significant deficiencies and other internal control improvements are included in appendix IV.

# GOVERNANCE REPORTING

## Governance matters and quality of reporting

### FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 30 June 2015.

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers has been provided to us on the first day of the audit.

### CONCLUSIONS AND AUDIT ISSUES

We have reported a number of issues with the quality of the draft financial statements presented for audit in the key audit and accounting matters section noted on pages 7-11 above.

### GOVERNANCE STATEMENT

We are required to review the draft governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.

### CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE), subject to minor amendments being made to the statement that were requested as a result of our review.

### STATEMENT OF ACCOUNTS

We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

### CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.



# WHOLE OF GOVERNMENT ACCOUNTS

## Consistency of the Data Collection Tool

### REVIEW OF THE DATA COLLECTION TOOL

For Whole of Government Account (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.

This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

Our review of the Council's WGA Data Collection Tool (DCT) is in progress.

### ASSURANCE STATEMENT

Our review of the Council's WGA Data Collection Tool (DCT) is in progress.

# USE OF RESOURCES

## Scope of the review

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience (robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future)
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

### APPROACH

We draw sources of assurance relating to value for money responsibilities from:

- the Council's system of internal control as reported on in its governance statement
- the results of the work of inspectorates and review agencies
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

We also consider the findings from the following sources:

- value for money profiles tool
- risk indicators arising from other audit activities such as liaison meetings and review of minutes and board reports
- key issues facing the sector highlighted in guidance issued by the Audit Commission.

# USE OF RESOURCES

## Financial resilience

### SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which included use of resources risks, in the 2014/15 Audit Plan issued in March 2015. We have since undertaken a more detailed assessment of risk following completion of the interim review of financial controls, review of the draft financial statements and review of operational performance for the year, and we have not identified any additional significant risks. We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

**Key:** ■ Significant risk/issue      ■ Other relevant use of resources work

RISK	RISK DETAIL	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
FINANCIAL RESILIENCE	Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other changes, this will have a significant impact on the financial resilience of the Council in the medium term.	<p>The Council has a Medium Term Financial Plan (MTFP) in place covering the four year period to 2016/17. We have reviewed the assumptions made in the latest version of the MTFP (dated September 2014) and considered the level of savings the Council is required to make during the period covered by the strategy and found these to be reasonable. The MTFP details the planned use of resources and the expected funding gaps up until 2016/17.</p> <p>While the MTFP financial position is balanced in the period to 31 March 2015, significant resource gaps have been identified in 2015/16 (£11.6 million) and in 2016/17 (an additional £5.4 million). The Cabinet is continuing to develop various options to address the resource gap, including further reducing expenditure, reviewing service operations e.g. the transformation of the Customer Contact and Administration service area and securing further procurement efficiencies. However, further pressure is being placed on the Council's general and earmarked reserves.</p> <p>The overall financial position was monitored closely throughout the year and the Council with the Council achieving the budget set for 2014/15 of £337.4 million. The outturn position reported in the financial statements of £98 million deficit was due in the main to the increase in expenditure within Children's and education services which was a combination of required spending in this service area to help with improvements required as a result of the 2013 Ofsted inspection and the transfer of 9 schools to Academy status during the year. After further adjustments between the accounting and funding basis the Council recognised an increase in revenue reserves of £8m.</p> <p>The Council continues to maintain a healthy level of earmarked reserves and balances, with the level of reserves remaining within the minimum level of reserves set by the Chief Finance Officer of £5 million. As at 31 March 2015, the general fund balance was £5 million and earmarked reserves were £34.5 million. The overall reserves have decreased by around £144 million since the prior year. However, this is mainly due to the increase in the pension liability within unusable reserves.</p> <p>The Council continues to provide clear leadership on financial governance matters through the work of the Cabinet and the Senior Management Team. Financial responsibilities are clearly assigned and the Senior Management Team oversees the corporate response to expenditure pressures, other financial risks emerging in the year and the overall achievement of the annual budget. The Cabinet and Overview and Scrutiny Committees continue to challenge financial performance and the delivery of the Council's capital programme, effectively.</p>	No areas of concern were identified that we need to report.

## USE OF RESOURCES

### Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

**Key:** ■ Significant risk/issue

■ Other relevant use of resources work

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>CHALLENGING ECONOMY, EFFICIENCY AND EFFECTIVENESS</p>	<p>We have considered the Council's arrangements for improving efficiency and productivity. We have reviewed the Council's operations during the year for evidence which demonstrates that it is taking action to prioritise its resources.</p> <p>The Council's performance management arrangements remain effective. The Council Plan is the published business plan, setting out the Council's commitment to achieving agreed outcomes. The Plan is reviewed and adjusted each year to take account of financial performance and service developments and links Council priorities to available resources. The Council has continued to develop annual budgets which reflect the priorities outlined in its Corporate Plan. The existing Corporate Plan came to an end in March 2015 and a new Corporate Plan, covering the period 2015/16 is now in place. This is likely to be refreshed before the end of the year to ensure that it remains in line with the Councils vision and priorities given the financial pressures that are currently in places.</p> <p>Key performance indicators were developed at the beginning of 2014/15, with 53 KPIs covering each of the Council's key priority areas. Progress against these has been reported to the Cabinet and Scrutiny Committees on a quarterly basis, allowing members to identify areas where performance may require improvement and providing the opportunity to challenge officers where necessary. As at the end of March 2015, In terms of Medway's key measures of success, the Council reported:</p> <ul style="list-style-type: none"> <li>• 49% of indicators achieved target compared with 50% in 2013/14</li> <li>• 34% of indicators were significantly under-performing compared with 31% in 2013/14.</li> </ul> <p>When benchmarking the Council against other Unitary Councils, using the value for money profiles tool, it confirms that the Council is within the 5% highest spend on Adult Social Care and Schools, which is in line with our current knowledge of the Council increasing their spend in these areas in order to make improvements to service delivery. The Council is also within the worst 5% for the number of people living in temporary accommodation, which is a key priority area for the Council to assist in getting these people into permanent accommodation. There are no other significant areas of concern when reviewing this tool.</p>	<p>No areas of concern were identified that we need to report.</p>

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
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**Arrangements for the protection of children and for looked after children**

The Council is continuing to take action to address the inadequate judgements reported by Ofsted following its inspection of arrangements for protecting children (February 2013) and for looked after children services (August 2013). The Ofsted review of arrangements for the protection of children concluded that in all four focus areas the Council's arrangements were inadequate (the areas reviewed were overall effectiveness of the service; the effectiveness of the help and protection provided to children, young people, families and carers; the quality of practice; and leadership and governance). The inspection of looked after children's services concluded that in four of the five judgement areas (overall effectiveness of the service; outcomes for looked after children and young people; quality of provision and leadership and management) arrangements were inadequate. The inspectors concluded that the capacity of the service to improve was adequate.

Since the inspections, the Council continues to identify additional resources required to invest in its children's services and has established structures and processes to address the weaknesses identified by inspectors. The Medway Safeguarding Children's Board, which is led by an independent chair, receives reports from the External Improvement Board on the delivery of the improvement plan agreed with the Department for Education. There continues to be clear evidence of progress in implementing all of the actions agreed and there have been positive outcomes following the Council's investment in a new workforce strategy and the implementation of an effective performance and quality assurance framework.

An Ofsted inspection is currently underway to review the service and a report is expected in the coming months.

**USE OF RESOURCES CONCLUSION**

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. We anticipate issuing an unqualified value for money conclusion.

# APPENDICES

# APPENDIX I: DEFINITIONS

TERM	MEANING
<b>The Council</b>	Medway Council
<b>Management</b>	<p>The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for:</p> <ul style="list-style-type: none"> <li>the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting)</li> <li>putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.</li> </ul>
<b>Those charged with governance</b>	<p>The persons with responsibility for assurance and the Council’s arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process.</p> <p>Those charged with governance for the Council are the Audit Committee.</p>
<b>ISAs (UK &amp; Ireland)</b>	International Standards on Auditing (UK & Ireland)
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards as adopted by the European Union
<b>Materiality</b>	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
<b>Code</b>	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC(Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
<b>SeRCOP</b>	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
<b>SOLACE</b>	Society of Local Authority Chief Executives
<b>CIES</b>	Comprehensive Income and Expenditure Statement

## APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

### CORRECTED AUDIT DIFFERENCES

Management has made corrections in the revised draft financial statements in respect of a number of issues which have been noted on pages 8-10 above. As a result of the corrections made, the deficit for the year has decreased by £550,000.



## APPENDIX II: AUDIT DIFFERENCES

### Unadjusted audit differences

#### UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit differences identified by our audit work which would increase the draft deficit on the provision of services in the CIES by £1,250. There is also one unadjusted audit difference brought forward from the prior year of £1,156k which would impact on the current year performance. The impact of both of these unadjusted audit differences would be to decrease the deficit on the provision of services by £2,406k to to £95.8 million. A schedule of uncorrected audit differences is included below, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES (surplus) or deficit on the provision of services before adjustments	98,206				
<b>Impact of prior year unadjusted audit differences</b>					
Dr Short-term creditors				1,156	
Cr Expenditure	(1,156)		(1,156)		
<i>Being the projected extrapolation of the understatement of expenditure identified through our testing of accruals.</i>					
<b>Impact of current year unadjusted audit differences</b>					
Dr Short-term Debtors				1,250	
Cr CIES service expenditure	(1,250)		(1,250)		
<i>Over provision of Housing benefits overpayments non-recoverable debts</i>					
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>	<b>(2,406)</b>		<b>(1,250)</b>	<b>1,250</b>	
CIES (surplus) or deficit on the provision of services after adjustments	95,800				

## UNADJUSTED DISCLOSURE MATTERS

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There are two unadjusted disclosure errors as follows:

- Senior Officers' Remuneration note (note 23): The disclosures within this note are not in line with the Code. The Officers disclosed do not all meet the definition of a statutory Chief Officer or Head of Service that reports directly to the Head of Paid Service. As a result there is over disclosure of this note.
- Related Party Transactions (note 27): The disclosures within the note do not all meet the definition of IAS 24. The transactions disclosed are not always between parties where significant control or influence is held. As a result there is over disclosure of this note.

Management has confirmed that they are not amending for these two issues and will instead revisit both of these disclosure notes in 2015/16.

## APPENDIX III: MATERIALITY

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

### MATERIALITY

Planning materiality	£12,400,000
Final materiality	£12,200,000
<b>Clearly trivial threshold</b>	<b>£250,000</b>

Planning materiality of £12,400,000 was based on 2% of gross expenditure, using forecast outturn from the draft financial statements and the prior year expenditure. Final materiality was based on the actual draft financial statements.

We have no reason to revise our final materiality level.

## APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>FINANCIAL STATEMENTS</b>				
<p><b>Related Party Transactions</b></p> <p>The Council has implemented additional controls this year around the annual declaration process. These include carrying out Companies House searches on members and senior officers, reviewing website profiles for relevant information, and comparing returns with prior year declarations to identify any omitted transactions. However from a review of the note to the financial statements it was identified that not many of the items disclosed here meet the definition of a related party in accordance with IAS 24, resulting in over disclosure of this note.</p>	<p>Review the methodology for disclosing related party transactions to ensure that the transactions disclosed are compliant with the Code and fully meet the definition of a related party per IAS 24.</p>	<p>The recommendation is accepted and will be incorporated into the method applied in subsequent years.</p>	<p>Technical and Principal Accountants</p>	<p>From the 2015/16 Accounts</p>
<p><b>Senior Officers' Remuneration Note</b></p> <p>Through our testing we identified that the disclosures within this note are not in line with the Code (para I135). The Officers disclosed do not all meet the definition of a statutory Chief Officer or Head of Service that reports directly to the Head of Paid Service. As a result there is over disclosure of this note.</p>	<p>Review the content of the Senior Officers' Remuneration Note to ensure that the disclosures are in line with the Code. Consider the Council's management structure and identify those Officers who report directly to the Head of Paid Service as part of this process.</p>	<p>The recommendation is accepted and will be incorporated into the method applied in subsequent years.</p>	<p>Technical and Principal Accountants</p>	<p>From the 2015/16 Accounts</p>
<p><b>HRA assets within fixed asset register</b></p> <p>Through our testing we noted that within the fixed asset register all HRA assets are being grouped as a single asset. Because of this it is not possible to identify if the brought forward revaluation loss relates to individual HRA assets and it is not possible to see the amount which relates to sold assets and new build assets.</p>	<p>Consider splitting out the individual HRA assets on the fixed asset register going forward to ensure all of the individual assets are identifiable, including any related gains and losses on revaluations.</p>	<p>The recommendation will be considered to be implemented upon updating the Councils fixed asset software.</p>	<p>Technical and Principal Accountants</p>	<p>From the 2015/16 Accounts</p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>FINANCIAL STATEMENTS</b>				
<p><b>Housing Benefit Overpayments</b></p> <p>The Council currently accounts for Housing Benefit Overpayments on a cash basis, which is not in line with the accruals concept. As a result there is a nil debtor balance included on the balance sheet. The Council should be recognising the debtor balance and off-setting this with a corresponding bad debt provision. On review of current collection rates and on comparison with other Councils of a similar size, the bad debt provision should be in the region of 75% of the debtor balance at the year end.</p>	<p>Review the accounting treatment of housing benefit overpayments and ensure that the debtor balance is correctly accounted for on an accruals basis on the balance sheet. Calculate a reasonable provision value to off-set the debtor balance based on collection rates and known collection agreements with housing benefit claimants.</p>	<p>The recommendation is accepted and will be incorporated into the regular accounting practice, however, an allowance will be made with regard to the amount of very old debt inherent in the system, when considering the level or write-offs.</p>		
<p><b>Review of financial statements</b></p> <p>The preparation of the financial statements was identified as a significant risk in our Audit Plan issued in March 2015.</p> <p>The Chief Finance Officer completes a review of the financial statements before being passed to audit. However this review is not detailed and is not evidenced to confirm the checks that have been performed to ensure the accuracy of the financial statements.</p> <p>As this area was identified as a significant risk of material misstatement and there is a lack of evidence of controls in place, we are required to report this as a significant control deficiency.</p>	<p>Ensure a detailed review of the draft financial statements is carried out with evidence of review by the Chief Finance Officer. The review should incorporate high level sense checks to ensure that items included in disclosure notes agree to the main statements and that known errors that have arisen in previous years have been addressed.</p>	<p>The recommendation is accepted and will be incorporated into the method applied in subsequent years.</p>	<p>Chief Finance Officer</p>	<p>From the 2015/16 Accounts</p>
<p><b>Preparation of financial statements</b></p> <p>In order to meet the earlier deadlines which will be imposed on the preparation of the financial statements in two years' time, the Council should be working towards good quality financial statements and supporting working papers at an</p>	<p>Management should review and revisit current resources and timetables in place to ensure that they are prepared for the earlier deadline that will be imposed in 2 year's time.</p> <p>Complete and annotate a disclosure checklist which cross references to the items disclosed within the</p>	<p>Processes, procedures and resources will be reviewed in preparation for the future changes. These will be factored into the shutdown timetable.</p> <p>With regards to the 30 June submission, the issue with the draft MIRS and cash</p>	<p>Chief Finance Officer</p>	<p>From the 2015/16 Accounts</p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>FINANCIAL STATEMENTS</b>				
<p>earlier stage. In order to meet this, consideration needs to be given as to what resources will be required to meet the new upcoming deadlines.</p> <p>The statements that were presented for audit on 30 June 2015 contained a high number of non-trivial errors which required some of the main statements (MiRS and Cash Flow) to be reworked by Management.</p>	<p>financial statements to confirm that all items have been correctly disclosed before being passed to audit.</p>	<p>flow were brought to the attention of the audit team as soon as the audit commenced.</p>		
<p><b>De-cluttering the financial statements</b></p> <p>We reviewed the Council's accounts to consider whether there are any immaterial disclosure notes and accounting policies that are not required.</p> <p>From our review we found that there were some notes and accounting policies that were irrelevant and immaterial to the financial statements.</p>	<p>Management should review the financial statements, including the accounting policies and disclosure notes, and ensure that any immaterial items are removed. Excessive accounting policies (e.g. on property, plant and equipment) should be reviewed and re-written to ensure that they are kept concise and simple.</p>	<p>Agreed</p>	<p>Chief Finance Officer</p>	<p>From the 2015/16 Accounts</p>

## APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)	Financial statements section of this report
Significant difficulties encountered during the audit (ISA 260)	No issues
Significant matters discussed or subject to correspondence with management (ISA 260)	No issues
The final draft of the representation letter (ISA 260)	Appendix VI
Independence (ISA 260)	Independence section of this report
Fraud and illegal acts (ISA 240)	No issues
Non compliance with laws and regulations (ISA 250)	No issues
Significant deficiencies in internal control (ISA 265)	Control environment section of this report
Misstatements, whether or not corrected by the entity (ISA 450)	Appendix II
Significant matters in connection with related parties (ISA 550)	No issues
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)	No issues
Matters relating to the audit of the group (ISA 600)	No issues
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)	No issues
Material inconsistencies with other information in documents containing audited financial information (ISA 720)	No issues
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998	No issues

# APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
16 The Havens  
Ransomes Europark  
Ipswich#  
Suffolk  
IP3 9SJ

XX September 2015

Dear Sirs

## Financial statements of Medway Council for the year ended 31 March 2015

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2015 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2015 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.



To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the fair value measurements in relation to the following are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported:

- fair value of property, plant and equipment
- assumptions underpinning the reported pension liability

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Phil Watts  
Chief Finance Officer  
XX September 2015

Barry Kemp  
Chairman of the Audit Committee

**Signed on behalf of the Audit Committee**  
XX September 2015

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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# Statement of Accounts

for the  
year ended  
31 March 2015

[www.medway.gov.uk](http://www.medway.gov.uk)

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**Medway**  
COUNCIL  
*Serving You*

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The financial statements are presented on an International Financial Reporting Standards (IFRS) basis and have been prepared by the Authority in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA/LASAAC) and cover the period 1 April 2014 to 31 March 2015 (“the reporting period”).

The objectives of financial statements are to provide information about the financial position, financial performance and cash flows of an authority that is useful to a wide range of users in making and evaluating decisions about the allocation of resources.

Although the financial statements are complex due to the requirement to comply with IFRS, every effort has been made to provide notes and commentaries that explain and interpret the key elements of the accounts for the reader.

The Authority will also be providing a summary version of the financial statements which will include the key facts and information; these will be included on the Authority’s website.

## **Introduction**

### **Overview of Medway**

Medway is an area of northern Kent comprising the towns of Rochester, Strood, Chatham, Gillingham and Rainham as well as nearby rural areas and the Hoo Peninsula. Medway Council is a unitary authority providing the full range of local government services in the area, including:

- Education
- Environment
- Social care
- Housing
- Planning
- Business

The Authority consists of 55 members, with the Conservative party currently forming the majority (36 members).

Key facts from 2011 Census:

- Population: 263,900
- White ethnicity: 89.6%
- Born outside UK: 11%
- Religion: Christian 58%; Muslim 2%; No religion 30%
- Age: 0-14 18.9%; 15-64 67%; 65+ 14.1%

## **Financial Statements, their Purpose and Relationship between them**

The Authority has prepared its financial statements in accordance with IAS 1 Presentation of Financial Statements, IAS 7 Statement of Cash Flows and IFRS 8 Operating Segments as interpreted by the Code. The Code specifies the format of the statements, disclosures and terminology that are appropriate for local authorities.

The Authority is required to present a complete set of financial statements (including comparative information) that comprise:

- Movement in Reserves Statement for the period;
- Comprehensive Income and Expenditure Statement for the period;
- Balance Sheet as at the end of the period;
- Cash Flow Statement for the period;
- Notes comprising explanatory information;
- Housing Revenue Account Income and Expenditure Statement
- Movement on Housing Revenue Account Statement
- Collection Fund

The financial statements also include a Statement of Responsibilities which sets out the responsibilities of the Authority and the Chief Financial Officer in respect of the Statement of Accounts.

The Authority uses rounding to the nearest £'000 in presenting amounts in its financial statements; some notes are rounded to the nearest £ to aid the presentation and understanding of the financial statements.

The Statement of Accounts and the accompanying information comprises various sections which are explained below:

### **Information accompanying the Statement of Accounts**

The Code and the Accounts and Audit Regulations 2011 require that certain information accompanies the Statement of Accounts but are not formally part of the Statement of Accounts.

#### **Explanatory foreword**

This section offers interested parties an easily understandable guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the Authority's financial position, and assists in the interpretation of the financial statements. It summarises the major influences affecting the Authority's income and expenditure and cash flow, and information on the financial needs and resources of the Authority.

#### **Annual Governance Statement**

The Authority is required to carry out an annual review of the effectiveness of the system of internal control and to include a report accompanying the Statement of Accounts. This Statement explains how the Authority has complied with the 'CIPFA/SOLACE Delivering Good Governance' Framework during the year and up to the date of the approval for publication of the Statement of Accounts.

#### **Statement of Accounts**

The Statement of Accounts includes the financial statements of the Authority, the Statement of responsibilities to prepare the Statement of Accounts and the independent auditor's opinion on the financial statements.

#### **Statement of responsibilities**

This Statement sets out the responsibilities of the Authority and the Chief Finance Officer in respect of the proper administration of the financial affairs of the Authority and for the

preparation of the Statement of Accounts. The Chief finance officer has to certify that the accounts present a 'true and fair' view of the financial position of the Authority as at 31 March 2015 and its income and expenditure for the year.

### **Independent auditor's report**

The independent auditor is required to publish an opinion on the financial statements as to whether they give a true and fair view of the financial position and the expenditure and income of the Authority for the year in question. The auditor also has a responsibility to satisfy himself that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources by review and examination of the Authority's corporate performance management and financial management arrangements against criteria specified by the Audit Commission.

### **Financial statements and notes**

The financial statements comprise the principal financial statements of the Authority (Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement), the notes to the principal financial statements (the accounting policies and supplementary information), and supplementary information required by proper practices (Housing Revenue Account Income and Expenditure Statement, Movement on Housing Revenue Account Statement and Collection Fund).

The principal statements are set out on pages 52 to 57 and are presented as follows:

#### *Movement in Reserves Statement*

This Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and Housing Revenue Account for Council Tax setting and dwelling rent setting purposes. The net increase / decrease before transfers to earmarked reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

#### *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. Authorities raise 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.

#### *Balance Sheet*

The Balance Sheet shows the value as at the end of the accounting period of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.



### *Cash Flow Statement*

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority 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 (i.e. borrowing) to the Authority.

### *Notes to the principal financial statements*

The notes to the principal financial statements present information about the basis of preparation of the financial statements and the specific accounting policies used, disclose additional information required by the Code that is not presented elsewhere in the financial statements, and provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them. These notes are set out on pages 60 to 118.

The supplementary financial statements are set out on pages 120 to 132 and are presented as follows:

### *Collection Fund*

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The Statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and non-domestic rates.

### *Housing Revenue Account (HRA) Income and Expenditure Statement*

The HRA Income and Expenditure Statement shows the accounting cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

### *Movement on the Housing Revenue Account Statement*

This statement shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year end.

### **Other information**

A glossary of terms has been included in this document to explain some of the technical accounting language used to assist the reader.

## Summary of the 2014/2015 Financial Performance of the Authority

The following sections summarise the major financial transactions of the Authority. Further information is included within the notes to the relevant financial statements.

### Budget

How the Authority's Budget has Changed				
			Budget 2014/15	
			£'000	£'000
Budget requirement 2013/14			349,611	
Changes in function and funding			(8,248)	
<b>Adjusted Base Budget</b>				<b>341,363</b>
Other cost pressures			3,099	
Service pressures			7,579	
Efficiency and other savings			(14,627)	
				<b>(3,949)</b>
<b>Budget Requirement 2014/15</b>				<b>337,414</b>
Financed By:				
National Non-Domestic Rates (NDR) Redistribution			44,916	
Revenue Support Grant (RSG)			52,392	
Other Specific Grant			147,721	
Council Tax			91,285	
Reserves			1,100	
<b>Total</b>				<b>337,414</b>

Summary of the Local Government Finance Settlement 2014/15				
	Final	Final	Change	
	2013/14	2014/15	£'000	%
	£'000	£'000	£'000	%
NDR Redistribution	42,119	44,916	2,797	6.6%
Revenue Support Grant	63,311	52,392	(10,919)	(17.2%)
<b>Total</b>	<b>105,430</b>	<b>97,308</b>	<b>(8,122)</b>	<b>(7.7%)</b>

The tables above show that 2014/15 was a financially difficult year with a 7.7% cut in Local Government Finance Settlement against the comparable figure for 2013/14. This pressure will continue into 2015/16 where funding has been reduced by a further 13%.

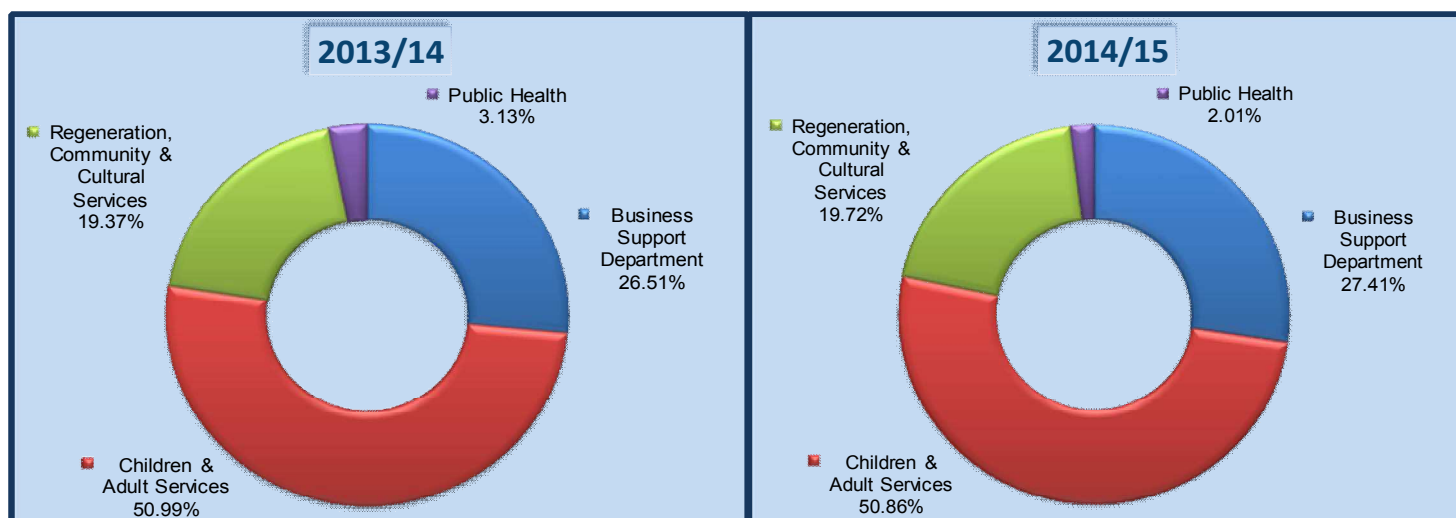
## Revenue

A contribution from earmarked reserves of £1.1m was planned for 2014/15. However, a corporate underspend resulted in a contribution to the General Reserve of £0.388m at year end so, essentially, the reserve drawdown was reduced to £0.712m.

The table below details the management accounts summarising the income and expenditure for each directorate of the Authority for 2014/15. Although these figures differ from those shown in the Comprehensive Income and Expenditure Statement, the two sets can be linked by referring to Note 21 of the financial statements:

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	165,002	(154,957)	10,044	9,696	349
Children & Adult Services	306,173	(46,343)	259,830	257,339	2,491
Regeneration, Community & Culture	118,729	(37,836)	80,893	82,227	(1,334)
Public Health	12,071	(208)	11,863	12,820	(957)
<b>Sub-total Services</b>	<b>601,975</b>	<b>(239,345)</b>	<b>362,630</b>	<b>362,082</b>	<b>549</b>
Amounts included within management accounts but excluded from services within statutory accounts:					
Medway Norse	0	(347)	(347)	(263)	(84)
Investment Properties	0	(371)	(371)	(369)	(2)
<b>Sub-total excluded from services within Statutory accounts</b>	<b>0</b>	<b>(718)</b>	<b>(718)</b>	<b>(632)</b>	<b>(86)</b>
<b>Sub-total Services reported within management accounts</b>	<b>601,975</b>	<b>(240,062)</b>	<b>361,912</b>	<b>361,450</b>	<b>462</b>
Levies	958	0	958	878	80
Depreciation Credit	0	(39,158)	(39,158)	(39,158)	0
Interest & Financing	13,245	0	13,245	14,244	(999)
<b>Total Expenditure</b>	<b>616,178</b>	<b>(279,220)</b>	<b>336,957</b>	<b>337,414</b>	<b>(457)</b>
<u>Funded:-</u>					
Contributions from Reserves	0	(1,100)	(1,100)	(1,100)	0
Specific Non-ringfenced Grants	0	(147,653)	(147,653)	(147,721)	68
RSG	0	(52,391)	(52,391)	(52,392)	1
Retained Business Rate Income	0	(44,916)	(44,916)	(44,916)	0
Council Tax	0	(91,285)	(91,285)	(91,285)	0
<b>Total Funding</b>	<b>0</b>	<b>(337,345)</b>	<b>(337,345)</b>	<b>(337,414)</b>	<b>69</b>
<b>Total Net Expenditure</b>					<b>(388)</b>

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



The outturn on the Housing Revenue Account (HRA) was a surplus £1,561,116 (2013/14 surplus £1,257,978), compared to a surplus budget of £821,453 (2013/14 budget £1,058,673). Having taken account of the 2014/15 surplus and a contribution from reserves, the Housing Revenue Account balance stands at £2,234,580 as at 31 March 2015 (£1,968,685 as at 31 March 2014).

## Capital

The Authority's capital investment in 2014/15 was £41,111,810 (2013/2014 £45,229,052). 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 capital expenditure and unsupported)	6,535
Government Grants and Other Contributions	22,668
Major Repairs and Other Contributions	4,315
Capital Receipts	3,264
Developer Contributions	2,038
Revenue and Reserves	2,292
<b>Total</b>	<b>41,112</b>

The Authority spent £28,417,992 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 Authority'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 of £731,575 and £11,962,414 relating to "Revenue Expenditure Funded from Capital under Statute" (formerly 'deferred charges'). (See Accounting Policy 23).

Capital expenditure incurred by the Authority in 2014/2015 is summarised below:

Directorate	Approved Programme	Forecast Spend	Outturn	Variation to Forecast	Slippage to
	2014/15+ £'000	2014/15 £'000	2014/15 £'000	2014/15 £'000	2015/16 £'000
<b>Expenditure</b>					
Business Support	4,944	2,339	1,959	(380)	(380)
Children and Adult Services	34,334	22,770	17,717	(5,053)	(5,053)
Regeneration, Community and Culture	46,292	24,726	21,239	(3,487)	(3,487)
Public Health	300	4	4	0	0
Member Priorities	595	352	193	(160)	(160)
<b>Total</b>	<b>86,464</b>	<b>50,192</b>	<b>41,112</b>	<b>(9,080)</b>	<b>(9,080)</b>

The capital programme for 2014/15 and beyond reflects the major investment priorities of the Authority which include a significant schools programme to deliver additional primary school and Special Educational Needs (SEN) places, Information and Communications Technology (ICT) investment to deliver the digital transformation agenda and a significant regeneration programme in which transport infrastructure features.

### *Borrowing/Investments*

During 2014/15 the level of debt, i.e. money that the Authority owes, decreased by £126,000 from £166,132,000 to £166,006,000. This is due to the current strategy of financing capital from investment balances rather than new debt. During 2014/15, £6,535,000 was used to fund Capital Expenditure.

Full details of the Treasury Management performance and outturn figures can be found within the Treasury Management Outturn report 2014/15 considered by Audit Committee on 14 July 2015.

### *Non-Current Assets*

The total value of the Authority's non-current assets has decreased in 2014/15 by £61 million. The main decreases related to derecognitions/disposals/transfer of academies and other property disposals (£41m) revaluation losses (£6m) and depreciation (£43m). This was partially offset by capital investment (£29m).

## B. Annual Governance Statement

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## 1. Scope of responsibility

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

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council approved a local code of corporate governance at its meeting on 13 November 2008, and this is consistent with the principles of the CIPFA/SOLACE Framework for Delivering Good Governance in Local Government. The code is set out within the Council's constitution and a copy is on our website at [www.medway.gov.uk](http://www.medway.gov.uk) and can also be obtained from the Monitoring Officer at Medway Council, Gun Wharf, Dock Road, Chatham (01634) 332133. The code is reviewed each year to ensure it remains fit for purpose, for example it was amended in 2012 to reflect changes to Councillor Conduct Complaints under the Localism Act 2011.

Corporate governance is overseen by the Audit Committee each year when it reviews this statement, under delegation from the full Council. The operational elements of the Council's governance framework are the responsibility of the Chief Finance Officer and the Monitoring Officer within their statutory roles. Cabinet as the Executive also plays a significant role in ensuring that decision making and policy setting is undertaken appropriately.

This statement explains how the Council has complied with the code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit Regulations 2011 in relation to the publication of a governance statement.

## 2. The purpose of the governance framework

The governance framework comprises the culture and values, systems and processes, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

The following section of the statement summarises Medway Council's governance framework that has been in place for the year ended 31 March 2015 and up to the date of approval of this Statement. The framework described reflects the arrangements in place to meet the six core principles of effective governance.

### 3. The Council's Governance Framework

*(a) Focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the local area*

The council works with its partners to set the vision and priorities for the area. The council manages a process of bringing together performance data, demographic information and consultation findings to determine key shared priorities.

The council's well established 'framework for managing performance' at Medway Council sets out how the Council Plan helps to inform and shape the council's own priorities.

In 2015 the council reviewed the Council Plan 2013-15, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2015 the council refreshed the Council Plan performance indicators. The Plan forms an essential part of the council's governance framework, setting out the council's priorities and the measures against which success will be judged.

*(b) Members and Officers working together to achieve a common purpose with clearly defined functions and roles.*

The Council has ensured that the necessary roles and responsibilities for its governance are identified and allocated so that it is clear who is accountable for decisions that are made.

*(c) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour*

The Council promotes and maintains high standards of ethical conduct of members and officers through the work of its Councillor Conduct Committee. The Council fosters a culture of behaviour based on shared values, ethical principles and good conduct.

The Council takes fraud and corruption very seriously and has:

- An Anti-Bribery Act policy
- A Fraud Resilience Strategy
- An Anti Money Laundering Policy

The outcome of complaints made under the whistle blowing policy are reported to the Audit Committee on an annual basis, in order that they can keep them under review.



*(d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk*

The Council has ensured that the decision-making process includes a rigorous risk assessment including:

- Financial, legal and staffing implications
- Diversity and racial impact assessment where appropriate
- Risks, mitigations and opportunities

All reports to the Council or Cabinet are checked by the Chief Finance Officer and the Monitoring Officer for financial and legal implications. The Council has been rigorous and transparent about how decisions are taken and recorded. Cabinet reports include a mandatory paragraph on risk to enable the Council to consider the implications of its decisions.

*(e) Developing the capacity and capability of Members and officers to be effective.*

The Council has ensured that those charged with the governance of the Council have the skills, knowledge and experience they need to perform well.

*(f) Engaging with local people and other stakeholders to ensure robust public accountability.*

The Council is committed to increasing public involvement in decision-making and devolving power to individuals and local organisations. We have sought and responded to the views of stakeholders and the community.

#### **4. Review of effectiveness**

Medway Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the Corporate Management Team who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Head of Internal Audit's annual review of the code of corporate governance checks the control environment within the two directorates and the business support department, and the results of this review have been used to inform our assessment of significant control issues for the Council. That report concluded:

"The AGS provides a reasonable and evidenced summary of the Authority's governance arrangements, which meets the requirements of the CIPFA/SOLACE framework. The overall opinion on the AGS is therefore **"strong"**."

Assurances have been provided from the Corporate Management Team that key elements of the control framework were in place during the year in their divisions and control weaknesses were identified and addressed.

## 5. Governance: Key Areas of Focus

The Authority faces another challenging year in 2015/16 as it seeks to manage significant budget reductions, increasing demand for some services and new ways of working, whilst ensuring it complies with its statutory duties. The following represent the key issues to be addressed in relation to significant governance issues:-

- (a) A continuation of the significant reductions in Government grant funding and the on going demands for greater expenditure, particularly for children's services and older people. In advance of the Chancellor of the Exchequer's emergency budget in July it is difficult to be more specific. The Council has plans in place to respond to the challenges for 2015/16 but the budget reductions will require careful monitoring and immediate action if they fall behind during implementation. The Council will need to ensure that decisions are taken with "due regard" for the Public Sector Equality Duty. The FIT Board chaired by the Leader of the Council will need to ensure the robustness of saving proposals contained in the budget including the savings target associated with category management.
- (b) An "inadequate" Ofsted report on child protection services and a subsequent "inadequate" for safeguarding and looked after children has required a detailed and comprehensive response from the Council including the setting up of an External Improvement Board. Senior Members and Officers and external experts and stakeholders are overseeing the delivery of a suite of recommendations designed to put right the issues identified. The success of the improvement plan is critical to the Council. An Internal Improvement Board has also been set up to drive the recommendations made. It is anticipated that Ofsted will return to test the efficacy of the Council's response this year. The Council has increased its awareness and understanding of Child Sexual Exploitation and has responded by deepening our partnership with the police and strengthening the Medway Safeguarding Children Board to provide strategic oversight on this emerging area of practice.
- (c) In the wake of the May 2015 General Election and simultaneous all out Council elections in Medway, a new Council administration now has a four year term to make policy changes should it choose to do so. Any changes in policy will need to be carefully managed to ensure appropriate levels of consultation and other preparatory considerations take place to ensure robust decision making that can stand challenge. New service delivery models if proposed will also need to be planned and managed to minimise risks to customers and to the Council's revenue budget.
- (d) A focused programme of work ensured that Medway Council introduced the reforms needed to meet its new duties and responsibilities under the Care Act, the biggest transformation in social care in a generation, from 1 April 2015. These included steps to assist people accessing care and support, support for unpaid carers, offering a deferred payment scheme[i] as well as meeting its new responsibilities in places like prisons. A clear plan driven forward by an operational-level Implementation Group with robust oversight and control from

a Director-level Programme Board is overseeing implementation of the 2nd wave of reforms (the capping of care costs and a new appeals process) due to take effect from April 2016.

*[i] A deferred payment agreement helps a person use the value of their home to fund their care home costs.*

## 6. Certification

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year 2014/15 although we recognise the areas for additional focus identified in section 5.

We are satisfied that these enhancements will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation and conduct a further annual review.

The financial management arrangements of the Council conform with the CIPFA "Statement on the Role of the Chief Finance Officer in Local Government (2010)".

.....  
Leader of the Council

.....  
Chief Executive

## Portfolio of evidence to support the Annual Governance Statement

### 3. (b)

The Council has done this by:

- Appointing a four year Leader of the Council; executive members (Cabinet Members), with defined executive responsibilities, including appointing a lead member for Children's Services, with responsibility for making sure the statutory functions for Children's Services are carried out.
- Agreeing a scheme of delegated executive responsibilities to directors, deputy directors, assistant directors and other senior officers and protocols that make clear the respective roles of Members and officers and ensure effective communication between them.
- Annually appointing committees to discharge the Council's regulatory responsibilities
- Annually appointing committees to discharge the Council's overview and scrutiny responsibilities
- Setting clear role definitions for chairs of committees and councillors in their different roles
- Ensuring that the Constitution is regularly reviewed – several amendments have been made to the Constitution this year.
- Making the Chief Executive (the Head of Paid Service) responsible and accountable to the Council for all aspects of operational management.
- Making the Chief Finance Officer (as Section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. Medway Council's financial management arrangements conform with the governance requirements of the CIPFA Statements on the Role of the Chief Financial Officer in Local Government (2010).
- Making the Director of Children and Adults Services responsible to the authority for ensuring that the statutory functions of children's services and adults services are carried out.
- Make the Director of Public Health responsible for ensuring that the statutory public health functions are carried out.
- Making the Assistant Director of Legal & Corporate Services (as Monitoring Officer) responsible to the authority for ensuring the lawfulness and fairness of decision-making, and that agreed procedures are followed and that all applicable statutes and regulations are complied with.
- Ensuring significant partnerships and contracts with other public bodies, voluntary and community organisations, and the private sector have clear governance accountabilities, including effective and equitable financial arrangements which are approved for example by Cabinet.
- Having in place effective and comprehensive arrangements for the scrutiny of services including a Scrutiny Officer (the Deputy Director, Customer Contact, Leisure, Culture, Democracy & Governance)

### 3. (c)

The Council has done this by establishing and keeping under review:

- The Council's Constitution
- A Members' Code of Conduct
- An Employee Code of Conduct
- A protocol governing Member/Employee Relations
- A Members' Planning Code of Good Practice
- A Members Licensing Code of Good Practice
- Communications Protocol
- Contract Standing Orders and Financial Regulations

The Monitoring Officer is responsible for the review of the constitution, and for ensuring that it is kept up to date.

Conduct of Members is monitored by the Councillor Conduct Committee, which also considers investigations of allegations of misconduct by Members. There has been one formal complaint this year which was fully investigated and the Committee took no further action. The conduct process has a strong emphasis on informal resolution.

The Council has:

- Ensured the Cabinet make decisions with reasons in an open and transparent way and that information relating to those decisions is made available to the public, unless statutory rules allow otherwise
- Ensured that all decisions of regulatory committees of the Council are made in public and that information relating to those decisions is made available to the public, unless statutory rules allow otherwise
- Ensured that legal, financial and risk implications are recognised in all reports on which decisions are based
- Recorded all decisions that are made by committees and those decisions delegated to senior named officers by Cabinet in line with the executive decision making regulations
- Rules and procedures, which govern how decisions are made
- Developed and maintained an effective overview and scrutiny function which encourages constructive challenge
- Maintained an effective Audit Committee and Councillor Conduct Committee

The Council has continued to develop its risk management strategy to enable the Council to manage and control risks in order to maximise the quality of its service provision and uphold its reputation, making a powerful contribution to continuous service improvement and the achievement of best value. The strategy is reviewed annually.

### 3. (d)

The Council has ensured that under the risk management system:

- Officers formally identify and manage risks
- Elected Members are involved in the risk management process
- A risk assessment of every key or strategic decision is undertaken
- Risks to financial and other key internal controls are mapped
- Business continuity planning is reflected; and
- The Cabinet reviews and, if necessary, updates its risk management processes at least annually
- Detailed risk assessment of budgets are carried out with signed acceptance form from managers highlighting risk areas

### 3. (e)

The Council has done this by:

- Developing leadership skills and capacity across the Council through a learning and development programme for staff
- Ensuring that the Chief Finance Officer and Monitoring Officer are both members of the Corporate Management Team
- Developing our approach to workforce planning
- Encouraging quality mark accreditation for services
- Maintaining and developing our personal development review system
- Cascading regular information to Members and staff by paper and electronic means regarding emerging issues
- Holding a full induction and training programme for all Members to attend

### 3. (f)

The Council has done this by:

- Improving effective corporate consultation including maintaining effective mechanisms for ongoing engagement eg, Children in Care Council, Young Commissioners, Learning Disability Partnership Board, Tenants Forums, Medway Ambassadors Scheme and the Community Safety Partnership
- Carrying out in depth consultation exercises as required to inform policy development and service change – eg Maintaining effective data exchange through the Corporate Research and Information Group to plan and coordinate consultation and to share findings
- Making use of local forums at ward, parish and neighbourhood level to maintain communication with all the Council's communities and other stakeholders e.g. Rural Liaison Committee with parishes, community futures workshops in our most deprived areas to inform the development of communityowned action plans, participation in Partner and Communities Together (PACT) meetings
- Maintaining and reviewing an effective complaints procedure

4. Throughout 2014/15 the Council has received and considered a number of reports including:-

- (a) Changes to the Constitution April 2014
- (b) Exemptions to the contract procedure rules (January 2015)
- (c) Budget Report 2015/16 (February 2015)
- (d) Council Plan 2015/16 (February 2015)
- (e) Special urgency decisions (July 2014, October 2014)

Cabinet has considered and approved a number of reports in its role as the executive:-

- (a) Revenue Budget monitoring 2014/15 (September 2014, January 2015)
- (b) Capital monitoring 2014/15 (September 2014, January 2015)
- (c) Capital and Revenue Budget 2015/16 (December 2014)
- (d) Six monthly review of the risk register (April 2014, October 2014)
- (e) Annual Review of the Risk Management Strategy (October 2014)
- (f) Medium Term Financial Plan 2014/18 (September 2014)
- (g) Statement of Accounts 2013/2014 (July 2014)
- (h) 2013/14 Year End Performance Monitoring (July 2014)
- (i) Council Plan 2014/15 Monitoring (December 2014)

The Audit Committee have considered a wide variety of issues including:-

- (a) Whistle blowing policy (September 2014)
- (b) Internal Audit Annual Plan 2015/16 (March 2015)
- (c) Anti Money Laundering Policy (September 2014)
- (d) Corporate Fraud (July 2014, September 2014)
- (e) Statement of Accounts 2013/14 (July 2014)

## C. Statement of Responsibilities

### The Authority's Responsibilities

The Authority 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 Authority, that officer is the Chief Finance Officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

### The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices 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 then applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the local authority code.

The Chief Finance Officer has also:

- kept proper accounting records which were up to date.
- 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 a true and fair view of the financial position of the Authority at the reporting date and of its expenditure and income for the year ended 31 March 2015.

Phil Watts  
Chief Finance Officer

24 September 2015

### Adoption of the Accounts

In accordance with Accounts and Audit Regulations 2012 the Chair of the meeting adopting the statement of Accounts must sign and date the statement in order to confirm that the adoption process has been completed.

I confirm that the Statement of Accounts for the period ending 31 March 2015 was approved at the meeting of Audit Committee held on 24 September 2015.

Councillor Barry Kemp  
Chairman of the Audit Committee

24 September 2015



## D. Independent Auditor's Report to the Members of Medway Council



To be added

# E. Statement of Accounting Policies

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## **(i) Accounting Policies**

### **1. General Principles**

The financial statements summarises the Authority's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### **2. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments for them are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Exceptions to this are payments of:

- Regular quarterly accounts (e.g. telephones, electricity, ICT contracts for software and hardware)
- Penalty Charge Notice income
- Overpayment of Housing Benefit
- Employee expenses and overtime allowances.

These have been consistently applied each year and therefore do not have a material effect on the year's accounts.

### Accounting for Council Tax

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Authority's General Fund, or paid out to the major preceptors. The amount credited to the General Fund under statute is the Authority's demand for the year plus or minus the Authority's share of the surplus or deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to Council Tax shall be measured at the full amount receivable (net of any impairment losses) as the transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Authority from Council Tax payers belongs proportionately to the Authority and the major preceptors. The difference between the amounts collected on behalf of the major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

### Accounting for Non Domestic Rates (NDR)

While the NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Authority's General Fund, or paid out to the precepting authorities and the Government. The amount credited to the General Fund under statute is the Authority's share of NDR for the year specified in the National Non Domestic Rates NNDR1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year and is as set out in the NNDR3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to NDR shall be measured at the full amount receivable (net of any impairment losses) as these transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Authority from NDR payers belongs proportionately to the Authority, the precepting authorities and Government. The difference between the amounts collected on behalf of the precepting authorities and Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

## **3. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

All other investments which are not held for the purpose of meeting short-term cash needs and are not readily convertible into known amounts of cash are classified as investments.

#### **4. Period Adjustments, Changes in Accounting Policy and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates will be accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior year period as if the new policy had always been applied.

Material errors discovered in prior year periods are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

#### **5. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation or impairment losses. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses are therefore replaced by the contribution in the General Fund Balance MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **6. Customer and Client Receipts**

With the exception of some income, e.g. car park Penalty Charge Notices, which is recorded on a cash basis, income is accrued and accounted for in the period to which it relates. Provision is made for doubtful debts and known uncollectable debts are written off.

#### **7. Employee Benefits**

##### **Benefits payable during employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual

is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement (CIES) at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### Post-employment benefits

Employees of the Authority are members of three separate pension schemes.

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by EA Finance NHS Pensions
- The Local Government Pensions Scheme, administered by Kent County Council

These schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the CIES is charged with the employer's contributions payable to Teachers' Pensions in the year. The Public Health line in the CIES is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Kent pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their fair value at current prices, using a discount rate of 3.3%

The assets of Kent pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs
  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
  - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the



Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

## Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements but since 6 January 2007 has ceased to award additional service in the event of early retirement on other than ill-health grounds. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## 8. Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 9. Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the CIES in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the CIES is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## Financial Assets

The Authority's financial assets (investments) are classified into:

- Loans and Receivables - assets that have fixed or determinable payments but which are not quoted in an active market
- Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments

## Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

The Authority has made a small number of loans to eligible employees, for the purchase of motor vehicles for example and charitable organisations at less than market rates (soft loans). The value of these loans has been considered to be immaterial and the calculation of the present value of interest foregone, required by the Code, has not been undertaken.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

## Available-for-Sale Assets

*Available-for-Sale Assets* – are recognised on the balance sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the Instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the CIES when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes on fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or deficit on revaluation of Available- for- Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from past events that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flow discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES, along with any accumulated gains or losses previously recognised in the Available-for-Sale reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

## **10. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the CIES until conditions attached to the grant or contribution has been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## 11. Heritage Assets

All heritage assets are recognised by using the latest insurance valuation, which shall be subject to a five yearly rolling review, phased over 5 annual tranches. The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policy on impairments. By their nature, the useful life cannot be measured and therefore they will not be subject to annual depreciation charges. Where assets are being recognised for the first time, the initial valuation shall be recognised as a gain in the balance sheet and an increase in the Authority's revaluation reserve. Subsequent revaluations shall follow the same guidelines as set out within Property, Plant and Equipment.

It is not foreseen that there will be many disposals of heritage assets, but should this occur, the same guidelines as set out within Property, Plant and Equipment shall apply.

The Authority's collections of heritage assets are accounted for as follows.

### Buildings

The buildings included are Rochester Castle, Temple Manor, Eastgate House, Brook Pumping Station and various clocks and war memorials, which all fall within the definition of heritage assets as set out above. The buildings are held purely for increasing the knowledge, understanding and appreciation of the Authority's history and local area. The buildings are not used to provide services and therefore are considered non-operational. The buildings are currently held within the balance sheet using an insurance valuation. With the exception of Rochester Castle, they were revalued during 2012-2013. Unfortunately despite an extensive search, the Authority was unable to engage a valuer with relevant knowledge to provide a valuation for Rochester Castle, so the valuation remains that of an historic insurance valuation at the present time. Valuations should also provide value for money for taxpayers with regards to the information provided within the financial statements verses the cost of obtaining the data. It is intended that heritage asset buildings will be revalued every five years using industry experts to provide an appropriate insurance valuation where possible.

### Furniture

The Authority holds many items of furniture ranging from clocks, chairs, chaise longues, and various types of chests and writing cabinets dating from the 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> centuries. Some of these items are on display whilst others are held in storage. The insurance valuations which form part of the balance sheet will be reviewed by industry experts as part of the five year programme of valuations.

### Silver/Gold Collections

There are currently various different pieces held within this collection including items of civic regalia, iron age coins and other miscellaneous items from the 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> centuries and are held within the Balance Sheet using an insurance valuation. These items were revalued by industry experts during 2013-2014 as part of the five year programme of revaluations.

## Art Collection

The collection consists of items including various paintings, marble busts and engravings dating from the 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> centuries and is held within the Balance Sheet using insurance valuations updated for inflationary purposes. This sub-category is due to be revalued during 2014-2015 by industry experts as part of the five year programme of revaluations.

## Other

The Authority holds many items within this category including collections of medals, various coins and trading tokens, pianos, cameras, costumes and jewellery dating from the Bronze Age to the 20<sup>th</sup> century. All items are held within the Balance Sheet using an insurance valuation updated for inflationary purposes. Many can be found on display whilst a few are held in storage. The insurance valuations will be reviewed by industry experts as part of the five year programme of valuations.

## Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see policy 20 in this summary of significant accounting policies.

The Authority will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

## 12. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority and is above the de-minimis level of £25,000.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CIES. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the

relevant service line(s) in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **13. Interests in Companies and Other Entities**

The Authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### **14. Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the first-in, first-out costing formula.

### **15. Long-Term Contracts**

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### **16. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **17. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the CIES with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

## **18. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment may be accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.



## The Authority as Lessee

### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the CIES).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### Operating Leases

Rentals paid under operating leases are charged to the CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

## The Authority as Lessor

### Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:



- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### 19. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2014/15* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the CIES, as part of Net Expenditure on Continuing Services.

## 20. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### Recognition

Expenditure, generally above the de-minimis level of £25,000 on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the CIES, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the CIES, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation

Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Componentisation

Componentisation was introduced under the IFRS-based Code of Practice to allow significant parts of an asset with different values and useful lives to be accounted for separately (recognition, depreciation and derecognition), therefore providing the most accurate way of accounting for the overall asset.

All assets, other than investment properties, have a land and building/depreciable split where appropriate. After assessing the materiality of the various items of Property, Plant and Equipment, it was decided that the following asset types will be further componentised:

- Schools – rolling programme starting from 2011
- Leisure centres with swimming pools – rolling programme starting from 2012
- Medway Park – componentised from 2010
- Crematorium – componentised from 2011

### Schools

All schools will be fully componentised from the existing Land/Building split upon revaluation. With the first full componentisation the property team will provide a component breakdown for the previous revaluation, which will enable a manual split of Gross Book Value (GBV)/Accumulative Depreciation/Revaluation Reserve/Income and Expenditure (I&E) Loss to take place prior to the revised valuation.

The Building components are typically:

- Structure
- Electrics
- Heating/Boiler
- Pipework
- Roof
- External Works

In addition to the above, there could be a Lift included.

### *Leisure Centres/Medway Park*

Leisure centres are componentised from the Land/Building split of prior revaluations by way of a building split determined by the property team. The typical building components may include:

- Plant
- Structure
- Car Park
- Changing Rooms

In addition to the above, there are likely to be components specific to the particular asset.

As with schools, upon componentisation for the first time, the property team provide a component breakdown for the previous revaluation, which will enable a manual split of GBV/Accumulative Depreciation/Revaluation Reserve/I&E Loss to take place prior to the revised valuation.

### *Crematorium*

Medway Crematorium Chapels is componentised from the Land/Building split of prior revaluations by way of a building split determined by the property team. The typical building components include:

- Structure
- Electrics
- Heating/Boiler
- Pipework
- Roof
- External Works
- Cremators

The offices and chapel of meditation will only have a Land/Buildings split.

### *Impairment*

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### *Depreciation*

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and

assets that are not yet available for use (i.e. assets under construction). Depreciation is charged in the year of disposal and not in the year of acquisition.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the outstanding life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over the projected life of the asset
- infrastructure – straight-line allocation over the outstanding life of the asset.

The following useful economic lives have been used in the computation of depreciation:

- Council Dwellings – 15 to 70 years
- Other Land and Buildings – 5 to 99 years
- Vehicles, Plant, Furniture & Equipment – 5 to 30 years
- Infrastructure – 10 to 35 years
- Surplus Assets – 20 to 60 years

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components, which are in general, structure/roof/electrical/heating/pipework and external works, are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

#### Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing revenue account related disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the

Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Accounting for Schools and Academies

CIPFA/LASAAC is of the view that local authority maintained schools are capable of being treated as separate entities for control purposes under chapter nine: Group Accounts of the Code.

This brings the school as an entity within the scope of the control criteria in IFRS 10. However, it is important to note that the school as an entity should be understood to mean the management of the school, i.e. the governing body including the headteacher and the resources it controls rather than the physical fabric of the buildings and grounds. Whether the school as an entity includes the premises and land that the schools operate from will depend on whether these assets are controlled by the school management using the relevant recognition tests.

### Confirmation of the Application of IFRS 10 Consolidated Financial Statements to Schools

The Code confirms the application of IFRS 10 control criteria to local authority maintained schools and specifies that 'the balance of control lies with local authorities for all maintained schools'. So local authority maintained schools must be recognised in the local authority reporting boundary. This treatment applies to all categories of local authority maintained schools specified in the School Standards and Framework Act 1998, as amended those being:

- Community & Community Special Schools - There are forty-six community schools. These are provided for and maintained by the Authority. The Authority is responsible for admission to these schools.
- Foundation & Foundation Special Schools - There are no foundation schools in Medway.
- Voluntary Aided Schools - There are ten voluntary aided schools. These are also founded by voluntary bodies, usually religious. The Authority is involved with the schools but the individual governing bodies have much greater powers. These powers include responsibility for admissions.
- Voluntary Controlled Schools - There are seven voluntary controlled schools. These were founded by voluntary bodies, usually religious, but are now maintained by the Authority. The Authority is responsible for admissions to these schools.

At the same time, in order to simplify the consolidation process and to avoid consolidating a considerable number of separate, relatively small entities, the Code confirms that the definition of the single entity financial statements includes all the transactions of local authority schools, i.e. the income, expenditure, assets, liabilities, reserves and cash flows of the schools. So instead of these transactions being consolidated into Group Accounts, they are consolidated

into the single entity financial statements. It is important to note that this would be subject to the school controlling these transactions in accordance with the relevant accounting definitions. For example, if a school is using an item of property, plant and equipment acquired by means of an operating lease, this asset would not be recognised in the local authority boundary (unless the authority is leasing the asset to the school).

The general approach that will apply to the consolidation of schools' transactions are that the local authority single entity financial statements will reflect the transactions as they would if they had been consolidated into Group Accounts. Therefore:

- Like assets, liabilities, reserves, income, expenditure and cash flows of the authority will be combined with schools'. For example, schools' income and expenditure for the reporting period would be recognised in local authority financial statements.
- Intragroup assets, liabilities, reserves, income and expenditure will need to be eliminated.

Pensions' assets and liabilities relating to schools' employees within the Local Government Pension Scheme (LGPS) under the Code's adoption of IAS 19 Employee Benefits should already be included in local authority balances but authorities may wish to verify this for all categories of maintained school.

### *Recognition of Schools' Non-current Assets*

Schools' non-current assets should be recognised in the local authority financial statements in accordance with the requirements of chapter four of the Code (Non-current Assets). The area likely to be of most concern is the land and buildings from which schools operate.

If the non-current assets in question are subject to any specific arrangements, for example a lease or lease type arrangements or service concession arrangements (PFI/PPP schemes), then these assets need to be recognised in accordance with the requirements of the Code for these areas.

However, there would be a different treatment relating to non-current assets owned by Religious Bodies where the property, plant and equipment (i.e. land and buildings provided at no charge to schools by religious bodies) in many cases are used under the condition that the school may not have the right to continuing use of the assets and the assets can be taken back by their owners at any point. Following a treatment that is analogous to lease accounting and as the risks and rewards of ownership are unlikely to lie with schools in such circumstances, the assets would not be recognised as those of the school. If the asset would not be able to be recognised by the school, then these assets would also not be recognised in local authority financial statements.

With the above in mind, the Table below details schools, both Primary and Secondary split into various groupings and which body is responsible for the non-current assets (buildings/land) as well as financial arrangements such as operating leases and revenue funding:

School Status	Balance Sheet – (Non-Current Assets)	Comprehensive Income and Expenditure/Balance Sheet (Other than Non-Current Assets)
Voluntary Aided	N	Y
Voluntary Controlled	N	Y
Foundation	n/a	n/a
Community	Y	Y
Academies	N	N



If a school obtains academy status, then all responsibilities transfer to the Academy. The only exception to this will be where the school was previously a maintained school where the Authority had a form of control over the future ability to provide a school, whereby the responsibility for the non-current assets will be transferred to the Academy by way of a long-term lease, and therefore, the present value of that lease relating to the freehold will be all that remains within the Authority's Balance Sheet.

## **21. Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

### **Carbon Reduction Commitment Scheme**

The Authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The authority is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, (i.e. carbon dioxide produced as energy is used). As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

### **Non Domestic Rate (NDR) Appeals Provision**

Local Authorities retain an element of all NDR collected and in Medway's case we retain 49% of collected NDR. With this responsibility we also suffer the loss of income from successful appeals against the rateable value of non-domestic property which include appeals submitted to the Valuation Office (VOA) prior to the introduction of this new regime. In order to mitigate against future losses of income from these appeals the Authority has created a provision to offset the cost of back-dated refunds as the appeals are settled. The provision has been calculated as an estimate of potential cost against each individual appeal case and the cost is



adjusted to take account of the probability of success. The value of this Provision is being spread to impact upon revenue over a 5 year period.

### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed as a note to the accounts.

### Contingent Assets

A contingent asset arises when an event has taken place that gives the Authority a possible asset that may or may not be confirmed depending on the outcome of a future event not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed as a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## 22. Reserves

### Usable Earmarked Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus or Deficit on the Provision of Service in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

### Unusable Accounting Reserves

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Authority. These reserves are explained in the notes to the principal financial statements.

## 23. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the CIES in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

## 24. VAT

VAT payable is included in the accounts as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **(ii) Accounting Standards that have been issued but have not yet been adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 has introduced several changes in accounting policies which will be required from 1 April 2015.

A number of new and revised standards have been issued addressing the accounting for consolidation, involvement in joint arrangements and disclosure of involvement in other entities. These include:

- **IFRS 13 Fair Value Measurement.** This Standard provides a consistent definition of fair value and enhanced disclosure requirements. This standard is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The adoption of this Standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13. This Standard is not expected to have a material impact on the Statement of Accounts; this is due to the low value of surplus assets that the Authority holds.
- **IFRIC 21 Levies.** This standard provides guidance on levies that are imposed by government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a threshold is reached, or both. This Standard will not have a material impact on the Statement of Accounts.

### **(iii) Critical Judgements in applying Accounting Policies**

In applying the accounting policies set out, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Authority recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Authority recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Authority, school or school Governing Body then it is not included on the Authority's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Authority, school or school Governing Body. The Authority has completed a school by school assessment across the different types of schools it controls within the Borough. Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. Voluntary aided schools the legal ownership of the land and buildings rests with the relevant Dioceses. The Diocese has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Authority's Balance Sheet. Academies are not considered to be maintained schools in the Authority's control. Thus the land and building assets are not owned by the Authority and not included on the Authority's Balance Sheet.

#### **(iv) Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The financial statements contain estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

##### **Business rates**

On 1 April 2013 local authorities assumed liability for successful business rate appeals relating to 2012-13 and earlier, in proportion to their share of business rate income. Provision has been made for the Authority's best estimate of the amount that will become payable on the determination of the appeals. The estimate has been calculated using the Valuation Office (VAO) ratings list of appeals, and an analysis of successful appeals. If the proportion of claims which are successful or the percentage of the original business rates amount awarded for each claim differs from that implicit in the estimate, the Authority's liability will rise or fall.

##### **Pension Liability**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Public sector consultants Barnett Waddingham are engaged to provide the Authority with expert advice about the assumptions to be applied. The effect of changes in assumptions on discount rate, long term salary increases, pension increase and deferred revaluation and mortality rates would be as detailed within the sensitivity analysis table within Note 34 to the financial statements.

##### **Property, Plant and Equipment**

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.7m for every year that useful lives had to be reduced.

# F. Principal Financial Statements



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## Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce Council Tax) and other reserves. The surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the CIES. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax and dwellings rent setting purposes, respectively. The net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

A summary of the purpose of each reserve is as follows:

*General Fund Balance* – This is the 'working balance' of the Authority and acts as a contingency to fund unforeseen eventualities.

*Housing Revenue Account* – This contains any surplus or deficit arising from the provision of council housing by the Authority and earmarked Housing Revenue Account reserves. It can only be used for local authority housing provision. As at 31 March 2015, the Housing Revenue Account working balance stood at £2.235m.

*Earmarked General Fund and Housing Revenue Account Reserves* – These are reserves created to fund specific revenue or capital expenditure.

*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 can only be used for purposes that benefit pupils under delegated powers.

*General Reserve* – This is the available, non-earmarked reserve of the Authority and can be utilised to support revenue or capital expenditure at the Authority's discretion.

*Insurance Fund* – This reserve includes sums held to meet potential and contingent liabilities in respect of insurance claims.

*Capital Receipts Reserve* – Proceeds from the sale of Authority assets are paid into this reserve which can be used to finance capital expenditure or repay debt.

*Major Repairs Reserve* – This reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account and can only be used to fund major Housing Revenue Account repairs.

*Capital Grants Unapplied* – The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the authority has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

*Unusable Reserves* – The major reserves included in this category are the Revaluation Reserve, Pension Reserve and Capital Adjustment Account. Their purpose is of a technical accounting nature and cannot be used to support the services of the Authority. They are explained in more detail in note 17.

## Movement in Reserves Statement for the years Ending 31 March 2014 and 31 March 2015

Restated	Notes	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked Housing Revenue Account Reserves	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
<b>Balance at 31 March 2013</b>		5,000	34,024	4,346	37	63	286	24,106	67,861	397,796	465,658
<b>Movement in reserves during 2013/2014</b>											
Surplus/(Deficit) on provision of services		(44,564)	0	5,402	0	0	0	0	(39,162)	0	(39,162)
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	0	34,804	34,804
<b>Total Comprehensive Income and Expenditure</b>		<b>(44,564)</b>	<b>0</b>	<b>5,402</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(39,162)</b>	<b>34,805</b>	<b>(4,357)</b>
Adjustments between accounting & funding basis under regulations	1	50,794	303	(5,816)	0	(63)	(148)	(6,404)	38,666	(38,666)	(0)
<b>Net Increase/decrease before Transfers to Earmarked Reserves</b>		<b>6,230</b>	<b>303</b>	<b>(414)</b>	<b>0</b>	<b>(63)</b>	<b>(148)</b>	<b>(6,404)</b>	<b>(496)</b>	<b>(3,862)</b>	<b>(4,357)</b>
Transfers to/from Earmarked Reserves	2	(6,230)	8,230	(1,963)	(37)	(0)	0	0	0	0	0
<b>Increase/(Decrease) in 2013/14</b>		<b>(0)</b>	<b>8,533</b>	<b>(2,377)</b>	<b>(37)</b>	<b>(63)</b>	<b>(148)</b>	<b>(6,404)</b>	<b>(495)</b>	<b>(3,862)</b>	<b>(4,357)</b>
<b>Balance at 31 March 2014</b>		<b>5,000</b>	<b>42,557</b>	<b>1,969</b>	<b>0</b>	<b>0</b>	<b>138</b>	<b>17,702</b>	<b>67,366</b>	<b>393,935</b>	<b>461,301</b>

	Notes	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked Housing Revenue Account Reserves	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
<b>Balance at 31 March 2014</b>		5,000	42,557	1,969	0	0	138	17,702	67,366	393,935	461,301
<b>Movement in reserves during 2014/15</b>											
Surplus/(Deficit) on provision of services		(103,175)	0	4,970					(98,206)		(98,206)
Other Comprehensive Income and Expenditure									0	(46,058)	(46,058)
<b>Total Comprehensive Income and Expenditure</b>		(103,175)	0	4,970	0	0	0	0	(98,206)	(46,058)	(144,264)
Adjustments between accounting & funding basis under regulations	1	95,170	(0)	(4,698)		2,014	531	(1,620)	91,396	(91,397)	(0)
<b>Net Increase/decrease before Transfers to Earmarked Reserves</b>		(8,006)	(0)	271	0	2,014	531	(1,620)	(6,809)	(137,455)	(144,264)
Transfers to/from Earmarked Reserves	2	8,005	(8,005)	(6)	6	0	0	0	0	0	0
<b>Increase/(Decrease) in 2014/15</b>		(0)	(8,006)	266	6	2,014	531	(1,620)	(6,809)	(137,455)	(144,264)
<b>Balance at 31 March 2015</b>		5,000	34,551	2,235	6	2,014	669	16,082	60,557	256,480	317,037



## 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 Authority 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.

2013/2014			Service	Notes	2014/15		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
3,480	(1,713)	1,767	Central services to the public		3,807	(1,642)	2,165
27,009	(8,337)	18,672	Cultural and related services		27,426	(8,020)	19,406
32,830	(8,406)	24,424	Environmental & regulatory services		36,587	(9,324)	27,262
3,509	(6,660)	(3,152)	Planning services		20,151	(8,285)	11,866
228,197	(157,343)	70,854	Children's and education services		247,786	(145,358)	102,427
44,679	(11,024)	33,654	Highways and transport services		42,583	(11,901)	30,682
5,195	(14,108)	(8,912)	Local authority housing (HRA)		7,140	(14,301)	(7,160)
115,923	(108,436)	7,487	Other housing services		118,976	(110,055)	8,921
88,386	(20,137)	68,250	Adult social care		87,393	(21,112)	66,281
7,093	(1,271)	5,822	Corporate and democratic core		5,872	(1,723)	4,150
1,569	(4,503)	(2,935)	Non-distributed costs		5,469	(6,003)	(534)
16,671	(19,342)	(2,671)	Public Health		11,828	(14,507)	(2,679)
<b>574,541</b>	<b>(361,280)</b>	<b>213,261</b>	<b>Cost of Services</b>		<b>615,018</b>	<b>(352,230)</b>	<b>262,788</b>
37,812	(0)	37,812	Other operating expenditure	3	38,358	0	38,358
21,490	(4,931)	16,559	Financing and investment income and expenditure	4	20,639	(4,456)	16,183
0	(228,470)	(228,470)	Taxation and non-specific grant income	5	0	(219,124)	(219,124)
<b>633,844</b>	<b>(594,682)</b>	<b>39,162</b>	<b>(Surplus) or Deficit on Provision of Services</b>		<b>674,016</b>	<b>(575,810)</b>	<b>98,206</b>
<b>Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services</b>							
(11,036)			(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets	17			(21,102)
(23,768)			Re-measurement of net defined pension liability	34			67,160
<b>(34,804)</b>			<b>Other Comprehensive Income and Expenditure</b>				<b>46,058</b>
<b>4,358</b>			<b>Total Comprehensive Income and Expenditure</b>				<b>144,264</b>

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e., those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations.

31 March 2014 £'000	Balance Sheet Summary	Notes	31 March 2015 £'000
818,024	Property Plant and Equipment	6	758,212
15,249	Heritage Assets	7	15,380
6,865	Investment Property	8	6,450
1,661	Intangible Assets	9	1,175
4	Long Term Investments	10	19,737
196	Long Term Debtors	10	155
<b>841,999</b>	<b>Long Term Assets</b>		<b>801,109</b>
2,900	Assets Held for Sale	13	900
171	Inventories		178
42,644	Short Term Debtors	11	43,894
40,449	Cash and Cash Equivalents	12	8,799
<b>86,164</b>	<b>Current Assets</b>		<b>53,772</b>
(1,278)	Short Term Borrowing	10	(1,277)
(48,715)	Short Term Creditors	14	(43,711)
(5,203)	Provisions	15	(3,701)
<b>(55,196)</b>	<b>Current Liabilities</b>		<b>(48,690)</b>
(40,254)	Long Term Creditors	10	(38,695)
(2,197)	Provisions	15	(6,518)
(164,854)	Long Term Borrowing	10	(164,729)
(196,493)	Other Long Term Liabilities	30,34	(271,642)
(7,869)	Grants Receipts in Advance - Capital	27	(7,569)
<b>(411,667)</b>	<b>Long Term Liabilities</b>		<b>(489,153)</b>
<b>461,301</b>	<b>Net Assets</b>		<b>317,037</b>
67,366	Usable Reserves	16	60,557
393,935	Unusable Reserves	17	256,480
<b>461,301</b>	<b>Total Reserves</b>		<b>317,037</b>

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority 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 (i.e. borrowing) charged to the Authority.

2013/14 £'000		2014/15 £'000
39,162	Net (Surplus) or deficit on the provision of services	98,206
(63,806)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements (Note 18)	(116,710)
26,886	Adjustments for items included in the net Surplus or deficit on the provision of service that are investing or financing activities (Note 18)	28,666
<b>2,242</b>	<b>Net cash flows from Operating Activities</b>	<b>10,162</b>
(42,580)	Investing Activities (Note 19)	20,216
5,086	Financing Activities (Note 20)	1,272
<b>(35,252)</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>31,650</b>
<b>5,197</b>	<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>40,449</b>
<b>40,449</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 12)</b>	<b>8,799</b>

# G. Notes to the Principal Financial Statements

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## 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 Authority in accordance with proper accounting practice to the resources that are specified by statute as being available to the Authority to meet future revenue and capital expenditure.

Adjustments for 2014/05	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
<b>ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:</b>								
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Charges for depreciation and impairment of non-current assets	38,919	3,516	0	0	0	0	0	(42,434)
Revaluation movements on Property, Plant and Equipment	29,538	(3,162)	0	0	0	0	0	(26,377)
Movements in fair value of Investment Properties	415	0	0	0	0	0	0	(415)
Amortisation of Intangible Assets	589	0	0	0	0	0	0	(589)
Capital Grants and Contributions Applied	(18,302)	0	0	0	0	0	0	18,302
Revenue Expenditure Funded from Capital Under Statute	11,962	0	0	0	0	0	0	(11,962)
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	41,491	700	0	0	0	0	0	(42,190)
<b>Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Statutory provision for the financing of capital investment	(7,549)	0	0	0	0	0	0	7,549
Capital expenditure charged against the General Fund and HRA balances	(2,292)	(4,248)	0	0	0	0	0	6,540
<b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL GRANTS UNAPPLIED ACCOUNT:</b>								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(4,852)	0	0	0	0	0	4,852	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	0	(6,472)	6,472
<b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:</b>								
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,355)	(1,158)	0	0	5,513	0	0	0
Use of Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(3,264)	0	0	3,264
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	235	0	0	0	(235)	0	0	0

Adjustments for 2014/15	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
<b>ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:</b>								
Reversal of Major Repairs Allowance credited to HRA	0	(3,516)	0	0	0	3,516	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	2,985	0	0	0	(2,985)	0	0
<b>ADJUSTMENTS PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT:</b>								
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(249)	12	0	0	0	0	0	237
<b>ADJUSTMENTS PRIMARILY INVOLVING THE PENSIONS RESERVE:</b>								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	22,597	439	0	0	0	0	0	(23,036)
Employer's pension contributions and direct payments to pensioners payable in the year	(13,632)	(268)	0	0	0	0	0	13,900
<b>ADJUSTMENTS PRIMARILY INVOLVING THE COLLECTION FUND ADJUSTMENT ACCOUNT:</b>								
Amount by which council tax and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement are different from council tax and non-domestic rate income calculated for the year in accordance with statutory requirements	672	0	0	0	0	0	0	(672)
<b>ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:</b>								
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	(18)	3	0	0	0	0	0	15
<b>Total Adjustments 2014/15</b>	<b>95,170</b>	<b>(4,698)</b>	<b>0</b>	<b>0</b>	<b>2,014</b>	<b>531</b>	<b>(1,620)</b>	<b>(91,397)</b>

Within the adjustments primarily involving the collection fund adjustment account, the amount by which council tax and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement are different from council tax and non-domestic rate income calculated for the year in accordance with statutory requirements of £0.672m does not agree to the corresponding adjustment in Note 17 which is actually £3.687m, as the in-year amount is offset by £3.015m to release an amount in the brought forward balance – see Note 17.



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	
<b>ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:</b>								
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Charges for depreciation and impairment of non-current assets	42,183	3,362	0	0	0	0	0	(45,545)
Revaluation movements on Property, Plant and Equipment	(3,217)	(5,148)	0	0	0	0	0	8,365
Movements in fair value of Investment Properties	(1,028)	0	0	0	0	0	0	1,028
Amortisation of Intangible Assets	222	0	0	0	0	0	0	(222)
Capital Grants and Contributions Applied	(19,687)	0	0	0	0	0	0	19,687
Revenue Expenditure Funded from Capital Under Statute	3,769	0	0	0	0	0	0	(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	0	0	0	0	0	(38,359)
Derecognition & other adjustments	214	0	0	0	(3)	0	(117)	(94)
<b>Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>								
Statutory provision for the financing of capital investment	(7,650)	0	0	0	0	0	0	7,650
Capital expenditure charged against the General Fund and HRA balances	(1,888)	(5,213)	0	0	0	0	0	7,101
<b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL GRANTS UNAPPLIED ACCOUNT:</b>								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(8,879)	0	0	0	0	0	8,879	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	0	(13,101)	13,101
Other Adjustments	1,434	0	406	0	225	0	(2,065)	0
<b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:</b>								
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,438)	(723)	0	0	2,161	0	0	0
Use of Capital Receipts Reserve to finance new capital expenditure	0	0	0	0	(2,324)	0	0	2,324
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	225	0	0	0	(225)	0	0	0
Other Adjustments	0	0	0	(103)	103	0	0	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
<b>ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:</b>								
Reversal of Major Repairs Allowance credited to HRA	0	(3,362)	0	0	0	3,362	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	3,549	0	0	0	(3,549)	0	0
Other Adjustments	0	(40)	0	0	0	40	0	0
<b>ADJUSTMENTS PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT:</b>								
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(468)	12	0	0	0	0	0	457
<b>ADJUSTMENTS PRIMARILY INVOLVING THE PENSIONS RESERVE:</b>								
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	21,241	372	0	0	0	0	0	(21,613)
Employer's pension contributions and direct payments to pensioners payable in the year	(14,511)	(258)	0	0	0	0	0	14,769
<b>ADJUSTMENTS PRIMARILY INVOLVING THE COLLECTION FUND ADJUSTMENT ACCOUNT:</b>								
Amount by which council tax and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement are different from council tax and non-domestic rate income calculated for the year in accordance with statutory requirements	3,187	0	0	0	0	0	0	(3,187)
<b>ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:</b>								
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	0	0	0	0	0	(360)
<b>Total Adjustments 2013/14</b>	<b>50,794</b>	<b>(5,816)</b>	<b>406</b>	<b>(103)</b>	<b>(63)</b>	<b>(148)</b>	<b>(6,404)</b>	<b>(38,666)</b>

## 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 2014/15.

	Balance 1 April 2013 £'000	Transfers in 2013/2014 £'000	Transfers out 2013/2014 £'000	Balance 31 March 2014 £'000	Transfers in 2014/15 £'000	Transfers out 2014/15 £'000	Balance 31 March 2015 £'000
<b>Earmarked General Fund Reserves</b>							
School Rev Contributions To Capital	0	(343)	0	(343)	(66)	0	(409)
Revenue Contributions To Capital C&A	(360)	(2,838)	707	(2,491)	0	227	(2,264)
Development Plan Reserve	(292)	(80)	152	(220)	(80)	0	(300)
Provision For Local Election	(457)	(149)	0	(605)	(17)	18	(605)
Maintenance Of Graves Fund	(21)	(0)	0	(21)	0	0	(21)
Cremator Repairs Fund	0	(113)	113	0	(165)	0	(165)
Crematorium Gifts Fund	(27)	(15)	0	(42)	0	36	(5)
Bereavement Services Reserves	(48)	(128)	113	(63)	(165)	36	(192)
Community Hubs Reserve	0	(2,000)	0	(2,000)	0	934	(1,066)
Reserve Fund Computer Development	(106)	0	0	(106)	0	0	(106)
DSG Reserve	(2,741)	(2,002)	2,150	(2,592)	(420)	1,167	(1,845)
Economic Development Loans Fund	(180)	0	7	(173)	0	17	(156)
Carry Forwards Reserve	(397)	(178)	0	(575)	(25)	209	(391)
Revenue C/Fwd C&A	(4,276)	(2,819)	942	(6,153)	(587)	2,875	(3,865)
Revenue C/Fwd Pub Health	(2,027)	(2,448)	495	(3,981)	(472)	23	(4,430)
Revenue C/Fwd RCC	(822)	0	371	(451)	(18)	451	(18)
Directorate Carry Forwards	(7,523)	(5,445)	1,808	(11,160)	(1,103)	3,558	(8,705)
Collection Fund Holding Account	0	(4,692)	2,997	(1,695)	(5,892)	7,587	0
Invest To Save	(223)	0	223	0	0	0	0
Invest To Save	(171)	(75)	98	(148)	0	0	(148)
Invest To Save	(394)	(75)	321	(148)	0	0	(148)
Severance Payments Reserve	(3,000)	0	324	(2,676)	0	1,708	(967)
South Medway Development Res	(5,000)	0	94	(4,906)	0	55	(4,851)
Transformation Reserve	(1,100)	0	518	(582)	0	262	(320)
Salix Repayments	(102)	(67)	165	(5)	(97)	29	(73)
Unpresented Chqs Written Back	(167)	(27)	182	(11)	(29)	27	(14)
Country Park Donations	(2)	(5)	3	(3)	(5)	4	(3)
Museum Exhibits Fund	(50)	(4)	0	(53)	0	14	(40)
Temple Manor Public Donations	(1)	(1)	0	(1)	(1)	0	(2)
Eastgate House Chalet Donations	(1)	0	0	(1)	0	0	(1)
Res Fd Pier & Wharf Mtc	(8)	(16)	0	(24)	(11)	0	(36)
Res Fd Pier & Wharf Reserve	(8)	0	0	(8)	0	0	(8)
Gun Wharf Reserve	612	(2,335)	1,723	0	0	0	0
ADPH South East	0	0	0	0	(18)	0	(18)
Theatres Gift Vouchers	0	0	0	0	(4)	3	(1)
Other Earmarked Reserves	375	(2,387)	1,909	(103)	(46)	45	(104)
<b>General Reserve</b>							
General Reserve	(3,465)	(400)	763	(3,102)	(1,459)	1,593	(2,968)

	Balance 1 April 2013 £'000	Transfers in 2013/2014 £'000	Transfers out 2013/2014 £'000	Balance 31 March 2014 £'000	Transfers in 2014/15 £'000	Transfers out 2014/15 £'000	Balance 31 March 2015 £'000
<b>Reserves Held by Schools</b>							
Schools Balances	(7,438)	(1,485)	1,801	(7,122)	(1,861)	2,706	(6,277)
<b>Insurance Reserves</b>							
Insurance Fund	(2,194)	(271)	1	(2,464)	(719)	9	(3,174)
<b>Total Earmarked General Fund Reserves</b>	<b>(34,024)</b>	<b>(22,363)</b>	<b>13,830</b>	<b>(42,557)</b>	<b>(11,948)</b>	<b>19,954</b>	<b>(34,551)</b>
<b>Earmarked HRA Reserves</b>							
HRA IT Reserve	(37)	0	37	0	(6)	0	(6)
<b>Total Earmarked Reserves</b>	<b>(34,061)</b>	<b>(22,363)</b>	<b>13,867</b>	<b>(42,557)</b>	<b>(11,954)</b>	<b>19,954</b>	<b>(34,557)</b>

### 3. Other Operating Expenditure

	2013/14 £'000	2014/15 £'000
Parish Council Precepts	348	357
Levies	943	990
HRA Share of Corporate and Democratic Core	98	99
Payment to the Government Housing Capital Receipts Pool	225	235
Gains/losses on disposal of non-current assets	36,198	36,677
<b>Total</b>	<b>37,812</b>	<b>38,358</b>

### Financing and Investment Income and Expenditure

	2013/14 £'000	2014/15 £'000
Interest payable and similar charges	12,018	11,586
Net interest on the net defined benefit liability (asset)	9,203	8,349
Interest element of finance leases (lessee)		
Other investment expenditure		
Interest receivable and similar income	(3,288)	(3,310)
Income and expenditure in relation to investment properties and changes in their fair value	(1,373)	45
Other investment income	0	(487)
<b>Total</b>	<b>16,559</b>	<b>16,183</b>

### 4. Taxation and Non-Specific Grant income and expenditure

	2013/14 £000s	2014/15 £000s
Council Tax income	(89,418)	(94,695)
Non-domestic rates income and expenditure	(38,985)	(39,639)
Non-ring fenced government grants	(71,593)	(61,635)
Capital grants and contributions	(28,474)	(23,154)
<b>Total</b>	<b>(228,470)</b>	<b>(219,124)</b>

Shown in the table above are significant movements between 2013/14 and 2014/15 relating to Non-ring fenced government grants. This movement directly reflects the continued reduction in Central Government Support to Local Government arising from austerity measures.

## 5. Taxation and Non-Specific Grant income and expenditure

	2013/14	2014/15
	£000s	£000s
Council Tax income	(89,418)	(94,695)
Non-domestic rates income and expenditure	(38,985)	(39,639)
Non-ring fenced government grants	(71,593)	(61,635)
Capital grants and contributions	(28,474)	(23,154)
<b>Total</b>	<b>(228,470)</b>	<b>(219,124)</b>

Shown in the table above are significant movements between 2013/14 and 2014/15 relating to Non-ring fenced government grants. This movement directly reflects the continued reduction in Central Government Support to Local Government arising from austerity measures.

## 6. Property, Plant and Equipment

The Authority categorises its operational property, plant and equipment into a number of sub categories, namely council dwellings, other land and buildings, vehicles, plant, furniture and equipment, infrastructure assets and community assets. There are two categories of non-operational property, plant and equipment, namely assets under construction and surplus assets. The following table shows the gross carrying amount and the accumulated depreciation at the beginning and end of the reporting period and summarises the movement in fair value over the year for each sub category of property, plant and equipment:

Movement on Balances 2014/15	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2014	106,418	576,268	14,909	285,216	10,378	150	4,204	997,543
Additions	5,437	11,797	1,108	9,840	74		732	28,986
Donations	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	8,467	0	288	5,119	0	0	13,874
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(145)	(44,762)	0	0	(1,411)	0	0	(46,318)
Derecognition – disposals	(684)	(47,633)	(603)	(51)	0	0	0	(48,971)
Derecognition - Embedded Leases	0	0	(1,696)	0	0	0	0	(1,696)
Transfers between asset categories	1,198	8,109	1,143	2	(6,249)		(4,204)	0
<b>As at 31 March 2015</b>	<b>112,223</b>	<b>512,245</b>	<b>14,861</b>	<b>295,295</b>	<b>7,912</b>	<b>150</b>	<b>732</b>	<b>943,418</b>
<b>Accumulated Depreciation and Impairment</b>								
As at 1 April 2014	(0)	(45,018)	(4,113)	(130,334)	(54)	(0)	0	(179,519)
Depreciation charge	(3,216)	(19,654)	(2,066)	(17,477)	0	0	0	(42,413)
Depreciation written out to the Revaluation Reserve	0	7,129	0	0	29	0	0	7,158
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,252	16,193	0	0	5	0	0	19,450
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	438	0	0	0	0	0	438
Derecognition – disposals	18	8,160	603	0	0	0	0	8,781
Derecognition - Embedded Leases	0	0	898	0	0	0	0	898
Transfers between asset categories	(54)	54	(8)	0	8	0	0	0
<b>At 31 March 2015</b>	<b>0</b>	<b>(32,699)</b>	<b>(4,686)</b>	<b>(147,811)</b>	<b>(12)</b>	<b>(0)</b>	<b>0</b>	<b>(185,207)</b>

Net Book Value	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
At 31 March 2015	112,223.384	479,546.779	10,175.161	147,484.516	7,899.936	150.000	731.575	758,211
At 31 March 2014	106,418	531,250	10,796	154,882	10,324	150	4,204	818,024

Movement on Balances 2013/2014	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2013	108,693	570,969	8,111	276,506	8,737	7,402	20,553	1,000,971
Additions	5,213	7,376	8,004	6,947	479	0	12,013	40,032
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	4,634	0	0	0	(855)	0	3,779
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,253)	2,181	0	0	0	(1,958)	0	(1,029)
Derecognition – disposals	(1,867)	(38,487)	(1,206)	0	(440)	(1,982)	0	(43,982)
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	(2,350)	0	(2,350)
Transfers between asset categories	(4,369)	29,595	0	1,762	1,603	(107)	(28,362)	122
<b>As at 31 March 2014</b>	<b>106,418</b>	<b>576,268</b>	<b>14,909</b>	<b>285,216</b>	<b>10,378</b>	<b>150</b>	<b>4,204</b>	<b>997,543</b>
<b>Accumulated Depreciation and Impairment</b>								
As at 1 April 2013	(3,344)	(39,624)	(4,380)	(109,599)	0	0	0	(156,947)
Depreciation charge	(3,362)	(20,126)	(894)	(20,734)	0	(428)	0	(45,545)
Depreciation written out to the Revaluation Reserve	0	7,659	0	0	0	0	0	7,659
Depreciation written out to the Surplus//Deficit on the Provision of Services	6,401	2,571	0	0	0	422	0	9,394
Derecognition – disposals	117	4,636	1,161	0	0	6	0	5,921
Transfers between asset categories	187	(133)	0	0	(54)	0	0	0
<b>At 31 March 2014</b>	<b>0</b>	<b>(45,018)</b>	<b>(4,113)</b>	<b>(130,334)</b>	<b>(54)</b>	<b>0</b>	<b>0</b>	<b>(179,519)</b>

Net Book Value	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
<b>At 31 March 2014</b>	<b>106,418</b>	<b>531,250</b>	<b>10,796</b>	<b>154,882</b>	<b>10,324</b>	<b>150</b>	<b>4,204</b>	<b>818,024</b>
<b>At 31 March 2013</b>	<b>105,349</b>	<b>531,345</b>	<b>3,731</b>	<b>166,907</b>	<b>8,737</b>	<b>7,402</b>	<b>20,553</b>	<b>844,024</b>

## Capital Commitments

During the financial year 2014/2015 the only significant contractual commitment (in excess of £4 million) that the Authority entered into related to the a contract with Bolt and Heeks in relation to expansion of Danecourt special school. As at 31 March 2015, the outstanding liability against this contract was to £1.081 million with construction expected to start on site in April 2015.

## Revaluations

The Authority carries out a rolling programme which ensures that all relevant Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the Valuation - Professional Standards of the Royal Institution of Chartered Surveyors by internal RICS Registered Valuers with at least 10 years' experience of the local property market. If the revaluation of a specific asset results in a material change in value, an exercise is undertaken to establish whether the change is specific to that asset or could affect the whole asset class. If the material change cannot be identified as specific to that asset, then a review of the whole of that class, e.g. "Car Parks", will be undertaken to ensure that the fair value of that asset class held within the balance sheet at the end of the reporting period is not materially misstated.

Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or, if not, latest list prices adjusted for the condition of the asset.

The following table shows the progress of the authority's rolling programme for the revaluation of property, plant and equipment:

Rolling Programme for the Revaluation of Property, Plant & Equipment							
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction
Valued at historical cost	0	5,417	14,861	295,295	7,632	0	732
Valued at fair value during the year ending:							
31 March 2015	112,223	234,659	0	0	3	0	0
31 March 2014	0	46,376	0	0	0	0	0
31 March 2013	0	105,065	0	0	13	150	0
31 March 2012	0	99,822	0	0	1	0	0
31 March 2011	0	6,827	0	0	45	0	0
31 March 2010	0	0	0	0	0	0	0
Capital expenditure on assets not revalued since the capital expenditure was incurred	0	14,080	0	0	218	0	0
<b>Total</b>	<b>112,223</b>	<b>512,246</b>	<b>14,861</b>	<b>295,295</b>	<b>7,912</b>	<b>150</b>	<b>732</b>

The significant assumptions applied in estimating the fair values for land and buildings are:

## Inspections

In accordance with the relaxations agreed between the RICS and CIPFA, not all properties are inspected. This is neither practical nor considered necessary for the purpose of this revaluation.

### *Information*

In instances where reliance is placed on information provided by other Departments within Medway Council valuations are dependent on the accuracy of the information supplied and/or the assumptions made.

### *Title*

All assets are assumed to have good title, with no unusual or onerous restrictions, encumbrances or outgoing.

### *Planning and highway proposals*

No formal, written enquiries are made of the Planning and Highway Authorities to ascertain if there are any proposals likely to affect specific properties. Reliance is placed on free-of-charge publicly available information and, unless informed otherwise, it is assumed that each asset has direct access onto a public highway and that there are no planning or highway proposals that directly affect the asset.

### *Construction and state of repair*

No structural survey or test of any service installations is undertaken.

Where properties are inspected, those parts of the property that are covered, unexposed or inaccessible are assumed to be in good repair and condition. The valuers cannot express an opinion about, or advise upon, the condition of uninspected parts and the valuations should not be taken as making any implied representation or statement about such parts.

No allowances have been made for rights, obligations or liabilities arising from the Defective Premises Act 1972.

It is assumed all properties comply with the Equality Act 2010.

Unless the valuers are aware that a building has a limited economic life, or this is clear from inspection, properties will be assumed to be in a reasonable standard of repair and that all reasonable internal and external repairs and maintenance have been carried out.

### *Deleterious or hazardous substances*

No investigation is carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of property assets or has since been incorporated. Valuers are therefore unable to report that the properties are free from risk in this respect.

For the purpose of this valuation it is assumed that such investigation will not disclose the presence of any such material in any adverse conditions.

### *Environmental Assessment*

No investigation is undertaken into past or present uses of the properties, or of any neighbouring land, to establish whether there is any potential for contamination. It is therefore assumed, unless stated otherwise, that no contaminative or potentially contaminative uses, underground mining, or other engineering works have ever been carried out on or adversely affects these properties.



It is assumed, unless stated otherwise, that there has been no recent flooding affecting these assets and that inclusion on any map identifying possible flood occurrences will have no effect on value.

### *Plant and machinery*

Plant and machinery installed to provide services normally expected with that type or quality of building or land holding has been valued as an integral part of the asset unless the plant and machinery element has been identified as forming a significant proportion of the overall value of the asset. In such limited cases e.g. leisure centres, a separate value and assessment of economic life have been provided for that plant and machinery.

Plant and machinery primarily serving a commercial or industrial process has been excluded.

### *VAT, taxation and costs of realisation*

No allowance has been made for liability for taxation, which may arise on disposal, whether actual or notional. VAT and Capital Gains Tax are specifically excluded and no deductions have been made for any potential realisation costs.

### *Lotting*

Lotting occurs if a number of individual assets are packaged and sold simultaneously. No allowance or discount has been made for any 'flooding' of the market which might in practice occur in this instance.

For the purposes of this report no group or class of properties has been 'lotted' and all reported values assume each property is disposed of separately.

### *Valuation Commentary*

A number of other assumptions have been adopted to ensure consistency in approach:

a) Depreciation of replacement build costs has been calculated according to age bands rather than a straight-line approach. No deduction is made for properties up to 10 years old and thereafter the factor increases with age up to a maximum 50%. This cap assumes that basic health & safety/legal requirements have been complied with and that basic service provision is able to continue on the site.

b) Remaining useful life has been calculated to reflect the age of the building, current condition, functional suitability for the existing use, and original 'designed life' expectations (i.e. conventional build, restricted life, or temporary structure). Conventionally constructed buildings are assumed to have a maximum life of 60 years, reducing in bands after 10 years.

### *Removal of Schools Transferring to Academies*

Schools with a value of £26.89m (2013-14 £25.43m) have achieved academy status between 01 April 2014 and 31 March 15 and therefore have been removed from the balance sheet for the 2014/15 financial statements. In addition, there are likely to be existing schools with a value of £2.99m (2013-14 £26.25m) that will achieve academy status between 01 April 2015 and 31 March 2016 and three newly built academies with a value of £80.56m (2013-14 reported as £75.61m relating to the same three academies) which will be removed from the balance sheet during 2015/16.

## 7. Heritage Assets

### Reconciliation of the Carrying Value of Heritage Assets Held by the Authority

	Buildings	Furniture	Silver / Gold Collections	Art Collection	Other	Total Assets
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>						
1 April 2013	10,682	244	656	1,107	3,049	15,738
Additions	258	0	0	0	0	258
Revaluations	0	25	507	106		637
Impairment (Losses)/reversals recognised in the Revaluation Reserve	(792)				(592)	(1,384)
<b>31 March 2014</b>	<b>10,148</b>	<b>269</b>	<b>1,163</b>	<b>1,213</b>	<b>2,457</b>	<b>15,249</b>
<b>Cost or Valuation</b>						
1 April 2014	10,148	269	1,163	1,213	2,457	15,249
Additions	61	0	0	0	0	61
Revaluations	244				1	245
Impairment (Losses)/reversals recognised in the Revaluation Reserve				(175)		(175)
<b>31 March 2015</b>	<b>10,452</b>	<b>269</b>	<b>1,163</b>	<b>1,038</b>	<b>2,458</b>	<b>15,380</b>

#### Heritage Buildings

Those buildings which have been classified to Heritage are:

- Rochester Castle
- Temple Manor
- Eastgate House
- Brook Pumping Station
- Various clocks and war memorials

Rochester Castle and Temple Manor are both in the freehold ownership of Medway Council and in the care and guardianship of English Heritage. Medway Council manage the day to day care of these properties.

Eastgate House has ceased to be a museum but is a historical building being used to promote the public's enjoyment, and advance their knowledge, of the property.

Brook Pumping Station houses a museum which is run by a team of volunteers with occasional entry permitted by prior appointment. The buildings and contents are used to promote the public's enjoyment, and advance their knowledge, of the property.

#### Furniture, Silver/Gold Collections, Art Collection and Other Historical Interest Items

The Art Collection regarding Charles Spencelayh was revalued during 2014/15 as a continuation of a rolling programme of revaluations that take place over a rolling five year programme for non-building assets. The valuation was undertaken by Culvertons on an insurance basis in accordance Authority policy. The majority of the Authority's heritage assets are held at the Guildhall Museum. There are also a number of items held at Eastgate House.

Silver and Gold Collections include a collection of Anglo Saxon silver coins and a collection of Iron Age Gold Coins.

Art Collections include the "Marble Bust of a draped female" by Artiste Fontano of Carrara, 1887 and an oil painting of "Return from the Valley of Death".

Other historical interest items include:

- Civic Regalia
- The Horton Collection of Victoriana
- Collection Romano – British Pottery
- Collection of personal relics of Charles Dickens
- Rochester Riverside Eye Interactive
- Models and showcases held at various sites
- Pounder Cannons at Gun Wharf

## 8. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

Investment properties	2014/2015 £'000	2013/2014 £'000
Rental income from investment property	371	345
<b>Net gain/(loss)</b>	<b>371</b>	<b>345</b>

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment property over the year:

Investment Properties	31 March 2015 £'000	31 March 2014 £'000
Balance at start of year	6,865	5,837
Net gains/(loss) from fair value adjustments	(415)	1,028
<b>Balance at end of year</b>	<b>6,450</b>	<b>6,865</b>

## 9. Intangible Assets

Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and internally generally software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful lives assigned to the major software suites used by the Authority are:

Useful Life	Internally Generated Assets	Other Assets
3 Years	None	None
5 Years	None	Better For Less CRM System Better For Less Mobile Working System Better For Less Document Management System Integrated Care Management System Mobile Working Software
7 Years	None	Thin Client Software

The carrying amount of intangible assets is amortised on a straight-line basis. The Mobile Working Software was not levied with amortisation during 2014/15 in line with the accounting policies of the Authority.

The amortisation of £589,000 has been charged to Non-Distributed Costs (£458,000) and Adult Social Care (£131,000).

The movement on Intangible Asset balances during the year is as follows:

	2013/14		2014/15	
	Other Assets £'000	Total £'000	Other Assets £'000	Total £'000
Balance at start of year:				
Gross carrying amounts	839	839	2,009	2,009
Accumulated amortisation	(126)	(126)	(348)	(348)
Net carrying amount at start of year	713	713	1,661	1,661
Additions:				
Purchases	1,170	1,170	103	103
Amortisation for the period	(222)	(222)	(589)	(589)
<b>Net carrying amount at end of year</b>	<b>1,661</b>	<b>1,661</b>	<b>1,175</b>	<b>1,175</b>
Comprising:				
Gross carrying amounts	2,009	2,009	2,112	2,112
Accumulated amortisation	(348)	(348)	(937)	(937)
	<b>1,661</b>	<b>1,661</b>	<b>1,175</b>	<b>1,175</b>

## 10. Financial Instruments

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

Financial Instruments	Long-term		Current	
	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000
<b>Investments</b>				
Loans and Receivables	19,733	0	0	0
Available for sale financial assets	4	4	0	0
<b>Total Investments</b>	<b>19,737</b>	<b>4</b>	<b>0</b>	<b>0</b>
<b>Cash &amp; Cash Equivalents</b>				
Cash & Cash Equivalents	0	0	8,799	40,449
<b>Total cash &amp; Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>8,799</b>	<b>40,449</b>
<b>Debtors</b>				
Loans and Receivables	155	196	24,378	23,971
<b>Total Debtors</b>	<b>155</b>	<b>196</b>	<b>24,378</b>	<b>23,971</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	(164,729)	(164,854)	(1,277)	(1,278)
<b>Total Borrowings</b>	<b>(164,729)</b>	<b>(164,854)</b>	<b>(1,277)</b>	<b>(1,278)</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	(38,695)	(40,254)	(31,478)	(41,226)
<b>Total Creditors</b>	<b>(38,695)</b>	<b>(40,254)</b>	<b>(31,478)</b>	<b>(41,226)</b>

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

## Income, Expenses, gains and Losses

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	2014/2015					2013/2014				
	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Financial Assets: Available for sale £'000	Assets and Liabilities at Fair Value through Profit and Loss £'000	Total £'000	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Financial Assets: Available for sale £'000	Assets and Liabilities at Fair Value through Profit and Loss £'000	Total £'000
Interest expense	(11,448)	0	0	0	(11,448)	(12,018)				(12,018)
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>(11,448)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(11,448)</b>	<b>(12,018)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(12,018)</b>
Interest income	0	2,963	0	0	2,963	0	2,961	0	45	<b>3,006</b>
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>2,963</b>	<b>0</b>	<b>0</b>	<b>2,963</b>	<b>0</b>	<b>2,961</b>	<b>0</b>	<b>45</b>	<b>3,006</b>
<b>Net gain/(loss) for the year</b>	<b>(11,448)</b>	<b>2,963</b>	<b>0</b>	<b>0</b>	<b>(8,485)</b>	<b>(12,018)</b>	<b>2,961</b>	<b>0</b>	<b>45</b>	<b>(9,012)</b>

## 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 2015		31 March 2014	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial liabilities	197,484	194,465	209,336	201,062
Long-term Creditors	38,695	38,695	40,254	40,254

The fair value of financial liabilities is lower than the carrying amount for both years because the Authority'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.

	31 March 2015		31 March 2014	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and receivables	24,378	24,378	23,971	23,971
Long-term debtors	19,848	19,848	196	196

The carrying amount of financial assets match their fair values as the interest rates receivable are the same as rates at the balance sheet dates for similar investments.

## 11. Debtors

The Authority's debtors (net of the provision for bad and doubtful debts) are as follows:

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	8,449	8,633
Other Local Authorities	2,446	1,895
NHS bodies	7,071	6,293
Public corporations and trading funds	1,284	37
Bodies external to general government	23,394	27,036
<b>Total Debtors</b>	<b>42,644</b>	<b>43,894</b>

## 12. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2014 £'000	31 March 2015 £'000
Cash held by the Authority	22	25
Bank current accounts	16,780	15,057
Bank Overdraft	(15,770)	(18,951)
Short-term deposits with financial institutions	39,416	12,668
<b>Total Cash &amp; Cash Equivalents</b>	<b>40,449</b>	<b>8,799</b>

## 13. Assets Held for Sale

	Current	
	2013/14 £'000	2014/15 £'000
<b>Balance Outstanding at start of year</b>	<b>625</b>	<b>2,900</b>
Assets newly classified as held for sale:		
▪ Property, Plant and Equipment	2,350	0
Revaluation Gains	345	0
Assets sold	(420)	(2,000)
<b>Balance Outstanding at year end</b>	<b>2,900</b>	<b>900</b>

## 14. Creditors

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	2,614	11,861
Other Local Authorities	10,120	6,465
NHS bodies	845	537
Public corporations and trading funds	3,219	6
Bodies external to general government	31,917	24,842
<b>Total Creditors</b>	<b>48,715</b>	<b>43,711</b>



## 15. Provisions

	Balance as at 31 March 2014 £000s	2014/15				Balance as at 31 March 2015 £000s
		Additional Provisions Made £000s	Amounts Used £000s	Unused Amounts Reversed £000s	Unwinding of Discounting £000s	
<b>Short Term Provisions</b>						
Short Term Provisions	677	0	0	0	0	677
NDR Appeals	4,526	(1,502)	0	0	0	3,024
<b>Total</b>	<b>5,203</b>	<b>(1,502)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,701</b>
<b>Long Term Provisions</b>						
Insurance Provision	1,774	542	(1,130)	0	0	1,186
NDR Appeals	0	4,907				4,907
Other Provisions	424	1	0	0	0	425
<b>Total</b>	<b>2,198</b>	<b>5,450</b>	<b>(1,130)</b>	<b>0</b>	<b>0</b>	<b>6,518</b>

The short term provisions relate to the Carbon Reduction Commitment scheme and Public Health infection control.

The NDR appeals provision represents the sum set aside for unsettled claims to the Valuation Office Agency for rateable value reductions.

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2015 in line with IAS 37. The majority of the unsettled claims are for public liability.

## 16. Usable Reserves (As per the Movement in Reserves Statement)

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement.

## 17. Unusable Reserves

	31 March 2014 £'000	31 March 2015 £'000
Revaluation Reserve	105,075	115,748
Capital Adjustment Account	489,132	417,721
Pensions Reserve	(194,517)	(270,813)
Financial Instruments Adjustment Account	278	516
Collection Fund Adjustment Account	(3,496)	(4,168)
Accumulated Absences Account	(2,536)	(2,521)
<b>Total Unusable Reserves</b>	<b>393,935</b>	<b>256,482</b>

## Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2013/14	2014/15	
	£'000	£'000	£'000
Balance as at 1 April	106,007	0	105,075
Upward revaluation of assets	17,273	24,737	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(6,238)	(3,635)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	11,036		21,102
Difference between fair value depreciation and historical cost depreciation	(2,036)	(1,883)	
Accumulated gains on assets sold or scrapped	(9,932)	(8,547)	
Amount written off to the Capital Adjustment Account	(11,968)		(10,430)
<b>Balance as at 31 March</b>	<b>105,075</b>		<b>115,748</b>

## Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 1 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2013/14		2014/15	
	£'000		£'000	£'000
<b>Balance as at 1 April</b>		<b>505,895</b>		<b>489,131</b>
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	(45,617)		(42,434)	
• Revaluation movements on Property, Plant and Equipment	8,437		(26,377)	
• Amortisation of Intangible Assets	(222)		(589)	
• Revenue Expenditure funded from Capital Under Statute	(3,769)		(11,962)	
• 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	(38,359)		(42,190)	
		(79,530)		(123,552)
Adjusting amounts written out of the Revaluation Reserve	11,968		10,430	
Other adjustments	(94)		0	
Net written out amount of the cost of non-current assets consumed in the year		11,874		10,430
Capital financing applied in the year:				
• Use of Capital Receipts Reserve to finance new capital expenditure	2,324		3,264	
• Use of the Major Repairs Reserve to finance new capital expenditure	5,213		4,248	
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	19,688		18,302	
• Application of grants to capital financing from the Capital Grants Unapplied Account	13,101		6,472	
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,650		7,549	
• Capital expenditure charged against the General Fund and HRA balances	1,888		2,292	
		49,864		42,126
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		1,028		(415)
<b>Balance as at 31 March</b>	<b>0</b>	<b>489,132</b>		<b>417,720</b>

## 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 Authority 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 Authority 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.

	2013/14 £'000	2014/15 £'000
<b>Balance as at 1 April</b>	<b>(211,441)</b>	<b>(194,517)</b>
Remeasurements of the net defined benefit liability/(asset)	23,768	(67,160)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(21,613)	(23,036)
Employer's pensions contributions and direct payments to pensioners payable in the year	14,769	13,900
<b>Balance as at 31 March</b>	<b>(194,517)</b>	<b>(270,813)</b>

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2015 will be charged to the General Fund over the next 33 years.

	2013/14	2014/15	
	£'000	£'000	£'000
<b>Balance as at 1 April</b>	<b>(179)</b>		<b>278</b>
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	457	237	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	457		237
<b>Balance as at 31 March</b>	<b>278</b>		<b>515</b>

## Collection Fund Adjustment Account

This account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2013/14 £'000	2014/15 £'000
<b>Balance as at 1 April</b>	(309)	(3,496)
Amount by which Council Tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(3,187)	(3,687)
Adjustment to prior period balance	0	3,015
<b>Balance as at 31 March</b>	<b>(3,496)</b>	<b>(4,168)</b>

The adjustment of £3.015m is to release an earmarked amount in the brought forward balance of £3.496m. The reserve amount is no longer considered to be required and has therefore been released in the current year.

The balance of £4.168m shown above consists of the following component parts:

	2013/14 £'000
Medway Council Tax Surplus	(2,015)
Medway Non-Domestic Rate Deficit	6,183
<b>Balance as at 31 March</b>	<b>4,168</b>

## Accumulated Absences Account

This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2013/14	2014/15	
	£'000		£'000
<b>Balance as at 1 April</b>	(2,177)		(2,536)
Settlement or cancellation of accrual made at the end of the preceding year	2,177	2,536	
Amounts accrued at the end of the current year	(2,537)	(2,521)	
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	(360)		15
<b>Balance as at 31 March</b>	<b>(2,536)</b>		<b>(2,521)</b>

## 18. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2013/14 £'000	2014/15 £'000
Interest received	(845)	(233)
Interest paid	9,424	9,098

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

	2013/14 £'000	2014/15 £'000
Depreciation	(37,428)	(43,002)
Impairment and revaluations	(607)	(26,845)
(Increase) / decrease in creditors	6,123	6,864
Increase / (decrease) in debtors/Impairment for Bad Debts	8,911	1,209
Increase / (decrease) in inventories	(17)	7
Movement in pension liability	2,155	(9,136)
Contributions (to)/from Provisions		(2,819)
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(36,943)	(42,988)
Other non-cash items charged to the net surplus or deficit on the provision of services	(6,000)	(0)
	<b>(63,806)</b>	<b>(116,710)</b>

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

	2013/14 £'000	2014/15 £'000
The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,182	5,512
Any other items for which the cash effects are investing or financing cash flows	24,704	23,154
	<b>26,886</b>	<b>28,666</b>

## 19. Cash Flow – Investing Activities

	2013/14 £'000	2014/15 £'000
Purchase of property, plant and equipment, investment property and intangible assets	45,229	29,150
Purchase of short-term and long-term investments	0	19,475
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(2,182)	(5,513)
Proceeds from short-term and long-term investments	(30,286)	0
Other receipts from investing activities	(55,341)	(22,896)
<b>Net cash flows from investing activities</b>	<b>(42,580)</b>	<b>20,216</b>

## 20. Cash Flow – Financing Activities

	2013/14 £'000	2014/15 £'000
Cash receipts of short- and long-term borrowing	(716)	0
Other receipts from financing activities	(4,198)	0
Cash payments for the reduction of outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	0	1,147
Repayments of short- and long-term borrowing	10,000	125
<b>Net cash flows from financing activities</b>	<b>5,086</b>	<b>1,272</b>

## 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 Authority 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.

The income and expenditure of the Authority's directorates recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure 2014/15	Children and Adult Services £'000	Regeneration, Community and Culture £'000	Business Support £'000	Public Health £'000	Total £'000
Fees, charges & other service income	(25,594)	(36,428)	(45,911)	(28)	(107,961)
Interest and investment income	0	0	(160)	0	(160)
Government grants	(20,362)	(1,407)	(109,046)	(181)	(130,996)
<b>Total Income</b>	<b>(45,956)</b>	<b>(37,836)</b>	<b>(155,118)</b>	<b>(208)</b>	<b>(239,117)</b>
Employee expenses	110,495	21,001	24,294	3,387	159,177
Other service expenses	171,913	65,428	126,664	8,377	372,381
Support service recharge	8,010	10,299	12,414	308	31,031
Depreciation, amortisation and impairment	15,368	22,001	1,790	0	39,158
Payments to Housing Capital Receipts Pool	0	0	0	0	0
<b>Total Expenditure</b>	<b>305,786</b>	<b>118,729</b>	<b>165,162</b>	<b>12,071</b>	<b>601,748</b>
<b>Net Expenditure</b>	<b>259,830</b>	<b>80,893</b>	<b>10,044</b>	<b>11,863</b>	<b>362,630</b>

Directorate Income and Expenditure 2013/14	Children and Adult Services £'000	Regeneration, Community and Culture £'000	Business Support £'000	Public Health £'000	Total £'000
Fees, charges & other service income	(23,589)	(34,031)	(44,686)	(5,747)	(108,053)
Interest and investment income	0	0	0	0	0
Government grants	(16,444)	(893)	(108,439)	(425)	(126,201)
<b>Total Income</b>	<b>(40,033)</b>	<b>(34,925)</b>	<b>(153,125)</b>	<b>(6,172)</b>	<b>(234,255)</b>
Employee expenses	125,888	21,767	25,074	2,989	175,717
Other service expenses	160,965	62,966	123,232	15,755	362,917
Support service recharge	7,977	9,371	12,481	359	30,187
Depreciation, amortisation and impairment	16,572	24,086	1,123	0	41,781
Payments to Housing Capital Receipts Pool	0	77	0	0	77
<b>Total Expenditure</b>	<b>311,402</b>	<b>118,266</b>	<b>161,909</b>	<b>19,103</b>	<b>610,680</b>
<b>Net Expenditure</b>	<b>271,369</b>	<b>83,341</b>	<b>8,785</b>	<b>12,931</b>	<b>376,425</b>

#### 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.

	2013/14 £'000	2014/15 £'000
Net expenditure in Directorate analysis	376,425	362,630
Net expenditure of services and support services not included in the Analysis	(1,258)	(1,561)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(161,906)	(98,281)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(163,164)	(99,842)
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>213,261</b>	<b>262,788</b>

#### 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.



2014/15	Directorate Analysis £'000	Services not in Analysis- HRA £'000	Amounts not Reported to Management £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(107,961)	(14,301)	9,102	31,600	(81,560)	(371)	(81,930)
Interest and investment income	(160)	(35)	(21)	0	(216)	(4,085)	(4,302)
Income from Council tax	0	0	0	0	0	(94,695)	(94,695)
Income from NNDR	0	0	0	0	0	(39,639)	(39,639)
Government grants and contributions	(130,996)	0	(139,458)	0	(270,454)	(84,789)	(355,243)
<b>Total Income</b>	<b>(239,117)</b>	<b>(14,336)</b>	<b>(130,377)</b>	<b>31,600</b>	<b>(352,230)</b>	<b>(223,580)</b>	<b>(575,810)</b>
Employee Expenses	159,177	1,709	1,102	0	161,988	8,349	170,337
Interest Expense	0	0	0	0	0	11,764	11,764
Other service expenses	372,381	6,980	4,302	0	383,664	210	383,873
Support service recharge	31,031	569	0	(31,600)	0	0	0
Depreciation, amortisation and revaluations	39,158	3,516	26,408	0	69,082	415	69,497
Precepts and levies	0	0	0	0	0	1,347	1,347
Payments to Housing Capital Receipts Pool	0	0	0	0	0	235	235
Gain or loss on disposal of fixed assets	0	0	0	0	0	36,677	36,677
Pension Adjustment	0	0	284	0	284	0	284
<b>Total Expenditure</b>	<b>601,748</b>	<b>12,775</b>	<b>32,096</b>	<b>(31,600)</b>	<b>615,018</b>	<b>58,997</b>	<b>674,015</b>
<b>(Surplus)/Deficit on the provision of services</b>	<b>362,630</b>	<b>(1,561)</b>	<b>(98,281)</b>	<b>0</b>	<b>262,788</b>	<b>(164,582)</b>	<b>98,206</b>

2013/14	Directorate Analysis £'000	Services not in Analysis - HRA £'000	Amounts not Reported to Management £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'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)
<b>Total Income</b>	<b>(234,255)</b>	<b>(14,145)</b>	<b>(143,679)</b>	<b>30,799</b>	<b>(361,280)</b>	<b>(233,421)</b>	<b>(594,701)</b>
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
<b>Total Expenditure</b>	<b>610,680</b>	<b>12,887</b>	<b>(18,227)</b>	<b>(30,799)</b>	<b>574,541</b>	<b>59,322</b>	<b>633,863</b>
<b>(Surplus)/Deficit on the provision of services</b>	<b>376,425</b>	<b>(1,258)</b>	<b>(161,906)</b>	<b>0</b>	<b>213,261</b>	<b>(174,099)</b>	<b>39,162</b>

## 22. Members' Allowances

The Authority paid the following amounts to members of the Authority during the year.

	2013/14 £000	2014/15 £000
Basic Allowance	471	471
Special Responsibility Allowance	256	258
Expenses	6	5
	733	734
National Insurance	43	41
<b>Total</b>	<b>776</b>	<b>775</b>

During 2014/15, 55 serving Members were entitled to claim allowances.

Full details can be found on the Authority's website from the link:

<http://www.medway.gov.uk/thecouncilanddemocracy/councillors/membersallowances.aspx>

## 23. Officers' Remuneration

The remuneration paid to the Authority's senior employees for 2014/15 is as follows:

Post	Salaries, Fees and Allowances £	Expenses Allowances £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	155,037	150	155,187	26,962	182,149
Director of Children & Adult Services	129,136	144	129,280	22,381	151,661
Director of Regeneration, Community & Culture	131,136	152	131,288	22,747	154,035
Director of Public Health	145,974	1,867	147,841	17,495	165,336
Deputy Director Customer Contact, Leisure, Democracy & Governance	98,606	0	98,606	17,218	115,824
Assistant Director Front Line Services	90,340	0	90,340	15,705	106,046
Assistant Director Communications, Performance & Partnerships	93,530	83	93,613	15,705	109,319
Chief Finance Officer (left 28.02.2015)	93,964	0	93,964	16,438	110,402
Chief Finance Officer (started 01.03.2015)	7,516	0	7,516	1,307	8,822
Assistant Director Organisational Services	91,489	48	91,537	15,762	107,298
Assistant Director Inclusions (left 15.06.2014)	20,040	0	20,040	2,999	23,039
Deputy Director - Children & Adult Services (left 26.10.2014)	56,259	0	56,259	9,824	66,084
Deputy Director - Children & Adult Services (started 16.03.2015)	4,010	0	4,010	698	4,709
Assistant Director Housing & Regeneration	92,688	99	92,788	15,705	108,493
Assistant Director Legal & Corporate Services	82,185	0	82,185	14,213	96,398
Assistant Director Partnership Commissioning	79,021	82	79,103	13,634	92,737
Assistant Director Children's Care	83,326	0	83,326	14,422	97,748

Comparative figures for 2013/14 are as follows:

Post	Salaries, Fees and Allowances £	Expenses Allowances £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	155,037	138	155,175	28,730	183,905
Director of Children & Adult Services	128,236	96	128,332	23,673	152,005
Director of Regeneration, Community & Culture	130,236	122	130,358	24,063	154,421
Director of Public Health	140,615	865	141,480	16,753	158,233
Deputy Director Customer Contact, Leisure, Democracy & Governance	98,476	0	98,476	18,318	116,794
Assistant Director Front Line Services	90,190	0	90,190	16,706	106,896
Assistant Director Communications, Performance & Partnerships	93,380	236	93,616	17,328	110,944
Chief Finance Officer	101,460	0	101,460	19,011	120,470
Assistant Director Organisational Services	89,923	0	89,923	16,870	106,793
Assistant Director Inclusions	82,396	0	82,396	15,226	97,622
Deputy Director - Children & Adult Services	97,235	0	97,235	18,080	115,314
Assistant Director Housing & Regeneration	92,538	53	92,591	17,164	109,755
Assistant Director Legal & Corporate Services	80,879	0	80,879	14,890	95,770
Assistant Director Partnership Commissioning (Started 01/08/2013)	51,748	81	51,829	9,627	61,456
Assistant Director Childrens Care (Started 08/07/2013)	60,817	0	60,817	11,215	72,032

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	Number of Employees			
	Schools		Non-Schools	
	2013/14	2014/15	2013/14	2014/15
£50,000 to £54,999	25	24	25	22
£55,000 to £59,999	19	14	12	14
£60,000 to £64,999	15	15	32	25
£65,000 to £69,999	14	11	5	6
£70,000 to £74,999	6	5	3	3
£75,000 to £79,999	8	5	0	0
£80,000 to £84,999	1	4	0	0
£85,000 to £89,999	3	0	1	0
£90,000 to £95,999	1	0	1	0
£95,000 to £99,999	1	1	0	1
£100,000 to £104,999	0	1	0	0
£105,000 to £109,999	1	0	0	0
£110,000 to £114,999	0	0	0	0
£115,000 to £119,999	1	0	0	0
£120,000 to £124,999	0	1	0	0
£125,000 to £129,999	0	0	0	0
£130,000 to £149,999	0	0	0	0
<b>Total</b>	<b>95</b>	<b>81</b>	<b>79</b>	<b>71</b>

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies			Number of other departures agreed			Total number of exit packages by cost band			Total cost of exit packages in each band £		
	2014/15			2014/15			2014/15			2014/15		
	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total
£0 - £20,000	20	59	79	1	6	7	21	65	86	102,755	438,521	541,276
£20,001 - £40,000	2	5	7	0	5	5	2	10	12	48,301	283,506	331,807
£40,001 - £60,000	0	1	1	0	1	1	0	2	2	0	109,354	109,354
£60,001 - £80,000	0	0	0	0	2	2	0	2	2	0	150,647	150,647
£80,001 - £100,000	0	1	1	0	1	1	0	2	2	0	169,409	169,409
£100,001 - £150,000	0	0	0	0	1	1	0	1	1	0	146,100	146,100
£150,001 - £200,000	0	0	0	0	1	1	0	1	1	0	155,500	155,500
<b>Total</b>	<b>22</b>	<b>66</b>	<b>88</b>	<b>1</b>	<b>17</b>	<b>18</b>	<b>23</b>	<b>83</b>	<b>106</b>	<b>151,056</b>	<b>1,453,035</b>	<b>1,604,091</b>

The total cost of £1,604k in the table above for exit packages has been charged to the Authority's Comprehensive Income and Expenditure Statement in the current year.

Exit package cost band (including special payments)	Number of compulsory redundancies			Number of other departures agreed			Total number of exit packages by cost band			Total cost of exit packages in each band £		
	2013/14			2013/14			2013/14			2013/14		
	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total
£0 - £20,000	12	11	23	34	33	67	46	44	90	231,733	307,134	538,867
£20,001 - £40,000	0	5	5	7	3	10	7	8	15	217,530	187,252	404,782
£40,001 - £60,000	0	0	0	0	1	1	0	1	1	0	45,936	45,936
£60,001 - £80,000	0	0	0	0	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>12</b>	<b>16</b>	<b>28</b>	<b>41</b>	<b>37</b>	<b>78</b>	<b>53</b>	<b>53</b>	<b>106</b>	<b>449,263</b>	<b>540,322</b>	<b>989,585</b>

The total cost of £990k in the table above for exit packages was been charged to the Authority's Comprehensive Income and Expenditure Statement in during 2013/14.

## 24. External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:

	2013/14 £'000	2014/15 £'000
Fees payable to BDO with regard to external audit services carried out by the appointed auditor for the year	216	190
Fees payable to BDO for the certification of grant claims and returns for the year	24	12
Fees payable in respect of other services provided by BDO during the year	0	0
<b>Total</b>	<b>240</b>	<b>202</b>

## 25. Dedicated Schools Grant

The Authority's expenditure on schools is funded primarily by grant monies provided by the Department for Education, through the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department for Education to fund academy schools in the Medway area. 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 2011. 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 2014/15 the Authority incurred an overspend of £587,490 on DSG funded services. After taking account of the surplus of £4.6m brought forward from 2013/14 and £245k of expenditure agreed to be met from the reserve, £3.8m was carried forward to 2015/16. An analysis of the DSG for 2014/15 is provided in the table below:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2014/15 before Academy recoupment			209,643
Less: Academy figure recouped for 2014/15			(93,575)
Total DSG after Academy recoupment for 2014/15			116,068
Plus: Brought forward from 2013/14			4,592
Less: Carry forward to 2015/16 agreed in advance			(83)
Agreed initial budgeted distribution in 2014/15	4,522	116,141	120,577
In year adjustments	118	0	118
Final budget distribution in 2014/15	4,640	116,141	120,695
Less: Actual central expenditure	(4,558)		(4,558)
Less: Actual Individual Schools Budget deployed to schools		(112,377)	(112,377)
Plus: Local authority contribution for 2014/15	0	0	0
<b>Carry forward to 2015/16</b>	<b>82</b>	<b>3,764</b>	<b>3,760</b>

## 26. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15.

	2013/14 £'000	2014/15 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<u>Department for Communities and Local Government</u>		
- Capitalisation Provision Redistribution Grant	334	0
- Formula Grant / Revenue Support Grant	63,311	52,391
- Community Rights Grant	16	0
- Council Tax Support New Burdens Funding	159	162
- New Homes Bonus	3,931	5,605
<u>Department for Education</u>		
- Education Support Grant	3,451	3,187
<u>Department for Environment, Food and Rural Affairs</u>		
- Inshore Fisheries Conservation Authorities Grant	32	33
- Lead Local Flood Authorities Grant	77	77
<u>Department of Health</u>		
- Healthwatch Grant	177	180
Other Grants and Levies	138	0
Recognition of Capital Grants and Contributions	28,474	23,154
<b>Total</b>	<b>100,100</b>	<b>84,788</b>



	2013/14 £'000	2014/15 £'000
<b>Credited to Services</b>		
<u>Cabinet Office</u>		
- Cabinet	14	630
<u>Department for Culture, Media &amp; Sport</u>		
- DCMS Other	86	93
<u>Department for Education</u>		
- Dedicated Schools Grant	127,854	116,068
- School Standards Grant	0	
- Pupil Premium Grant	5,711	6,879
- Education Funding Agency	796	494
- Sixth Form Grant	1,941	1,214
- DFE Other *	3,376	5,303
<u>Department of Health</u>		
- Public Health Grant	13,170	14,280
- DoH Other	59	264
<u>Department for Communities and Local Government</u>		
- Tax Collection & Benefit Administration	293	289
- Housing Benefit Administration	1,995	1,863
- Benefit Subsidy	103,572	104,190
- DCLG Other	754	1,027
<u>Department for Environment, Food and Rural Affairs</u>		
- DEFRA Other	24	0
<u>Department of Transport</u>		
- DoT Other	86	208
<u>Department for Work &amp; Pensions</u>		
- DWP Other	928	848
<u>Home Office</u>		
- HO Other	3	72
<u>Ministry of Justice</u>		
- Contributions from the Youth Justice Board	963	590
- MoJ Other	0	107
<u>Department for Business, Innovation &amp; Skills</u>		
- Skills Funding Agency	2,267	1,961
Other Miscellaneous Grants	646	2,241
Contributions from NHS Partners	8,776	9,436
Contributions from Other Local Authorities	1,002	1,437
Miscellaneous Contributions	547	959
<b>Total</b>	<b>274,862</b>	<b>270,454</b>

The Authority has received a number of grants, contributions or donations that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. The balances at the year-end are as follows:

<b>Current Liabilities</b>	31/03/2014 £'000	31/03/2015 £'000
<b>Capital Grants Receipts in Advance (Capital Grants)</b>		
Applicable Section Agreements	7,869	7,569
<b>Total</b>	<b>7,869</b>	<b>7,569</b>

## 27. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

### Central Government

Central government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 21 on reporting for resources allocation decisions.

### Members

The Authority holds a statutory register of members' declarations covering employment, sponsorship, property and land holdings, and contracts with the Authority etc. Members and senior officers declare any pecuniary interest in committee items prior to their debate. The Authority 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 Authority has introduced a Code of Conduct agreeing guidelines for good working practice between members and officers.

Two Members of the Authority are Trust Members of Chatham Historic Dockyard Trust. During the year the Authority paid £125,584 (£111,760 in 2013/14) to the organisation and the Trust paid the Authority £3,936. At 31 March 2015 the Authority was owed £1,365 by the Trust (31 March 2014 £850).

One member is a Board Member of Historic Dockyard Property (2005) Ltd. A company to which the Authority paid £10,875 in 2014/15 (2013/14 Nil).

One Member of the Authority is a non-executive director of Medway Community Healthcare, and the partner of another is an employee. During the year the Authority received £122,875 (£248,537 2013/14) from Medway Community Healthcare and paid £1,025,752 (£992,224 2013/14) in respect of various services. At 31 March 2015 the Authority was owed 52,584 (31 March 2014 £11,661) and owed £18,761 (2013/14 nil).

Three Members are Authority appointed representatives of Medway Ethnic Minority Forum to engage the Ethnic Minority Communities in its core values to demonstrate inclusiveness and championing the forum in its strategic objectives of promoting multi-culturism. During the year the Authority received nothing (£10,964 in 2013/14) from Medway Ethnic Minority Forum and paid £22,231 (£17,550 in 2013/14) in respect of multicultural activities. At 31 March 2015 the Authority was owed £381 (31 March 2014; £1,451).

One member of the Authority has declared that a member of his household is the Chief Executive of Medway District CAB Ltd. The Authority made payments to the organisation amounting to £446,228 during 2014/15 (£450,872 in 2013/14). No payments were received or owing, from Medway CAB in 2014/15 (£1,092 2013/14 and £1,500 owed).

Action for Borstal Community Project - One member is the Chairman of Trustees and another is a Trustee. The Authority made payments to the organisation amounting to £108,110 during 2014/15 (£48,240 in 2013/14).

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 2014/15 the Authority made payments to the organisation of £113,409 (£125,578 in 2013/14).

Norma's Catering Ltd and associated companies – One member and his wife are associated with this company that on occasions provides catering to the Authority. The Authority made payments to the Organisation amounting to £5,730 during 2014/15 (£486 in 2013/14). The Authority received £5,750 in 2014/15 (£5,750 in 2013/14). At 31 March 2015 the Authority owed the Company £1,000 (2013/14; £843) and the Company owed the Authority £1,579 (2013/14; nil).

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 Authority made payments to the Trust amounting to £215,706 during 2014/15 (£229,277; 2013/14).

One member is a Authority appointed Director of Medway Norse and Medway Norse Transport-joint venture companies established between the Authority and Norse plc to deliver Facilities Management activities. The Authority made payments of £10,112,787 to Medway Norse/Medway Norse Transport in 2014/15 (£5,398,398 2013/14). The total value of transactions to the Authority from these companies was £207,157 in 2014/15 (£6,139 in 2013/14). At 31 March 2015 the Authority was owed £111,763 (31 March 2014; £20,183) and owed £29,628 (2013/14; Nil).

One member is a Board Member of Groundwork South , an organisation which aims to reduce energy and waste, reconnect people with nature and transform neighbourhoods. The Authority paid Groundwork South £8,000 in 2014/15.

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 Authority made payments to this organisation amounting to £80,075 during 2014/15 (£80,108 in 2013/14). The Authority received no payments from the WRVS 2014/15 (£515 in 2013/14). At 31 March 2015 the Authority was owed £93 (31 March 2014; £187).

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 Authority made payments to this organisation of £18,783 in 2014/15 (£37,567 in 2013/14)

Kent & Medway Fire & Rescue Authority - Four Members are Medway representatives for the Kent & Medway Fire and Rescue Authority. Excluding precept payments the Authority received £33,700 income from this organisation in 2014/15. (£51,223 in 2013/14). At 31 March 2015 the Authority was owed nothing (31 March 2014 £21,428). Excluding precepts the Authority paid this organisation £19,900 in 2014/15 (2013/14; nil) and owed them £1,269 as at 31 March 2015 (nil at 31March 2014).

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 2014/15 was £17,942 (£12,988 in 2013/14). Frindsbury Extra Parish Council had transactions of £25 with the Council in 2014/15 ( £105 2013/14).

One member is a Director of Medway Credit Union which is a financial co-operative where members can save and borrow small amounts of money at low interest rates. The Authority has had transactions with Medway Credit Union of £5,500 in 2014/15.

One Councillor is a trustee of MHS Homes Community Charity Ltd. The Charity's key objectives are tackling worklessness, community cohesion and digital inclusion. The Charity received payments of £27,277 from the Authority in 2014/15 (£81,831 in 2013/14).

One Councillor is a Board Member of The Kent People's Trust, an organisation aimed at preventing crime and anti-social behaviour. In 2014/15 Medway Council paid the Trust £5,000 (2013/14; £7,000).

### Officers

One senior officer is a Authority member of The University of Kent Governing Body. The total value of payments made by the University to the Authority was £100,818 in 2014/15 (£191,313 in 2013/14). Payments from the Authority to the University from the Authority totalled £5,820 in 2014/15 (£23,675 in 2013/14). At 31 March 2015 the Authority was owed £505 (31 March 2014; £28,800).

One senior officer is a Authority member of Mid Kent College Governing Body. The Authority made payments of £113,195 to the College in 2014/15 (£88,254 in 2013/14). The total value of transactions to the Authority from the College was £2,858 in 2014/15 (£9,913 in 2013/14). At 31 March 2015 the Authority owed £24 (31 March 2014 £478).

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 Authority has formal nominations agreements with Housing Associations holding stock within Medway, including Circle which secures the right to nominate tenants to their stock in accordance with the Authority's Allocations Policy.

One senior officer is an Authority appointed Director of Medway Norse and Medway Norse Transport- joint venture companies established between the Authority and Norse plc. to deliver Facilities Management activities. The Authority made payments of £10,112,787 to Medway Norse/Medway Norse Transport in 2014/15 (£5,398,398 2013/14). The total value of transactions to the Authority from these companies was £207,157 in 2014/15 (£6,139 2013/14). At 31 March 2015 the Authority was owed £111,763 (31 March 2014 £20,183) and owed £29,628 (13/14 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 Authority made payments to this organisation of £148,663 in 2014/15 (£78,668 in 2013/14). The Authority owed the organisation £4,200 at 31 March 2015 (31 March 2014: Nil).

One senior officer is a medical referee at Medway Crematorium appointed by the Department of Justice.

### 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 Authority.

The Company supplies services to the Authority which is included in the cost of services.

The Authority also has a 20% equity share in Medway Norse Transport. The company provides transport services to the Authority.

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

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

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

The Authority became responsible for a proportion of Kent County Council's debt when Medway Council was formed in 1998. The amount outstanding at 31 March 2015 was £40,063,150 (31 March 2014 £41,732,448). In addition £298,856 was due to Kent County Council as at 31 March 2015 ((£30,902) as at 31 March 2014) and £144,389 due from them at 31 March 2015 (£473,041 as 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.

	2013/2014 £'000	2014/2015 £'000
<b>Capital Investment</b>		
Property Plant and Equipment	40,032	28,986
Heritage Assets	258	61
Intangible Assets	1,170	103
Revenue Expenditure Funded from Capital under Statute	3,769	11,962
<b>Total</b>	<b>45,229</b>	<b>41,112</b>
<b>Sources of Finance</b>		
Capital receipts	(2,324)	(3,264)
Government grants and other contributions	(32,789)	(24,774)
Sums set aside from revenue	(7,101)	(6,540)
Borrowing	(3,015)	(6,535)
<b>Total</b>	<b>(45,229)</b>	<b>(41,112)</b>

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, 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.

The CFR at 31 March 2015 was £247,819,000 (31 March 2014 £248,537,038).

## 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 2014 £'000	31 March 2015 £'000
Other Land & Buildings	438	430

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 Authority's approved de-minimis level of £25,000 and have therefore been recognised within the accounts as operating leases.

The Authority has finance lease arrangements through "embedded leases". Embedded leases are where assets, although not owned by the Authority, are used primarily by the Authority for service delivery. Embedded leases are contained within our Waste, Highways and Grounds Maintenance contracts. Where we have not been able to ascertain the value and useful life of the assets, estimates have been used. Assets are recognised in the Balance Sheet at the net depreciated value and offset by a deferred liability.

The assets held through embedded leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2014 £'000	31 March 2015 £'000
Vehicles, Plant & Equipment	1,976	829

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2014 £'000	31 March 2015 £'000
Finance lease liabilities (net present value of minimum lease payments):		
• current	518	261
• non-current	791	240
Finance costs payable in future years	132	154
<b>Minimum Lease Payments</b>	<b>1,441</b>	<b>655</b>

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000
Not later than one year	452	333	518	261
Later than one year and not later than five years	989	322	791	240
<b>Total</b>	<b>1,441</b>	<b>655</b>	<b>1,309</b>	<b>501</b>

### *Operating Leases*

The Authority has made use of leases to acquire property, vehicles, and equipment. The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2014 £'000	31 March 2015 £'000
Not later than one year	1,540	1,094
Later than one year and not later than five years	917	2,230
Later than five years	2,848	3,174
<b>Total</b>	<b>5,305</b>	<b>6,498</b>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to leases was:

	2013/14 £'000	2014/15 £'000
Minimum Lease Payments	1,855	1,540
Sublease Payments Receivable	(296)	(160)
	<b>1,559</b>	<b>1,380</b>

### Authority as Lessor

#### *Operating Leases*

The Authority leases out property under operating leases for the provision of the following services:

- Community services such as sports facilities, community centres and tourism;
- Economic development to provide suitable affordable accommodation for local businesses;

The future minimum lease payments receivable are:

	31 March 2014 £'000	31 March 2015 £'000
Not later than one year	869	1,165
Later than one year and not later than five years	2,788	2,529
Later than five years	16,320	10,101
<b>Total</b>	<b>19,977</b>	<b>13,795</b>



The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15; £339,567 contingent rents were receivable by the Authority (2013/14; £796,960).

### 30. Impairment Losses

During 2014/15, the Authority has recognised an impairment loss of £341,200 in relation two assets within property, plant and equipment (nil in 2013/14).

The first relates to an advertising hoarding, where the valuation has been reduced due to the reduction in the amount of available advertising space. The second asset relates to a change of use for an asset, once used to provide a school, which has now been demolished.

	Impairment charges to Surplus/(Deficit) £'000	Impairment charges to Revaluation Reserve £'000	Impairment charges to Surplus/(Deficit) £'000
<b>2014/15</b>			
Other Land and Buildings	130	211	341
	<b>130</b>	<b>211</b>	<b>341</b>

### 31. Termination Benefits

During the year the Authority terminated the contracts of a number of employees across a range of services. The Authority incurred liabilities of £1,604,091 (2013/14 £989,585) in respect of redundancy, payment in lieu of notice and added years pension costs - see note 23 for the number of exit packages and total cost per band. Of this, £301,560 relates to the Head of Corporate Finance and the Finance Support Manager. The remaining £1,302,531 (2013/14 £943,649) was payable on 23 (2013/14- 53) notice payments and redundancies owing to school reorganisation and a further 81 (2013/14 - 52) local authority based staff who were made redundant as part of the Authority's cost saving and reorganisation in response to Government funding cuts.

### 32. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2014/15, the Authority paid £5.567m to Teachers Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2013/14 were £6.171m and 14.1%. There were no contributions remaining payable at year end. The movement in the level of contributions is predominantly due to the number of schools that have converted to Academy status, on or since 1 April 2014. The contributions due to be paid in the next financial year are estimated to be £5.612m and account for an increase in rate on 1 September 2015 to 16.4%.



The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 33.

The Authority is not liable to the scheme for any other entities obligations to the plan.

### **33. Defined Benefit Pension Schemes**

#### **Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme, administered locally by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013/14, is contracted out of the State Second Pension and benefits accrued up to 31 March 2014 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1 April 2014 and any benefits accrued from this date will be based on career average revalued salary, with various protections in place for those members in the scheme before the changes take effect.

The Administering Authority for the Fund is Kent County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As Administering Authority to the Fund, Kent County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These should be amended when appropriate based on the Fund's performance and funding.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. On the Employer's withdrawal from the plan, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Kent County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

## Transactions Relating to Post-Employment Benefits

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund [and Housing Revenue Account] via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2013/14 £'000	2014/15 £'000
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services</b>	12,116	14,403
<b>Service cost comprising:</b>		
• Current service costs		
• Past service costs		
• (gain)/loss from settlements		
<b>Financing and Investment Income and Expenditure</b>		
Net Interest expense	9,203	8,349
<b>Administration expenses</b>	294	284
<b>Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services</b>	<b>21,613</b>	<b>23,036</b>
<b>Other Post Employment benefit charged to the Comprehensive Income and Expenditure Statement</b>		
<b>Remeasurement of the net defined benefit liability comprising:</b>		
• Return on plan assets in excess of interest	(12,175)	(25,032)
• Actuarial gains and losses arising on changes in demographic assumptions	7,095	0
• Actuarial gains and losses arising on changes in financial assumptions	21,545	92,507
• Experience gain / (loss) on defined benefit obligation	(31,260)	(315)
• Other (if applicable)	(8,973)	0
<b>Actual Gains and (losses)</b>	<b>(23,768)</b>	<b>67,160</b>
<b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(2,155)</b>	<b>90,196</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	21,613	23,036
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	14,769	13,900

## Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme	
	31/03/2014 £'000	31/03/2015 £'000
Present value of the defined benefit obligation	(567,361)	(680,260)
Fair value of plan assets	379,626	416,454
<b>Net Liability</b>	<b>(187,735)</b>	<b>(263,806)</b>
Present Value of Unfunded Obligation	(6,782)	(7,007)
<b>Net liability arising from defined benefit obligation</b>	<b>(194,517)</b>	<b>(270,813)</b>

## Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme	
	31 March 2014 £'000	31 March 2015 £'000
Opening fair value of scheme assets	350,641	379,626
Expected return on scheme assets		
Interest income	15,853	16,970
Remeasurement gain/(loss):		
• The return on plan assets, excluding the amount included in the net interest expense	12,175	25,032
• Other (if applicable)	8,973	0
Actuarial gains and losses		
Administration Expenses	(294)	(284)
Contributions from employer including unfunded	14,769	13,900
Contributions from employees into the scheme	4,500	4,480
Estimated Benefits paid	(17,823)	(18,599)
Other (if applicable)	(9,168)	(4,671)
<b>Closing fair value of scheme assets</b>	<b>379,626</b>	<b>416,454</b>

## Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Funded Liabilities: Local Government Pension Scheme	
	2013/14 £'000	2014/15 £'000
<b>Opening balance at 1 April</b>	<b>562,082</b>	<b>574,143</b>
Current service cost	18,113	17,474
Interest cost	25,056	25,319
Contributions by scheme participants	4,500	4,480
Actuarial gains and losses		
Remeasurement (gains) and losses:		
• Actuarial gains and losses arising on changes in demographic assumptions	7,095	0
• Actuarial gains and losses arising on changes in financial assumptions	21,545	92,507
• Experience loss/(gain) on defined benefit obligation	(31,260)	(315)
Past service cost		
Losses/(gains) on curtailment (where relevant)		
Liabilities extinguished on settlements	(15,612)	(9,402)
Liabilities assumed on entity combinations		
Benefits paid		
Estimated benefits paid net of transfers in	(17,281)	(18,075)
Past service cost, including curtailments	447	1,660
Unfunded pension payments	(542)	(524)
<b>Closing balance at 31 March</b>	<b>574,143</b>	<b>687,267</b>

Local Government Pension Scheme assets comprised:

Employer Asset Share - Bid Value	Fair value of scheme assets (a)	
	2013/14 £'000	2014/5 £'000
Equities	269,534	283,954
Gilts	3,796	4,355
Other Bonds	41,759	46,643
Property	37,963	52,057
Cash	11,389	11,388
Target Return Portfolio	15,185	18,057
<b>Total assets</b>	<b>379,626</b>	<b>416,454</b>

a All scheme assets have quoted prices in active markets

b The risks relating to assets in the scheme are also analysed by company size below:

The funds Actuaries have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2015 is likely to be different from that shown due to estimation techniques.

## Basis for Estimating Assets and Liabilities

The principal assumptions used by the actuary have been:

To assess the value of the Employer's liabilities at 31 March 2015, the actuary has rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2014 using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Scheme or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2015 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2015 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumption, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

To calculate the asset share the actuary has rolled forward the assets allocated to the Employer at 31 March 2013 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the the Employer and our Employees.

The Actuaries have used the projected unit method of valuation to calculate service costs as required by IAS19

Demographic, Statistical and Financial Assumptions - The actuary has adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65:

Life Expectancy from age 65 (years)	Local Government Pension Scheme	
	31 March 2014	31 March 2015
<b>Mortality assumptions:</b>		
<b>Longevity at 65 for current pensioners</b>		
• Men	22.7	22.8
• Women	25.1	25.2
<b>Longevity at 65 for future pensioners</b>		
• Men	24.9	25.1
• Women	27.4	27.6

Further assumptions are:

- Members will exchange half of their commutable pension for cash at retirement

- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- No members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

The Financial assumptions used for the purpose s of the IAS19 calculations are as follows:

	Local Government Pension Scheme	
	31 March 2014	31 March 2015
Rate of inflation CPI	2.80%	2.40%
Rate of inflation RPI	3.60%	3.20%
Rate of increase in salaries	4.60%	4.20%
Rate of increase in pensions	2.80%	2.40%
Rate for discounting scheme liabilities	4.50%	3.30%

These assumptions are set with the reference to market conditions at 31 March 2015.

The actuary's estimate of the duration of the Employer's liabilities is 19 years.

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Employer's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 19 year point on the Bank of England market implied inflation curve. The RPI assumption is therefore 3.2% p.a. This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on the Consumer price Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% p.a. below RPI i.e. 2.4% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salaries are then assumed to increase at 1.8% p.a. above CPI in addition to promotional scale.

Sensitivity Analysis	£000's	£000's	£000's
<b>Adjustment to discount rate</b>	<b>0.10%</b>	<b>0.00%</b>	<b>(0.10%)</b>
Present Value of Total obligation	674,482	687,267	700,307
Projected Service Cost	21,260	21,756	22,264
<b>Adjustment to long term salary increase</b>	<b>0.10%</b>	<b>0.00%</b>	<b>(0.10%)</b>
Present Value of Total obligation	688,838	687,267	685,705
Projected Service Cost	21,766	21,756	21,746
<b>Adjustment to pension increases and deferred revaluation</b>	<b>0.10%</b>	<b>0.00%</b>	<b>(0.10%)</b>
Present Value of Total obligation	698,838	687,267	675,920
Projected Service Cost	22,257	21,756	21,266
<b>Adjustment to mortality age rating assumption</b>	<b>+ 1 Year</b>	<b>None</b>	<b>-1 Year</b>
Present Value of Total obligation	663,325	687,267	711,424
Projected Service Cost	21,017	21,756	22,501

## Impact on the Authority's Cash Flow

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Authority anticipated to pay £12,876,000 expected contributions to the scheme in 2015/16.

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.

## 34. Contingent Liabilities

At 31 March 2015, the Authority had one significant contingent liability:

Medway Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Authority to access land charges data. In the current litigation the Authority faces a claim of approximately £155,717 plus our legal costs. The group of Property Search Companies are also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Authority. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

## 35. Contingent Assets

There were no known material contingent assets as at 31 March 2015.

## 36. Nature and Extent of Risks Arising from Financial Instruments

The Authority'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 Authority follows the requirements of the Local Government Act 2003 and CIPFA's Code of Practice on Treasury Management. The Authority'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 annually by Medway Council in its 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.



## Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch, Moody's and Standard and Poor's Credit Rating Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

Counterparties continue to be monitored using the creditworthiness service provided by Capita. This service uses a sophisticated modelling approach with credit ratings from all three ratings agencies forming the core element. It also uses the following as overlays: credit watches and credit outlooks from credit rating agencies; CDS spreads to give early warning of likely changes in credit ratings; sovereign ratings to select counterparties from only the most creditworthy countries.

Officers monitor all credit ratings, market data and other intelligence continuously. The maximum amount for investments by the in-house team is £20 million per counterparty, £25 million for counterparties with a Capita duration of 12 months or above. The Authority also considers country limits and will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings. The country limit is reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save for the United Kingdom with no limit.

The full investment strategy for 2014/15 was approved by full Council on 20/02/14 and the 2015/16 strategy was approved on 26/02/15. Both are available on the Authority's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings and in accordance with parameters set by the Authority.

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

	Amount at 31 March 2015	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£'000	%	£'000
Deposits with banks and financial institutions*	32,401	0.00	0
Customers	17,120	11.66	1,996
<b>Total</b>	<b>49,521</b>		<b>1,996</b>

* This is made up of the following:	Amount at 31 March 2015 £'000
Barclays	12,558
Handlesbanken	81
Bank of Scotland	29
Other Local Authorities	19,733
<b>Total</b>	<b>32,401</b>

The Authority does not generally allow credit for customers, such that £13.434 million of the £17.12 million balance is past its due date for payment. The past amount can be analysed by age as follows:

	£'000
Less than three months	6,063
Three to six months	1,111
Six months to one year	1,985
More than one year	4,275
	<b>13,434</b>

The Authority provision for bad debts stood at £1,995,052 at 31 March 2015 (£1,973,057 at 31 March 2014). The provision is calculated by applying the aged debt analysis and applying percentages to agreed categories of debt.

Collateral – During the reporting period the Authority 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 31/03/15
	%	%	%	%
Under 12 Months	0	75	0.00	0.00
12 months and within 24 months	0	50	0.00	0.00
24 months and within 5 years	0	50	0.00	1.23
5 years and within 10 years	0	50	8.93	7.70
10 years and above	0	100	91.07	91.07

Included within liabilities with maturity in over 10 years are £101.8m of LOBOs (Lender Option Borrower Option) loans. The LOBOs have maturity dates between 2033 and 2068 but the Authority could be required to make early repayment at the lender's option.

The maturity analysis of financial liabilities is as follows:

	31 March 2014	31 March 2015
	£'000	£'000
Not later than one year	11,889	11,737
Between one and two years	11,981	10,404
Between two and five years	10,441	32,711
More than five years	481,391	450,222
<b>Total Principal and Interest</b>	<b>515,702</b>	<b>505,074</b>

The table below shows the same portfolio but analysed on the basis of repayment at the first possible call date:

	Lower Limit	Upper Limit	Actual 31/03/15
	%	%	%
Under 12 Months	0	75	31.11
12 months and within 24 months	0	50	25.44
24 months and within 5 years	0	50	7.39
5 years and within 10 years	0	50	7.70
10 years and above	0	100	28.35

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

#### Market risk

The Authority's borrowings and investments could be affected by changes in interest rates, prices or foreign exchange rates.

#### Interest rate risk

The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed 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 borrowings will fall (no impact on revenue balances)
- 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 (no impact on revenue balances)

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive

Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance, subject to influences from Government grants (i.e. HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. Current Authority policy is to not exceed a maximum of 40% of borrowings in variable rate loans. The Authority currently has no variable interest rate borrowing or investments. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. 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 Authority'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. The analysis will also advise if new borrowing is taken out whether it is fixed or variable.

At 31 March 2015 if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000s
Increase in interest payable on variable rate investments	546
Impact on Surplus or Deficit on the Provision of Services	546
<b>Share of overall impact credited to HRA</b>	

### Price Risk

The Authority does not generally invest in equity shares or marketable bonds but does have HM Treasury Stock to the value of £4,334 (2013/14 £4,241). The Authority has some exposure to losses arising from movements in the prices of the HM Treasury Stock.

The Stocks are classified as 'available for sale' meaning that movements in price will impact on gains and losses in Other Comprehensive Income and Expenditure for 2014/15.

### Foreign Exchange Risk

The Authority has cash denominated in Euro currency so is exposed to exchange rate risk and potential loss of value on the cash held. The balances held in Euro currency are kept to a minimum.

### 37. Heritage Assets: Summary of Transactions

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
<b>Cost of Acquisitions of heritage assets</b>					
Buildings	0	67	0	258	61
Furniture	0	0	0	0	0
Silver / Gold Collections	0	0	0	0	0
Art Collection	0	0	0	0	0
Other	0	0	0	0	0
<b>Total cost of purchases</b>	<b>0</b>	<b>67</b>	<b>0</b>	<b>258</b>	<b>61</b>
Value of heritage assets acquired by donation	0	0	0	0	0
Disposals of heritage assets	0	0	0	0	0
Impairment recognised in the period					
Buildings	0	(413)	0	(792)	0
Furniture	0	0	0	0	0
Silver / Gold Collections	0	0	0	0	0
Art Collection	0	0	0	0	0
Other	0	0	0	(592)	0
<b>Total Impairments</b>	<b>0</b>	<b>(413)</b>	<b>0</b>	<b>(1,384)</b>	<b>0</b>

Due to the difficulty in obtaining information on purchases, donations, impairments and disposals for the two years prior to April 2010, it has been deemed impracticable to be able to present comparable data to that included in the table above.

### 38. Heritage Assets: Further Information on the buildings and collections

#### Policy on acquiring Heritage Assets for its Museum Service

Medway Council's policy is to continue to acquire objects for permanent collections in order to provide a full range of services and fulfil its responsibilities to both the residents of the area administered by Medway Council and the wider audience of visitors and researchers. The Authority has as part of its services an accredited museum which acts as a long-term guardian of collections that are in the public domain.

The Authority recognises its responsibility, in acquiring additions to the collections, to ensure the care of collections, documentation arrangements and use of collections will meet the requirements of the Accreditation Standard. It will take into account limitations on collecting imposed by such factors as inadequate staffing, storage facilities and care of collections arrangements and abide by a number of ethical codes.

It is estimated that approximately 35% of the museum's total collections are on permanent display. This is a much higher percentage than for most museums. The 'reserve' collection comprises a number of important themed collections that are already, and will in future, be actively used to underpin the museum's temporary exhibitions programme and educational work, as well as collections that are primarily of research interest to the public and the academic community. Some of these specialised academic collections are by their very nature not appropriate for public display but help to enhance the museum's reputation as a valuable resource for individuals and academic institutions conducting high-level research in the disciplines of geology, archaeology and natural history. Reserve archaeological collections are particularly well used by the academic community.

## Preservation of Heritage Assets

Medway Council is committed to securing higher grade storage facilities for its heritage assets. The upgraded storage facilities have been secured and were made available for use during the latter part of 2013 which means that the authority is in a position to house medium-size archaeological excavation archives in environmental conditions that meet the national standard. Medway Council recognises that the long-term storage of archaeological site archives is a County-wide problem on a massive scale that may require a County-wide solution (including the possible creation of a centralised staffed storage facility to house archaeological site archives from the historic county of Kent).

If substantial groups of archaeological objects are found in future years within the geographical area administered by Medway Council (particularly as a result of regeneration and re-development projects), alternative storage arrangements that meet the national Accreditation standard will need to be sourced and funded by the Authority or its developers.

## Management of Heritage Assets

Medway Council holds/intends to acquire archives, including photographs and printed ephemera, and will be guided by the Code of Practice on Archives for Museums and Galleries in the United Kingdom (3rd ed., 2002) in terms of managing such items.

## Disposals of Heritage Assets

Medway Council will ensure that the disposal process is carried out openly and with transparency.

By definition, heritage assets have a long-term purpose and the authority holds collections in trust for society in relation to its stated objectives. Medway Council therefore accepts the principle that sound curatorial reasons for disposal must be established before consideration is given to the disposal of any items in the museum's collection.

The authority will confirm that it is legally free to dispose of an item and agreements on disposal made with donors will be taken into account.

When disposal of a heritage asset is being considered, the authority will establish if it was acquired with the aid of an external funding organisation. In such cases, any conditions attached to the original grant will be followed. This may include repayment of the original grant and a proportion of the proceeds if the item is disposed of by sale.

### 39. Non-adjusting event post reporting period

On 8 July 2015 the UK chancellor announced a number of proposals that will impact on housing authorities including a change to the convergent rents formula that will be replaced with a formula that requires a 1% decrease in rents each year, for four years, commencing from 1 April 2016. This event occurred after the balance sheet date and does not provide additional information about, nor represent a change in, conditions that existed at that date. Therefore, in accordance with International Accounting Standard 10 “Events after the reporting period”, the Government’s budget statement is a non-adjusting post balance sheet event.

The financial statements do not reflect the possible financial consequences of the matters described below.

As per accounting policy 20, the Authority carries its social housing properties at valuation. This valuation is determined as the Existing Use Value – Social Housing (EUV-SH). EUV-SH takes into account that the Authority has committed to use the housing assets for social housing purposes and so represents a lower value than would be applied to comparable housing in the private sector. Overall it is expected that Government’s intentions will lead to a revaluation loss to be recognised in the 2015/16 financial statements, however, until further details of the intentions are made available the Authority has been unable to determine the specific details of the financial impact.

### 40. Interests in Companies and Other Entities

Local Authorities must consider all their interests in entities and prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. Before group accounts can be produced the following actions need to be carried out:

- Determine whether the Authority has any form of interest in an entity
- Assess the nature of the relationship between the Authority and the entity
- Determine the grounds of materiality whether group accounts should be prepared

Having considered the accounting requirements and the Authority’s involvement with all companies and organisations, Group Accounts have not been prepared.

#### Medway Norse Limited

In 2013/14 the Authority entered into an arrangement with Norse Commercial Services Limited (NCS) for the provision of a package of services including Corporate Cleaning, Building Maintenance, Security Services, Window Cleaning, Printing Services and Catering. A new company, Medway Norse Ltd, was formed to deliver this service.

The Board of Medway Norse Ltd. Consists of five directors. Three directors are appointed by Medway Council.

The Authority owns 20% of the share capital of Medway Norse. Under a Service Agreement Medway Council receives a discount on the cost of services supplied to the Authority equal to 100% of the operating profit of the Company in its first financial year and 50% in each subsequent year.

Medway Norse Ltd commenced trading on 1 June 2013 but did not become fully operational at its current level until August 2013. As the company was within its first 12 months of trading the value of transactions was not considered to be material in Medway Council’s accounts for

2013/14. Medway Norse's first complete financial year ran from 2 February 2014 to 1 February 2015.

Under IFRS 11 the relationship between Medway Council and Medway Norse Ltd is a joint venture. We have, therefore, included under cost of services, the costs charged by Medway Norse net of rebate in the Income and Expenditure Account and have included the investment at cost plus post acquisition reserves in the Balance Sheet.

### Medway Norse Transport

In 2013/14 the Authority entered into an arrangement with Commercial Services for the provision of transport services. A new company, Medway Norse Transport, was formed to deliver this service. The Authority's relationship with Medway Norse Transport is identical to that with Medway Norse Ltd.

Medway Norse Transport commenced trading on 1 April 2014 and its financial year runs through to 1 February 2015, therefore the financial statements of the Company only represent ten months of the Company being fully operational.

Under IFRS 11 the relationship between Medway Council and Medway Norse Transport is a joint venture. We have, therefore, included under cost of services, the costs charged by Medway Norse Transport net of rebate in the Income and Expenditure Account and have included the investment at cost plus post acquisition reserves in the Balance Sheet.



## H. Supplementary Financial Statements

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## The Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic rates. In its capacity as billing authority Medway Council acts as an agent for the other major precepting authorities (Police and Fire) and Central Government as it collects and distributes council tax and business rates on their behalf.

The Authority has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The Purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and Non-Domestic Rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year. For Medway, the Council Tax precepting bodies are The Police and Crime Commissioner for Kent and The Kent Fire and Rescue Service.

The scheme allows the Authority to retain a proportion of the total NDR received. The Medway share is 49% with the remainder paid to precepting bodies. For Medway precepting bodies this is Central Government 50%, Kent Fire and Rescue Service 1%

NDR surpluses or deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

The national code of practice followed by Local Authorities in England stipulates that a Collection Fund Income and Expenditure is included in the Authority's accounts. The Collection Fund Balance Sheet is incorporated into the Authority's Consolidated Balance Sheet.

Year Ended 31 March 2014		Notes	Year Ended 31 March 2015		
			Business Rates	Council Tax	Total
			£'000	£'000	£'000
<b>Total</b>					
<b>£'000</b>			<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	<b>Amounts required by statute to be credited to the Collection Fund</b>				
(106,933)	- Council Tax	1		(110,758)	(110,758)
(87,779)	- Non-Domestic Rates	2	(86,633)		(86,633)
<b>(194,712)</b>	<b>Total Amount required by statute to be credited to the Collection Fund</b>		<b>(86,633)</b>	<b>(110,758)</b>	<b>(197,391)</b>
	<b>Amounts required by statute to be debited to the Collection Fund</b>				
	<u>Precepts and demands from major preceptors and the Authority</u>				
127,748	- Medway Council		42,133	91,632	133,765
10,852	- Police and Crime Commissioner for Kent (PCK)			11,312	11,312
6,026	- Kent Fire and Rescue Service (KFRS)		860	5,434	6,294
	Payment with respect to central share (including allowable deductions) of the non-domestic rating income to be paid to central government by billing authorities				
	<u>Business rates:</u>				
40,648	- Payment to Central Government		42,992		42,992
293	- Costs of collection		289		289
	- Transitional protection		103		103
	<u>Impairment of debts/appeals</u>				
1,705	- Write-offs of uncollectable amounts	3	0		0
135	- Allowance for impairment		715	886	1,601
9,236	- Increase/Decrease in Provision for appeals		6,951		6,951
	Transfer of Collection Fund surplus/(deficit)		1,096	1,000	2,096
<b>196,643</b>	<b>Total Amount required by statute to be debited to the Collection Fund</b>		<b>95,139</b>	<b>110,264</b>	<b>205,403</b>
<b>(133)</b>	<b>Opening fund balance</b>		<b>4,114</b>	<b>(2,316)</b>	<b>1,798</b>
<b>1,798</b>	<b>Closing Fund Balance</b>	<b>4</b>	<b>12,620</b>	<b>(2,810)</b>	<b>9,810</b>
<b>1,931</b>	<b>Movement on fund balance</b>		<b>8,506</b>	<b>(494)</b>	<b>8,012</b>
	<b>Allocation of Closing Deficit/(Surplus)</b>				
60	- Medway Council		6,184	(2,438)	3,746
(244)	- Police and Crime Commissioner for Kent		0	(251)	(251)
(75)	- Kent Fire and Rescue Service		126	(121)	5
2,057	- Central Government		6,310	0	6,310
<b>1,798</b>			<b>12,620</b>	<b>(2,810)</b>	<b>9,810</b>

## Notes to the Collection Fund Account

### 1. Council Tax

Council Tax derives from charges raised according to the value of residual properties, which have been classified in 9 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and major preceptors for the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

The Council Tax Base for 2014/15 was 78,406.79 (76,712.35 in 2013/14). The tax base for 2014/5 was approved by the Portfolio Holder for Finance on 27 January 2014 and was calculated as follows:

Band	Chargeable Dwellings	Ratio 9ths	Band D Equivalent Gross	Exemptions & Discounts	Band D Equivalent Net
A	11,179	6	7,453	1,358	6,094.39
B	37,859	7	29,446	3,444	26,002.16
C	32,995	8	29,329	2,530	26,798.76
D	16,987	9	16,987	1,202	15,785.20
E	8,450	11	10,328	650	9,677.93
F	3,550	13	5,128	216	4,912.19
G	1,336	15	2,227	112	2,114.17
H	63	18	126	50	76.30
<b>Total</b>	<b>112,419</b>		<b>101,024</b>	<b>9,562</b>	<b>91,461.10</b>
Council Tax Support					(11,478.57)
Sub Total					79,982.53
Allowance for Non Collection (2.4%)					(1,919.57)
Sub Total					78,062.96
Crown Contribution					343.83
<b>Tax Base for the Calculation of Council Tax 2014/15</b>					<b>78,406.79</b>
<b>Tax Base for the Calculation of Council Tax 2013/14</b>					<b>76,712.35</b>

### 2. Income from Business Rates

The Council collects Non-Domestic Rates for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government. In previous financial years the total amount due, less certain allowances, was paid to a central pool administered by Central Government, which, in turn, paid to Local Authorities their share of the pool, such shares being based on a standard amount per head of the local adult population.

In 2013/14, the administration of NDR changed following the introduction of a business rates retention scheme which aims to give authorities a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectable rates due. In the

case of Medway the local share is 49%, Central Government 50% and Kent Fire and Rescue service 1%.

The business rates shares payable for 2014/15 were estimated before the start of the financial year as £43m to Central Government, £0.9m to KFRS and £42.1m to Medway Council. These sums have been paid in 2014/15 and charged to the Collection Fund in that year.

The total income from business rate payers collected in 2014/15 was £86.5m (£87.8m 2013/14)

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and hence business rates outstanding as at 31 March 2015. As such, authorities are required to make provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. The total provision charged to the Collection Fund for 2014/15 has been calculated at £7.0m.

For 2014/15, the total non-domestic rateable value at the year-end is £217.3m (£222.9m in 2013/14). The national multipliers for 2014/15 were 47.1p for qualifying Small Business, and the standard multiplier being 48.2p for all other businesses (46.2p and 47.1p respectively in 2013/14).

### 3. Council Tax/NDR Bad Debt Provision and NDR provision for valuation appeals

The Collection Fund account provides for bad debts on arrears of Council Tax on the basis of prior years' experience and current years collection rates.

2013/14 £000s			2014/15 £000s	
Collection Fund	Medway Share		Collection Fund	Medway Share
2,454	2,071	Balance at 1 April	2,482	2,095
(744)	(629)	Write-offs during year	(688)	(582)
772	653	Contributions to provisions during year	886	742
<b>28</b>	<b>24</b>	<b>Net Increase/decrease in Provisions</b>	<b>198</b>	<b>160</b>
<b>2,482</b>	<b>2,095</b>	<b>Balance at 31 March</b>	<b>2,680</b>	<b>2,255</b>

The Collection Fund account also provides for bad debts on Non-domestic rates arrears.

2013/14 £000s			2014/15 £000s	
Collection Fund	Medway Share		Collection Fund	Medway Share
2,426	1,189	Balance at 1 April	2,533	1,241
(961)	(471)	Write-offs during year	(1,067)	(522)
1,068	523	Contributions to provisions during year	715	350
<b>107</b>	<b>52</b>	<b>Net Increase/decrease in Provisions</b>	<b>(352)</b>	<b>(172)</b>
<b>2,533</b>	<b>1,241</b>	<b>Balance at 31 March</b>	<b>2,181</b>	<b>1,069</b>

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2015. This is the second year of the provision.

2013/14 £000s			2014/15 £000s	
Collection Fund	Medway Share		Collection Fund	Medway Share
0	0	Balance at 1 April	9,236	4,526
9,236	4,526	Contributions to provisions during year	6,951	3,406
<b>9,236</b>	<b>4,526</b>	<b>Net Increase/decrease in Provisions</b>	<b>6,951</b>	<b>3,406</b>
<b>9,236</b>	<b>4,526</b>	<b>Balance at 31 March</b>	<b>16,187</b>	<b>7,932</b>

#### 4. Surplus/Deficit

For 2014/5 the Collection Fund incorporates both Council Tax and Non Domestic Rates, overall the Collection Fund shows a deficit of £9.8m (2013/14 deficit of £1.8m) apportioned as follows:

Medway Council deficit £3.8m (2013/14 deficit £60k), The Police and Crime Commissioner for Kent surplus £251k (2013/14 surplus £244k), Kent and Medway Fire and Rescue Authority deficit £5k (2013/14 surplus £75k) and Central Government deficit of £6.3m (2013/14 deficit £2.1m). The makeup of these surpluses and deficits are shown in the table below.

	Total Collection Fund £'000	Medway Council £'000	Police and Crime Commissioner for Kent £'000	KFRS £'000	Central Government £'000
NDR Collection Fund (Surplus)/deficit	12,620	6,184	0	126	6,310
Council Tax	(2,810)	(2,438)	(251)	(121)	0
<b>Total</b>	<b>9,810</b>	<b>3,746</b>	<b>(251)</b>	<b>5</b>	<b>6,310</b>

## Housing Revenue Account

### Explanatory Foreword

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to the authority's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently, the HRA is a statutory account, ring fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa).

The ring fence is controlled by Schedule 4 to the Local Government and Housing Act 1989, which specifies the debits and credits to be made to the HRA and excludes any other postings. The Schedule has been supplemented by an Item 8 determination issued for 2012-2013 and subsequent years.

Authorities are required by section 74(1) of the 1989 Act to keep the HRA in accordance with proper practices. Proper practices are defined in section 21(2) of the Local Government Act 2003 as those accounting practices which:

- the authority is required to follow by virtue of any enactment (statutory proper practices) – the principal statutory proper practices are determined by the 1989 Act, the 1993 Act, the Audit Commission Act 1998, the Accounts and Audit (England) Regulations 2011, the HRA (Accounting Practices) Directions 2011 and the Item 8 Determination
- are contained in a code of practice which is identified for this purpose by regulations made by the Secretary of State (non-statutory proper practices) – the most relevant to the HRA are the Code and SeRCOP.

Section 21(3) of the 2003 Act also requires that, in the event of any conflict between statutory and non-statutory practices, only those defined by statute are to be regarded as proper practices. This is particularly important in the context of capital charges and receipts, where calculation of the amounts to be credited or debited to the HRA is determined by the Secretary of State. However, problems can also arise with apparently less complex transactions such as the recharging of support services and administrative expenses.

Paralleling the treatment for the council's wider operations, the transactions relating to the HRA have been separated into two statements:

- the HRA Income and Expenditure Statement
- the Movement on the HRA Statement

## HRA Income and Expenditure Statement

This Statement analyses in more detail the income and expenditure on HRA services included in the whole Authority Surplus or Deficit on the Provision of Services. It shows that the Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Authority charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2013/14 £'000		Notes	2014/15 £'000
	<b>Expenditure</b>		
2,640	Repairs & maintenance		2,558
3,915	Supervision and management		3,868
163	Rents, rates, taxes and other charges		184
97	Rent Rebate Subsidy Limitation	8	0
(1,775)	Depreciation and impairment of non-current assets	4,11	386
63	Debt management costs		75
92	Movement in the allowance for bad debts	9	71
<b>5,195</b>	<b>Total Expenditure</b>		<b>7,140</b>
	Income		
(12,639)	Dwelling rents		12,818
(183)	Non-dwelling rents		152
(1,227)	Charges for services and facilities		1,283
(52)	Contributions towards expenditure		35
(7)	Reimbursement of Costs		13
<b>(14,108)</b>	<b>Total Income</b>		<b>14,300</b>
<b>(8,912)</b>	<b>Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>		<b>(7,160)</b>
98	HRA services share of Corporate and Democratic Core		99
(105)	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services		(59)
<b>(8,919)</b>	<b>Net Expenditure/(Income) for Housing Revenue Account Services</b>		<b>(7,121)</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</b>		
905	(Gain) or loss on sale of HRA non-current assets		(458)
2,477	Interest payable and similar charges	*1	2,472
(26)	Interest and investment income		(24)
160	Net interest on the net defined benefit liability (asset)		161
<b>(5,402)</b>	<b>Deficit/(Surplus) for the year on Housing Revenue Account Services</b>		<b>(4,970)</b>

\*1 - As a result of the withdrawal of HRA subsidy and the introduction of self-financing, the HRA now makes a debt repayment and pays additional interest on the additional debt burden of £19.144m.



## Movement on the Housing Revenue Account Statement

This Statement shows the how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year end.

2013/14 £'000		2014/15 £'000
(4,346)	<b>Balance on the HRA at the end of the previous reporting period</b>	(1,969)
(5,402)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	(4,970)
5,776	Adjustments between accounting basis and funding basis under statute	4,698
374	<b>Net (increase) or decrease before transfers to or from reserves</b>	(271)
3	Transfers to or (from) Earmarked HRA reserves	6
2,000	Transfers to or (from) GF reserves	0
2,377	<b>(Increase) or decrease in year on the HRA</b>	(266)
(1,969)	<b>Balance on the HRA at the end of the current reporting period</b>	(2,235)

## Notes to the Housing Revenue Account

### 1. Adjustments between accounting basis and funding basis under statute

2013/14 £'000		2014/15 £'000
<b>ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:</b>		
(3,362)	Charges for depreciation and impairment of non-current assets	(3,516)
5,148	Revaluation losses on Property, Plant and Equipment	3,162
(1,628)	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	(700)
<b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:</b>		
723	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,158
<b>ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:</b>		
3,362	Reversal of Major Repairs Allowance credited to HRA	3,516
1,664	Contribution to capital expenditure from reserves	1,264
<b>ADJUSTMENTS PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT:</b>		
(12)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(12)
<b>ADJUSTMENTS PRIMARILY INVOLVING THE PENSIONS RESERVE:</b>		
(372)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(439)
258	Employer's pension contributions and direct payments to pensioners payable in the year	268
<b>ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:</b>		
(5)	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	(3)
5,776	<b>TOTAL ADJUSTMENTS</b>	4,698

## 2. Transfers to or from (earmarked) reserves

In 2014/15, £0.6m was transferred from New build reserves to fund 30% of 2014/15 new build construction costs. The following table shows an analysis of the amounts held in HRA earmarked reserves and the amounts set aside in year and the amounts posted back from earmarked reserves to meet expenditure in 2014/15:

	Balance 1 April 2013 £'000	Transfers in 2013/14 £'000	Transfers out 2013/14 £'000	Balance 31 March 2014 £'000	Transfers in 2014/15 £'000	Transfers out 2014/15 £'000	Balance 31 March 2015 £'000
<b>Housing Revenue Account</b>							
HRA IT Reserve	(37)	0	37	0	(6)	0	(6)
Major Repair Reserve	(286)	(5,872)	6,020	(138)	(7,604)	7,073	(669)
HRA Capital Receipt(1-4-1)	(64)	(204)	0	(268)	(486)	563	(190)
<b>Total</b>	<b>(386)</b>	<b>(6,076)</b>	<b>6,056</b>	<b>(407)</b>	<b>(8,095)</b>	<b>7,637</b>	<b>(865)</b>

## 3. Housing Revenue Account Stock

### a. Rentable Dwelling Stock

The Council managed 3,007 rentable dwellings as at 31 March 2015. The movement in stock is analysed as follows:

Stock Type	01 April 2014	Additions	Disposals	31 March 2015
Houses	1,296	9	(14)	1,291
Flats	1,258	0	(1)	1,257
Maisonettes	215	0	0	215
Bungalows	244	0	0	244
<b>Total</b>	<b>3,013</b>	<b>9</b>	<b>(15)</b>	<b>3,007</b>

### b. Non-Rentable Dwelling Stock

The Council owned the same 1 non rentable dwelling (a flat) as at 31 March 2015 as at 31 March 2014.

### c. Non-Dwelling Stock

The Council owned 878 non- dwellings as at 31 March 2015. The movement in stock is analysed as follows:

Stock Type	01 April 2014	Additions	Disposals	31 March 2015
Garages	582	15	(157)	440
Garages with water	271	0	(88)	183
Carports	114	0	(32)	82
Carspaces	76	71	0	147
Underground carspaces	30	0	(4)	26
Other spaces	0	0	0	0
<b>Total</b>	<b>1,073</b>	<b>86</b>	<b>(281)</b>	<b>878</b>

#### 4. HRA Non-Current 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 estimated market value at 31 March 2015 was £325.3m (31 March 2014 £324.8m). The 'discounted' existing use value reflects the economic cost to government of providing council housing at less than market rents.

	Dwellings £'000	Other Land and Buildings £'000	Total £'000
Cost or Valuation 1 April 2014	106,418	4,584	111,002
Additions	5,437	185	5,622
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(145)	(414)	(559)
Derecognition – disposals	(684)	(37)	(720)
Other movements in cost or valuation	1,198	(821)	377
<b>As at 31 March 2015</b>	<b>112,224</b>	<b>3,497</b>	<b>115,720</b>
Depreciation as at 1 April 2014	0	(195)	(195)
Depreciation charge	(3,216)	(300)	(3,516)
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,252	438	3,690
Derecognition – disposals	18	3	21
Other movements in depreciation and impairment	(54)	54	0
<b>As at 31 March 2015</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>
<b>Net Book Value</b>			
As at 31 March 2014	106,418	4,389	110,807
As at 31 March 2015	112,224	3,496	115,720

The impairments shown in the table above relate to various garage sites and have been calculated due to poor condition of various garages/sites which means that they are no longer available for the use they were originally built for. Therefore, the value assigned to these particular units relates to a land value only. The change in use has resulted in impairment in their value.

#### 5. Major Repairs Reserve

The Major Repairs Reserve is the account that can be used to fund capital works and repay debt. The Major Repairs Reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account for Major Repairs Allowance, Impairment on Non Dwellings and debt repayment as well as the Prudential Borrowing and the retained earmarked 1-4-1 Capital Receipts under Right To Buy sales of HRA properties for the New Housing Build Programme. 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 is as follows:

	2013/14	2014/15
	£'000	£'000
<b>Major Repairs Reserve</b>		
<b>Opening Balance</b>	<b>(286)</b>	<b>(138)</b>
HRA Depreciation from Capital Adjustment Account	(3,362)	(3,516)
Specific Revenue Contributions towards Capital Expenditure	(40)	0
Transfer from Reserves	(1,664)	(1,264)
Transfer from 1-4-1 Capital Receipts Reserves	0	(563)
Borrowing	0	(1,471)
Financing of HRA Capital Expenditure	5,214	6,283
Debt Repayment from the HRA	(806)	(790)
Debt Repayment from the Capital Adjustment Account	806	790
<b>Closing Balance</b>	<b>(138)</b>	<b>(669)</b>

## 6. Analysis of HRA Capital Expenditure and Funding

	2013/14	2014/15
	£'000	£'000
<b>Operational Assets</b>		
Dwellings	4,969	5,437
Other Land and Buildings	245	185
Asset under Construction	0	661
<b>Total</b>	<b>5,214</b>	<b>6,283</b>
<b>Funded by:</b>		
Major Repairs Reserve	(5,214)	(6,283)
<b>Total Funding</b>	<b>(5,214)</b>	<b>(6,283)</b>

## 7. Summary of HRA Capital Receipts

	2013/14	2014/15
	£'000	£'000
Receipts from the sale of land	(12)	(20)
Repayment of discount	(16)	0
Receipts from disposals of houses through the Right To Buy scheme	(697)	(1,144)
<b>Total Capital Receipts</b>	<b>(725)</b>	<b>(1,164)</b>

## 8. Rent Rebate Subsidy Limitation

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 pre-set 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 2014/15 this amounted to NIL (£97,209 in 2013/14).

## 9. Tenants' Arrears

Tenants' Arrears at 6 April were analysed as follows:

Type of Debt	2013/14 £'000	2014/15 £'000
General Stock	254	236
Garages	1	1
Former Tenancies – General Stock	332	307
Former Tenancies - Garages	1	1
Housing Benefit Overpayments – General Stock	28	0
Court Costs – General Stock	26	31
Former Tenancy Arrears of Current Tenants – General	49	52
Rechargeable Repairs	71	74
<b>Total Arrears</b>	<b>762</b>	<b>702</b>
<b>Percentage of Gross Rents (HRA)</b>	<b>6.00%</b>	<b>5.45%</b>

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

	2013/14 £'000	2014/15 £'000
Opening Balance	563	596
Additional Provision made during year	92	71
Add Credit write-offs	3	4
Less amounts written off	(61)	(89)
<b>Closing Balance</b>	<b>597</b>	<b>582</b>

## 10. HRA Share of Contributions to the Pensions Reserve

In accordance with IAS 19 the HRA Income and Expenditure Statement includes £0.2m (£0.1m in 2013/14), for its share of the contribution from the Pensions Reserve. The costs calculated by the pensions' actuary include current service cost, interest on pension liability, and expected return on assets. The HRA share is calculated by apportioning costs based on employers contributions charged to the HRA for the year. In accordance with proper accounting practice, the contribution is then removed by crediting the Movement on the Housing Revenue Account Statement to ensure the HRA is only charged with pension fund contributions payable for the year.

## 11. Depreciation and Amortisation Charges

The HRA is charged with depreciation to reflect the consumption of HRA assets over their useful life. The method of calculation of depreciation relating to council dwellings is based on straight line depreciation, consistent with the other classes of non-current assets held by the authority.

In 2014/15 the depreciation charged on HRA assets was £3.5m (£3.4m in 2013/14). The charge for depreciation of £3.2m relating to the housing stock is funded from the Major Repairs Allowance. The charge of £0.3m relating to other non-current assets is appropriated from the Major Repairs Reserve to the HRA. The following table shows the depreciation charged on HRA assets:

	2013/14 £'000	2014/15 £'000
<b>Property, Plant and Equipment</b>		
Council Dwellings	3,062	3,216
Other Land and Buildings	300	300
<b>Total Depreciation and Amortisation</b>	<b>3,362</b>	<b>3,516</b>

## 12. Item 8 Credit and Item 8 Debit (General) Determination

The capital asset charges accounting adjustment, calculated in accordance with the Item 8 credit and Item 8 debit (general) determination for 2014/15 was £2.8m (2013/14 was £0.7m).

The following table shows the breakdown of this adjustment:

Type of Debt	2013/14 £'000	2014/15 £'000
<b>Capital Asset Charges</b>		
Revaluation and Impairment (Gain) / Losses	(5,148)	(3,162)
Depreciation Charge in Respect of Council Dwellings	3,062	3,216
Other Depreciation Charges	300	300
Debt repayment	806	790
<b>Total Capital Asset Charges</b>	<b>(981)</b>	<b>1,144</b>
Actual Interest Charged on HRA Debt	1,670	1,681
<b>Capital Asset Charges Accounting Adjustment</b>	<b>690</b>	<b>2,825</b>

## 13. Gross Rent Debit

The rent income figure is net of voids. The level of voids in 2014/15 was on average equal to 0.43% (0.56% in 2013/14). The level of rebates provided in 2014/15 was £8.9m (2013/14: £8.8m), which amounted to 65.48% of rent and HB related service charges collectable (2013/14: 66.36%).

## **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.

## **ACTUARIAL GAINS & LOSSES**

These are changes in the actuary's assessment of the value of future pension fund requirement. Changes result from actual events not matching previous actuarial assumptions or from a change in assumptions on which the valuation is based.

## **AGENCY**

The provision of services by one local authority, on behalf of and reimbursed by the responsible local authority or central government.

## **APPOINTED AUDITORS**

The Audit Commission appoints external auditors to each local authority, from one of the firms of registered auditors. The Audit Commission ceased on 31 March 2015 and in its place there will be a new framework for local public audit, due to start after the Commission's current contracts with audit suppliers end in 2016/17, or potentially in 2019/20 if all the contracts are extended.

## **ASSET**

An item having a value, measurable in monetary terms. Assets can be defined as current or non-current. A current asset can be readily converted into cash (for example stocks or a short term debtor). A long-term asset is expected to yield economic benefits to the authority for more than one year (for example a building or a long-term investment).

## **AUDIT OF ACCOUNTS**

An independent examination of the Authority's financial affairs.

## **AUTHORISED LIMIT**

The maximum amount of external debt the Authority can owe to external lenders under the Local Government Act 2003

## **BUDGET**

The spending plans of the Authority over a specific period of time – generally the financial year, 1 April to 31 March.

## **CAPITAL ADJUSTMENT ACCOUNT**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions.

## **CAPITAL EXPENDITURE**

Expenditure to acquire or enhance long-term assets.

## **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.

**CAPITAL PROGRAMME**

The capital schemes the Authority intends to carry out over a specified period of time.

**CAPITAL RECEIPT**

The proceeds from the disposal of land or other long-term assets.

**CHARTERED INSTITUTE OF PUBLIC FINANCE & ACCOUNTANCY (CIPFA)**

The professional accountancy body specialising in the public sector.

**CORPORATE AND DEMOCRATIC CORE**

Incorporates:

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 for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR).

**COMMUNITY ASSETS**

Assets that the Authority 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.

**CREDITOR**

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

**CURRENT SERVICE COST**

The increase in the present value of a defined benefit pension scheme's liability expected to arise from employee service in the current year. It is the pension benefit earned by employees in the current year.

**DEBTOR**

Amounts due to the Authority 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.

**DEFINED BENEFIT SCHEME**

A pension scheme under which members pension benefits are calculated independently of contributions payable.



**DEFINED CONTRIBUTION SCHEME**

A pension scheme under which contributions into the scheme are set but the pension benefits payable are related to the performance of investments made by the fund.

**DEPRECIATION**

The loss in value of an asset, in the accounting period, due to age, wear and tear, deterioration or obsolescence.

**DERECOGNITION**

This is the process of removing financial assets or liabilities from the Balance Sheet once performance under the contract is complete or the contract is terminated.

**DISCOUNTS**

Discounts represent the outstanding discount received on the premature repayment of Public Works Loan Board loans. In line with the requirements of the Code, gains arising from the repurchase or early settlement of borrowing have been written back to revenue. However, where the repurchase or borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains have been recognised over the life of the replacement loan.

**EARMARKED RESERVES**

These are reserves held to meet specific, known or predicted future expenditure.

**EXCEPTIONAL ITEMS**

Significant items of income or expenditure on ordinary activities of the Authority but which due to their size or incidence are disclosed separately to give a fair presentation of the accounts.

**EXTERNAL AUDIT**

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

**EMPLOYEE EXPENDITURE**

The salaries and wages of employees together with national insurance, superannuation and all other pay-related allowances. Training expenses and professional fees are also included.

**EXPENDITURE**

This is amounts paid by the Authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for.

**FAIR VALUE**

The price at which an asset could be exchanged in an arms length transaction, less any grants receivable towards the purchase or use of the asset.

**FINANCIAL INSTRUMENTS**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex such as derivatives and embedded derivatives.

**FINANCE LEASE**

A lease that transfers substantially all the risks and rewards of ownership of a fixed asset to the lessee.

**FIRST-IN, FIRST-OUT**

First-In, First-Out is a method commonly used to calculate the value of inventory on hand at the end of an accounting period and the cost of goods sold during the period. This method assumes that inventory purchased or manufactured first is sold first and newer inventory remains unsold. Thus cost of older inventory is assigned to cost of goods sold and that of newer inventory is assigned to ending inventory.

**GENERAL FUND**

The main revenue fund of the Authority including all services financed by local taxation and government grants.

**GOVERNMENT GRANTS**

Grants made by the government towards either revenue or capital expenditure to support the cost of the provision of local Authority's services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Authority (Revenue Support Grant).

**GROUP ACCOUNTS**

Group Accounts consolidate the financial results of the Authority, any of its subsidiaries and/or associates. The Authority is not required to produce this for the 2014/15 Statement of Accounts, due to materiality.

**HERITAGE ASSET**

A tangible asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**HOUSING BENEFITS**

This is an allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Authority's own tenants are known as rent rebate and that paid to private tenants as rent allowance.

**HOUSING REVENUE ACCOUNT (HRA)**

Local Authorities are required to maintain a separate account - the Housing Revenue Account - which sets out the expenditure and income arising from the provision of Council housing. Other services are charged to the General Fund.

**IMPAIRMENT**

A reduction in the value of a non-current asset below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a non-current asset's market value and evidence of obsolescence or physical damage to the asset.

**INCOME**

These are amounts due to the Authority for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment. Income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the Authority).

## **INFRASTRUCTURE ASSETS**

Non-current assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges and water and drainage facilities.

## **INTANGIBLE ASSETS**

These are non-current assets that do not have physical substance but are identifiable and controlled by the Authority. Examples include software, licenses and patents.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

## **INVENTORIES**

Amounts of unused or unconsumed stocks held in expectation of future use. Inventories are comprised of the following categories:

- Goods or other assets purchased for resale
- Consumable stores
- Raw materials and components
- Products and services in intermediate stages of completion
- Finished goods

## **JOINT VENTURE**

This is an entity in which the reporting Authority has an interest on a longer term basis and is jointly controlled by the reporting Authority and one or more other entities under a contractual or other binding arrangement.

## **LEASING COSTS**

This is rental paid for the use of an asset for a specific period of time. Two forms of lease exist: finance leases and operating leases.

## **LENDER OPTION BORROWER OPTION (LOBO)**

A LOBO is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

## **LIABILITIES**

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

## **LONG TERM DEBTORS**

Amounts due to Medway Council where payment is to be made over a time period of time in excess of one year.

## **MATERIALITY**

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

## **MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

A financial planning document setting out future years financial forecasts for the Authority. It considers local and national policy influences and their impact on the general fund revenue budget, capital programme and HRA. In Medway it usually covers a four year timeframe.

**MINIMUM REVENUE PROVISION (MRP)**

MRP is the minimum amount which must be charged to an Authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing Act 1989.

**NON-CURRENT ASSETS**

Assets that yield benefits to the Authority and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**NATIONAL NON-DOMESTIC RATE (NNDR or BUSINESS RATES)**

NNDR is the levy on business property, based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines a national rate poundage each year which is applicable to all Local Authorities. The income derived from business rates is distributed between preceptors (Medway, Kent Fire and Rescue Service and Central Government) based upon a pre-determined allocation percentage.

**NET BOOK VALUE (NBV)**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**NET DEBT**

Net debt is the Authority's borrowings less cash and liquid resources.

**NET OPERATING EXPENDITURE**

This compares all expenditure minus all income, other than the precept and transfers from reserves.

**NON-OPERATIONAL ASSETS**

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

**NET REALISABLE VALUE (NRV)**

NRV is the open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

**OPERATING LEASE**

This is a type of lease, usually of computer equipment, office equipment, furniture, etc. where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Authority.

**OPERATIONAL ASSETS**

Non-current assets held by the Authority and directly occupied or used in the delivery of its services.

**PRECEPT**

The amount levied by various Authorities that is collected by the Authority on their behalf. The precepting Authorities in Medway are the Police and Crime Commissioner for Kent (PCCK) and the Kent Fire and Rescue Service (KFRS)

**PREMIUMS**

These are discounts that have arisen following the early redemption of long term debt, which are written down over the lifetime of replacement loans where applicable.

## **PRIOR PERIOD ADJUSTMENTS**

These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

## **PROPERTY PLANT AND EQUIPMENT**

Assets that yield benefits to the Authority and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

## **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.

## **PUBLIC WORKS LOAN BOARD (PWLB)**

A central government agency that 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 that is used for Non Domestic Rate purposes.

## **RELATED PARTIES**

Related parties are Central Government, other Local Authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Assistant Director and above and the Pension Fund. For individuals identified as related parties, the following are also presumed to be related parties:-

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

## **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 Authority is either a member or senior officer of the Authority.

## **REPORTING STANDARDS**

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. The Code is based on International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Financial Reporting Standards (FRS) and Generally Accepted Accounting Practice (GAAP).

## **RESERVES**

Amounts set aside for general contingencies, to provide working balances or earmarked to specific future expenditure. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the revaluation reserve cannot be used to meet current expenditure.

## **REVALUATION RESERVE**

The Reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

## **REVENUE EXPENDITURE**

The day-to-day expenses of providing services.

**REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the Comprehensive Income and Expenditure Statement (CIES).

**REVENUE SUPPORT GRANT**

The main unringfenced grant from Central Government to the Authority to support revenue budgets.

**SERVICE REPORTING CODE OF PRACTICE (SeRCOP)**

Prepared and published by CIPFA, the Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP). It is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SeRCOP establishes proper practices with regard to consistent financial reporting for services and in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

**SUPPORTED CAPITAL EXPENDITURE (REVENUE)**

Central government support for local government capital expenditure includes Supported Capital Expenditure (Revenue). This enables local authorities to borrow or use other forms of credit to finance capital expenditure, with central government providing a revenue stream to support repayment of principal and interest. This is distinct from prudential borrowing where local authorities finance any additional borrowing from their own available resources.

**TREASURY MANAGEMENT**

The process of controlling the Authority's cash flow, borrowing and lending activities.

**TREASURY MANAGEMENT STRATEGY**

A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Authority.

**UNSUPPORTED (PRUDENTIAL) BORROWING**

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from revenue budgets.