

CABINET

10 JULY 2012

STATEMENT OF ACCOUNTS 2011/2012

Portfolio Holder: Councillor Alan Jarrett, Finance
Report from: Mick Hayward, Chief Finance Officer
Author: Andy Larkin, Finance Support Manager

Summary

This report requests Cabinet to recommend that the Audit Committee approve the Council's Statement of Accounts for 2011/2012.

1. Budget and Policy Framework

- 1.1 Cabinet, as the body charged with the executive management of the council's budget recommends approval of the accounts by the Audit Committee whose terms of reference include approval of the annual statement of accounts.
- 1.2 The Statement of Accounts needs to be certified by the Chief Finance Officer by 30 June each year, however it is good practice to present the accounts to members as soon as possible after that date, prior to the audit and ahead of the submission of the audited accounts in September 2012.

2. Background

- 2.1 Local authorities are required under the Accounts and Audit Regulations 2003 (as amended) (the Regulations) to produce an annual statement of accounts that is subject to scrutiny by the external auditors. The auditor will give an opinion on the accounts and additionally, interested persons have the right to inspect the accounts and make representations to the auditor. PKF are the auditors responsible for the audit of accounts that must be published by 30 September 2012. The Regulations now give authority to the 'responsible finance officer' to certify these by 30 June rather than formal adoption by the Council, however, good practice suggests that they are formally presented to the authority as soon as practicable after completion.

3 Statement of accounts

- 3.1 These documents are subject to detailed requirements as to content and style mainly prescribed by the Code of Practice on Local Authority Accounting (the Code) and the Best Value Accounting Code of Practice (BVACOP).

- 3.2 The 2011/12 Code and subsequent regulations have introduced a number of changes to the accounts, mainly incorporating the inclusion of Heritage assets. These accounts are subject to review by the external auditors but it is considered that the 2011/2012 accounts are IFRS compliant.
- 3.3 In accordance with proper accounting practice, the statement of accounts includes the following elements which are subject to scrutiny by the appointed auditor:
- An explanatory introduction and statement by the Chief Financial Officer;
 - A statement of responsibilities which outlines responsibility for efficiently managing the affairs of the Council;
 - The auditor's opinion which is given at the completion of the audit and must occur by 30 September 2012;
 - Annual Governance Statement, reported elsewhere on this agenda and to be incorporated into the accounts by the 30 September 2012;
 - A statement of accounting policies which highlights practices adopted by the authority;
 - The principal financial statements which comprise:
 - The movement in reserves statement which shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce council tax) and other reserves;
 - The comprehensive income and expenditure statement which 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. This statement combines the income and expenditure relating to all the Council's functions including the General Fund and the Housing Revenue Account;
 - The balance sheet which shows the value as at the year-end of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council; and
 - The cash flow statement which summarises the inflows and outflows of cash, arising from transactions between the Council and third parties, for revenue and capital;
 - Notes to the core financial statements which give further explanation and analysis of some of the movement in the comprehensive income and expenditure statement and balance sheet together with a number of disclosures required by the Code.
- 3.4 Further supplementary financial statements are required to expand on the information included within the statements above;
- The Housing Revenue Account (HRA) which summarises the major items of expenditure and income relevant to the account with supplementary notes where required and
 - The Collection Fund which records council tax and business rate income and disbursements to precepting authorities (the council's own requirement, Kent Police Authority, Kent Fire and Rescue Service and parish councils) and payments to central government in respect of the contribution to the business rates pool.
- 3.5 The draft statement of accounts is attached as Appendix 1 to this report and members are most familiar with the analysis as set out in the explanatory foreword in Section A and considered in Paragraph 4, below. The elements of the financial

statements that support this 'management accounting summary' are the comprehensive income and expenditure statement, movement in reserves statement and the balance sheet, which can be found in Section F.

- 3.6 The presentation of the comprehensive income and expenditure statement requires all expenditure and income to be allocated to service headings. This shows a 'deficit on the provision of services' of £46.8m (General Fund deficit of £27.6m and HRA deficit of £19.2m). This deficit is subsequently netted out through the Movement in Reserves Statement or other 'below the line' adjustments.
- 3.7 Paragraph 2.1 refers to the audit of the statements being completed by the 30 September 2011. The actual audit of the statements is scheduled to commence on 11 July and clearly the statement of accounts that is presented for approval does not reflect any changes that this audit may require. If there are significant amendments to the statement of accounts these will need to be reported back to Members prior to formal publication.

4. Summary financial position for 2011/2012 (General Fund)

- 4.1 Throughout the year, quarterly monitoring reports have identified the major variations from approved budgets. An initial forecast overspend of some £4m has progressively reduced and the last report to Cabinet, based on January spend, had indicated break-even. The final accounts now show a revenue surplus of £2.855m which has enabled a contribution to the General Reserve of £2.268m (as opposed to a budgeted contribution from reserves of £587,000).
- 4.2 The final position, shown in the table below, is a significant achievement and is a reflection both of the successful efforts to maintain services at minimum cost and the robustness of the budgets that were set.

General Fund Revenue Outturn

Table 1

Directorate	Budget £000s	Outturn £000s	Variation £000s
Children and Adult Services	285,912	285,434	(478)
Regeneration, Community and Culture	76,224	75,466	(758)
Business Support	13,301	12,050	(1,251)
Public Health	227	212	(15)
Service costs	375,664	373,162	(2,502)
Interest & Financing	14,944	14,668	(276)
Levies	974	1,005	31
Planned Use of Reserves	(587)	2,268	2,855
Additional Non Ring Fenced Grants	0	(109)	(109)
Depreciation Credit	(35,101)	(35,101)	0
DSG	(148,290)	(148,290)	0
Total	207,604	207,604	0

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

4.3.1 Children and Adult Services

The net underspend for the directorate was £478,000, which represents a £3.5m improvement on the position forecast at quarter 3 and masks a number of significant variances at divisional level.

Adult Social Care posted a £357,000 underspend, but this in itself includes a £1.4m overspend resulting from delays in outsourcing the linked service centres offset by significant underspends against services for both older people and people with a learning disability – reasons include vacancy savings, increased income, the success of the enablement and personalisation agendas and reductions in placement costs.

Children's Care reported a £923,000 overspend, principally the result of the continued escalation in the number of children coming into the care system and the length of time they remain in care. This pressure was addressed in the Medium Term Financial Plan and the 2012/13 budget increased accordingly.

The School Improvement and Inclusion division posted a significant underspend against DSG funded budgets, resulting from lower than expected take up of free nursery places (£154,000) and rigid control over SEN placements (circa £200,000). This underspend was transferred into the DSG reserve. In terms of general fund expenditure, a £660,000 overspend on SEN transport was compensated by underspends of around £600,000 against School Improvement budgets and Youth Services.

In spite of overspends in respect of schools redundancy and maternity costs the Retained Schools Funding budget delivered a significant underspend, arising from the DfE reversing its original decision to withhold the final £700,000 instalment of 2010/11 Standards Fund Grant.

4.3.2 Regeneration, Community and Culture

The Directorate was underspent by £758,000 against its revenue budget of £76.224m.

- There were relatively minor variations to budget for Front Line Services (£109,000 overspend), Leisure & Culture (£100,000 underspend) and the Directors Office (£34,000 underspend);
- The most significant savings to budget occurred within the Development, Economy & Transport Division (net underspend £920,000) with less than anticipated costs for concessionary travel for both the older & disabled persons scheme (saving £419,000) and the young persons scheme partly as a consequence of a delayed start to the extended scheme (saving £656,000);
- Residual costs from Medway Renaissance of £188,000 were met from the Directorates budget, it had been planned to charge these to reserves but this was not necessary in light of the overall underspend achieved.

4.3.3 Business Support

The Department's outturn for 2011/2012 was £12.05m, an underspend of £1.251m against its revenue budget of £13.301m. The following were the principal areas of saving:

- Ongoing recruitment controls and general vacancies generated savings of some £750,000 against staffing budgets across the department
- The Housing Solutions service generated a saving of £306,000 principally through the renegotiation of works and sanctuary scheme contracts.
- Planned maintenance agreements, for which the budget is managed corporately, were undertaken with a saving of £284,000
- Additional, unbudgeted grant receipts, were received in respect of Housing Benefit Administration Grant £200,000 and Community Safety £234,000.
- The above were offset by overspends in respect of the carbon reduction commitment £219,000 and Children Review Services £176,000

4.3.4 Interest and Financing

The treasury outturn report elsewhere on this agenda identifies in some detail the factors influencing both borrowing and investment strategies. External borrowing averaged some £178m and invested funds some £67m. Overall the treasury budget recorded a surplus of £0.3m or 0.1% of this turnover which is a creditable performance in forecasting against a difficult economic position.

4.4 Planned Use of reserves

The 2011/2012 revenue budget anticipated that a contribution of £587,000 would be required from general reserves to support expenditure. As discussed previously, the surplus generated of £2.855m facilitated a net contribution of £2.268m to the General Reserve. Overall the balance on the General Reserve increased from £6.1m to £8.3m.

5. Summary financial position for 2011/2012 (HRA)

- 5.1 The Housing Revenue Account (HRA) is a ring-fenced account to record the 'landlord' costs and income associated with the maintenance of our housing stock. It includes costs of management and maintenance for the property portfolio, housing benefit costs in the form of rent rebates and capital financing costs, offset by housing rents and government grant. The summary of that account is set out in Section H and reveals a surplus for the year of £1.569 m. However a revenue contribution to capital expenditure of £2.889m meant that the balance on the account fell from £6.156m to £4.835m. This is only available for housing purposes and cannot be used to support General Fund (council tax) costs.
- 5.2 The end of the housing subsidy system on 31 March 2012 required the authority to pay central government some £19m that was borrowed from the Public Works Loan Board. Although this transaction 'passed through' the Housing Revenue Account, it had no impact on the closing balance as the debt is held corporately with repayments levied on the HRA from 2012/2013.

6. Summary financial position for 2011/2012 (Delegated Schools Budget)

- 6.1 A significant proportion of the overall budget of the council is delegated to schools and is then ring-fenced for that purpose. The total funding provided to schools includes the sum delegated by the council from the Dedicated Schools Grant, plus sixth form grants provided by the Young People's Learning Agency. This year Standards Fund grants were either rolled into DSG or deleted as part of the Government cuts. In 2011/2012 schools received revenue funding amounting to £134.5million. Expenditure incurred by schools is included in the figure for Children and Adult Services shown in section 4, above. Any surplus or deficit relating to schools is 'rolled-forward' as part of the schools' reserves balances shown in the balance sheet. This has the effect of showing schools budget as balanced.
- 6.2 However the reality of the schools' spending position is reflected in the movement in the schools' balances figure incorporated in usable reserves shown at the foot of the Balance Sheet (Section F). This shows that schools' balances have increased from £7.202 million as at 31 March 2011 to £7.707 million as at 31 March 2012. In addition:
- Net revenue reserves have increased, as a percentage of the total resources available, from 4.2% to 5.7%;
 - The number of schools in deficit has reduced from four to three and represents total deficit balances of around £133,000.

7. Summary financial position for 2011/2012 (Capital)

- 7.1 The capital monitoring report considered by Cabinet on 14 February detailed a programme of £375m for 2011/12 and beyond, with a forecast spend of £81m for the financial year. Actual spend for 2011/12 was £75m with some £6m slipping to future years. Capital forecasts for individual years are continually monitored and expenditure re-profiled as appropriate.
- 7.2 The following table analyses spend across directorates and the source of funding. Paragraph 7.3 highlights the major achievements during 2011/2012.

Summary capital outturn position

Directorate	Approved programme 2011/2012 and beyond £000	Forecast Spend 2011/2012 £000	Outturn 2011/2012 £000	Variance £000
Children and Adults	174,398	46,282	46,258	(24)
Regeneration, Community & Culture	143,091	23,001	18,660	(4,341)
Business Support	54,263	10,685	9,691	(994)
Member Priorities	2,931	1,481	558	(923)
Total	374,683	81,449	75,167	(6,282)

Funding Source	Funding of expenditure £000's
Borrowing (supported and unsupported)	6,049
Government Grants and Other Contributions	54,698
Major Repairs Allowance/HRA	5,855
Capital Receipts	4,051
Developer Contributions	2,540
Revenue and Reserves	1,974
Total	75,167

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

7.3.1 Children and Adult Services

- One Changing Places facility with two more to follow;
- Over £200,000 of adaptations to facilitate the social care enablement agenda;
- Significant progress in delivering the primary capital programme, including completion of the Walderslade project and significant work on the Lordswood, All Faiths, Oaklands, Thamesview, and Napier schemes;
- Excellent progress in delivering the £80.0million Academies programme, with all schemes proceeding on time and within budget;
- Commencement of the both the Bradfields Special School and Elaine Primary School expansions and good progress in delivering the Math School DT block;
- Significant condition works on the school estate amounting to around £2.3m and encompassing roofs, boilers, asbestos works and other priority areas.

7.3.2 Regeneration, Community and Culture

- Significant progress towards completion of improvements to Chatham road network and Waterfront Bus Station (opened October 2012);
- Continued additional funding for highway maintenance;
- Major investment on the A228 and Medway Tunnel;
- Gillingham Gateway environmental improvements;
- Continued investment in play areas, heritage properties and open spaces.

7.3.3 Business Support

- Continuation of ICT projects to ensure Medway has the infrastructure in place to deliver services efficiently and effectively;
- Improvements to housing stock together with disabled adaptations to properties;
- Improvements to private sector housing through renovation loans, the Empty Homes programme and Crisis Grants and
- Investment in a new customer relationship management system as part of the 'Better for Less' programme.

7.3.4 Members Priorities

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

- Allotment improvements
- Traffic calming measures
- Investment in play areas
- Works to village halls and community facilities

8. Reserves

- 8.1 The Movement in Reserves Statement identifies the year-to-year position on the various reserves held by the Council and the following paragraphs provide commentary on the more significant useable reserves.
- 8.2 The Revenue Balance (contingency) has been maintained at £10m. This represents 5.3% of the authorities core budget (formula grant + council tax funded expenditure but excluding DSG) of £187m for 11/12. 5% is generally recognised as an appropriate level of contingency.
- 8.3 The authorities General Reserve has increased from £6.1m to £8.3m as a consequence of the revenue surplus for the General Fund. A planned contribution to capital expenditure of £1.6m was offset by the crediting of VAT refunds and unutilised grant income. There remains an approved 'commitment' of £3m from the fund for severance costs although these have been accommodated within the revenue budget for both 2010/11 and 2011/12.
- 8.4 School Reserves are discussed in 6.2 above
- 8.5 The Housing Revenue Account balance is discussed in 5.2 above
- 8.6 The total of Earmarked Reserves (those held for specific purposes) has reduced from £10.6m to £9.8m due mainly to part utilisation of the Medway Tunnel fund and fluctuations in levels of unapplied grant receipts.
- 8.7 The Insurance Fund is held to protect the Council from uninsured losses (as the Council 'self insures' to balance the cost of external premiums with the potential risk). The Fund remained at £2m at the end of 2011/12.
- 8.8 The Capital Receipts Reserve collects income from asset sales and funds capital investment. The year-end deficit will be the first call on 2012/13 receipts before any further advances to capital spend can be made.
- 8.9 The Major Repairs Reserve is held for investment in the Council's housing stock. The remaining balance will be utilised in 2012/13 as the introduction of self-financing provides for future investment needs.

9. Risk Management

- 9.1 The more significant financial risks faced by the Council in providing services were considered by Members in July 2011 during the first monitoring cycle for 2011/2012. The monitoring cycle provides for a continual review of forecast expenditure and income and enables corrective action to be taken where

appropriate. The success of this continual review is clearly borne out by this and previous outturn results.

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

10. Financial and legal implications

- 10.1 The financial implications are contained within the body of the report.
- 10.2 The Accounts and Audit (England) Regulations 2011 has relaxed the requirement for Councils or a designated committee to adopt the unaudited statement of accounts by 30 June although best practice would indicate that the draft accounts are presented to the relevant committee as soon after this date as practicable.
- 10.3 The Regulations do still place a duty on the Council or a designated committee to publish the audited statement of accounts by 30 September and it is a function that cannot be delegated to Cabinet.

11 Recommendation

- 11.1 That Cabinet notes the revenue and capital outturns as reported and recommends to the Audit Committee that it approves the draft statement of accounts for 2011/2012.

12. Suggested reasons for decision

- 12.1 Good practice recommends that Members approve the statement of accounts as soon after 30 June as practicable.

Lead officer contact

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Background papers

Revenue and Capital budget monitoring reports to Cabinet during 2011/2012. These are available on the Council's website www.medway.gov.uk



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2011/2012



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A. EXPLANATORY FOREWORD



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Introduction

The Statement of Accounts summarises the Council's income and expenditure for the year and its financial position as at the year end. The accounts have been prepared in accordance with the Accounts and Audit Regulations 2003. The format of the accounts reflects the new requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012: Based on International Financial Reporting Standards, published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Statement of Accounts

The statements which follow summarise the Council's accounts for the financial year ended 31 March 2012. Further explanation of the purpose of each statement is included within the relevant section and notes explaining transactions follow the statements where appropriate. The main statements are:

- Statement of Responsibilities – outlines the responsibilities of the Council and the Chief Financial Officer in preparing the accounts. The Chief Financial Officer has to certify that the accounts present a 'true and fair view' of the financial position of the Council as at 31 March 2012 and its expenditure and income for the year.
- Statement of Accounting Policies – these are the specific principles, bases, conventions, rules and practices adopted by the Council in preparing and presenting financial statements.
- Annual Governance Statement - This statement explains how the Council has complied with the code CIPFA/SOLACE Framework for Delivering Good Governance in Local Government, and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a governance statement.
- Movement in Reserves Statement – this summarises the movement in the year on the various reserves held by the Council.
- Comprehensive Income and Expenditure Statement – this shows the costs of the various services the Council provides.
- Balance Sheet – this summarises the Council's financial position at the year end. It provides details of the assets and liabilities held by the Council and the usable and unusable reserves held at the balance sheet date.
- Cash Flow Statement – this shows the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- Housing Revenue Account – this is the separate statutory account for income and expenditure relating to council housing.
- Collection Fund – this reflects the statutory requirement for the Council to maintain a separate account providing details of receipts of Council Tax and Business Rates and the associated payments to precepting authorities and to the National Non Domestic Rate (NNDR) Pool.

Review of Finance 2011/2012

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

Revenue

To achieve breakeven against budget, it was planned to contribute £0.587m from reserves. However, the Corporate underspend has resulted in a contribution to reserves of £2.268m.

The table below summarises the income and expenditure for each directorate of the Council for 2011/2012.

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	170,365	(158,315)	12,050	13,301	(1,251)
Children & Adult Services	338,420	(52,986)	285,434	285,912	(478)
Regeneration, Community & Cultural Services	100,557	(25,091)	75,466	76,224	(758)
Public Health	2,357	(2,145)	212	227	(15)
Sub-total Services	611,699	(238,537)	373,162	375,664	(2,502)
Levies	1,038	(32)	1,005	974	31
Depreciation Credit	(35,101)	0	(35,101)	(35,101)	0
Interest & Financing	19,472	(4,804)	14,668	14,944	(276)
Planned Use of Reserves	2,268	0	2,268	(587)	2,855
Dedicated Schools Grant	0	(148,290)	(148,290)	(148,290)	0
Use of Collection Fund Surplus	0	0	0	0	0
	599,375	(391,663)	207,712	207,604	109
Funded:-					
Area Based Grant	0	20,631	20,631	20,522	109
RSG	0	20,329	20,329	20,329	0
NNDR Redistribution	0	65,757	65,757	65,767	0
Council Tax	0	100,986	100,986	100,986	0
	0	207,713	207,713	207,604	109

The outturn on the Housing Revenue Account (HRA) was a surplus £1,568,655 (2010/2011 surplus £1,240,921), compared to a budget of £846,886 (2010/2011 budget £1,243,000). Having taken account of the 2011/12 surplus, the Housing Revenue Account balance stands at £4,835,183 as at 31 March 2012 (£6,155,894 as at 31 March 2011).

Capital

The Council's capital investment in 2011/2012 was £75,167,000 (2010/2011 £79,949,000). The expenditure was within the definition of the Local Government and Housing Act 1989.

Capital Expenditure has been financed from the following sources: -

- Supported Capital Expenditure (Revenue) and Prudential borrowing (£6,048,000);
- Grants or contributions from Government bodies or other agencies and organisations (£63,931,000);
- Part proceeds from the sale of capital assets or the repayment of advances, the usable part, following pooling of HRA capital receipts (£4,051,000);
- Contributions from the Revenue Account and specific reserves (£1,975,000).

The Council spent £30,834,000 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 number of integrated transport measures, a programme of improvements to the Council's housing stock, the provision of new classrooms and improvements to school infrastructure. The remainder of capital expenditure is split between capital works in progress £30,401,000 and £14,770,000 relating to "Revenue Expenditure Funded from Capital under Statute" (formerly deferred charges). (see Statement of Accounting Policies 22).

Capital expenditure incurred by the Council in 2011/2012 is summarised below:

Directorate	Total Programme £'000	2010/2011 Forecast £'000	Outturn £'000	Variation £'000
Business Support	17,336	11,323	9,673	(1,650)
Children and Adult Services	109,926	46,395	46,275	(121)
Regeneration, Community & Culture	27,359	23,994	19,219	(4,774)
Total	154,621	81,712	75,167	(6,545)

The capital programme for 2012/2013 and beyond reflects the major investment priorities of the Council which include a significant schools programme, including three new academies, continuation of the primary change programme and the SEN strategy, ICT investment to facilitate the new 'Better for Less' operating models and a sizeable highways programme.

Borrowing/Investments

During 2011/2012 the level of debt, i.e. money that the Council owes increased by £9,121,000 from £176,731,000 to £185,852,000. This is due to the current strategy of financing capital from investment balances rather than new debt and not replacing debt that falls due for repayment, during 2011/12 £10,000,000 of debt was repaid. An exception of this was to take out new debt of £19,144,000 to fund the HRA Subsidy review at a preferential rate.

The level of investments has marginally decreased from £69,526,000 to £65,508,000 primarily due to the above strategy.

Fixed Assets

The total value of the Authority's fixed assets has decreased in 2011/2012 by approximately £11 million. Although there was capital investment of some £61m, there was a greater decrease in the value of all classes of assets as a result of revaluation, impairment, depreciation and disposals.

The Council's Responsibilities

The Council is required to:

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

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts 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 Council at the reporting date and of its expenditure and income for the year ended 31 March 2012.

Mick Hayward
Chief Finance Officer

29 June 2012

**C INDEPENDENT AUDITOR'S REPORT TO THE MEMBER
OF MEDWAY COUNCIL**



WILL BE ADDED POST AUDIT

D. ANNUAL GOVERNANCE STATEMENT 2011/2012



Will be added once approved

E. STATEMENT OF ACCOUNTING POLICIES



Accounting Policy

1. General Principles
2. Accruals of Income and Expenditure
3. Capital Grants Received in Advance
4. Cash and Cash Equivalents
5. Exceptional Items
6. Prior Period Adjustments, Changes in Accounting Policy and Estimates and Errors
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22. Revenue Expenditure Funded from Capital Under Statute
23. VAT

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations, which 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 2011/12* and the *Service Reporting Code of Practice 2010/11*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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 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 does not have a material effect on the year's accounts.

3. Capital Grants Received in Advance

The Council receives funds from property developers to provide education, highway and other community assets as part of their development. These funds are held for periods of time as specified within the planning consent and used to provide and or maintain those assets. Most of the capital grant funding received from Central Government carries little in the way of conditions around use and the income is recognised in the income and expenditure account in the year of receipt.

4. 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.

Monies held by the Council's investment managers are classified as investments.

5. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

6. Prior 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, ie 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 changes 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.

7. 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

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 (England and Wales). 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.

8. 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.

9. Employee Benefits

Three categories of employee benefits exist under the 2010/2011 Code:

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 (eg 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, eg 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 and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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 two separate pension schemes. Both schemes provide members with defined benefits (retirement lump sums and pensions), related to pay and service. The schemes are as follows:

- The Council contributes to the Teachers' Pension Scheme at rates set by the scheme actuary and advised by the Scheme Administrator. The scheme pays benefits on the basis of pre-retirement salaries of teaching staff. While the scheme is of the Defined Benefit type, it is accounted for as a Defined Contribution Scheme and no liability for future payments of benefits is recognised in the Balance Sheet.
- The Local Government Pensions Scheme is administered by Kent County Council. 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.

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 seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- 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 – debited to the Pensions Reserve
- 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 appropriations 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.

10. Estimation Techniques

Significant estimates are involved in the calculation of some parts of the Council's accounts. These include the calculation of the pension assets and liabilities by the fund's actuary, the valuation of non-current assets, the provision for bad and doubtful debts and the calculation of embedded leases. Details of each of these are shown in the relevant notes to the principal financial statements.

11. Events After the Balance Sheet Date

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 is 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.

12. Financial Instruments

Financial Assets

The Council'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 and
- Fair value through profit or loss, these are financial instruments that are actively being traded in order to make a profit rather than holding to obtain the yield, these are all managed by our Fund Manager.

Financial assets are maintained in the Balance Sheet at fair value.

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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council 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.

Available-for-Sale Assets– these have a quoted active market price and do not have fixed or determinable payments. These are measured and carried on the balance sheet at fair value using determinations from independent experts.

Fair Value through profit or loss – these are financial instruments that are held for trading in order to make a short term profit. This would be as part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short term profit taking.

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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement, 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.

13. Foreign Currency Transactions

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

14. 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 Council when there is reasonable assurance that:

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have 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 Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, 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.

15. Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority, which now requires that heritage assets are to be carried in the balance sheet at valuation. An asset should be classed as a heritage asset where it is preserved principally for its contribution to knowledge and culture.

All heritage assets that are recognised are reported on the face of the balance sheet. The council also has assets that have been recategorised as heritage assets from other asset types such as other land and buildings or community assets.

All heritage assets are recognised by using the latest insurance valuation, which shall be subject to an annual review. 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 Councils 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.

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 Comprehensive Income and Expenditure Statement. 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. 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. A right to use an asset in

return for payment may be subject to this lease policy even though a formal lease agreement may not exist.

Finance Leases

As lessee, the Council records finance leases as assets and liabilities at amounts equal to the fair value of the property plant or equipment or, if lower, the present value of the minimum lease payments. Lease payments shall be apportioned between the finance charge (interest) and the reduction of the outstanding liability. The Council will recognise assets under finance leases in the balance sheet at an amount equal to the net investment of the lease.

Assets recognised under a finance lease shall be depreciated. The depreciation policy for leased assets shall be consistent with the policy for owned assets. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful economic life. After initial recognition, assets recognised under a finance lease are subject to revaluation in the same way as any other asset.

Operating Leases

Lease payments under an operating lease are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from the use of the asset. Charges are recorded on a straight-line basis over the lease term unless another basis is more representative of the benefits received by the Council.

Embedded Leases

These are assets that although not owned by the Council are used primarily by the authority for service provision. Examples are vehicles used by the Council's highways maintenance and waste contractors. In these cases estimated values for the vehicles have been used along with a leased term in line with the contract period. Assets are recognised in the balance sheet at the net book value and offset by a deferred liability. The lease charge forms part of the contract payment on behalf of these vehicles on a straight-line basis over the life of the asset. These assets are depreciated in line with our normal capital policy.

18. 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 2011/12* (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 Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

19. 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 (ie 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 cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie 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 Comprehensive Income and Expenditure Statement, 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 Comprehensive Income and Expenditure Statement, 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement.

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.

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 Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, 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 valuers
- 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.

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 Comprehensive Income and Expenditure Statement. Gains in fair value (of a whole asset rather than individual components) 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 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 Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement 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. Costs relating to the disposal of an asset to a maximum of 4% of the capital receipt value can be offset against the capital receipt. 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.

Treatment of Schools and Academies

Schools, both Primary and Secondary can be split into various groupings which in turn dictate which body is responsible for the non-current assets (buildings/land) as well as financial arrangements such as leases and revenue funding. The groups and council responsibilities are detailed overleaf:

Group	Non-Current Assets (Land/Buildings)	Financial Arrangements
Voluntary Aided	N	Y
Voluntary Controlled	N	Y
Foundation	N	Y
Community	Y	Y
Academies	N	N

If the school type shows no responsibility of the council for the non-current assets, then those assets will not be held within the Councils' balance sheet.

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 community 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 Councils balance sheet.

20. Provisions, Contingent Liabilities and Contingent Assets

Provisions – are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made, but where the timing of the transfer is uncertain. For instance, the Council may be involved in an insurance claim that could eventually result in the making of a settlement or the payment of compensation. The specific purposes of the Council's provisions are explained in a note to the principal financial statements.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Landfill Allowance Schemes - whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Carbon Reduction Commitment Scheme - The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie 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 liability at the reporting date. The cost to the authority is recognised and reported in the costs of services and is apportioned to services on the basis of energy consumption.

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 – arise when an event has taken place that gives the Council 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 Council.

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

21. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts 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 Comprehensive Income and Expenditure Statement. 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.

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

22. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets, for example, disabled facilities grants, has been charged as expenditure to the relevant service revenue account in the year. Where the Council 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.

23. VAT

VAT payable (for both revenue and capital) is included in the accounts as an expense only to the extent that it is not recoverable from the Government. The Council is able to recover VAT on nearly all its expenditure. VAT receivable is excluded from income as it is all payable to HM Revenue and Customs.

F PRINCIPAL FINANCIAL STATEMENTS



Financial Statement

Movement in Reserves Statement

Movement in Reserves Statement for the years Ending 31 March 2011 and 31 March 2012

Comprehensive Income and Expenditure Statement

Balance Sheet

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Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, 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 Comprehensive Income and Expenditure Statement. 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 Council.

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

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

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

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.

Earmarked General Fund Reserves – These are reserves created to fund specific revenue or capital expenditure.

Housing Revenue Account – This contains any surplus or deficit arising from the provision of council housing by the Council and earmarked Housing Revenue Account reserves. It can only be used for local authority housing provision. As at 31 March 2012, the Housing Revenue Account working balance stood at £4.835m and earmarked reserves (IT Reserve) £0.038m.

Capital Receipts Reserve – Proceeds from the sale of Council 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.

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

Capital Grants Receipts in Advance – This reserve contains Government grants and other contributions which are held to finance future capital expenditure.

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 Council. They are explained in more detail in note 16.

Movement in Reserves Statement for the years Ending 31 March 2011 and 31 March 2012

Notes	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Schools Balances	General Reserve	Insurance Fund	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 31 March 2010	10,000	9,469	5,128	5,230	7,111	1,688	1,799	639	26,837	67,900	430,229	498,129
Movement in Reserves 2010/2011												
Surplus/(Deficit) on provision of services	53,297	0	(32,692)	0	0	0	0	0	0	20,605	0	20,605
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	0	0	86,017	86,017
Total Comprehensive Income and Expenditure	53,297	0	(32,692)	0	0	0	0	0	0	20,605	86,017	106,622
Adjustments between accounting & funding bases under regulations	1 (50,751)	0	33,725	0	0	0	(1,721)	378	10,018	(8,351)	(8,068)	(16,420)
Net Increase/decrease before transfer to Earmarked Reserves	2,546	0	1,033	0	0	0	(1,721)	378	10,018	12,254	77,948	90,202
Transfers to/from Earmarked Reserves	2 (2,546)	1,154	(5)	1,972	(982)	407	0	0	0	0	0	0
Increase/(Decrease) in Year	0	1,154	1,028	1,972	(982)	407	(1,721)	378	10,018	12,254	77,948	90,202
Balance at 31 March 2011	10,000	10,623	6,156	7,202	6,129	2,095	78	1,017	36,854	80,154	508,177	588,331
Movement in Reserves 2011/2012												
Surplus/(Deficit) on provision of services	(28,287)	0	(18,471)	0	0	0	0	0	0	(46,758)	0	(46,758)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	0	0	(71,734)	(71,734)
Total Comprehensive Income and Expenditure	(28,287)	0	(18,471)	0	0	0	0	0	0	(46,758)	(71,734)	(118,492)
Adjustments between accounting & funding bases under regulations	1 28,945	0	17,157	0	0	0	(513)	(670)	(5,944)	38,975	(33,302)	5,674
Net Increase/decrease before transfer to Earmarked Reserves	658	0	(1,314)	0	0	0	(513)	(670)	(5,944)	(7,783)	(105,036)	(112,819)
Transfers to/from Earmarked Reserves	2 (658)	(841)	(6)	505	2,161	(28)	0	0	(1,133)	0	0	0
Increase/(Decrease) in Year	(0)	(841)	(1,320)	505	2,161	(28)	(513)	(670)	(7,077)	(7,783)	(105,036)	(112,819)
Balance at 31 March 2012	10,000	9,782	4,836	7,707	8,290	2,067	(435)	347	29,777	72,371	403,142	475,513

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Comprehensive Income and Expenditure Statement

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

2010/2011 Restated			2011/2012				
Gross Exp £'000	Gross Inc £'000	Net Exp £'000	Service	Notes	Gross Exp £'000	Gross Inc £'000	Net Exp £'000
3,888	(1,742)	2,146			Central services to the public		3,121
28,196	(8,348)	19,848	Cultural and related services		31,891	(7,908)	23,983
33,618	(9,426)	24,192	Environmental & regulatory services		33,140	(8,831)	24,309
16,887	(9,959)	6,928	Planning services		10,166	(7,127)	3,039
326,446	(251,099)	75,347	Education and children's services		251,615	(179,069)	72,546
43,497	(13,440)	30,057	Highways and transport services		67,181	(10,332)	56,849
44,068	(11,897)	32,171	Local authority housing (HRA)		30,426	(12,509)	17,917
128,675	(113,827)	14,848	Other housing services		131,464	(120,771)	10,693
91,838	(27,623)	64,215	Adult social care		90,171	(21,825)	68,346
9,095	(1,644)	7,451	Corporate and Democratic core		7,048	(1,820)	5,228
(47,486)	0	(47,486)	Non-distributed costs - change in inflation factor for retirement benefits	33	0	0	0
32,044	(37,887)	(5,843)	Non-distributed costs - other		21,298	(25,499)	(4,201)
710,766	(486,892)	223,875	Net Cost of Services		677,521	(397,527)	279,994
1,729	0	1,729	Other operating expenditure	3	15,816	0	15,816
20,181	(2,199)	17,982	Financing and investment income and expenditure	4	14,127	(2,896)	11,231
0	(264,190)	(264,190)	Taxation and non-specific grant income	5	0	(260,284)	(260,284)
		(20,605)	(Surplus)/Deficit on Provision of Services				46,757
		(553)	(Surplus)/Deficit on revaluation of Property, Plant and Equipment				(12,923)
		(85,464)	Actuarial (gains)/losses on pension assets/liabilities	33			84,657
		(86,017)	Other Comprehensive Income and Expenditure				71,734
		(106,622)	Total Comprehensive Income and Expenditure				118,491

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the Council 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 Council 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.

1 April 2010 Restated £'000	31 March 2011 Restated £'000	Balance Sheet Summary	Notes	31 March 2012 £'000
907,208	871,715	Property Plant and Equipment	6	862,005
14,594	14,594	Heritage Assets	7	13,897
5,916	5,735	Investment Property	8	5,735
0	0	Assets Held for Sale	12	0
10,004	4	Long Term Investments	9	5
788	762	Long Term Debtors	9	740
938,510	892,810	Long Term Assets		882,382
22,237	52,599	Short Term Investments	9	48,095
3,748	1,845	Assets Held for Sale	12	1,209
152	130	Inventories		167
61,579	52,371	Short Term Debtors	10	35,895
56,757	20,620	Cash and Cash Equivalents	11	15,144
144,473	127,565	Current Assets		100,510
0	0	Cash and Cash Equivalents	11	0
(26,895)	(11,659)	Short Term Borrowing	9	(11,680)
(57,947)	(55,650)	Short Term Creditors	13	(43,842)
0	0	Provisions		(299)
(84,842)	(67,309)	Current Liabilities		(55,821)
(49,709)	(47,746)	Long Term Creditors	9	(45,858)
(2,941)	(3,274)	Provisions	14	(3,583)
(175,139)	(165,072)	Long Term Borrowing	9	(174,171)
(266,322)	(140,821)	Other Long Term Liabilities	9	(220,617)
(5,901)	(7,822)	Grants Receipts in Advance - Capital	26	(7,329)
(500,012)	(364,735)	Long Term Liabilities		(451,558)
498,129	588,331	Net Assets		475,513
67,900	80,154	Usable Reserves	15	72,371
430,229	508,177	Unusable Reserves and Statutory Adjustment Accounts	16	403,142
498,129	588,331	Total Reserves		475,513

Cash Flow Statement

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

2010/2011 Restated £'000		2011/2012 £'000
(20,605)	Net (Surplus) or deficit on the provision of services	46,757
(29,386)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements	(113,171)
64,169	Adjustments for items included in the net Surplus or deficit on the provision of service that are investing or financing activities	53,077
34,783	Net cash flows from Operating Activities (Note 17)	(60,094)
(3,233)	Investing Activities (Note 18)	15,117
25,192	Financing Activities (Note 19)	3,696
36,137	Net (increase) or decrease in cash and cash equivalents	5,476
56,757	Cash and cash equivalents at the beginning of the reporting period	20,620
20,620	Cash and cash equivalents at the end of the reporting period (Note 11)	15,144

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

Adjustments for 2011/12	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments primarily affecting the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	35,609	3,232	0	0	0	(38,841)
Revaluation losses on Property, Plant and Equipment	29,723	320	0	0	0	(30,043)
Capital Grants & Contributions Applied	(52,132)	0	0	0	0	52,132
		0	0	0	0	
Revenue Expenditure Funded from Capital Under Statute	14,770					(14,770)
Self Financing Settlement	0	19,144	0	0	0	(19,144)
Derecognition & Other Adjustments	0	0	0	0	0	4,183
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(7,331)	0	0	0	0	7,331
Capital expenditure charged against the General Fund and HRA balances	(1,975)	(2,889)	0	2,889	0	1,975
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0	(5,944)	5,944
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	14,544	(368)	727	0	0	(16,430)
Use of Capital Receipts Reserve to finance new capital expenditure	0	0	(4,051)	0	0	4,051
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	10	(10)	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	196	0	(196)	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	3,017	0	0	0
Adjustments primarily involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to HRA	0	(2,296)	0	2,296	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(5,855)	0	5,855
Adjustments primarily involving the Financial Instruments Adjustment Account:						
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	103	12	0	0	0	(115)

Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	12,873	22	0	0	0	(12,895)
Employer's pension contributions and direct payments to pensioners payable in the year	(16,806)	(29)	0	0	0	16,835
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement are different from council tax income calculated for the year in accordance with statutory requirements	339	0	0	0	0	(339)
Adjustments primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(968)	(1)	0	0	0	969
Total Adjustments 2011/12	28,945	17,157	(513)	(670)	(5,944)	(33,302)

Adjustments for 2010/11 restated	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments primarily affecting the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	33,522	2,239	0	0	0	(35,761)
Revaluation losses on Property, Plant and Equipment	2,696	34,070	0	0	0	(36,766)
Capital Grants & Contributions Applied	(57,713)	0	0	0	(295)	58,008
Revenue Expenditure Funded from Capital Under Statute	28,631	0	0	0	0	(28,631)
Derecognition & other adjustments	0	0	0	0	0	(22,860)
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(7,838)	0	0	0	0	7,838
Capital expenditure charged against the General Fund and HRA balances	(917)	0	0	0	0	917
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(7,548)	0	0	0	10,313	0
Adjustments primarily involving the Capital Receipts Reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	151	65	(216)	0	0	(657)
Use of Capital Receipts Reserve to finance new capital expenditure	0	0	(5,751)	0	0	5,751
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	10	(10)	0	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	180	0	(180)	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	4,436	0	0	0
Adjustments primarily involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to HRA	0	(2,240)	0	2,240	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(1,862)	0	1,862
Adjustments primarily involving the Financial Instruments Adjustment Account:						
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	104	12	0	0	0	(116)
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(23,009)	(233)	0	0	0	23,242
Employer's pension contributions and direct payments to pensioners payable in the year	(19,579)	(198)	0	0	0	19,754
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement are different from council tax income calculated for the year in accordance with statutory requirements	609	0	0	0	0	(609)

Adjustments primarily involving the Accumulated Absences Account

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements

	(40)	0	0	0	0	(40)
Total Adjustments 2010/11	(50,751)	33,725	(1,721)	378	10,018	(8,067)

2. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2011/12.

	Balance 1 April 2010	Transfers in 2010/11	Transfers out 2010/11	Balance 31 March 2011	Transfers in 2011/12	Transfers out 2011/12	Balance 31 March 2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund							
General Reserve	7,111	799	(1,781)	6,129	3,736	(1,575)	8,290
Schools Balances	5,230	1,972	0	7,202	505	0	7,707
Other Earmarked Reserves	9,469	6,401	(5,247)	10,623	3,163	(4,004)	9,782
Total	21,810	9,172	(7,028)	23,954	7,404	(5,579)	25,779

3. Other Operating Expenditure

2010/11		2011/12
£'000		£'000
317	Parish Council Precepts	341
906	Levies	1,005
180	Payment to the Government Housing Capital receipts Pool	196
216	Gains/losses on disposal of non-current assets	14,176
110	HRA share of corporate and democratic core	98
1,729	Total	15,816

4. Financing and Investment Income and Expenditure

2010/11		2011/12
£'000		£'000
10,904	Interest payable and similar charges	10,392
121	Interest element of finance leases (lessee)	121
9,037	Pension interest costs and expected return on pensions assets	3,255
(1,813)	Interest receivable and similar income	(2,184)
(267)	Income and expenditure in relation to investment properties and changes in fair value	(353)
0	Gains or losses on trading accounts	0
17,982	Total	11,231

5. Taxation and Non-Specific Grant income

2010/11		2011/12
£'000		£'000
(97,601)	Council tax income	(100,988)
(74,336)	Non domestic rates	(86,096)
(26,993)	Non-ringfenced Government Grants	(21,068)
(65,261)	Capital grants and contributions	(52,132)
(264,191)	Total	(260,284)

6. Property, Plant and Equipment

Movement on Balances 2011/2012	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Tangible Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2011	106,617	637,945	8,088	228,445	10,032	3,776	5,388	1,000,291
Additions	5,855	10,508	1,100	10,658	2,648	18	30,401	61,188
Revaluation increases/decreases recognised in the Revaluation Reserve	0	4,481	0	0	1,470	(5)	0	5,946
Revaluation increases/decreases recognised in the Surplus/Deficit on the Provision of Services	(4,209)	(37,732)	0	897	(806)	(1)	0	(41,852)
Derecognition – disposals	(121)	(19,382)	0	0	0	(669)	0	(20,172)
Derecognition – Surplus Assets	(475)	(703)	0	0	(180)	1,358	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0
Other movements in cost or valuation	0	5,258	0	0	0	0	(5,270)	(13)
As at 31 March 2012	107,668	600,374	9,188	240,000	13,164	4,477	30,519	1,005,390
Accumulated Depreciation and Impairment								
As at 1 April 2011	(3,950)	(52,063)	(3,058)	(69,505)	0	0	0	(128,576)
Depreciation charge	(3,232)	(16,673)	(1,010)	(17,845)	0	(81)	0	(38,841)
Depreciation written out to the Revaluation Reserve	0	7,721	0	0	0	0	0	7,721
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,917	7,962	0	0	0	(34)	0	11,845
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition – disposals	4	4,335	0	0	0	3	0	4,341
Derecognition – Surplus Assets	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment	33	58	0	0	0	34	0	125
At 31 March 2012	(3,229)	(48,659)	(4,069)	(87,350)	0	(79)	0	(143,385)
Net Book Value								
At 31 March 2012	104,439	551,715	5,120	152,650	13,164	4,399	30,519	862,005
At 31 March 2011	102,667	585,882	5,030	158,940	10,032	3,776	5,388	871,715

Comparative Movements 2010/2011 Restated	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Tangible Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2010	138,538	645,975	4,777	191,509	6,256	2,095	13,039	1,002,190
Additions	2,597	17,437	3,319	36,936	2,376	0	3,763	66,427
Revaluation increases/decreases recognised in the Revaluation Reserve	0	(1,099)	0	0	1,557	(208)	0	250
Revaluation increases/decreases recognised in the Surplus/Deficit on the Provision of Services	(34,150)	(2,057)	(8)	0	(141)	(192)	0	(36,548)
Derecognition – disposals	(369)	(287)	0	0	(2)	0	0	(657)
Derecognition - other	0	(3,006)	0	0	(15)	3,021	0	0
Assets reclassified (to)/from Held for Sale	0	(905)	0	0	0	(940)	0	(1,845)
Other movements in cost or valuation	0	(18,112)	0	0	0	0	(11,414)	(29,526)
As at 31 March 2011	106,617	637,945	8,088	228,445	10,032	3,776	5,388	1,000,291
Accumulated Depreciation and Impairment								
As at 1 April 2010	(1,711)	(37,246)	(2,530)	(53,495)	0	0	0	(94,982)
Depreciation charge	(2,239)	(17,182)	(528)	(16,013)	0	0	0	(35,962)
Depreciation written out to the Revaluation Reserve	0	212	0	0	0	0	0	212
Depreciation written out to the Surplus//Deficit on the Provision of Services	0	195	0	3	0	0	0	198
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition – disposals	0	5	0	0	0	0	0	5
Derecognition - other	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	121	0	0	0	0	0	121
Other movements in depreciation and impairment	0	1,831	0	0	0	0	0	1,831
At 31 March 2011	(3,950)	(52,063)	(3,058)	(69,505)	0	0	0	(128,576)
Net Book Value								
At 31 March 2011	102,667	585,882	5,030	158,940	10,032	3,776	5,338	871,715
At 31 March 2010	136,827	608,729	2,246	138,014	6,256	2,095	13,039	907,208

Depreciation

Depreciation is calculated using a straight line basis and the following useful lives have been used in the computation of depreciation:

- - Council Dwellings – 60 years
- - Other Land and Buildings – 30 to 60 years
- - Vehicles, Plant, Furniture & Equipment – 5 to 30 years
- - Infrastructure – 30 years

Capital Commitments

During the financial year 2011-2012 the only significant contractual commitments (in excess of £4 million) that the Council had entered into for the construction and enhancement of property, plant and equipment related to three new Academies. As at 31st March 2012, the outstanding liability against these three contracts amounts to £49,412,381.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years and all valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

Inspections

In accordance with the relaxations agreed between the RICS and CIPFA, not all properties were inspected in their entirety. This was neither practical nor considered necessary for the purpose of this revaluation. However, external visual Inspections were carried out on all these properties.

Information from other parts of the Council

For the purposes of this Certificate, we have in some instances had to rely upon information regarding the properties provided to us by other Departments within Medway Council and our valuations are dependent on the accuracy of the information supplied and/or the assumptions made. If these prove to be incorrect or inadequate then they could affect the accuracy of the valuations.

Title

We have not undertaken any local searches or inspected Title Deeds, Planning Consents, Statutory Notices, Licences or other documents relating to the properties (except where indicated). We cannot therefore comment as to whether the construction or condition, use or intended use of the property was, is or will become unlawful or is in breach any covenant.

Unless stated otherwise, we have assumed that good title can be shown with no unusual or onerous restrictions, encumbrances or outgoing.

Planning proposals

We have not made formal written enquiries of the Planning Department to ascertain if there are any proposals likely to affect specific properties.

Unless stated in the individual valuations, we have assumed there are no planning proposals that are likely to have an effect on the value of a property.

Construction and state of repair

We have not undertaken a structural survey nor tested the service installations.

Where properties have been inspected those parts of the property that are covered, unexposed or inaccessible have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report 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.

We have assumed all properties comply with the Equality Act 2010.

Unless we are aware that a building has a limited economic life, or this is clear from inspection, we have assumed a reasonable standard of repair and that all reasonable internal and external repairs and maintenance have been carried out. We have further assumed that such repairs do not constitute improvement to the building and do not have a material effect on asset value.

Deleterious or hazardous substances

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and we are therefore unable to report that the properties are free from risk in this respect.

For the purpose of this valuation we have assumed that such investigation would not disclose the presence of any such material in any adverse conditions.

Environmental Assessment

Unless stated on the appropriate Valuations, we are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on these properties and which may draw attention to any contamination or possibility of any such contamination.

We have not carried out any investigation into past or present uses of the properties or of any neighbouring land to establish whether there is any potential for contamination and therefore we have 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 affect these properties.

We have assumed, unless stated otherwise, that there has been no recent flooding affecting these properties 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 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 (if applicable)

Not applicable

Valuation Commentary

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

- a) No specific allowance has been made for any under or over capacity arising from the use and occupation of individual operational properties. Where appropriate, this is reflected in the assessment of remaining useful life and depreciation for age and obsolescence.
- b) 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%. The cap assumes that basic health & safety/legal requirements have been complied with and that basic service provision is able to continue on the site.
- c) 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 £14.903m have achieved academy status between 01.04.11 and 31.03.12 and therefore have been removed from the balance sheet for the 2011/12 financial statements. In addition there are likely to be schools with a value of £16.090m that will achieve academy status between 01.04.12 and 31.03.13.

7. Heritage Assets

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

	Buildings £'000	Furniture £'000	Silver / Gold Collections £'000	Art Collections £'000	Other £'000	Total Assets £'000
Cost or Valuation						
1 April 2010	9,421	245	770	1,107	3,051	14,594
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Revaluations	0	0	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	0	0	0	0	0	0
Depreciation	0	0	0	0	0	0
31 March 2011	9,421	245	770	1,107	3,051	14,594
Cost or Valuation						
1 April 2011	9,421	245	770	1,107	3,051	14,594
Additions	47	0	0	0	0	47
Disposals	0	0	0	0	0	0
Revaluations	(280)	24	9	105	(602)	(744)
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	0	0	0	0	0	0
Depreciation	0	0	0	0	0	0
31 March 2012	9,188	269	779	1,212	2,449	13,897

Heritage Buildings

The Authority's Heritage Buildings are all held at insurance value. 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 manages 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 of and advance their knowledge of the property.

Brook Pumping Station does house 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 of and advance their knowledge of the property.

Upnor Castle is not included under Heritage Buildings as this is in the freehold ownership of Crown Estates. Medway Council manages the day to day care of this property and also insures it at an agreed value with English heritage.

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

These items are all held at insurance value. The majority of the Council'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	2011/2012 £'000	2010/2011 £'000
Rental income from investment property	356	387
Direct operating expenses arising from investment property	(3)	0
Net gain/(loss)	353	387

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

Investment Properties	31 March 2012 £'000	31 March 2011 £'000
Balance at start of year	5,735	5,916
Net gains/(loss) from fair value adjustments	0	(119)
Transfers (to)/from Property, Plant and Equipment	0	(62)
Balance at end of year	5,735	5,735

9. Financial Instruments

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

Financial Instruments	Long-term		Current	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
	£'000	£'000	£'000	£'000
Investments				
Loans and Receivables	0	0	25,275	30,139
Available for sale financial assets	5	4	0	0
Fair value through profit or loss	0	0	22,820	22,460
Total Investments	5	4	48,095	52,599
Debtors				
Loans and Receivables	740	762	0	0
Total Debtors	740	762	0	0
Borrowings				
Financial liabilities at amortised cost	(174,171)	(165,072)	(11,680)	(11,659)
Financial liabilities at fair value through profit and loss	0	0	0	0
Total Borrowings	(174,171)	(165,072)	(11,680)	(11,659)
Other Long –Term Liabilities				
FRS 17 pensions liability	(217,494)	(136,776)	0	0
Finance lease liability	(3,123)	(4,045)	0	0
Total Other Long-Term Liabilities	(220,617)	(140,821)	0	0
Long-Term Creditors				
Financial liabilities at amortised cost	(45,858)	(47,746)	0	0
Financial liabilities carried at contract amount	0	0	0	0
Total Long-Term Creditors	(45,858)	(47,746)	0	0

Financial Instruments held for less than 3 months are classified as Cash and Cash Equivalent. Please see note 11.

Income, Expenses, gains and Losses

	2011/12					2010/11				
	Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and receivables £000s	Financial Assets: Available for sale £000s	Assets and Liabilities at Fair Value through Profit and Loss £000s	Total £000s	Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and receivables £000s	Financial Assets: Available for sale £000s	Assets and Liabilities at Fair Value through Profit and Loss £000s	Total £000s
Interest expense	(9,590)	0	0	0	(9,590)	(10,084)	0	0	0	(10,084)
Losses on derecognition	0	0	0	0	0	0	0	0	0	0
Reductions in fair value	0	0	0	0	0	0	0	0	0	0
Fee expense	0	0	0	0	0	0	0	0	0	0
Total expense in Surplus or Deficit on the Provision of Services	(9,590)	0	0	0	(9,590)	(10,084)	0	0	0	(10,084)
Interest income	0	1,690	1	398	2,089	0	1,347	1	261	1,609
Interest income accrued on impaired financial assets	0	0	0	0	0	0	0	0	0	0
Increases in fair value	0	0	0	0	0	0	0	0	0	0
Gains on derecognition	0	0	0	0	0	0	0	0	0	0
Fee income	0	0	0	0	0	0	0	0	0	0
Total income in Surplus or Deficit on the Provision of Services	0	1,690	1	398	2,089	0	1,347	1	261	1,609
Gains on revaluation	0	0	0	0	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0	0	0	0	0
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	0	0
Net gain/(loss) for the year	(9,590)	1,690	1	398	(7,501)	(10,084)	1,347	1	261	(8,475)

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 2012		31 March 2011	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial liabilities	185,740	182,368	176,595	179,414
Long-term creditors	45,858	45,858	47,746	47,746

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

	31 March 2012		31 March 2011	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and receivables	42,682	42,837	47,062	46,975
Long-term debtors	740	740	762	762

The fair value of the assets is higher than the carrying amount because the Authority's portfolio of investments includes some fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date.

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

10. Debtors

	31 March 2012	31 March 2011
	£'000	£'000
Central government bodies	8,169	26,567
Other Local Authorities	2,116	1,983
NHS bodies	3,018	974
Public corporations and trading funds	1,106	2,017
Bodies external to general government	21,486	20,830
Total Debtors	35,895	52,371

At the end of March 2012 £3,939,000 overpayment of housing benefit was unrecovered (March 2011 £3,643,000). It is the Council's policy to account for recovery of overpaid benefit on a cash basis and therefore this balance of debtors is, in effect, negated by a 100% provision for bad debts. Income within the Income and Expenditure account has consistently been allocated on a cash receipt basis. This is regarded as the most prudent process regarding the outstanding debt. Amounts received in 2011/12 were £699,000 (2010/11 £719,000).

11. Cash and Cash Equivalents

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

31 March 2011	Cash and Cash Equivalents	31 March 2012
£'000		£'000
24	Cash held by the Council	24
3,673	Bank current accounts	(2,288)
16,923	Short-term deposits with financial institutions	17,408
20,620	Total Cash & Cash Equivalents	15,144

12. Assets Held for Sale

	Current		Non-Current	
	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000
Balance Outstanding at start of year	1,845	3,748	0	0
Assets newly classified as held for sale:				
▪ Property, Plant and Equipment	0	1,845	0	0
▪ Intangible Assets	0	0	0	0
▪ Other assets/liabilities in disposal groups		0	0	0
Revaluation Losses	(156)	0	0	0
Revaluation Gains	120	0	0	0
Impairment Losses	0	0	0	0
Assets declassified as held for sale:				
▪ Property, Plant and Equipment	0	0	0	0
▪ Intangible Assets	0	0	0	0
▪ Other assets/liabilities in disposal groups	0	0	0	0
Assets sold	(600)	(3,748)	0	0
Transfers from non-current to current	0	0	0	0
Other movements	0	0	0	0
Balance Outstanding at year end	1,209	1,845	0	0

13. Creditors

	31 March 2012	31 March 2011
	£'000	£'000
Central government bodies	5,039	6,926
Other Local Authorities	8,783	6,134
NHS bodies	474	3,148
Public corporations and trading funds	4,654	8,910
Bodies external to general government	24,892	30,532
Total Creditors	43,842	55,650

14. Provisions

	Insurance Provision £000s	Other Provisions £000s	Total £000s
Balance as at 1 April 2011	2,807	467	3,274
Additional provision made in 2011/12	1,448	200	1,648
Amounts used in 2011/12	(1,339)	0	(1,339)
Balance as at 31 March 2012	2,916	667	3,583

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2012 in line with FRS 12. The majority of the unsettled claims are for public liability.

15. Usable Reserves (As per MiRS)

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

16. Unusable Reserves

31 March 2011		31 March 2012
£'000		£'000
102,374	Revaluation Reserve	113,825
548,191	Capital Adjustment Account	511,907
(136,776)	Pensions Reserve	(217,493)
(1,103)	Financial Instruments Adjustment Account	(1,218)
0	Collection Fund Adjustment Account	(339)
(4,509)	Accumulated Absences Account	(3,540)
508,177	Total Unusable Reserves	403,142

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council 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.

2010/11 Restated £'000	Revaluation Reserve	2011/12	
		£'000	£'000
104,753	Balance as at 1 April		102,374
11,254	Upward revaluation of assets	19,354	
(10,879)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(6,431)	
375	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		12,923
0	Difference between fair value depreciation and historical cost depreciation	(2,128)	
(2,753)	Accumulated gains on assets sold or scrapped	655	
(2,753)	Amount written off to the Capital Adjustment Account		(1,473)
102,374	Balance as at 31 March		113,825

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.

2010/11 Restated		2011/12	
		£'000	£'000
595,560	Balance as at 1 April		548,191
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(35,790)	• Charges for depreciation and impairment of non-current assets	(38,841)	
(36,548)	• Revaluation gains/(losses) on Property, Plant and Equipment	(30,043)	
(28,631)	• Revenue Expenditure funded from Capital Under Statute	(14,770)	
	• 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	(16,430)	
(657)			
(101,626)			(100,084)
2,753	Adjusting amounts written out of the Revaluation Reserve	1,473	
0	HRA Self Financing Settlement	(19,144)	
(22,753)	Other adjustments	4,183	
(20,000)	Net written out amount of the cost of non-current assets consumed in the year		(13,488)
	Capital financing applied in the year:		
5,751	• Use of Capital Receipts Reserve to finance new capital expenditure	4,051	
1,862	• Use of the Major Repairs Reserve to finance new capital expenditure	5,855	
57,713	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	52,132	
295	• Application of grants to capital financing from the Capital Grants Unapplied Account	5,944	
7,838	• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,331	
917	• Capital expenditure charged against the General Fund and HRA balances	1,975	
74,376			77,288
(120)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		0
548,191	Balance as at 31 March		511,907

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.

2010/11 £'000		2011/12 £'000
(988)	Balance as at 1 April	(1,103)
(115)	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	(115)
(1,103)	Balance as at 31 March	(1,218)

Pensions Reserve

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

2010/11 £'000		2011/12 £'000
(265,235)	Balance as at 1 April	(136,776)
85,464	Actuarial gains or losses on pension assets and liabilities	(84,657)
23,242	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	(12,895)
19,753	Employer's pensions contributions and direct payments to pensioners payable in the year	16,835
(136,776)	Balance as at 31 March	(217,493)

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.

2010/11 £'000		2011/12 £'000
609	Balance as at 1 April	0
(609)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(339)
0	Balance as at 31 March	(339)

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.

2010/2011 £'000		2011/2012 £'000
(4,469)	Balance as at 1 April	(4,509)
(40)	Movement in the value of the accumulated leave account	969
(4,509)	Balance as at 31 March	(3,540)

17. Cash Flow Statement – Operating Activities

The net surplus or deficit on the provision of services within the Comprehensive Income and Expenditure Statement includes some transactions which do not result in cash flows when deriving the net cash flows from operating activities. The following tables detail these non-cash movements and items that are investing and financing activities:

2010/11 Restated £'000		2011/12 £'000
(35,927)	Depreciation and amortisation	(27,573)
(36,753)	Impairment and downward valuations	(42,596)
218	Carrying amount of PPE, Investment Property and Intangible assets sold	(16,434)
42,995	Pensions Reserve	(29,730)
(115)	Financial Instrument Adjustments	123
5,513	Other adjustments	2,618
(2,243)	Contributions to / (from) provisions	1,572
(21)	Increase / decrease in inventories	37
(8,419)	(Increase) / decrease in debtors/payments in advance	(16,198)
5,366	(Increase) / decrease in creditors/income in advance	15,010
(29,386)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(113,171)
59,949	Capital grants & contributions credited to surplus/deficit on the provision of services	49,542
4,220	Proceeds from the sale of PPE, Investment Property and Intangible Assets	3,535
34,783	Net Cash flows from operating activities	(60,094)

2010/11 Restated £'000		2011/12 £'000
The cash flows for operating activities include the following items:		
(1,674)	Interest received	(2,184)
10,886	Interest paid	10,513

18. Cash Flow – Investing Activities

2010/11 £'000		2011/12 £'000
80,933	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	76,005
581,230	Purchase of short-term and long-term investments	25,000
0	Other payments for investing activities	0
(4,220)	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(3,756)
(601,227)	Proceeds from the sale of short-term and long-term investments	(30,000)
(59,949)	Other receipts from investing activities	(52,132)
(3,233)	Net cash flows from investing activities	15,117

19. Cash Flow – Financing Activities

2010/11 £'000		2011/12 £'000
(10,005)	Cash receipts of short - and long-term borrowing	(19,144)
0	Other receipts from financing activities	12,791
0	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	0
35,046	Repayments of short - and long-term borrowing	10,037
151	Other payments for financing activities	12
25,192	Net cash flows from financing activities	3,696

20. 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 Best Value Accounting Code of Practice. However, decisions about resource allocation are made by the Council on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

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

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

Directorate Income and Expenditure 2011/2012	Children and Adult Services	Regeneration, Community and Culture	Business Support	Public Health	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(33,947)	(23,919)	(35,961)	(2,136)	(95,963)
Government Grants	(19,039)	(1,172)	(122,354)	(10)	(142,575)
Total Income	(52,986)	(25,091)	(158,315)	(2,146)	(238,538)
Employee Expenses	155,637	22,324	27,409	315	205,685
Other service expenses	164,464	51,263	133,802	2,042	351,571
Support service recharge	5,695	5,514	8,133	1	19,343
Depreciation	12,624	21,456	1,021	0	35,101
Total Expenditure	388,420	100,557	170,365	2,358	611,700
Net Expenditure	285,43	75,46	12,050	212	373,16
Directorate Income and Expenditure 2010/11 Comparative Figures (Restated)	Children and Adult Services	Regeneration, Community and Culture	Business Support	Public Health	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(48,377)	(32,943)	(41,304)	(744)	(123,368)
Government Grants	(64,584)	(3,201)	(115,424)	(183)	(183,392)
Total Income	(112,961)	(36,144)	(156,728)	(927)	(306,760)
Employee Expenses	195,953	22,636	32,974	431	251,994
Other service expenses	182,946	60,606	129,970	857	374,379
Support service recharge	6,986	5,696	10,067	40	22,789
Depreciation	13,092	20,136	784	0	34,012
Total Expenditure	398,977	109,074	173,795	1,328	683,174
Net Expenditure	286,01	72,93	17,067	401	376,41

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.

	2011/12	2010/11 (Restated)
	£'000	£'000
Net expenditure in Directorate analysis	373,162	376,414
Net expenditure of services and support services not included in the Analysis	17,575	(1,241)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(110,743)	(151,298)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(93,168)	(152,539)
Cost of Services in Comprehensive Income and Expenditure Statement	279,994	223,875

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.

2011/12	Directorate Analysis	Services not in Analysis- HRA	Amounts not Reported to Management for decision making	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(95,962)	(12,494)	9,529	(98,927)	(161)	(99,088)
Interest and investment income	0	(107)	107	0	(2,540)	(2,540)
Income from Council tax	0	0	0	0	(98,524)	(98,524)
Government grants and contributions	(142,575)	(7)	(148,313)	(290,895)	(161,792)	(452,687)
Total Income	(238,537)	(12,608)	(138,677)	(389,822)	(263,017)	(652,839)
Employee Expenses	205,685	1,301	(8,154)	198,822	3,255	202,077
Other service expenses	351,570	4,962	4,612	361,144	10,970	372,114
Support service recharge	19,343	716	0	20,059	0	20,059
Depreciation, amortisation and impairment	35,101	2,297	31,486	68,884	0	68,884
Precepts and levies	0	0	0	0	1,379	1,379
Payments to Housing Capital Receipts Pool	0	20,907	0	20,907	0	20,907
Gain or loss on disposal of fixed assets	0	0	0	0	14,176	14,176
Total Expenditure	611,699	30,183	27,934	669,816	29,780	699,596
(Surplus)/Deficit on the provision of services	373,162	17,575	(110,743)	279,994	(233,237)	46,757

2010/11 Comparative Figures (Restated)	Directorate Analysis	Services not in Analysis-HRA	Amounts not Reported to Management for decision making	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(98,577)	(11,990)	(2,814)	(113,381)	0	(113,381)
Interest and investment income	0	0	0	0	(2,199)	(2,199)
Income from Council tax	0	0	0	0	(97,601)	(97,601)
Government grants and contributions	(208,183)	(4)	(160,753)	(368,940)	(166,589)	(535,529)
Pension Adjustment	0	0	(4,569)	(4,569)	0	(4,569)
Total Income	(306,760)	(11,994)	(168,136)	(486,890)	(266,389)	(753,280)
Employee Expenses	251,994	1,455	177	253,626	0	253,626
Other service expenses	374,379	6,382	27,927	408,688	11,201	419,888
Support service recharge	22,789	677	0	23,466	0	23,466
Depreciation, amortisation and impairment	34,012	2,239	2,170	38,421	396	38,817
Precepts and levies	0	0	0	0	1,223	1,223
Payments to Housing Capital Receipts Pool	0	0	0	0	180	180
Gain or loss on disposal of fixed assets	0	0	34,051	34,051	(128)	33,923
Pension Adjustments	0	0	(47,486)	(47,486)	9,037	(38,449)
Total Expenditure	683,174	10,753	16,838	710,865	21,909	732,674
(Surplus)/Deficit on the provision of services	376,414	(1,241)	(151,298)	223,875	(244,481)	(20,605)

21. Pooled Budgets

Whilst the Council continues to operate a number of joint funded initiatives with the PCT, in relation to public health, adult social care and preventative childrens services, as well as services delivered with NHS funding under Section 256 of the National Health Services Act 2006, there are no longer any formal pooled budget arrangements under Section 75 of the Act.

22. Members' Allowances

In 2011/12 a total of £810,000 (2010/11 £812,000) was paid to the Council's 55 members in respect of allowances. Full details can be found on the Council's website from the following link:

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

23. Officers' Remuneration

The remuneration paid to the Authority's senior employees is as follows:

Post	Salary	Fees and Allowances	Expenses	Total Excluding Pension Contribution	Pension Contribution	Total
	£	£	£	£	£	£
Chief Executive	146,640	8,397	85	155,122	28,730	183,852
Director of Children's Services	120,706	13,130	0	133,836	24,765	158,601
Director of Regeneration, Community & Culture	117,106	13,130	40	130,276	24,063	154,339
Assistant Director Customer First, Leisure, Democracy & Governance	84,977	13,479	0	98,456	18,318	116,774
Assistant Director Lifelong Learning	0	5,786	0	5,786	629	6,416
Assistant Director Development, Economy & Transport	84,977	5,213	120	90,310	16,706	107,016
Assistant Director Front Line Services	84,977	5,213	0	90,190	16,706	106,896
Assistant Director Communications, Performance & Partnerships	84,977	8,403	0	93,380	17,328	110,708
Assistant Director Housing & Corporate Services	70,495	14,411	0	84,906	15,818	100,724
Chief Finance Officer	82,629	19,945	0	102,574	19,121	121,695
Head of Medway Renaissance	0	17,454	31	17,484	0	17,484
Assistant Director Organisational Services	82,629	8,924	0	91,553	16,981	108,534
Assistant Director Children's Care	80,291	5,213	11	85,515	15,792	101,307
Assistant Director Commissioning & Strategic Development	75,666	5,213	0	80,879	14,890	95,769
Assistant Director Inclusions	71,057	5,213	0	76,270	13,992	90,262
Assistant Director Social Care	66,453	5,213	0	71,666	13,094	84,760

Comparative figures for 2010/11 are as follows:

Post	Salary £	Fees and Allowances £	Expenses £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive	146,640	8,397	168	155,205	31,382	186,587
Director of Children's Services	118,406	13,130	0	131,536	26,561	158,097
Director of Regeneration, Community & Culture	114,726	13,130	75	127,931	25,777	153,708
Assistant Director Customer First, Leisure, Democracy & Governance	84,977	10,479	0	95,456	19,370	114,826
Assistant Director Lifelong Learning	74,691	13,667	51	88,409	17,858	106,267
Assistant Director Development, Economy & Transport	84,977	5,213	56	90,246	18,248	108,494
Assistant Director Front Line Services	84,977	5,213	0	90,190	18,248	108,438
Assistant Director Communications, Performance & Partnerships	84,977	8,403	0	93,380	18,928	112,308
Assistant Director Housing & Corporate Services	84,560	18,503	0	103,063	20,990	124,053
Chief Finance Officer	82,629	19,379	0	102,008	20,765	122,773
Head of Medway Renaissance	82,629	18,457	273	101,359	20,577	121,936
Assistant Director Organisational Services	82,629	8,403	0	91,032	18,427	109,459
Assistant Director Children's Care	78,836	5,213	35	84,084	16,940	101,024
Assistant Director Commissioning & Strategic Development	72,400	5,213	0	77,613	15,569	93,182
Assistant Director Inclusions	67,774	5,213	25	73,012	14,584	87,596
Assistant Director Social Care	64,968	11,213	0	76,181	13,986	90,167

The Council'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	
	2011/12	2010/11	2011/12	2010/11
£50,000 to £54,999	48	111	29	29
£55,000 to £59,999	22	43	12	14
£60,000 to £64,999	17	36	31	42
£65,000 to £69,999	14	33	9	10
£70,000 to £74,999	12	18	0	2
£75,000 to £79,999	3	4	0	1
£80,000 to £84,999	5	1	1	1
£85,000 to £89,999	2	6	0	0
£90,000 to £95,999	2	1	0	0
£95,000 to £99,999	2	4	0	0
£100,000 to £104,999	1	0	0	0
£105,000 to £109,999	0	1	0	0
£110,000 to £114,999	0	1	0	0
£115,000 to £119,999	0	1	0	0
£120,000 to £124,999	0	2	0	0
£125,000 to £129,999	1	1	0	0
Total	129	263	82	99

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	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
							£	£
£0 –	99	118	83	95	182	213	966,091	1,046,682
£20,000								
£20,001 -	10	13	14	11	24	24	640,804	702,616
£40,000								
£40,001 -	0	2	5	9	5	11	237,516	544,233
£60,000								
£60,001 -	1	1	1	2	2	3	139,654	199,888
£80,000								
£80,001 -	0	0	0	0	0	0	0	0
£100,000								
£100,001 -	0	0	0	2	0	2	0	219,717
£150,000								
Total	110	134	103	119	213	253	1,984,064	2,713,135

24. External Audit Costs

The following amounts were paid 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 Council's external auditors:

	2011/12	2010/11
	£'000	£'000
Fees payable to [external auditors] with regard to external audit services carried out by the appointed auditor for the year	344	349
Fees payable to [external auditors] in respect of statutory inspections	0	0
Fees payable to [external auditors] for the certification of grant claims and returns for the year	52	85
Fees payable in respect of other services provided by [external auditors] during the year	0	0
Total	396	434

25. Dedicated Schools Grant

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

During 2011/12 the Council incurred an underspend of £1,472,000 on DSG services. After taking account of the surplus of £630,000 brought forward from 2010/11 a surplus of £2,102,000 was carried forward to 2012/13.

An analysis of the DSG for 2011/12 is provided in the table below:

	Central Expenditure	ISB	Total
	£'000	£'000	£'000
Budgeted DSG in 2011/12	22,660	175,130	197,790
Difference between budgeted and actual DSG	755	(50,254)	(49,499)
Final DSG for 2011/12	23,415	124,876	148,291
Brought forward from 2010/11	630	0	630
Carry forward to 2012/13 agreed in advance	0	0	0
DSG available in 2011/12	24,045	124,876	148,921
Actual central expenditure	(21,941)	0	(21,941)
Actual ISB deployed to schools	0	(124,878)	(124,878)
Local authority contribution for 2011/12	0	0	0
Carry forward to 2012/13	2,104	(2)	2,102

26. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

	2011/12 £'000	2010/11 £'000
Credited to Taxation and Non Specific Grant Income		
Formula Grant / Revenue Support Grant	0	10,794
Redistributed National Non-Domestic Rates	86,096	74,336
Area Based Grant	438	16,199
Early Intervention Grant	10,303	0
New Homes Bonus	1,229	0
Learning Disability and Health Reform Grant	9,098	0
Recognition of Capital Grants and Contributions	52,132	65,261
Total	159,296	166,589
Credited to Services		
<u>Department for Education (formally Department for Children, Schools and Families)</u>		
- Dedicated Schools Grant	148,290	158,345
- School Standards Grant	3,300	7,892
- Pupil Premium Grant	2,305	18,153
- DFE Other	1,169	8,207
Department of Health	1,069	762
<u>Department for Communities and Local Government</u>		
- Supporting People Grant	0	70
- DCLG Other	3,193	300
Department of Transport	596	1,546
Home Office	122	2,032
Learning and Skills Council	6,938	28,217
Tax Collection & Benefit Administration	2,589	2,715
Benefit Subsidy	117,125	109,645
DEFRA	299	8
Skills Funding Agency	2,146	0
Public Service Agreement	0	41
Other Miscellaneous Grants	955	10,661
Contributions from NHS Partners	2,747	13,572
Contributions from the Youth Justice Board	487	823
Contributions from Other Local Authorities	0	2,203
Miscellaneous Contributions	60	1,336
Total	293,390	366,528

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:

Current Liabilities	31/03/2012 £'000	31/03/2011 £'000
Capital Grants Receipts in Advance (Capital Grants)		
Section 106	7,329	7,822
Total	7,329	7,822

27. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council 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 Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council 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 20 on reporting for resources allocation decisions.

Members

The Council holds a statutory register of members' declarations covering employment, sponsorship, property and land holdings, contracts with the Council etc. Members and senior officers declare any pecuniary interest in committee items prior to their debate. The Council also holds a Register of Interest relating to members and senior officers. These registers are open to inspection by members of the public.

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

One Member of the Council is a non-executive director of Medway Community Healthcare. During the year the Council received £411,505 million from Medway Community Healthcare and paid £527,594 in respect of various services.

One member of the Council has declared that a member of his household is the Chief Executive of Medway District CAB Ltd. The Council made payments to the organisation amounting to £479,498 during 2011/12.

Action for Borstal Community Project – One member represents the Council. The Council made payments to the organisation amounting to £75,803 during 2011/12.

Age Concern Chatham – is a stand alone independent not for profit charity for people aged 50+. One member is a trustee. The Council made payments to the organisation amounting to £87,588 during 2011/12.

Alzheimer's & Dementia Family Support – provides information and advice to families and friends caring for a loved on affected by Alzheimer's or Dementia. One member has an association with this support group. The Council made payments to the organisation amounting to £44,671 during 2011/12.

Chatham Historic Dockyard Trust (CHDT) – Two members are associated with the trust which is set up to secure for the public benefit the preservation and use of the Historic Dockyard at Chatham in a manner appropriate to its archaeological, historical and architectural importance and promote and foster for the public benefit a wide knowledge and understanding of the significance of the dockyard. The Council made payments to the Trust amounting to £84,863 during 2011/12.

Fort Amherst Heritage Trust – One member is associated with the Trust, which manages the 18th century fort as a popular visitor attraction. The Council made payments to the Trust amounting to £38,117 during 2011/12.

Groundwork Kent & Medway – helps people and organisations make changes in order to create better neighbourhoods, to build skills and job prospects and to live and work in a greener way. One member is associated with this Organisation. The Council made payments to the Organisation amounting to £30,786 during 2011/12.

Norma's Catering Ltd – One member and his wife are associated with this company that on occasions provides catering to the Council. The Council made payments to the Organisation amounting to £8,465.45 during 2011/12.

Parkwood Youth Centre – provides a range of activities for children. One member has an association with this organisation. The Council made payments to the Organisation amounting to £30,345 during 2011/12.

Strood Youth Centre – provides a range of activities for children. One member is the Council's representative with this organisation. The Council made payments to the Organisation amounting to £14,081 during 2011/12.

Rochester Bridge Trust (RBT) – Two members have an association with this Trust, the main purpose of which is to maintain and improve the Medway Tunnel, bridges and associated riverbanks in order to facilitate passage over, under or across the River Medway. There were no financial transactions between the Council and the Trust during 2011/12.

Sunlight Development Trust – is a community owned organisation that works with partners across all Sectors. Its overriding aim is to improve health, inequality and well being. One member is Chair of the Trustees. The Council made payments to the Trust amounting to £135,319 during 2011/12.

Thames Gateway North Kent Partnership (TGKP) – One member represents the Council, in common with neighbouring authorities and Kent County Council, is a board member of TGKP. The aims and objectives of the partnership are to provide a strong and effective partnership to bring about a high-quality sustainable economic development and regeneration of the whole Thames Gateway Kent areas, to promote economic and social investment and equality of opportunity and to create employment, community and environmental benefits for local people, businesses and employees, reflecting their needs and aspirations. The Council contributed £56,000 to the Partnership in 2011/12.

Officers

One senior officer is a board member of Locate in Kent, a company funded and supported by Kent County Council, South East England Development Agency (SEEDA), East Kent Partnership, Medway Council, local councils and the Kent Developers Group which provide a free, comprehensive and confidential relocation service to help businesses benefit from the Kent's unique locational advantages. The Council contributed £15,000 to the company in 2011/12.

One senior officer is a Governor of Canterbury Christchurch University. The University took over the assignment of the lease of blocks D and E of the compass Centre from the Council. The total value of transaction from the Council to the University was £177,676 in 2011/12.

One senior officer sits as Medway Council's representative on the Bishop of Rochester Academy Trust. The academy has secured some services from the Council to the value of £95,280 in 2011/12. Transactions from the Council to the Academy amounted to £144,384 in 2011/12.

One senior officer is a board member of Visit Kent (The official Kent Tourism website). The Council contributed £26,686 to the Visit Kent in 2011/12.

One senior officer is the Chair of Officer on The Thames Gateway Kent Partnership. The aims and objectives of the partnership are to provide a strong and effective partnership to bring about a high-quality sustainable economic development and regeneration of the whole Thames Gateway Kent areas, to promote economic and social investment and equality of opportunity and to create employment, community and environmental benefits for local people, businesses and employees, reflecting their needs and aspirations. The Council contributed £56,000 to the Partnership in 2011/12.

One senior officer has an association with The Kent Architecture Centres. The Kent Architecture Centre is a not-for-profit, social enterprise that assists in place-making and provides design support. This organisation received transactions from the Council of £25,029 in 2011/12.

Other Public Bodies

Other than transactions disclosed elsewhere within these accounts (e.g. note 23), there are no other disclosures required in respect of Related Party Transactions

28. Capital Expenditure and Capital Financing

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

	2011/12 £'000	2010/11 £'000
Capital Investment		
Property Plant and Equipment	61,236	52,022
Investment Properties	0	0
Revenue Expenditure Funded from Capital under Statute	14,770	27,927
Total	76,006	79,949
Sources of Finance		
Capital receipts	(4,051)	(5,751)
Government grants and other contributions	(63,931)	(60,092)
Sums set aside from revenue	(1,975)	(211)
Direct revenue contributions	0	0
Borrowing	(6,049)	(13,895)
Total	(76,006)	(79,949)

The CFR at 31 March 2012 was £262,351,994 (31 March 2011 £239,623,906).

29. Leases

Council as Lessee

Finance Leases

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

The Council has finance lease arrangements however, in respect of what is termed embedded leases. Embedded leases are where assets, although not owned by the Council, are used primarily by the Council 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 2012 £'000	31 March 2011 £'000
Vehicles, Plant & Equipment	3,123	3,700

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 2012 £'000	31 March 2011 £'000
Finance lease liabilities (net present value of minimum lease payments) :		
• current	0	0
• non-current	2,508	3,155
Finance costs payable in future years	1,093	1,118
Minimum Lease Payments	3,601	4,273

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

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2012 £'000	31 March 2011 £'000	31 March 2012 £'000	31 March 2011 £'000
Not later than one year	698	698	606	647
Later than one year and not later than five years	2,877	3,064	1,902	2,126
Later than five years	0	511	0	382
	3,575	4,273	2,508	3,155

Operating Leases

The Council 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 2012 £'000	31 March 2011 £'000
Not later than one year	1,880	1,840
Later than one year and not later than five years	2,884	3,582
Later than five years	2,645	5,408
Total	7,409	10,831

Council as Lessor

Operating Leases

The Council 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 form local businesses;

The future minimum lease payments receivable are:

	31 March 2012 £'000	31 March 2011 £'000
Not later than one year	865	828
Later than one year and not later than five years	2,427	1,660
Later than five years	16,776	16,988
Total	20,068	19,476

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 2011/12 £771,134 contingent rents were receivable by the Authority (2010/11 £983,221).

30. Impairment Losses

During 2011/12 the Council did not recognise any impairment losses.

31. Termination Benefits

During the year the Council terminated the contracts of a number of employees across a range of services. The Council incurred liabilities of £2,713,135 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, £6,416 relates to the Assistant Director for Lifelong Learning and £17,484 to the Head of Medway Renaissance in the form of compensation for loss of office and enhanced pension benefits as disclosed in Note 23. The remaining £2,689,235 was payable on 136 redundancies owing to school reorganisation and a further 145 local authority based staff who were made redundant as part of the Authority's rationalisation as a result of 'Better for Less', the Education White Paper, disbanding Medway Renaissance and other restructuring exercises in response to Government funding cuts.

32. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council 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 Council 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 Council is not able to identify its share of 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 2011/12, the Authority paid £8,741,667 to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £11,748,790 and 14.1% and the significant reduction can be explained as the impact of Academy conversions. There were no contributions remaining payable at the year-end.

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.

33. Defined Benefit 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 Council 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 Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post Employment Benefits

The Council 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 required 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 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:

	2011/12	2010/11
	£'000	£'000
Comprehensive Income and Expenditure Statement		
<i>Cost of Services</i>		
• current service costs	14,987	21,822
• past service costs	(5,347)	(54,192)
• settlements and curtailments		
<i>Financing and Investment Income and Expenditure</i>		
• interest cost	23,421	27,515
• expected return on scheme assets	(20,166)	(18,387)
<i>Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services</i>	12,895	(23,242)
<i>Other Post Employment benefit charged to the Comprehensive Income and Expenditure Statement</i>		
• actuarial gains and losses	84,657	(85,464)
<i>Total Post Employment benefit charged to the Comprehensive Income and Expenditure Statement</i>	84,657	(85,464)
<i>Movement in Reserves Statement</i>		
• reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	12,895	(23,242)
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
• Employers' contributions payable to scheme	16,835	19,753

The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement in the actuarial gains or losses on pensions assets and liabilities line was at 31 March 2012 a loss of £84,657,000 whilst at 31 March 2011 it was a gain of £85,464,000.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities

	2011/12	2010/11
	£'000	£'000
Opening balance 1 April	430,087	539,049
Current service cost	14,987	21,822
Interest cost	23,421	27,515
Contributions by scheme participants	5,019	5,727
Actuarial gains and losses	71,744	(93,761)
Benefits paid	(15,561)	(12,575)
Past service cost	0	(47,486)
Entity combinations	0	0
Curtailments	1,319	357
Settlements	(11,333)	(10,561)
Closing balance 31 March	519,688	430,088

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual loss on scheme assets in the year was £12.913 million (2010/11: loss of £8.297 million)

Scheme History

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Present value of liabilities:					
Local Government Pension Scheme	324,700	326,600	539,049	430,087	519,683
Fair value of assets in the Local Government Pension Scheme	324,700	326,600	539,049	430,087	519,683
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	(32,300)	(62,000)	56,495	(8,297)	(12,913)
Total	(32,300)	(62,000)	56,495	(8,297)	(12,913)

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total liability of £519.683 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £12.913 million. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2013 is £15.187 million.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Kent County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

	2011/12	2010/11
Long-term expected rate of return on assets in the scheme		
Equity Investments	6.30%	7.40%
Gilts	3.30%	4.40%
Bonds	4.60%	5.50%
Property	4.30%	5.40%
Cash	3.00%	3.00%
Longevity at 65 for current pensioners		
Men	20.0	19.8
Women	24.0	23.9
Longevity at 65 for future pensioners		
Men	22.0	21.9
Women	25.9	25.8
Rate of Inflation		
Rate of Inflation	2.50%	2.70%
Rate of increase in salaries	4.70%	5.00%
Rate of increase in pensions	2.50%	2.70%
Rate for discounting scheme liabilities	4.60%	5.50%
Take-up of option to convert annual pension into retirement lump sum		

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/2012 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
Differences between the expected and actual return on assets	(14.30)	(31.90)	20.60	(2.80)	(4.30)
Experience gains and losses on liabilities	(0.60)	(0.20)	0.40	7.60	0.00

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 2012, the Authority had two material contingent liabilities:

Medway, along with a number of Local Authorities, is the subject of litigation relating to the provision of services. There is a possibility that Medway will be liable to make refunds to the claimants, although the amount of any such refunds cannot yet be established. The intention is to seek an indemnity from central government for a large part of these claims if refunds do have to be paid, but the level of any such indemnity is as yet unknown. As the figures are unknown no provision has been made within the accounts and a contingent liability has been established.

MMI Scheme of Arrangement

Due to the recent Supreme Court judgement in the Mesothelioma Trigger Litigation there is a perceived to be a greater likelihood of Municipal Mutual Insurance (MMI) implementing their Scheme of Arrangement

This may have potential implications for Medway Council and its predecessor authorities going back to 1994 when the Scheme of Arrangement was created. In essence any claims which MMI have settled on our behalf since 1994, will be subject to clawback of a scheme levy, determined as a percentage of aggregate liabilities depending on the company's insolvency at the time

35. Contingent Assets

There were no known material contingent assets as at 31 March 2012.

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
- re-financing risk – the possibility that the authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- 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'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 Council'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 Poors 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 Sector. 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 per counterparty is £25 million for the in-house team and 20% of the managed portfolio with any counterparty for Investec (the current fund manager). The Council 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 2011/12 was approved by Full Council on 24/02/2011 and the 2012/13 strategy was approved on the 23/02/12. Both are available on the Council'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 Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £65.507m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

The analysis below summarises the Council'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 2012	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£'000	%	£'000
Deposits with banks and financial institutions*	65,507	0.00	0
Customers	10,619	17.10	1,815
Council Tax	9,404	25.83	2,429
Total	85,530	4.96	4,245

* This is made up of the following:

	Amount at 31 March 2012
	£'000
Lloyds TSB	25,000
Natwest	17,400
Stocks	5
Fund managers	22,820
Total	65,225
Accrued interest	282
Total including accrued interest	65,507

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £6.890 million of the £10.619 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than three months	1,427
Three to six months	1,205
Six months to one year	1,478
More than one year	2,780
	6,890

Of the £9.831 million Council Tax outstanding at 31 March 2012 £5.268 million is over one year old.

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

Liquidity risk

The Council 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 Council 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 Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods in its Treasury Strategy. 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 31/03/2012	Actual 31/03/2011
	%	%	%	%
Under 12 Months	0	50	5.55	5.87
12 months and within 24 months	0	50	5.48	5.78
24 months and within 5 years	0	50	0.00	5.77
5 years and within 10 years	0	50	3.84	4.04
10 years and above	25	100	85.13	78.55

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

Market risk

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, 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 Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council'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 Council policy is to not exceed a maximum of 40% of borrowings in variable rate loans. The Council 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 Council's cost of borrowing and therefore provide some compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, this strategy is then used to monitor against the

budget throughout the year. This allows for any adverse changes to be accommodated. The analysis will also advise if new borrowing is taken out whether it is fixed or variable.

Price Risk

The Council does not generally invest in equity shares or marketable bonds but does have HM Treasury Stock to the value of £4,689. The Council has some exposure to losses arising from movements in the prices of the HM Treasury Stock.

Foreign Exchange Risk

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

37. Heritage Assets: Summary of Transactions

	2010/11	2011/12
	£'000	£'000
Cost of Acquisitions of heritage assets		
Buildings	0	47
Furniture	0	0
Silver/Gold Collections	0	0
Art Collection	0	0
Other	0	0
Total cost of purchases	0	47
Value of Heritage Assets Acquired by Donation	0	0
Disposals of Heritage Assets	0	0
Impairment recognised in the period		
Buildings	0	(415)
Furniture	0	0
Silver/Gold Collections	0	0
Art Collection	0	0
Other	0	(603)
Total Impairments	0	(1,018)

Transactions relating to periods prior to 1 April 2010 are not available and therefore have not been disclosed in the 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 museum visitors and researchers. Accredited museums act as a long-term guardian of collections that are in the public domain.

The Council 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 abides by a number 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 the museum service. Once new upgraded storage facilities are forthcoming, the Guildhall Museum will eventually be 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 Council 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, the museum has a long-term purpose and 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 museum 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 museum object is being considered, the museum 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. Heritage Assets: Change in Accounting Policy Required by the Code of Practice for Local Authority Accounting in the United Kingdom

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our summary of significant accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation.

Heritage Assets

For 2011/12 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet, Other Land and Buildings or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (that are now to be classified as heritage assets) that were donated to the authority were held at valuation as a proxy for historical cost. The Authority's accounting policies for recognition and measurement of heritage assets are set out in the Authority's statement of accounting policies.

In applying the new accounting policy, the Authority has identified that the assets that were previously held as Other Land and Buildings within property, plant and equipment at 01/04/10 £2.7 million should now be recognised as heritage assets and measured at £9.4 million with a corresponding increase in the Revaluation Reserve. These assets relate to a number of buildings including Rochester Castle and Temple Manor which were previously recognised in the other land and buildings classification of property, plant and equipment. The Authority will also recognise an additional £5.2 million for the recognition of heritage assets that were not previously recognised in the Balance Sheet. Again, this increase is also recognised in the Revaluation Reserve. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

At 1 April 2010 the carrying amount of the Heritage Assets is presented at its valuation at £14.6 million. The element that was previously recognised in property, plant and equipment has been reclassified and written down by £2.7 million. The revaluation reserve has increased by £12.3 million.

The fully restated 1 April 2010 Balance Sheet is provided in the main financial statements. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Balance Sheet 1 April 2010

	Opening Balances as at 1 April 2010	Restatement	Restatement required to opening balances as at 1 April 2010
	£'000	£'000	£'000
Property, Plant & Equipment	909,883	(2,675)	907,208
Heritage Assets	0	14,594	14,594
Long-term Assets	926,591	11,919	938,510
Total Net Assets	486,210	11,919	498,129
Unusable Reserves	(418,310)	(11,919)	(430,229)
Net Worth/Total Reserves	(486,210)	(11,919)	(498,129)

Effect on Comprehensive Income and Expenditure Statement 2010/2011

	Gross Expenditure	Gross Income	Net Expenditure
	£'000	£'000	£'000
Central services to the public	3,888	(1,742)	2,146
Cultural and related services	28,196	(8,348)	19,848
Environmental and regulatory services	33,618	(9,426)	24,192
Planning services	16,887	(9,959)	6,928
Education and children's services	326,446	(251,099)	75,347
Highways and transport services	43,497	(13,440)	30,057
Local authority housing (HRA)	44,068	(11,897)	32,171
Other housing services	128,675	(113,827)	14,848
Adult social care	91,838	(27,623)	64,215
Corporate and democratic core	9,095	(1,644)	7,451
Non-distributed costs - change in inflation factor for retirement benefits	(47,486)	0	(47,486)
Non-distributed costs - other	32,044	(37,887)	(5,843)
Net Cost of Services	710,766	(486,892)	223,875
Other operating expenditure	1,729	0	1,729
Financing and investment income and expenditure	20,181	(2,199)	17,982
Taxation and non-specific grant income	0	(264,190)	(264,190)
(Surplus)/Deficit on Provision of Services			(20,605)
(Surplus)/Deficit on revaluation of Property, Plant and Equipment			(553)
Actuarial (gains)/losses on pension assets/liabilities			(85,464)
Total Net Assets			(86,017)
Net Worth/Total Reserves			(106,622)

Movement in Reserves Statement – Unusable Reserves 2010/11

The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of this new accounting policy is presented in the table below:

	As Previously Stated 31/03/2011 £'000	As Restated 31/03/2011 £'000	Restatement 2011 £'000
Balance as at the end of the previous reporting period – 31 March 2010	486,210	498,129	11,919
Surplus or Deficit on the Provision of Services	20,675	20,605	(70)
Other Comprehensive Income and Expenditure	85,928	86,017	89
Adjustments between the accounting basis and the funding basis under regulations	(16,242)	(16,418)	(177)
Increase/(decrease) in the year	90,361	90,203	(158)
Balance at the end of the current reporting period 31 March 2011	576,571	588,332	11,761

Effect on Balance Sheet 31 March 2011

The resulting restated Balance Sheet for 31 March 2011 is provided in the principal financial statements. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

	As Previously Stated 31 March 2011 £'000	As Restated 31 March 2011 £'000	Restatement 2011 £'000
Property, Plant and Equipment	874,549	871,715	(2,834)
Heritage Assets	0	14,594	14,594
Long-Term Assets	874,549	886,309	11,760
Total Net Assets	576,572	588,332	11,760
Unusable Reserves	496,417	508,177	11,760
Net Worth	576,572	588,332	11,760

The effect of the change in accounting policy in 2010/11 has been that heritage assets are recognised at £14.6 million on the Balance Sheet resulting in an increase to the Revaluation Reserve of £12.2 million and property, plant and equipment being restated by the amount of heritage assets previously recognised at cost in Other Land and Buildings (a sub-classification of property, plant and equipment) of £2.8 million.

H SUPPLEMENTARY FINANCIAL STATEMENTS



Supplementary Statement

The Collection Fund Statement

Notes to the Collection Fund Account

1. Council Tax
2. Income from Business Rates
3. Contribution to Non-Domestic Rate Pool
5. Impairment of Debts/Appeals
5. Surplus/Deficit

HRA Income and Expenditure

Movement on the Housing Revenue Account Statement

Notes to the Housing Revenue Account

1. Adjustments between accounting basis and funding basis under statute
2. Transfers to or from (earmarked) reserves
3. Dwelling Stock
4. HRA Fixed Assets
5. Major Repair Reserve
6. Analysis of HRA Capital Expenditure and Funding
7. Summary of HRA Capital Receipts
8. Housing Subsidy
9. Tenants' Arrears
10. Gross Rent Debit

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.

2010/11		Notes	2011/12
£'000			£'000
	Amounts required by statute to be credited to the Collection Fund		
(97,869)	Council Tax	1	(98,611)
	Transfers from General Fund:		(19,145)
(18,820)	• council tax benefits		
0	• transitional relief		
0	• discounts for prompt payment		
(69,888)	Income Collectable from Business ratepayers	2	(79,012)
0	Contributions towards previous year's Collection Fund deficit		
0	Contributions – adjustment of previous years' community charges		
(186,577)	Total Income for Year		(196,768)
	Amounts required by statute to be debited to the Collection Fund		
	Precepts and demands from major preceptors and the authority:		
97,893	• Medway Council		98,523
12,152	• Kent Police Authority (KPA)		12,208
5,985	• Kent Fire and Rescue Service (KFRS)		5,982
317	• Parishes		341
	Business rate:		
69,598	• payment to national pool	3	78,722
290	• costs of collection		290
	Business rate supplement:		
0	• payment to levying authority's Business Rate Supplement Revenue Account		
0	• administrative costs		
	Impairment of debts/appeals:		
	• write-off of uncollectible amounts		
1,126	• allowance for impairment	4	1,081
	Contribution towards previous year's estimated Collection Fund surplus		
	Contribution – adjustment of previous years' community charges		
187,361	Total Expenditure for year		197,147
(761)	Opening fund balance		23
23	Closing fund balance		402
784	Movement on fund balance		379

Notes to the Collection Fund Account

1. Council Tax

In 2011/2012 Medway Council, the Kent Police Authority and the Kent Fire and Rescue Service set equivalent Band D Council Tax levels of £1,119.15, £138.68 and £67.95 respectively resulting in a Council Tax Band D in the Council's area of £1,325.78 excluding Parishes.

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

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

Band	Value	Total (net of discounts)	Multiplier	Band D Equivalents
A	Not exceeding £40,000	9,070.0	6/9	6,047
B	£40,000 to £52,000	32,696.0	7/9	25,430
C	£52,000 to £65,000	29,563.7	8/9	26,279
D	£65,000 to £88,000	15,331.4	9/9	15,331
E	£88,000 to £120,000	7,513.5	11/9	9,183
F	£120,000 to £160,000	3,222.6	13/9	4,653
G	£160,000 to £320,000	1,160.6	15/9	1,934
H	Exceeding £320,000	39.5	18/9	79
Less adjustment for collection rates and MOD properties				(903)
Total Band D Equivalent 2011/12				88,034
Total Band D Equivalent 2010/11				87,194

The Tax Base multiplied by the Council Tax levied indicates an estimated gross yield of approximately £116,000,000 for Medway Council and the precepting authorities. Specific reductions are made, in accordance with Government regulations, for persons on low incomes (Council Tax benefits in excess of £19,000,000) granting up to 100% rebate. This is reimbursed by Central Government. The actual net yield from council tax in 2011/12 was £98,611,000

2. Income from Business Rates

In accordance with the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate in the £.

2010/11		2011/12
£'000		£'000
87,151	Amount Collectable for the year	92,885
(17,263)	Less: Transitional and other Reliefs	(13,873)
69,888	Income Collectable from Non-Domestic Ratepayers	79,012

The total Non-Domestic Rateable Value at 31 March 2012 was £230,687,671 (31 March 2011 £214,632,505) and the Uniform Business Rate 42.6p (43.3p with supplement) (2010/11 40.7p and 41.4p respectively) in the £.

3. Contribution to Non-Domestic Rate Pool

The income raised from the collection of Non-Domestic Rates (NDR) is paid to the National Pool after making an allowance towards the cost of collection.

4. Impairment of Debts/Appeals

The following allowances have been made against possible non-collection of debt relating to the Collection Fund:

	£'000
Balance 1 April 2011	2,233
Add: Provisions made during year	1,081
Less amounts written off	(885)
Balance 31 March 2012	2,429

5. Surplus/Deficit

The deficit attributable to Medway Council at the end of March 2012 was £339,739 and deficits due from Kent Police Authority and Kent Fire and Rescue Service were £41,975 and £20,566 respectively. The deficit for the year was £378,354.

Housing Revenue Account

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, ringfenced 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 previously been supplemented each year by an annual Item 8 Determination (which sets out capital accounting and capital finance entries) and the HRA Subsidy Determination (which calculates the annual subsidy receivable or payable by the authority). 2011/12 is the final year of the subsidy system (and the receipt of an HRA subsidy determination) and an Item 8 determination has been issued for 2012-2013 and subsequent years. The end of the housing subsidy system on 31 March 2012 required the authority to pay central government some £19m which was borrowed from the Public Works Loan Board. Although this transaction 'passed through' the Housing Revenue Account, it had no impact on the closing balance as the debt is held corporately with repayments levied on the HRA from 2012/2013.

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.

J4 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

This statement shows in more detail the income and expenditure on HRA services included in the whole authority Surplus or Deficit on the Provision of Services.

2010/11		Notes	2011/12	
			£'000	£'000
	Expenditure			
2,074	Repairs & maintenance		2,128	
3,790	Supervision and management		3,381	
154	Rents, rates, taxes and other charges		168	
1,613	Negative Housing Revenue Account subsidy/rent rebate limitation subsidy payable	8	1,909	
36,309	Depreciation and impairment of non-current assets		3,574	
51	Debt management costs		52	
78	Movement in the allowance for bad debts	9	70	
0	Self-Financing Settlement		19,144	
0	Sums directed by the Secretary of State that are expenditure in accordance with the Code		0	
44,068	Total Expenditure			30,426
	Income			
(10,690)	Dwelling rents		(11,264)	
(192)	Non-dwelling rents		(193)	
(995)	Charges for services and facilities		(1,010)	
(15)	Contributions towards expenditure		(34)	
(5)	HRA Subsidy Receivable		(7)	
0	Sums directed by the Secretary of State that are income in accordance with proper practices		0	
(11,897)	Total Income			(12,509)
32,171	Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement			17,917
110	HRA services share of Corporate and Democratic Core HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services			98
(542)				(10)
31,739	Net Cost of Housing Revenue Account Services HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:			18,006
65	Gain or (loss) on sale of HRA non-current assets			368
862	Interest payable and similar charges			922
(65)	Interest and investment income			(95)
91	Pensions interest cost and expected return on pensions assets			6
0	Capital grants and contributions receivable			0
32,692	(Surplus)or deficit for the year on HRA services			19,207

“In 2010/11 an impairment of Council dwellings amounting to £34,150,000 arose as a result of the change to the governments market value adjustment factor from 45% to 32%. No such impairment arose in 2011/12.”

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.

2010/11		2011/12	
£'000		£'000	£'000
(5,127)	Balance on the HRA at the end of the previous year		(6,156)
32,692	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	19,207	
(33,726)	Adjustments between accounting basis and funding basis under statute	(20,783)	
(1,034)	Net (increase) or decrease before transfers to or from reserves	(1,575)	
5	Transfers to or (from) reserves	6	
(1,029)	(Increase) or decrease in year on the HRA		(1,569)
0	Contribution to capital expenditure from reserves		2,889
(6,156)	Balance on the HRA at the end of the current year		(4,835)

Notes to the Housing Revenue Account

1. Adjustments between accounting basis and funding basis under statute

2010/11		2011/12	
£'000		£'000	
(34,070)	Revaluation Losses	(320)	
(65)	Gain or (Loss) on sale of HRA non-current assets	(368)	
(10)	Contribution of Disposal Costs	(10)	
430	HRA share of contributions (to) or from the Pensions Reserve	7	
0	Capital expenditure funded by the HRA	0	
0	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements (if any)	0	
(12)	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	(12)	
0	Transfer (to)/from Major Repairs Reserve	(936)	
0	Self-financing settlement	(19,144)	
(33,726)	Adjustments between accounting basis and funding basis under statute	(20,783)	

2. Transfers to or from (earmarked) reserves

2010/11		2011/12	
£'000		£'000	
0	Transfer to/(from) Major Repairs Reserve	(670)	
	Transfer to/(from) Capital Adjustment Account	0	
5	Transfer to/(from) Earmarked Reserves	6	
5	Transfers (to) or from (earmarked) reserves	(664)	

3. Dwelling Stock

The Council managed 3,030 dwellings as at 31 March 2012. The movement in stock is analysed as follows:

Stock Type	01 April 2011	Adjustments	Additions	Disposals	31 March 2012
Houses	1,315	(1)	0	(3)	1,311
Flats	1,272	(13)	1	(1)	1,259
Maisonettes	215				215
Bungalows	244		1		245
Total	3,046	(14)	2	(4)	3,030

4. HRA Fixed Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Balance Sheet. The market value at 1 April 2011 is estimated to be £305,524,955.

	Dwellings	Other Land and Buildings	Total
	£'000	£'000	£'000
Balance Sheet Value 1 April 2011	97,462	5,205	102,667
Revaluation	(1,212)	921	(291)
Impairments	0	0	0
Restatements	0	0	0
Assets reclassified (to)/from Held for Sale	(475)	0	(475)
Book Value 1 April 2011	95,775	6,126	101,901
Depreciation	(3,199)	0	(3,199)
Additions (see below)	5,855	0	5,855
Disposals	(118)	0	(118)
Balance Sheet Value 31 March 2012	98,313	6,126	104,439

5. Major Repair Reserve

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

2010/11 £'000	Major Repairs Reserve	2011/12 £'000
(639)	Opening Balance	(1,017)
(2,239)	HRA Depreciation from Capital Financing Account	(2,296)
0	Depreciation Adjusting Transfer from HRA	0
0	Transfer from Reserves	(2,889)
1,862	Financing of HRA Capital Expenditure	5,855
(1,017)	Closing Balance	(347)

6. Analysis of HRA Capital Expenditure and Funding

2010/11 £'000		2011/12 £'000
	<u>Operational Assets</u>	
2,558	Dwellings	5,824
39	Other Land and Buildings	13
0	Non-Operational Assets	18
2,597	Total Expenditure	5,855
	<u>Funded by:</u>	
(1,862)	Major Repairs Reserve	(5,855)
(735)	Borrowing	0
0	Housing Right To Buy Capital Receipts	0
0	Revenue contributions from the HRA	0
(2,597)	Total Funding	(5,855)

7. Summary of HRA Capital Receipts

2010/11 £'000		2011/12 £'000
(22)	Receipts from the sale of land	(220)
(714)	Receipts from the sale of other property	(741)
(8)	Repayment of discount	(7)
0	Receipts from the sale of houses other than through the right to buy scheme	0
(246)	Receipts from disposals of houses through the Right To Buy scheme	(266)
(990)	Total Capital Receipts	(1,234)

8. Housing Subsidy

The Housing Revenue Account pays subsidy to the Government. Subsidy is based upon Government Formulae that are used to calculate a number of elements in a notional account. The main elements of Housing Subsidy are detailed in the table below.

Subsidy for 2011/12 was based on an assumed number of dwellings of 3,050 compared with 3,053 for 2010/11.

2011/12 is the final year for housing subsidy, which ceases with effect from 1 April 2012 and is replaced by self-financing for local authorities with a housing revenue account from that date.

From 1 April 2004, the responsibility for the cost of rent rebates relating to Council Tenants was transferred from the Housing Revenue Account to the General Fund. In order to ensure a neutral effect, the Secretary of State determined under Item 10 of the Local Government and Housing Act 1989 that where authorities had set rents in excess of a specified preset limit, a transfer equal to the loss of rent rebate subsidy should be made from the Housing Revenue Account to the credit of the General Fund. In 2011/12 this amounted to £146,557 (£216,337 in 2010/11).

2010/2011 £'000	Housing Subsidy	2011/12 £'000
1,804	Management Allowance	1,875
3,612	Maintenance Allowance	3,689
2,239	Major Repairs Allowance	2,296
0	Admissible Allowance	0
0	Rental Constraint Allowance	0
1,092	Charges for capital	1,156
8,747	Total Receivable Allowance	9,016
	<u>Less</u>	
(10,143)	Guideline Rent Income	(10,778)
(1)	Interest on Receipts	(1)
(10,144)	Total Income Allowance to be netted against Receivable Allowance	(10,779)
(1,397)	Total Subsidy Payable/(Receivable) In-Year	(1,763)
(216)	Rent Rebate Subsidy Limitation	(147)
(1,613)	Housing Subsidy/Rent Rebate Subsidy (Payable)/Receivable In-Year	(1,910)
5	Prior Year Adjustments	7
(1,608)	Total Housing Subsidy/Rent Rebate Subsidy (Payable)/Receivable	(1,903)

9. Tenants' Arrears

Tenants' Arrears at 31 March were analysed as follows:

2010/11 £'000	Type of Debt	2011/12 £'000
362	General Stock	289
5	Garages	1
287	Former Tenancies – General Stock	325
5	Former Tenancies - Garages	4
57	Housing Benefit Overpayments – General Stock	39
39	Court Costs – General Stock	28
32	Former Tenancy Arrears of Current Tenants – General	45
33	Rechargeable Repairs	32
820	Total Arrears	763
6.95%	Percentage of Gross Rents (HRA)	6.74%

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

2010/11 £'000		2011/12 £'000
586	Opening Balance	625
77	Additional Provision made during year	70
55	Add Credit write-offs	3
(93)	Less amounts written off	(108)
625	Closing Balance	590

10. Gross Rent Debit

The rent income figure is net of voids. The level of voids in 2011/12 was on average equal to 0.58% (0.94% in 2010/11). The level of rebates provided was £7,578,330.77 (2010/11 £7,996,953), which amounted to 61.75% of rent and HB related service charges collectable (2010/11 67.83%).

I GLOSSARY OF TERMS



ACCRUAL

A sum included in the final accounts attributable to the year but for which payment has yet to be made or income received. Accruals are made for revenue and capital expenditure and income.

AGENCY

The provision of services by one local authority, on behalf of and reimbursed by the responsible local authority or central government.

ASSET

An item having 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 non-current asset has a value for more than one year (for example a building or a long term investment).

AUDIT OF ACCOUNTS

An independent examination of the Council's financial affairs.

BUDGET

The spending plans of the Council over a specific period of time – generally the financial year, 1 April to 31 March.

CAPITAL EXPENDITURE

Expenditure to acquire or enhance non-current assets that will be used to provide services beyond the current financial year.

CAPITAL EXPENDITURE FUNDED FROM REVENUE UNDER STATUTE

Includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

CAPITAL FINANCING

The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure, including borrowing, leasing using capital receipts, grants or contributions from third parties, or directly from revenue budgets.

The capital charge shows the real benefit that each service has gained in the year from the use of fixed assets. The capital financing charge debited to services is effectively the opportunity cost to the authority of services having tied up the authority's resources in particular non-current assets.

CAPITAL PROGRAMME

The capital schemes the council intends to carry out over a specified period of time.

CAPITAL RECEIPT

The proceeds from the disposal of land or other non-current assets.

CENTRAL SERVICES

BVACOP introduced this Service Expenditure Analysis category which incorporates the following divisions and sub-divisions of service:

Corporate and Democratic Core incorporating

Democratic Representation and Management which includes all aspects of members' activities including civic ceremonials, members' allowances and all officer support to this function and;

Corporate management which includes all the functions of the Chief Executive, external audit, treasury management and 'corporate' bank charges.

Unapportionable Central Overheads which is substantially the cost of past service contribution to the pension fund, charges for added years and early retirements. The former was previously allocated to services.

COLLECTION FUND

A separate fund for the collection and distribution of amounts due in respect of council tax and National Non-Domestic Rates (NNDR).

COMMUNITY ASSETS

Assets that the Council intends to hold in perpetuity, or that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets include parks and historical buildings.

CONSISTENCY

The concept that ensures the accounting treatment of like items within an accounting period and from one period to the next one is the same.

CREDIT APPROVAL

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

CREDITOR

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

DEBTOR

Glossary of terms

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

DEPRECIATION

The loss in value of an asset, in the accounting period, due to age, wear and tear, deterioration or obsolescence.

FINANCE LEASE

A lease which transfers substantially all the risks and rewards of ownership of a fixed asset to the Council.

GOVERNMENT GRANTS

Grants made by the government towards either revenue or capital expenditure to support the cost of the provision of local Councils services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Council (Revenue Support Grant).

HOUSING ADVANCES

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

HOUSING BENEFITS

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

HOUSING REVENUE ACCOUNT

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

INCOME

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

INFRASTRUCTURE ASSETS

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

LIABILITY

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

LOBOS

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

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.

MINIMUM REVENUE PROVISION (MRP)

The MRP is an amount that the local authority determines as a prudent level of providing to a provision to cover for the liability of the repayment of debt..

NON-DOMESTIC RATE

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

NET OPERATING EXPENDITURE

This compares all expenditure minus all income, other than the precept and transfers from reserves.

NON DELEGATED

Spend on Education Services which is not delegated to Schools.

NON-OPERATIONAL ASSETS

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

OPERATING LEASE

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

OPERATIONAL ASSETS

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

PRECEPT

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

PROVISION

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

PROVISION FOR CREDIT LIABILITIES

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

PUBLIC WORKS LOAN BOARD (PWLB)

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

RATEABLE VALUE

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

RELATED PARTY TRANSACTIONS

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

RESERVES

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

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Capital expenditure which is of benefit beyond the current accounting period, but which does not result in a tangible non-current fixed asset to the Council. An example of a deferred charge would be capital expenditure on improvement grants.

REVENUE SUPPORT GRANT

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

STOCKS

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

TEMPORARY LOAN

Money borrowed for a period of less than one year.

TOTAL COST

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

The cost of that activity or service will then be consistently applied in reporting performance indicators, Best Value Performance Plans, statistics and returns and used as a benchmark against Capital expenditure which is of benefit beyond the current accounting period, but which does not result in a tangible fixed asset to the Council. An example of a deferred charge would be capital expenditure on improvement grants.