

Audit Committee – Supplementary agenda

A meeting of the Audit Committee will be held on:

Date: 30 June 2016

Time: 7.00pm

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

Items

- 6. Treasury Management Outturn Annual Report (Pages 3 - 4)**

This addendum report identifies an error in the original report issued for the Audit Committee meeting on 30 June 2016.

- 11. Statement of Accounts 2015/2016 (Pages 5 - 16)**

This addendum report identifies two adjustments to the draft statement of accounts within the original report issued for the Audit Committee meeting on 30 June 2016.

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

Date: 29 June 2016



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

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

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AUDIT COMMITTEE

30 JUNE 2016

TREASURY MANAGEMENT OUTTURN ANNUAL REPORT 2015/16

ADDENDUM REPORT

Report from: Phil Watts, Chief Finance Officer

Report Author: Jonathan Lloyd

Summary

This addendum report identifies an error in the original report issued for the audit committee meeting on 30 June 2016.

1. Introduction

- 1.1 An error was made within the original submission of the report. This is a minor issue and fully resolved within this addendum to the report.

2. PWLB Graph

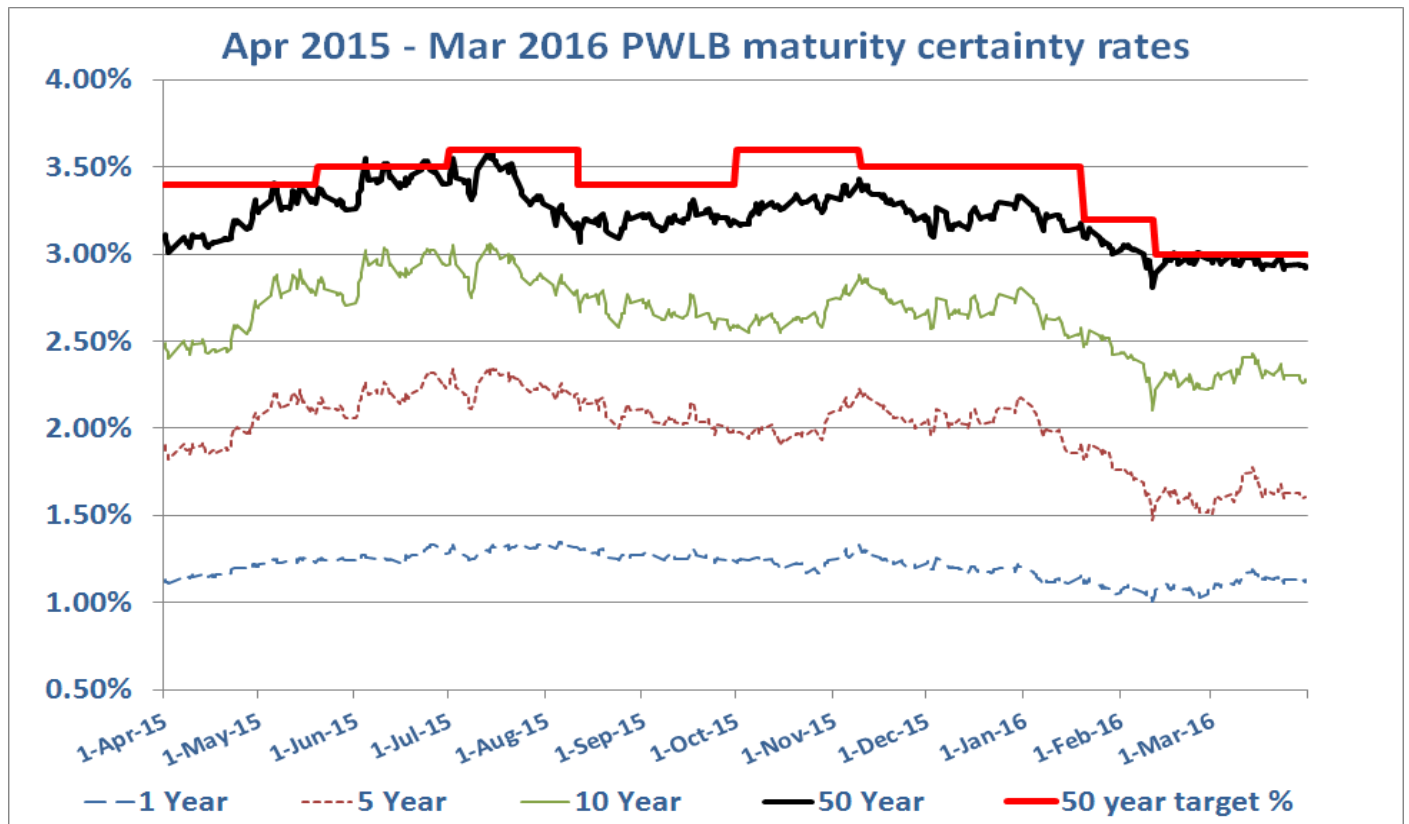
- 2.1 Within paragraph 7. the wrong graph was used regarding the PWLB borrowing rates. The report covers the financial year 2015/16 whereas a graph pertaining to the previous year was used. The message remains the same though; the rates have remained at historically very low levels during the year. See attached correct graph for 2015/16.

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7. Borrowing rates in 2015/16

7.1 PWLB borrowing rates - the graph below shows how PWLB rates remained at historically very low levels during the year.



AUDIT COMMITTEE
30 JUNE 2016
STATEMENT OF ACCOUNTS 2015/16
ADDENDUM REPORT

Report from: Phil Watts, Chief Finance Officer

Author: John Chance, Head of Finance Strategy

Summary

This addendum report identifies two adjustments to the draft statement of accounts within the original report issued for the audit committee meeting on 30 June 2016.

1. Introduction

1.1 There were 2 adjustments which need to be made to the draft statement of accounts issued with the original report. These changes are minor issues which have no bearing on the overall position reported within the draft statement of accounts but are worthy of correction before the external audit begins.

2. Details of adjustments made

2.1 An adjustment was made between 2 elements of the Rochester Riverside capital programme in order to report expenditure against the correct cost centres. There is no variance to the overall position but the adjustments have an impact on all the major statements, hence the number of pages of adjustments attached.

2.2 The second adjustment relates to the categorisation of balances between debtors and creditors

2.3 These adjustments are highlighted in yellow within the following pages where the original audit committee page numbering is identified in brackets. Explanatory notes are also given on each page.

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The following adjustments to the draft financial statements relate to a change in capital expenditure from one asset to another and some changes between short term creditors and short term debtors for the 2015/16 financial year. The changes to the figures previously distributed have been highlighted in yellow.

The following Statements and associated notes have been adjusted:

Adjustments to the Principal Financial Statements

Movement in Reserves Statement (MiRS) (committee agenda page 153)

Notes	General Fund Balance £000s	Earmarked General Fund Reserves £000s	Housing Revenue Account £000s	Earmarked Housing Revenue Account Reserves £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Unusable Reserves £000s	Total Authority Reserves £000s
Balance at 31 March 2015	5,000	34,551	2,235	6	2,014	669	16,082	60,557	256,480	317,037
Movement in reserves during 2015/16										
Surplus/(Deficit) on provision of services	(95,813)		22,563					(73,250)		(73,250)
Other Comprehensive Income and Expenditure								0	63,720	63,720
Total Comprehensive Income and Expenditure	(95,813)	0	22,563	0	0	0	0	(73,250)	63,720	(9,530)
Adjustments between accounting & funding basis under regulations	92,772		(21,981)		(1,489)	(669)	(6,742)	61,890	(61,890)	0
Net Increase/decrease before Transfers to Earmarked Reserves	(3,041)	0	581	0	(1,489)	(669)	(6,742)	(11,360)	1,830	(9,530)
Transfers to/from Earmarked Reserves	3,041	(3,041)			0	0	0	0	0	0
Increase/(Decrease) in 2015/16	0	(3,041)	581	0	(1,489)	(669)	(6,742)	(11,360)	1,830	(9,530)
Balance at 31 March 2016	5,000	31,509	2,816	6	525	(0)	9,340	49,196	258,310	307,506

The changes in this statement relate to additional expenditure charged through the Comprehensive Income and Expenditure Statement for the cost relating to the additional reduction in revaluation of the asset after adding the additional capital expenditure. This has also has an impact on the Capital Adjustment Account within Unusable Reserves.

Comprehensive Income and Expenditure Statement (CIES) (committee agenda page 154)

2014/2015			Service	Notes	2015/16		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
3,807	(1,642)	2,165	Central services to the public		3,819	(1,373)	2,446
27,426	(8,020)	19,406	Cultural and related services		29,214	(8,711)	20,503
36,587	(9,324)	27,262	Environmental & regulatory services		37,141	(14,781)	22,360
20,151	(8,285)	11,866	Planning services		21,723	(6,946)	14,777
247,786	(145,358)	102,427	Children's and education services		223,061	(146,238)	76,823
42,583	(11,901)	30,682	Highways and transport services		41,335	(11,539)	29,796
7,140	(14,301)	(7,160)	Local authority housing (HRA)		(10,054)	(14,701)	(24,755)
118,976	(110,055)	8,921	Other housing services		114,036	(107,041)	6,995
87,393	(21,112)	66,281	Adult social care		96,222	(31,894)	64,328
5,872	(1,723)	4,150	Corporate and democratic core		5,334	(1,825)	3,509
5,469	(6,003)	(534)	Non-distributed costs		31,117	(33,342)	(2,225)
11,828	(14,507)	(2,679)	Public Health		17,905	(20,166)	(2,261)
615,018	(352,230)	262,788	Cost of Services		610,853	(398,557)	212,296
38,358	0	38,358	Other operating expenditure	3	47,205	0	47,205
20,639	(4,456)	16,183	Financing and investment income and expenditure	4	20,345	(4,731)	15,614
0	(219,124)	(219,124)	Taxation and non-specific grant income	5	0	(201,865)	(201,865)
674,016	(575,810)	98,206	(Surplus) or Deficit on Provision of Services		678,403	(605,153)	73,250
Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services							
(21,102)			(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets	32			(32,170)
0			Impairment losses on non-current assets charged to the Revaluation Reserve				8,720
67,160			Re-measurement of net defined pension liability	33			(40,447)
46,058							(63,897)
Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services							
0			(Surplus)/Deficit on revaluation of available for sale financial assets	32			177
0							177
46,058			Other Comprehensive Income and Expenditure				(63,720)
144,264			Total Comprehensive Income and Expenditure				9,530

The variation in costs under Planning Services relates to the downward revaluation of the asset, after additional capital expenditure which, due to a lack of revaluation reserve, needed to be charged against that service.

Balance Sheet (committee agenda page 155)

31 March 2015 £'000	Balance Sheet Summary	Notes	31 March 2016 £'000
758,212	Property Plant and Equipment	15	733,860
15,380	Heritage Assets	17	15,850
6,450	Investment Property	20	6,819
1,175	Intangible Assets	19	1,264
0	Assets Held for Sale	21	0
19,737	Long Term Investments	22	22,556
155	Long Term Debtors	22	158
801,109	Long Term Assets		780,507
0	Short Term Investments	22	0
900	Assets Held for Sale	21	350
178	Inventories		116
43,894	Short Term Debtors	26	38,299
8,799	Cash and Cash Equivalents	27	0
53,772	Current Assets		38,765
0	Cash and Cash Equivalents	27	(1,250)
(1,277)	Short Term Borrowing	22	(9,271)
(43,711)	Short Term Creditors	28	(36,123)
(3,701)	Provisions	29	(3,826)
(48,690)	Current Liabilities		(50,470)
(38,695)	Long Term Creditors	22	(37,158)
(6,517)	Provisions	29	(4,888)
(164,729)	Long Term Borrowing	22	(171,526)
(271,642)	Other Long Term Liabilities	25,32	(240,283)
0	Grants Receipts in Advance - Revenue	13	0
(7,569)	Grants Receipts in Advance - Capital	13	(7,440)
(489,153)	Long Term Liabilities		(461,295)
317,037	Net Assets		307,507
60,557	Usable Reserves	31	49,196
256,480	Unusable Reserves	32	258,310
317,037	Total Reserves		307,507

The reduction in Property, Plant and Equipment relates to the removal of capital expenditure from the asset where it had been placed in error. The change in Unusable Reserves relates to the charge put through the Capital Adjustment Account relating to the downwards valuation of the asset to which the capital expenditure was moved to.

In addition, there have been some movements between short term creditors and debtors to ensure that correct categorisation is shown.

Cash Flow Statement (committee agenda page 156)

2014/15 £'000		2015/16 £'000
98,206	Net (Surplus) or deficit on the provision of services	73,250
(116,710)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements	(93,788)
28,666	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities	3,089
10,162	Net cash flows from Operating Activities (Note 34)	(17,450)
20,216	<u>Investing Activities (Note 35)</u>	33,569
1,272	<u>Financing Activities (Note 36)</u>	(6,070)
31,650	Net (increase) or decrease in cash and cash equivalents	10,049
40,449	Cash and cash equivalents at the beginning of the reporting period	8,799
8,799	Cash and cash equivalents at the end of the reporting period (Note 27)	(1,250)

The change in the net (surplus) or deficit on the provision of services comes directly from the revised Comprehensive Income and Expenditure Statement. As part of the removal of non-cash items, the revaluation of the asset receiving the additional capital expenditure has been adjusted.

Adjustments to the Notes Supporting the Movement in Reserves Statement

1. Adjustments between Accounting Basis and Funding Basis under Regulations (committee agenda page 162)

Adjustments for 2015/16	Usable Reserves				
	General Fund Balance	Housing Revenue Account Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£000s	£000s	£000s	£000s	£000s
ADJUSTMENTS TO THE REVENUE RESEOURCES					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to (or from) the Pensions Reserve)	9,268	152			
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(196)	12			
Council tax and NDR (transfers to or from Collection Fund)	816				
Holiday pay (transferred to the Accumulated Absences Reserve)	(108)	(2)			
Equal pay settlements (transferred to the Unequal Pay/Back Pay Account)					
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	91,507	(16,538)	0	0	(2,422)
Total Adjustments To Revenue Resources	101,286	(16,376)	0	0	(2,422)
ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES:					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,328)	(758)	3,086		
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)					
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	269		(269)		
Posting of HRA resources from revenue to the Major Repairs Reserve		(3,480)		3,480	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(4,424)				
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(2,030)	(1,368)			
Total Adjustments between Revenue and Capital Resources	(8,514)	(5,605)	2,817	3,480	0
ADJUSTMENTS TO CAPITAL RESEOURCES					
Use of the Capital Receipts Reserve to finance capital expenditure			(4,307)		
Use of the Major Repairs Reserve to finance capital expenditure				(4,150)	
Application of capital grants to finance capital expenditure					(4,319)
Cash payments in relation to deferred capital receipts					
Total Adjustments To Capital Resources	0	0	(4,307)	(4,150)	(4,319)
Total Adjustments 2015/16	92,772	(21,981)	(1,489)	(669)	(6,742)

The adjustment within the General Fund relates to the revaluation cost which although charged to services within the CIES, is reversed out of the MiRS through this note to ensure this accounting entry does not impact upon reserves and therefore Council Tax.

Adjustments to the Notes Supporting the Comprehensive Income and Expenditure Statement

6. Amounts Reported for Resource Allocation Decisions - Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement (committee agenda page 168)

	2014/15 £'000	2015/16 £'000
Net expenditure in Directorate analysis	362,630	347,897
Net expenditure of services and support services not included in the Analysis	(1,561)	(582)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(98,281)	(135,019)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(99,842)	(135,601)
Cost of Services in Comprehensive Income and Expenditure Statement	262,788	212,296

Reconciliation to Subjective Analysis (committee agenda page 169)

2015/16	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	(108,104)	(14,695)	(30)	28,450	(94,379)	(369)	(94,748)
Interest and investment income	(536)	(37)	412	0	(162)	(4,362)	(4,523)
Income from Council tax	0	0	0	0	0	(96,629)	(96,629)
Income from NNDR	0	0	0	0	0	(47,808)	(47,808)
Government grants and contributions	(139,891)	(5)	(135,671)	0	(275,567)	(57,427)	(332,994)
Total Income	(248,531)	(14,738)	(135,289)	28,450	(370,107)	(206,596)	(576,703)
Employee Expenses	148,573	1,580	1,418	0	151,571	8,619	160,190
Interest Expense	0	0	0	0	0	11,609	11,609
Other service expenses	381,011	8,512	8,273	0	397,797	86	397,883
Support service recharge	27,866	584	0	(28,450)	0	0	0
Depreciation, amortisation and revaluations	38,977	3,480	(10,051)	0	32,407	31	32,437
Precepts and levies	0	0	0	0	0	1,489	1,489
Payments to Housing Capital Receipts Pool	0	0	342	0	342	269	611
Gain or loss on disposal of fixed assets	0	0	0	0	0	45,447	45,447
Pension Adjustment	0	0	287	0	287	0	287
Total Expenditure	596,428	14,156	270	(28,450)	582,404	67,550	649,953
(Surplus)/Deficit on the provision of services	347,897	(582)	(135,019)	0	212,296	(139,046)	73,250

The changes detailed above show the cost of the increased downwards revaluation through the CIES.

Adjustments to the Notes Supporting the Balance Sheet

15. Property, Plant and Equipment (committee agenda page 180)

Movements on Balances 2015/16	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 2015	112,223	512,245	14,861	295,295	7,912	150	732	943,418
Additions	4,129	5,230	555	12,258	40	0	10,297	32,509
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	15,278	0	0	(16)	0	0	15,262
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	17,151	(18,410)	0	0	102	0	0	(1,157)
Derecognition – disposals	(443)	(53,203)	(644)	(1)	(30)	0	0	(54,320)
Derecognition - embedded leases			(477)					(477)
Transfers between asset categories	628	399	47	40	(262)	(150)	(702)	0
As at 31 March 2016	133,687	461,538	14,343	307,592	7,746	0	10,327	935,235
Accumulated Depreciation and Impairment								
As at 1 April 2015	0	(32,699)	(4,686)	(147,811)	(12)	0	0	(185,207)
Depreciation Charge (Excl. Embedded Leases)	(3,243)	(19,134)	(1,760)	(17,683)	0	0	0	(41,821)
Depreciation Charge (Embedded Leases)			(288)					(288)
Depreciation written out to the Revaluation Reserve	0	7,961	0	1	0	0	0	7,962
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,231	7,974	0	0	0	0	0	11,205
Impairment losses/(reversals) recognised recognised in the Surplus/Deficit on the Provision of Services	0	2	0	0	0	0	0	2
Derecognition – disposals	12	5,777	548	0	0	0	0	6,337
Derecognition - embedded leases			432					432
Transfers between asset categories	0	(0)	(1)	0	1	0	0	(0)
At 31 March 2016	0	(30,118)	(5,755)	(165,493)	(11)	0	0	(201,377)

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 2016	133,688	431,421	8,588	142,100	7,735	0	10,327	733,860
At 31 March 2015	112,223	479,546	10,175	147,484	7,901	150	732	758,210

The above changes within Property, Plant and Equipment detail the removal of capital expenditure from the asset held within Assets Under Construction to the Asset held within Other Land and Buildings. The Other adjustment within that category relates to the change in downwards valuation relating to the asset receiving the additional capital expenditure.

22. Financial Instruments (committee agenda page 190)

Categories of Financial Instruments	Long-term		Current	
	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000
Investments				
Loans and Receivables	19,733	19,733	0	0
Available for sale financial assets	4	2,823	0	0
Total Investments	19,737	22,556	0	0
Debtors				
Loans and Receivables	155	158	24,378	30,554
Total Debtors	155	158	24,378	30,554
Borrowings				
Financial liabilities at amortised cost	(164,729)	(171,526)	(1,277)	(9,271)
Total Borrowings	(164,729)	(171,526)	(1,277)	(9,271)
Creditors				
Financial liabilities at amortised cost	(38,695)	(37,158)	(31,478)	23,932
Total Creditors	(38,695)	(37,158)	(31,478)	23,932

26. Debtors (committee agenda page 199)

	31 March 2015 £'000	31 March 2016 £'000
Central government bodies	8,633	9,338
Other Local Authorities	1,895	1,932
NHS bodies	6,293	1,778
Public corporations and trading funds	37	0
Bodies external to general government	27,036	25,251
Total Debtors	43,894	38,299

28. Creditors (committee agenda page 200)

	31 March 2015 £'000	31 March 2016 £'000
Central government bodies	11,861	6,947
Other Local Authorities	6,465	2,916
NHS bodies	537	237
Public corporations and trading funds	6	65
Bodies external to general government	24,842	25,958
Total Creditors	43,711	36,123

The adjustments shown above in notes 22,26 and 28 relate to movements between short term creditors and debtors to ensure that correct categorisation is shown.

32. Unusable Reserves (committee agenda page 201)

	31 March 2015 £'000	31 March 2016 £'000
Revaluation Reserve	115,748	132,104
Available for Sale Financial Instruments Reserve	0	(177)
Capital Adjustment Account	417,720	372,866
Pensions Reserve	(270,813)	(239,786)
Financial Instruments Adjustment Account	515	699
Collection Fund Adjustment Account	(4,168)	(4,984)
Accumulated Absences Account	(2,521)	(2,411)
Total Unusable Reserves	256,480	258,310

Capital Adjustment Account (committee agenda page 203)

	2014/15		2015/16	
	£'000		£'000	£'000
Balance as at 1 April		489,131		417,720
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
• Charges for depreciation and impairment of non-current assets	(42,434)		(42,109)	
• Revaluation movements on Property, Plant and Equipment	(26,377)		10,051	
• Amortisation of Intangible Assets	(589)		(637)	
• Revenue Expenditure funded from Capital Under Statute	(11,962)		(8,217)	
• 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	(42,190)		(48,533)	
		(123,552)		(89,445)
Adjusting amounts written out of the Revaluation Reserve	10,430		7,094	
Other adjustments	0		0	
Net written out amount of the cost of non-current assets consumed in the year		10,430		7,095
Capital financing applied in the year:				
• Use of Capital Receipts Reserve to finance new capital expenditure	3,264		4,307	
• Use of the Major Repairs Reserve to finance new capital expenditure	4,248		4,149	
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	18,302		16,929	
• Application of grants to capital financing from the Capital Grants Unapplied Account	6,472		4,319	
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,549		4,424	
• Capital expenditure charged against the General Fund and HRA balances	2,292		3,398	
		42,126		37,526
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(415)		(31)
Balance as at 31 March		417,720		372,866

The Capital Adjustment Account within the Unusable Reserves relates to the downwards valuation relating to the asset receiving the additional capital expenditure.

Adjustments to Notes Supporting the Cash Flow Statement

34. Cash Flow Statement - Operating Activities

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities (committee agenda page 213):

	2014/15 £'000	2015/16 £'000
Depreciation	(43,002)	(42,745)
Impairment and revaluations	(26,845)	9,843
(Increase) / decrease in creditors	6,864	1,897
Increase / (decrease) in debtors/Impairment for Bad Debts	1,209	(6,229)
Increase / (decrease) in inventories	7	(62)
Movement in pension liability	(9,136)	(9,420)
Contributions (to)/from Provisions	(2,819)	1,505
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(42,988)	(48,577)
Other non-cash items charged to the net surplus or deficit on the provision of services	(0)	0
	(116,710)	(93,788)

The above adjustment relates to the removal of non-cash items that have been charged through the CIES. In this case the revaluation charge has been adjusted for the downwards valuation relating to the asset receiving the additional capital expenditure.