AUDIT COMMITTEE

11 JULY 2013

STATEMENT OF ACCOUNTS 2012/2013

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from: Mick Hayward, Chief Finance Officer

Author: Andy Larkin, Finance Support Manager

Summary

This report presents the 2012/2013 Statement of Accounts for approval. The Cabinet is considering this report prior to this meeting and any comments will be reported at the meeting.

1. Budget and Policy Framework

1.1 The terms of reference of this committee include approval of the Statement of Accounts. In the first instance they are presented to Cabinet, as the body charged with the executive management of the council's budget, to make comment and, if appropriate, recommend approval by the Audit Committee.

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 2013.

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. BDO are the auditors responsible for the audit of accounts that must be published by 30 September 2013. 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 The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which sets out the proper accounting practices for accounting for transactions of the Council and the presentation of the financial statements. The Code is based on International

Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) interpreted for use by Local Authorities.

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

- An explanatory introduction and statement by the Chief Financial Officer;
- A statement of responsibilities which outlines responsibility for efficiently managing the affairs of the Council;
- The auditor's opinion which is given at the completion of the audit and must occur by 30 September 2013;
- Annual Governance Statement, reported elsewhere on this agenda and to be incorporated into the accounts by the 30 September 2013;
- A statement of accounting policies which highlights practices adopted by the authority;
- The principal financial statements which comprise:
  - o 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;
  - o 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;
  - o 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
  - o 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.

3.3 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.

3.4 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.

3.5 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 £27.9m (General Fund deficit of £29.0m and HRA surplus of £1.1m). This deficit is subsequently netted out through the Movement in Reserves Statement or other 'below the line' adjustments.

3.6 Paragraph 2.1 refers to the audit of the statements being completed by the 30 September 2013. The actual audit of the statements is scheduled to commence on 15 July and clearly the draft 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 2012/2013 (General Fund)

4.1 Throughout the year, quarterly monitoring reports have identified the major variations from approved budgets. An initial forecast overspend of some £1m has progressively reduced and the last report to Cabinet, based on January spend, had indicated a £0.224m underspend. The final accounts now show a revenue surplus of £2.828m.

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.

Table 1 - General Fund Revenue Outturn

Directorate	**Budget £000s**	**Outturn £000s**	**Variation £000s**
Children and Adult Services	265,529	264,968	(561)
Regeneration, Community and Culture	79,761	79,988	227
Business Support	10,654	9,354	(1,300)
Public Health	283	284	1
Service costs	**356,227**	**354,594**	**(1,633)**
Interest & Financing	15,442	14,379	(1,063)
Levies	974	842	(132)
Planned Use of Reserves	(1,174)	(1,187)	(13)
Depreciation Credit	(36,294)	(36,294)	0
DSG	(129,858)	(129,858)	0
Total	**205,317**	**202,476**	**(2,841)**
Funded			
Specific Grants	23,017	23,004	13
Revenue Support Grant	1,535	1,535	0
NNDR Redistribution	79,208	79,208	0
Council Tax (inc. Freeze Grant)	101,557	101,557	0
Total	**205,317**	**205,304**	**13**

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 £561,000, which represents a £900,000 improvement on the position forecast at quarter 3 and comprises a number of significant variances at divisional level.

Adult Social Care posted an £84,000 underspend, however this comprises a number of compensating variances. Services for people with a disability overspent by £286,000, reflecting demographic pressures. Mental Health services underspent by £398,000 in part due to the review of service provision, following the service coming back in house, but also reflecting the decision to withhold accrued funds, owed to KMPT, on the basis of poor performance and non-delivery of expected outcomes. The overspend resulting from the delay in outsourcing the linked service centres, was met from underspends elsewhere in the division, including savings from more effective commissioning of contracts, staffing vacancies and use of external funds.

Children's Care reported a £905,000 overspend, principally the result of the continued pressure from the number of looked after children in the care system. This pressure was addressed in the Medium Term Financial Plan and the 2013/14 budget increased accordingly. Members also agreed additional funding for the development and delivery of an improvement plan, in response to the Ofsted inspection.

Commissioning and Traded Services reported a net £278,000 underspend and whilst the spend on interim management at Assistant Director level was significant, turnover and one long term absence, together with significant savings from more effective commissioning of voluntary sector contracts, more than mitigated the impact.

The School Improvement and Inclusion division posted a significant underspend against both General Fund (£810,000) and DSG funded budgets (£789,000). Success in tribunal hearings, meant that the SEN placement budget underspend by £900,000 representing a significant component of the £1.5m underspend against the DSG. The general fund underspend was principally a result of the clawback of excess reserves from the Children's Centres (£235,000), other savings against Early Years budgets (£225,000) and vacancies within the Youth Service in advance of the implementation of 'Better for Less' (£280,000).

A significant underspend against the budgets held by HR on behalf of schools can be explained by a £266,000 underspend in respect of schools redundancy costs, resulting from a recent change in policy.

4.3.2 Regeneration, Community and Culture

The Directorate was overspent by £227,000 against its revenue budget of £79.761m.

- The directorate had anticipated that sufficient savings would be achieved to offset £280,000 prudential borrowing costs due in respect of previous capital overspends. Actual savings to budgets across the directorate were £53,000.
- The youth concessionary fare scheme contributed a saving of £395,000 against budget reflecting far lower uptake than anticipated.
- Winter maintenance costs were overspent by £355,000 as a result of severe weather conditions.
- Theatres and Events overspent by a total of £326,000 partially offset by savings elsewhere in the division from Sport & Leisure £90,000 and Greenspaces £126,000.

4.3.3 Business Support

The Department's outturn for 2012/2013 was £9.354m, an underspend of £1.3m against its revenue budget of £10.654m. The following were the principal areas of saving:

- Ongoing recruitment controls and general vacancies generated savings of some £1.5m across the department
- Planned maintenance agreements, for which the budget is managed corporately, were undertaken with a saving of £247,000
- The above were offset by overspends in respect of Children Review Services of £85,000 and delays to Better for Less savings realisation £82,000.

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 £177m and invested funds some £61m. Overall the treasury budget recorded a surplus of £1.063m which is a creditable performance against a difficult economic position.

4.3.5 Planned Use of reserves

The 2012/2013 revenue budget was predicated upon a contribution of £1.174m to fund a number of initiatives. In the event an additional contribution of £13,000 was required to make good the deficiency in specific grant funding, however the overall underspend of £2.828m is returned to the General Reserve. Overall the balance on the General Reserve decreased from £7.9m to £7.6m reflecting the draw to support the budget, the underspend, and the application of reserved funds to meet implementation costs of the 'Better for Less' programme. The withdrawl of these latter funds, together with the transfer to earmarked reserves in respect of the Severance Payments Reserve of £3m leave the General Reserve with a minimal uncommitted balance. In addition the Revenue Balance has been halved from £10m to £5m to create the South Medway Development Fund as part of the earmarked reserves.

5. Summary financial position for 2012/2013 (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 £1.311m against a budgeted surplus of £1.059. However a revenue contribution to capital expenditure of £1.8m meant that the balance on the account is now £4.346m compared to £4.835m last year. This is only available for housing purposes and cannot be used to support General Fund (council tax) costs.

6. Summary financial position for 2012/2013 (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. In 2012/2013 schools received revenue funding amounting to £106.9m compared to £134.5m the previous year reflecting the shift of resources to directly funded academies. 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 reduced from £7.707 million as at 31 March 2012 to £7.438 million as at 31 March 2013, however £709,000 of this movement relates to the transfer of balances to converting academies and if this figure is ignored the movement becomes a net increase of £440,000 in schools reserves:

- Net revenue reserves have increased, as a percentage of the total resources available, from 5.7% to 7.0%;
- Three schools have not yet submitted three year plans, but of those that have, only one school is forecasting a deficit in 2013/2014.

7. Summary financial position for 2012/2013 (Capital)

7.1 The capital monitoring report considered by Cabinet on 12 February detailed a programme of £292m for 2012/13 and beyond, with a forecast spend of £73.7m for the financial year. Actual spend for 2012/13 was £72.4m 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 2012/2013+ £000	Forecast Spend 2012/2013 £000	Outturn 2012/2013 £000	Variance To Forecast £000	Slippage to 2013/2014 £000
Children and Adults	162,583	51,888	53,269	1,381	1,381
Regeneration, Community & Culture	93,482	18,075	15,574	(2,501)	(2,501)
Business Support	34,138	3,192	3,221	29	29
Member Priorities	1,993	515	380	(135)	(135)
Total	**292,195**	**73,670**	**72,444**	**(1,226)**	**(1,226)**

Funding Source	Funding of expenditure £000's
Borrowing (supported and unsupported)	5,057
Government Grants and Other Contributions	53,573
Major Repairs Allowance/HRA	5,077
Capital Receipts	2,579
Developer Contributions	3,157
Revenue and Reserves	3,001
Total	**72,444**

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

- Implementation of the new social care system within Children Services, with roll-out to Adult Social Care scheduled for September;
- Completion of the £16.0 million primary change programme, All Faiths, Oaklands, Thamesview, and Twydall schemes being completed in year and the overall programme overspending by just £99,000 (0.6%);
- Continued excellent progress in delivering the £80.0 million Academies programme;
- Completion of both the Bradfields Special School expansion and Rochester Maths School design and technology block, the latter reporting a significant underspend;
- Significant condition works on the school estate amounting to around £3.0m, delivering roofs, boilers, asbestos works and other priority area, as well as posting a £550,000 underspend from effective procurement.

7.3.2 Regeneration, Community and Culture

- Continued additional funding for highway maintenance;
- Major investment on the A228 and Medway Tunnel;
- Investment in play areas, heritage properties and open spaces.
- Improvements to housing stock together with disabled adaptations to properties;
- Improvements to private sector housing through renovation grants.
- Ongoing infrastructure works to Rochester Riverside site.

7.3.3 Business Support

- Continuation of ICT projects to ensure Medway has the infrastructure in place to deliver services efficiently and effectively;
- Investment in a new customer relationship management system as part of the 'Better for Less' programme.
- Improvements and mercury abatement works at Medway Crematorium.

7.3.4 Members Priorities

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 reduced to £5m. This represents 2.7% of the authority's core budget (formula grant + council tax funded expenditure but excluding DSG) of £183m for 2012/2013. This was agreed at Council on 21 February 2013 and £5m is deemed to be an appropriate level of contingency taking into account the risk presented.

8.3 At Full Council 21 February 2013 it was agreed that three new ear-marked reserves would be established in 2012/13 being, Severance Payment Reserve (£3m – this reserve was approved at Council on 24 February 2011), South Medway Development Reserve (£5m), and The Transformation Reserve (£3.7m less 2012/13 appropriation). These reserves have been established and funded from General Fund Balance and General Reserve. As a consequence the General Reserve and General Fund balance now total £8.465m.

8.4 The total of Earmarked Reserves (those held for specific purposes) has increased from £9.8m to £20.9m due mainly the creation of three earmarked reserves as discussed in paragraph 8.3.

8.5 School Reserves are discussed in 6.2 above

8.6 The Housing Revenue Account balance is discussed in 5.2 above

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 2012/13.

8.8 The Major Repairs Reserve is held for investment in the Council's housing stock. The remaining balance will be utilised in 2013/14 as the introduction of self-financing provides for future investment needs.

9. Risk Management

9.1 The Council's Strategic Risk Register records the long term finances of the Council as one of the highest risks faced and the more short-term risks associated with in-year budget management are regularly addressed as part of the monitoring cycle. 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 the Audit Committee approves the draft statement of accounts for 2012/2013 for submission to the Auditor.

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Background papers

Revenue and Capital budget monitoring reports to Cabinet during 2012/2013. These are available on the Council's website www.medway.gov.uk

Statement of Accounts

for the year ended 31 March 2013

www.medway.gov.uk

Medway Council

Serving You

Contents

A. EXPLANATORY FOREWORD

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Description

Introduction

Overview of Medway

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

• Education
• Environment
• Social care
• Housing
• Planning
• Business
The council consists of 55 members with the Conservative party currently forming the majority (35 members).

Key facts from 2011 Census:
• Population: 263,900
• White ethnicity: 89.6%
• Born outside UK: 11%
• Religion: Christian 58%; Muslim 2%; No religion 30%
• Age: 0-14 18.9%; 15-64 67%; 65+ 14.1%

Further details can be found at
http://www.medway.gov.uk/environmentandplanning/developmentplan/factsandfigures.aspx

Financial Statements, their Purpose and Relationship between them

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

The authority is required to present a complete set of financial statements (including comparative information) that comprise:
• Movement in Reserves Statement for the period;
• Comprehensive Income and Expenditure Statement for the period;
• Balance Sheet as at the end of the period;
• Cash Flow Statement for the period;
• Notes comprising explanatory information;
• Balance Sheet as at the beginning of the earliest comparative period (i.e. a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

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

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

Explanatory Foreword

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

Explanatory Foreword

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

Annual Governance Statement

The Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a report accompanying the Statement of Accounts. This statement explains how the Council has complied with the Code of Corporate Governance during the year and up to the date of the approval for publication of the Statement of Accounts.

Statement of Accounts

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

Statement of Responsibilities

This statement sets out the responsibilities of the Council and the Chief Finance Officer in respect of the proper administration of the financial affairs of the Council and for the preparation of the Statement of Accounts. The Chief Finance Officer has to certify that the accounts present a 'true and fair' view of the financial position of the Council as at 31 March 2013 and its income and expenditure for the year.

Independent Auditor's Report

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

Financial Statements and Notes

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

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 applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the general fund balance and housing revenue account for council tax setting and dwelling rent setting purposes. The net increase / decrease before transfers to earmarked reserves line shows the statutory general fund balance and housing revenue account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

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. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet

The Balance Sheet shows the value as at the 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, i.e. 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'.

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 Council 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 Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Core Accounting Statements

The notes to the core accounting statements present information about the basis of preparation of the financial statements and the specific accounting policies used, disclose additional information required by the Code that is not presented elsewhere in the financial statements, and provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

Collection Fund

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

Housing Revenue Account (HRA)

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

Other Information

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

Review of Finance 2012/13

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

Budget

How the Authority's Budget has Changed	Budget 2012/13	
	£'000	£'000
Budget requirement 2011/12	405,981	
Changes in function and funding	(68,731)	
Adjusted Base Budget		**337,250**
Inflation	2,787	
Other cost pressures	5,936	
Service pressures	2,751	
Efficiency and other savings	(13,539)	
		(2,065)
Budget Requirement 2012/13		**335,185**
Financed By:		
NNDR Redistribution		79,208
RSG		1,535
Other Specific Grant		151,710
Council Tax		101,557
Reserves		1,175
Total		**335,185**

Summary of the Local Government Finance Settlement 2012/13	Adjusted 2011/12	Final 2012/13	Change	
	£'000	£'000	£'000	%
Formula Grant	85,402	80,743	(4,659)	(5.46)
Total	**85,402**	**80,743**	**(4,659)**	**(5.46)**

The tables above show that 2012/13 was a financially difficult year with a 5.46% cut in Local Government Finance Settlement against the comparable figure for 2011/12. This pressure will continue into 2013/14 where funding has been reduced by a further 3.65%.

Revenue

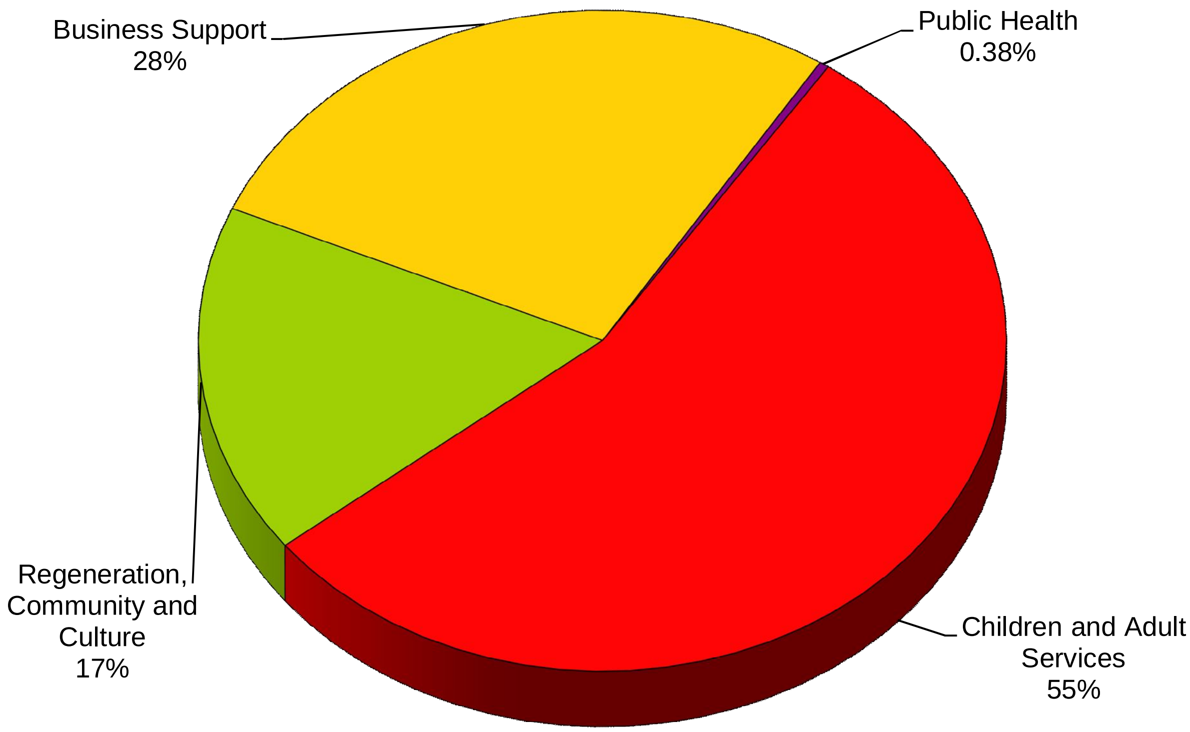
To achieve breakeven against budget, it was planned to contribute £1.187m from reserves. However, the corporate underspend has resulted in a net contribution to reserves of £1.654m.

The table below summarises the income and expenditure for each directorate of the Council for 2012/13:

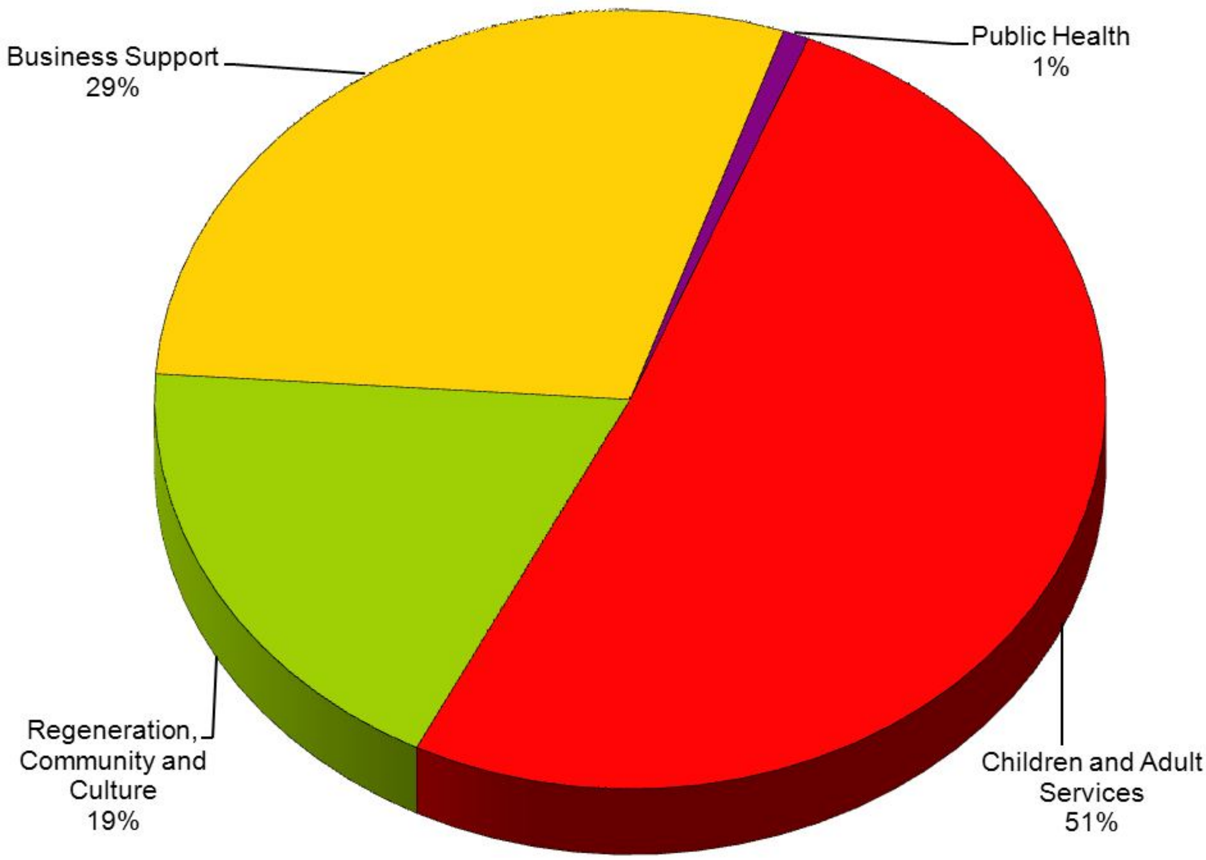
Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	177,173	(167,443)	9,730	11,030	(1,300)
Children & Adult Services	311,481	(46,513)	264,968	265,529	(561)
Regeneration, Community & Cultural Services	113,197	(33,209)	79,988	79,761	227
Public Health	5,362	(5,078)	284	283	1
Sub-total Services	607,213	(252,243)	354,970	356,603	(1,633)
Levies	874	(32)	842	974	(132)
Depreciation Credit	(36,294)	0	(36,294)	(36,294)	0
Interest & Financing	20,360	(6,356)	14,003	15,066	(1,063)
Planned Use of Reserves	0	(1,187)	(1,187)	(1,174)	(13)
Dedicated Schools Grant	0	(129,858)	(129,858)	(129,858)	0
	592,153	**(389,676)**	**202,476**	**205,317**	**(2,841)**
Funded:-					
Specific Non-ringfenced Grants	0	23,004	23,004	23,017	(13)
RSG	0	1,535	1,535	1,535	0
NNDR Redistribution	0	79,208	79,208	79,208	0
Council Tax	0	101,557	101,557	101,557	0
	0	**205,304**	**205,304**	**205,317**	**(13)**

The graph below show the breakdown of the gross expenditure to the individual costs of services. Note 20 of the Statement of Accounts gives further detail.

2011/12



2012/13



The outturn on the Housing Revenue Account (HRA) was a surplus £1,311,180 (2011/12 surplus £1,568,655), compared to a budget of £1,058,673 (2011/12 budget £846,886). Having taken account of the 2012/13 surplus and contributions to capital expenditure of £1.8m, the Housing Revenue Account balance stands at £4,346,363 as at 31 March 2013 (£4,835,183 as at 31 March 2012).

Capital

The Council's capital investment in 2012/13 was £72,444,651 (2011/2012 £76,006,000). The expenditure was within the definition of the Local Government and Housing Act 1989.

Capital Expenditure has been financed from the following sources:

Funding source	Funding £'000
Borrowing (supported and unsupported)	5,057
Government Grants and Other Contributions	53,573
Major Repairs and Other Contributions	5,077
Capital Receipts	2,579
Developer Contributions	3,001
Revenue and Reserves	3,001
Total	**72,444**

The Council spent £16,717,673 on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included a programme of improvements to the Council's housing stock, the provision of new classrooms and improvements to school infrastructure. The remainder of capital expenditure is split between capital works in progress £41,774,812 and £13,952,166 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 2012/13 is summarised below:

Directorate	Approved Programme 2012/13+ £'000	Forecast Spend 2012/13 £'000	Outturn 2012/13 £'000	Variation to Forecast 2012/13 £'000	Slippage to 2013/14 £'000
Expenditure					
Business Support	**34,138**	**3,192**	**3,221**	**29**	**29**
Children and Adult Services	**162,583**	**51,888**	**53,269**	**1,381**	**1,381**
Regeneration, Community and Culture	**93,482**	**18,075**	**15,574**	**(2,501)**	**(2,501)**
Member Priorities	**1,993**	**515**	**380**	**(135)**	**(135)**
Total	**292,196**	**73,670**	**72,444**	**(1,226)**	**(1,226)**

The capital programme for 2012/13 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 2012/13 the level of debt, i.e. money that the Council owes decreased by £10,171,000 from £185,852,000 to £175,681,000. 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 2012/13 £10,000,000 of debt was repaid.

Reflecting this repayment of debt the level of investments has decreased from £65,502,000 to £55,958,000 primarily due to the above strategy.

Full details of the Treasury Management performance and outturn figures can be found within the Treasury Management Outturn report 2012/13 considered by Audit Committee on the 11 July 2013.

Non-Current Assets

The total value of the Authority's non-current assets has decreased in 2012/13 by approximately £8 million. Although there was capital investment of some £58m, there was a greater decrease in the value of all classes of assets as a result of revaluation, impairment, depreciation, disposals and transfers to Academies.

B. ANNUAL GOVERNANCE STATEMENT 2012/13

Will be added once approved

C. STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

The authority is required to:

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

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the 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 it's expenditure and income for the year ended 31 March 2013.

Mick Hayward
Chief Finance Officer 30 June 2013

D INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MEDWAY COUNCIL

Will be added once approved

E. STATEMENT OF ACCOUNTING POLICIES

Medway Council
Serving You

Index

(i) Accounting Policy

(i) Accounting Policy

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* and the *Service Reporting Code of Practice 2012/13*, 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 do 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 a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior year period as if the new policy had always been applied.

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

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

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 or, where applicable, to the Non Distributed Costs line 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.

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

- The Local Government Pensions Scheme, administered by Kent County Council

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

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

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

  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 Council's revaluation reserve. Subsequent revaluations shall follow the same guidelines as set out within Property, Plant and Equipment.

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

16. Intangible Assets

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

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

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

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

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

17. 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.

18. Leases

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

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.

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

The written-off value of disposals is not a charge against council tax, as the cost of noncurrent assets is fully provided for under separate arrangements for capital financing.

Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

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

19. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2012/13* (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.

20. Property Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:
- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (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 Assets Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the 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 below:

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 Council's 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 Council's Balance Sheet.

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

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

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

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 i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the 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 where it is probable that there will be an inflow of economic benefits or service potential.

22. 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.

23. 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.

24. 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.

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

For 2012/13 the following accounting policy changes that need to be reported relate to:

- amendments to IAS *1 Presentation of Financial Statements* (other comprehensive income, June 2011)

- amendments to IFRS 7 *Financial Instruments: Disclosures (offsetting financial assets and liabilities, December 2011)*

- amendments to IAS 12 *Income Taxes* (deferred tax: recovery of underlying assets, December 2010)

- amendments to IAS 19 *Employee Benefits* (*June 2011*)

- IFRS 13 *Fair Value Measurement* (May 2011).

Appendix C of the 2013/14 Code will provide details of the disclosures required.

(iii) Critical Judgements in applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Council will make a provision where a future event is uncertain but there is a legal or constructive obligation.

F PRINCIPAL FINANCIAL STATEMENTS

Medway Council
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Financial Statement

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.

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

As approved at Full Council held on the 21 February 2013, three new earmarked reserves have been created in 2012/13, these being, The Severance Payment Reserve, South Medway Development Reserve and The Transformation Reserve. These new reserves have been funded from the General Fund Balance and the General Reserve.

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 2011		**10,000**	**10,623**	**6,156**	**7,202**	**6,129**	**2,095**	**78**	**1,017**	**33,216**	**76,516**	**510,186**	**586,702**
Movement in Reserves 2011/12													
Surplus/(Deficit) on provision of services		(25,044)	0	(18,471)	0	0	0	0	0	0	(43,515)	0	(43,515)
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	0	0	0	(75,473)	(75,473)
Total Comprehensive Income and Expenditure		**(25,044)**	**0**	**(18,471)**	**0**	**0**	**0**	**0**	**0**	**0**	**(43,515)**	**(75,473)**	**(118,988)**
Adjustments between accounting & funding bases under regulations	1	25,702	0	17,157	0	0	0	(513)	(670)	(2,306)	39,370	(37,893)	1,477
Net Increase/decrease before transfer to Earmarked Reserves		**658**	**0**	**(1,314)**	**0**	**0**	**0**	**(513)**	**(670)**	**(2,306)**	**(4,145)**	**(113,366)**	**(117,511)**
Transfers to/from Earmarked Reserves	2	(658)	(841)	(6)	505	1,726	(28)	435	0	(1,133)	0	0	0
Increase/(Decrease) in Year		**(0)**	**(841)**	**(1,320)**	**505**	**1,726**	**(28)**	**(78)**	**(670)**	**(3,439)**	**(4,145)**	**(113,366)**	**(117,511)**
Balance at 31 March 2012		**10,000**	**9,782**	**4,836**	**7,707**	**7,855**	**2,067**	**0**	**347**	**29,777**	**72,371**	**396,820**	**469,191**

	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 2012		**10,000**	**9,782**	**4,836**	**7,707**	**7,855**	**2,067**	**0**	**347**	**29,777**	**72,371**	**396,820**	**469,191**
Movement in Reserves 2012/13													
Surplus/(Deficit) on provision of services		(28,913)	0	1,053	0	0	0	0	0	0	(27,860)	0	(27,860)
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	0	0	0	25,045	25,045
Total Comprehensive Income and Expenditure		**(28,913)**	**0**	**1,053**	**0**	**0**	**0**	**0**	**0**	**0**	**(27,860)**	**25,045**	**(2,815)**
Adjustments between accounting & funding bases under regulations	1	29,888	0	(1,537)	0	0	0	291	74	(6,391)	22,326	(22,326)	0
Net Increase/decrease before transfer to Earmarked Reserves		**975**	**0**	**(484)**	**0**	**0**	**0**	**291**	**74**	**(6,391)**	**(5,534)**	**2,719**	**(2,815)**
Transfers to/from Earmarked Reserves	2	(5,975)	11,079	(5)	(269)	(4,390)	127	(228)	(135)	(343)	547	0	547
Increase/(Decrease) in Year		**(5,000)**	**11,079**	**(489)**	**(269)**	**(4,390)**	**127**	**64**	**(61)**	**(6,048)**	**(4,987)**	**2,719**	**(2,268)**
Balance at 31 March 2013		**5,000**	**20,861**	**4,347**	**7,438**	**3,465**	**2,194**	**64**	**286**	**23,730**	**67,385**	**399,539**	**466,924**

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.

2011/12					2012/13		
Gross Exp £'000	Gross Inc £'000	Net Exp £'000	Service	Notes	Gross Exp £'000	Gross Inc £'000	Net Exp £'000
3,121	(1,836)	1,285	Central services to the public		2,275	(741)	1,534
31,909	(7,908)	24,001	Cultural and related services		35,212	(8,699)	26,513
30,719	(8,831)	21,888	Environmental & regulatory services		32,487	(9,010)	23,477
10,179	(7,127)	3,052	Planning services		16,312	(7,562)	8,750
253,830	(179,069)	74,761	Education and children's services		235,525	(157,624)	77,901
67,460	(10,332)	57,128	Highways and transport services		43,869	(11,093)	32,776
11,282	(12,509)	(1,227)	Local authority housing (HRA)		11,019	(13,351)	(2,332)
131,474	(120,771)	10,703	Other housing services		134,555	(126,286)	8,269
90,181	(21,825)	68,356	Adult social care		90,140	(22,063)	68,077
7,048	(1,820)	5,228	Corporate and Democratic core		7,579	(1,610)	5,969
21,121	(25,499)	(4,378)	Non-distributed costs		33,703	(32,350)	1,353
19,144	0	19,144	Local authority housing - settlement payment to Government for HRA self-financing		0	0	0
677,467	**(397,527)**	**279,940**	**Net Cost of Services**		**642,676**	**(390,389)**	**252,287**
16,265	0	16,265	Other operating expenditure	3	19,461	0	19,461
14,127	(2,896)	11,231	Financing and investment income and expenditure	4	17,820	(4,939)	12,881
0	(263,922)	(263,922)	Taxation and non-specific grant income	5	0	(256,769)	(256,769)
707,859	**(664,345)**	**43,514**	**(Surplus)/Deficit on Provision of Services**		**679,957**	**(652,097)**	**27,860**
		(9,184)	(Surplus)/Deficit on revaluation of Property, Plant and Equipment	16			(12,403)
		0	Impairment losses on non-current assets charged to the Revaluation Reserve				0
		0	(Surplus)/Deficit on revaluation of available for sale financial assets				0
		84,657	Actuarial (gains)/losses on pension assets/liabilities	33			(12,642)
		75,473	**Other Comprehensive Income and Expenditure**				**(25,045)**
		118,987	**Total Comprehensive Income and Expenditure**				**2,815**

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.

31 March 2012 (Restated) £'000	Balance Sheet Summary	Notes	31 March 2013 £'000
855,632	Property Plant and Equipment	6	845,573
13,444	Heritage Assets	7	15,704
5,735	Investment Property	8	5,837
505	Intangible Assets	8a	595
5	Long Term Investments	9	5
740	Long Term Debtors	9	279
876,061	**Long Term Assets**		**867,992**
48,095	Short Term Investments	9	53,310
1,209	Assets Held for Sale	12	970
166	Inventories		188
35,895	Short Term Debtors	10	29,370
15,009	Cash and Cash Equivalents	11	5,197
100,374	**Current Assets**		**89,035**
(11,680)	Short Term Borrowing	9	(11,543)
(45,518)	Short Term Creditors	13	(50,344)
(300)	Provisions		(472)
(57,498)	**Current Liabilities**		**(62,359)**
(44,046)	Long Term Creditors	9	(41,901)
(3,583)	Provisions	14	(2,387)
(174,171)	Long Term Borrowing	9	(164,138)
(220,617)	Other Long Term Liabilities		(213,988)
(7,329)	Grants Receipts in Advance - Capital	26	(5,331)
(449,746)	**Long Term Liabilities**		**(427,745)**
469,191	**Net Assets**		**466,924**
72,371	Usable Reserves	15	67,385
396,820	Unusable Reserves	16	399,539
469,191	**Total Reserves**		**466,924**

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.

2011/12 £'000		2012/13 £'000
43,514	Net (Surplus) or deficit on the provision of services	27,860
(116,049)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements (Note 17)	(123,311)
59,333	Adjustments for items included in the net Surplus or deficit on the provision of service that are investing or financing activities (Note 17)	53,412
(13,203)	**Net cash flows from Operating Activities**	**(42,039)**
15,117	Investing Activities (Note 18)	26,729
3,696	Financing Activities (Note 19)	25,122
5,610	**Net (increase) or decrease in cash and cash equivalents**	**9,812**
20,620	**Cash and cash equivalents at the beginning of the reporting period**	**15,010**
15,010	**Cash and cash equivalents at the end of the reporting period (Note 11)**	**5,197**

G. NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

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Note

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 2012/13	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Charges for depreciation and impairment of non-current assets	36,535	3,351	0	0	0	(39,886)
Revaluation losses on Property, Plant and Equipment	18,382	571	0	0	0	(18,953)
Movements in fair value of Investment Properties	(102)	0	0	0	0	102
Amortisation of Intangible Assets	126	0	0	0	0	(126)
Capital Grants and Contributions Applied	(37,511)	0	0	0	0	37,511
Revenue Expenditure Funded from Capital Under Statute	13,952	0	0	0	0	(13,952)
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	19,158	719	0	0	0	(19,877)
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(7,715)	0	0	0	0	7,715
Capital expenditure charged against the General Fund and HRA balances	(3,000)	(5,077)	0	0	0	8,077
ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL GRANTS UNAPPLIED ACCOUNT:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(13,565)	0	0	0	13,565	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	(19,956)	19,956
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	(761)	(1,139)	1,900	0	0	0
Transfer of cash proceeds credited on the repayment of a 1974 Local Government Reorganisation Loan	(436)	0	436	0	0	0
Use of Capital Receipts Reserve to finance new capital expenditure	0	0	(1,842)	0	0	1,842
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	16	(16)	0	0	0

Adjustments for 2012/13	Usable Reserves General Fund Balance £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	186	0	(186)	0	0	0
ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:						
Reversal of Major Repairs Allowance credited to HRA	0	(3,351)	0	3,351	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	3,277	0	(3,277)	0	0
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	(474)	12	0	0	0	462
ADJUSTMENTS PRIMARLY INVOLVING THE PENSIONS RESERVE:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	21,652	300	0	0	0	(21,952)
Employer's pension contributions and direct payments to pensioners payable in the year	(15,152)	(210)	0	0	0	15,362
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	(30)	0	0	0	0	30
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	(1,356)	(7)	0	0	0	1,363
Total Adjustments 2012/13	**29,888**	**(1,537)**	**291**	**74**	**(6,391)**	**(22,326)**

Adjustments for 2011/12	Usable Reserves General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Charges for depreciation and impairment of non-current assets	35,772	3,232	0	0	0	(39,004)
Revaluation losses on Property, Plant and Equipment	27,974	320	0	0	0	(28,294)
Capital Grants and Contributions Applied	(40,760)	0	0	0	0	40,760
Revenue Expenditure Funded from Capital Under Statute	16,880	0	0	0	0	(16,880)
Self Financing Settlement		19,144	0	0	0	(19,144)
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	16,133	634	0	0	0	(16,879)
Derecognition & other adjustments						(12)
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	(15,010)	0	0	0	15,010	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	(17,316)	17,316
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	(1,140)	(1,002)	3,744	0	0	0
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
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 for 2011/12	Usable Reserves General Fund Balance £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
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	(474)	12	0	0	0	462
ADJUSTMENTS PRIMARLY 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	**25,703**	**17,157**	**(513)**	**(670)**	**(2,306)**	**(37,893)**

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 2012/13.

	Balance 1 April 2011	Transfers in 2011/12	Transfers out 2011/12	Balance 31 March 2012	Transfers in 2012/13	Transfers out 2012/13	Balance 31 March 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund							
General Reserve	6,129	3,736	(2,010)	**7,855**	3,237	(7,626)	**3,465**
Schools Balances	7,202	505	0	**7,707**	440	(709)	**7,438**
Other Earmarked Reserves	10,623	3,163	(4,004)	**9,782**	21,299	(10,220)	**20,861**
Total	**23,954**	**7,404**	**(6,014)**	**25,344**	**24,975**	**(18,555)**	**31,764**

3. Other Operating Expenditure

	2011/12	2012/13
	£'000	£'000
Parish Council Precepts	341	359
Levies	1,005	842
Payment to the Government Housing Capital receipts Pool	196	186
Gains/losses on disposal of non-current assets	14,625	17,977
HRA share of corporate and democratic core	98	98
Total	**16,265**	**19,461**

4. Financing and Investment Income and Expenditure

	2011/12	2012/13
	£'000	£'000
Interest payable and similar charges	10,392	11,457
Interest element of finance leases (lessee)	121	121
Pensions interest costs and expected return on pensions assets	3,255	5,974
Interest receivable and similar income	(2,184)	(4,194)
Income and expenditure in relation to investment properties and changes in their fair value	(353)	(477)
Other investment income	0	0
Total	**11,231**	**12,881**

5. Taxation and Non-Specific Grant income

	2011/12	2012/13
	£000s	£000s
Council tax income	(98,525)	(99,468)
Non-domestic rates	(86,096)	(79,208)
Non-ringfenced government grants	(23,531)	(27,016)
Capital grants and contributions	(55,770)	(51,077)
Total	**(263,922)**	**(256,769)**

6. Property, Plant and Equipment

Movement on Balances 2012/13	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Tangible Assets
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2012	107,668	597,179	*8,683	240,000	10,898	4,477	30,519	999,424
Additions	5,077	3,637	214	6,737	267	0	42,345	58,276
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(6,174)	3	0	2,769	2,230	0	(1,172)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,800)	(24,596)	0	0	(15)	(1,867)	0	(30,277)
Derecognition – disposals	(252)	(23,333)	(789)	0	0	(808)	0	(25,182)
Derecognition - Surplus Assets	0	(1,720)	0	(1,697)	0	3,417	0	0
Assets reclassified (to)/from Held for Sale	0	(748)	0	0	0	(47)	0	(795)
Other movements in cost or valuation	0	26,147	0	31,467	(1,922)	0	(55,746)	(54)
As at 31 March 2013	**108,693**	**570,392**	**8,111**	**276,506**	**11,998**	**7,402**	**17,118**	**1,000,220**
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accumulated Depreciation and Impairment								
As at 1 April 2012	(3,229)	(49,066)	(4,069)	(87,350)	0	(79)	0	(143,791)
Depreciation charge	(3,351)	(16,248)	(1,100)	(19,082)	0	(91)	0	(39,872)
Depreciation written out to the Revaluation Reserve	0	12,171	0	0	0	166	0	12,337
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,229	7,064	0	0	0	1,081	0	11,374
Derecognition – disposals	8	4,507	789	0	0	1	0	5,305
Derecognition - Surplus Assets	0	927	0	153	0	(1,080)	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	1	0	1
At 31 March 2013	**(3,344)**	**(40,644)**	**(4,380)**	**(106,279)**	**0**	**(0)**	**0**	**(154,646)**

Net Book Value								
At 31 March 2013	**105,349**	**529,748**	**3,731**	**170,227**	**11,998**	**7,402**	**17,118**	**845,573**
At 31 March 2012	**104,439**	**548,113**	**4,615**	**152,650**	**10,898**	**4,399**	**30,519**	**855,632**

Movement on Balances 2011/12	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Tangible Assets
Cost or Valuation	**£'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	8,505	*595	10,658	538	18	32,404	58,573
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	1,585	0	0	1,470	(5)	0	3,050
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(4,209)	(37,739)	0	897	(806)	(1)	0	(41,858)
Derecognition – disposals	(121)	(19,675)	0	0	(156)	(669)	0	(20,620)
Derecognition - Surplus Assets	(475)	(703)	0	0	(180)	1,358	0	0
Other movements in cost or valuation	0	7,261	0	0	0	0	(7,273)	(13)
As at 31 March 2012	**107,668**	**597,179**	***8,683**	**240,000**	**10,898**	**4,477**	**30,519**	**999,424**
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)	(16,836)	(1,010)	(17,845)	0	(81)	0	(39,004)
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	7,718	0	0	0	(34)	0	11,601
Derecognition – disposals	4	4,335	0	0	0	3	0	4,341
Other movements in depreciation and impairment	33	58	0	0	0	34	0	125
At 31 March 2012	**(3,229)**	**(49,066)**	**(4,069)**	**(87,350)**	**0**	**(79)**	**0**	**(143,791)**

Net Book Value								
At 31 March 2012	**104,439**	**548,113**	**4,615**	**152,650**	**10,898**	**4,399**	**30,519**	**855,632**
At 31 March 2011	**102,667**	**585,882**	**5,030**	**158,940**	**10,032**	**3,776**	**5,388**	**871,715**

***** The vehicle plant and equipment (VPE) opening balance of £8.683m as at 1 April 2012 was adjusted by £0.505m to account for a reclassification of software to Intangible Assets (see note 8a). The software was purchased during 2011/12 and has resulted in the additions figure for 2011/12 being adjusted from £1.1m previously reported to £0.595m. This adjustment has no further implications to any of the main financial statements.

Depreciation

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

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

Capital Commitments

During the financial year 2012-2013 the only significant contractual commitment (in excess of £4 million) that the Council had entered into for the construction and enhancement of property, plant and equipment was with BAM and related to three new Academies. As at 31st March 2013, the outstanding liability against these three contracts amounts to £7,976,603.

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 outgoings.

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)

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 £15.134m have achieved academy status between 01.04.12 and 31.03.13 and therefore have been removed from the balance sheet for the 2012/13 financial statements. In addition there are likely to be schools with a value of £14.823m that will achieve academy status between 01.04.13 and 31.03.14.

7. Heritage Assets

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

	Buildings £'000	Furniture £'000	Silver / Gold Collections £'000	Art Collection £'000	Other £'000	Total Assets £'000
Cost or Valuation						
1 April 2011	7,928	244	656	1,087	3,049	12,964
Additions	47	0	0	20	0	67
Revaluations	413	0	0	0	0	413
31 March 2012	**8,388**	**244**	**656**	**1,107**	**3,049**	**13,444**
Cost or Valuation						
1 April 2012	8,388	244	656	1,107	3,049	13,444
Revaluations	2,206	0	0	0	0	2,206
Other Movements in Cost or Valuation	54	0	0	0	0	54
31 March 2013	**10,648**	**244**	**656**	**1,107**	**3,049**	**15,704**

Heritage Buildings

The Authority’s Heritage Buildings are all held at insurance value which have been reviewed in 2012/13, with the exception of Rochester Castle, which requires specialist valuers to undertake the work. This will be undertaken during the 2013/14.

Those buildings which have been classified to Heritage are:

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

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

Eastgate House has ceased to be a museum but is a historical building being used to promote the public's enjoyment of and advance their knowledge of the property. A Heritage Lottery Fund bid for Eastgate House was successful in November 2012 bringing £1.3m external funding into a circa £2m conservation project to enable this Grade 1 Listed Building to be opened up to new audiences. The expected target date for the reopening of Eastgate House is April 2015

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 manage the day to day care of this property and also insure 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 assets were last revalued in 2005, but will be revalued as part of a rolling programme which is due to commence in 2013/14. 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 Artisde 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	2012/13 £'000	2011/12 £'000
Rental income from investment property	375	356
Direct operating expenses arising from investment property	0	(3)
Net gain/(loss)	**375**	**353**

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

Investment Properties	31 March 2013 £'000	31 March 2012 £'000
Balance at start of year	5,735	5,735
Net gains/(loss) from fair value adjustments	102	0
Transfers (to)/from Property, Plant and Equipment	0	0
Balance at end of year	**5,837**	**5,735**

8a Intangible Assets

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

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

5 Years	Integrated Care Management System
5 Years	Better For Less CRM System
5 Years	Better For Less Mobile Working System
5 Years	Better For Less Document Management System

The carrying amount of intangible assets is amortised on a straight-line basis.The amortisation with regards to the Better For Less CRM System of £126,000 charged to revenue in 2012/13 was charged to the Customer Contact centre. The other intangible assets were not levied with amortisation during 2012/13 in line with the accounting policies of the authority.

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

	2011/12			2012/13		
	Internally Generated Assets £'000	Other Assets £'000	Total £'000	Internally Generated Assets £'000	Other Assets £'000	Total £'000
Balance at start of year:						
Gross carrying amounts	0	0	0	0	505	505
Accumulated amortisation	0	0	0	0	0	0
Net carrying amount at start of year	0	0	0	0	505	505
Additions:						
Internal development	0	0	0	0	0	0
Purchases	0	505	505	0	216	216
Acquired through business combinations	0	0	0	0	0	0
			0			0
Assets reclassified as held for sale	0	0	0	0	0	0
Other disposals	0	0	0	0	0	0
Revaluations increases or decreases	0	0	0	0	0	0
Impairment losses recognised or reversed directly in the Revaluation Reserve	0	0	0	0	0	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0
Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0
Amortisation for the period	0	0	0	0	(126)	(126)
Other changes	0	0	0	0	0	0
Net carrying amount at end of year	**0**	**505**	**505**	**0**	**595**	**595**
Comprising:						
Gross carrying amounts	0	505	505	0	721	721
Accumulated amortisation	0	0	0	0	(126)	(126)
	0	**505**	**505**	**0**	**595**	**595**

9. Financial Instruments

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

Financial Instruments	Long-term 31 March 2013 £'000	Long-term 31 March 2012 £'000	Current 31 March 2013 £'000	Current 31 March 2012 £'000
Investments				
Loans and Receivables	0	0	30,286	25,275
Available for sale financial assets	5	5	0	0
Fair value through profit or loss	0	0	23,024	22,820
Total Investments	**5**	**5**	**53,310**	**48,095**
Debtors				
Loans and Receivables	279	740	21,941	27,271
Total Debtors	**279**	**740**	**21,941**	**27,271**
Borrowings				
Financial liabilities at amortised cost	(164,138)	(174,171)	(11,543)	(11,680)
Total Borrowings	**(164,138)**	**(174,171)**	**(11,543)**	**(11,680)**
Creditors				
Financial liabilities at amortised cost	(41,901)	(44,046)	(37,601)	(39,364)
Total Creditors	**(41,901)**	**(44,046)**	**(37,601)**	**(39,364)**

Financial Instruments held for less than 3 months are classified as Cash and Cash Equivalent. Please see note 13.

Valuation Assumption

The interest rate at which the fair values of these soft loans have been recognised is arrived at by taking the authority's prevailing cost of borrowing for a comparable loan at the date of the advance and adding an allowance for the risk that the loan might not be repaid by the employees.

Income, Expenses, gains and Losses

	2012/13					2011/12				
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total £000s
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	**(11,300)**				**(11,300)**	**(9,590)**				**(9,590)**
Total expense in Surplus or Deficit on the Provision of Services	**(11,300)**	**0**	**0**	**0**	**(11,300)**	**(9,590)**	**0**		**0**	**(9,590)**
Interest income		3,237	0	243	**3,480**		1,690	1	398	**2,089**
Total income in Surplus or Deficit on the Provision of Services	**0**	**3,237**	**0**	**243**	**3,480**	**0**	**1,690**		**398**	**2,089**
					0					**0**
Net gain/(loss) for the year	**(11,300)**	**3,237**	**0**	**243**	**(7,820)**	**(9,590)**	**1,690**		**398**	**(7,501)**

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 2013 Carrying Amount £'000	31 March 2013 Fair Value £'000	31 March 2012 Carrying Amount £'000	31 March 2012 Fair Value £'000
Financial liabilities	203,478	218,690	223,403	219,920
Long-term Creditors	42,320	42,320	45,858	45,858

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

	31 March 2013 Carrying Amount £'000	31 March 2013 Fair Value £'000	31 March 2012 Carrying Amount £'000	31 March 2012 Fair Value £'000
Loans and receivables	52,227	52,407	52,246	52,727
Long-term debtors	697	697	740	740

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 £'000	31 March 2013 £'000
Central government bodies	8,169	5,992
Other Local Authorities	2,116	2,138
NHS bodies	3,018	657
Public corporations and trading funds	1,106	1,543
Bodies external to general government	21,486	19,040
Total Debtors	**35,895**	**29,370**

11. Cash and Cash Equivalents

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

Cash and Cash Equivalents	31 March 2012 £'000	31 March 2013 £'000
Cash held by the Council	24	24
Bank current accounts	(2,423)	2,526
Short-term deposits with financial institutions	17,408	2,647
Total Cash & Cash Equivalents	**15,009**	**5,197**

12. Assets Held for Sale

	Current		Non-Current	
	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000
Balance Outstanding at start of year	**1,845**	**1,209**	**0**	**0**
Assets newly classified as held for sale:				
▪ Property, Plant and Equipment	0	1,668	0	0
Revaluation Losses	(156)	(1,364)	0	0
Revaluation Gains	120	345	0	0
Impairment Losses	0	(14)	0	0
Assets declassified as held for sale:				
▪ Property, Plant and Equipment	0	(874)	0	0
▪ Other assets/liabilities in disposal groups	0	0	0	0
Assets sold	(600)	0	0	0
Balance Outstanding at year end	**1,209**	**970**	**0**	**0**

13. Creditors

	31 March 2012 £'000	31 March 2013 £'000
Central government bodies	5,039	8,415
Other Local Authorities	9,382	9,730
NHS bodies	474	446
Public corporations and trading funds	4,654	3,453
Bodies external to general government	25,970	28,300
Total Creditors	**45,518**	**50,344**

14. Provisions

	Insurance Provision £000s	Other Provisions £000s	Total £000s
Balance as at 1 April 2012	2,916	667	**3,583**
Additional provision made in 2012/13	1,274	76	**1,350**
Amounts used in 2012/13	(2,203)	(343)	**(2,546)**
Balance as at 31 March 2013	**1,987**	**400**	**2,387**

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2013 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 2012 £'000	31 March 2013 £'000
Revaluation Reserve	107,181	112,361
Capital Adjustment Account	511,652	501,283
Pensions Reserve	(217,493)	(211,441)
Financial Instruments Adjustment Account	(641)	(179)
Collection Fund Adjustment Account	(339)	(309)
Accumulated Absences Account	(3,540)	(2,177)
Total Unusable Reserves	**396,820**	**399,538**

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.

Revaluation Reserve	2011/12	2012/13	
	£'000	£'000	£'000
Balance as at 1 April	100,780		107,180
Upward revaluation of assets	16,852	35,299	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(7,668)	(22,896)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	9,184		12,403
Difference between fair value depreciation and historical cost depreciation	(2,128)	(1,694)	
Accumulated gains on assets sold or scrapped	(656)	(5,528)	
Amount written off to the Capital Adjustment Account	(2,784)		(7,222)
Balance as at 31 March	**107,180**		**112,361**

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.

Capital Adjustment Account			
	2011/12	2012/13	
	£'000	£'000	£'000
Balance as at 1 April	551,793		511,652
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non-current assets	(39,004)	(39,872)	
Revaluation gains/(losses) on Property, Plant and Equipment	(28,294)	(18,866)	
Amortisation of Intangible Assets	0	(126)	
Revenue Expenditure funded from Capital Under Statute *	(16,880)	(13,952)	
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	(16,879)	(19,877)	
	(101,056)		(92,694)
Adjusting amounts written out of the Revaluation Reserve	2,784	7,222	
HRA Self Financing Settlement	(19,144)	0	
Other adjustments	(12)	0	
Net written out amount of the cost of non-current assets consumed in the year	(16,372)		7,222
Capital financing applied in the year:			
Use of Capital Receipts Reserve to finance new capital expenditure	4,051	1,842	
Use of the Major Repairs Reserve to finance new capital expenditure	5,855	5,077	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	55,770	37,511	
Application of grants to capital financing from the Capital Grants Unapplied Account	2,306	19,956	
Provision for the financing of capital investment charged against the General Fund and HRA balances	7,331	7,715	
Capital expenditure charged against the General Fund and HRA balances	1,975	3,001	
	77,287		75,103
Balance as at 31 March	**511,652**		**501,283**

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.

	2011/12 £'000	2012/13 £'000
Balance as at 1 April	**(1,103)**	**(641)**
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	462	462
Balance as at 31 March	**(641)**	**(179)**

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.

	2011/12 £'000	2012/13 £'000
Balance as at 1 April	**(136,776)**	**(217,493)**
Actuarial gains or losses on pension assets and liabilities	(84,657)	12,642
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)	(21,952)
Employer's pensions contributions and direct payments to pensioners payable in the year	16,835	15,362
Balance as at 31 March	**(217,493)**	**(211,441)**

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.

Collection Fund Adjustment Account	2011/12 £'000	2012/13 £'000
Balance as at 1 April	**0**	**(339)**
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)	30
Balance as at 31 March	**(339)**	**(309)**

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.

Accumulated Absences Account	2011/12 £'000	2012/13 £'000
Balance as at 1 April	**(4,509)**	**(3,540)**
Movement in the value of the accumulated leave account	969	1,363
Balance as at 31 March	**(3,540)**	**(2,177)**

17. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2011/12 £'000	2012/13 £'000
Interest received	(2,184)	(4,670)
Interest paid	10,513	9,057

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

:

	2011/12 £'000	2012/13 £'000
Depreciation and amortisation	(27,403)	(28,625)
Impairment and downward valuations	(40,603)	(30,341)
Carrying amount of PPE, Investment Property and Intangible assets sold	(18,992)	(19,594)
Pensions Reserve	(29,730)	(37,314)
Financial Instrument Adjustments	123	330
Other adjustments	0	3
Contributions to / (from) provisions	1,572	1,803
Increase / decrease in inventories	37	20
Increase / (decrease) in debtors/payments in advance	(16,198)	(5,414)
(Increase) / decrease in creditors/income in advance	15,145	(4,179)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	**(116,049)**	**(123,311)**

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

	2011/12 £'000	2012/13 £'000
Capital grants & contributions credited to surplus/deficit on the provision of services	53,180	51,077
Proceeds from the sale of PPE, Investment Property and Intangible Assets	3,535	2,335
Other adjustments for items included in the net Surplus or Deficit on the provision of service that are investing or financing activities	2,618	0
Adjustments to net surplus or deficit on the provision of services for items that are Investing or Financing Activities	**59,333**	**53,412**

18. Cash Flow – Investing Activities

	2011/12 £'000	2012/13 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	76,005	72,445
Purchase of short-term and long-term investments	25,000	30,000
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(3,756)	(2,335)
Proceeds from the sale of short-term and long-term investments	(30,000)	(25,000)
Other receipts from investing activities	(52,132)	(48,381)
Net cash flows from investing activities	**15,117**	**26,729**

19. Cash Flow – Financing Activities

	2011/12 £'000	2012/13 £'000
Cash receipts of short- and long-term borrowing	(19,144)	0
Other receipts from financing activities	(5,016)	(3,078)
Repayments of short- and long-term borrowing	10,037	10,013
Other payments for financing activities	17,819	18,187
Net cash flows from financing activities	**3,696**	**25,122**

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

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve, amortisations are charged to services in the Comprehensive Income and Expenditure Statement)

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

- expenditure on support services is budgeted for within the Business Support department.

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

Directorate Income and Expenditure 2012/13	Children and Adult Services	Regeneration, Community and Culture	Business Support	Public Health	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(26,378)	(31,482)	(40,885)	(1,501)	**(100,246)**
Government Grants	(20,309)	(1,727)	(126,384)	(3,577)	**(151,997)**
Total Income	**(46,687)**	**(33,209)**	**(167,269)**	**(5,078)**	**(252,243)**
Employee Expenses	136,628	22,592	26,169	459	**185,848**
Other service expenses	156,199	61,680	138,658	4,848	**361,384**
Support service recharge	7,615	6,361	9,655	55	**23,686**
Depreciation	12,214	22,564	1,516	0	**36,294**
Total Expenditure	**312,656**	**113,197**	**175,998**	**5,362**	**607,212**
Net Expenditure	**265,969**	**79,988**	**8,729**	**284**	**354,969**

Directorate Income and Expenditure 2011/12 restated	Children and Adult Services	Regeneration, Community and Culture	Business Support	Public Health	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income *	(24,305)	(29,224)	(35,772)	(30)	**(89,331)**
Government Grants *	(30,273)	(1,790)	(122,733)	(2,116)	**(156,912)**
Total Income	**(54,578)**	**(31,014)**	**(158,505)**	**(2,146)**	**(246,242)**
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	7,474	11,362	8,211	1	**27,047**
Depreciation	12,624	21,456	1,021	0	**35,101**
Total Expenditure	**340,199**	**106,405**	**170,443**	**2,358**	**619,404**
Net Expenditure	**285,621**	**75,391**	**11,938**	**212**	**373,162**

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	2012/13
	£'000	£'000
Net expenditure in Directorate analysis	373,162	354,969
Net expenditure of services and support services not included in the Analysis	17,575	(1,311)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(110,796)	(101,371)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(93,221)	(102,682)
Cost of Services in Comprehensive Income and Expenditure Statement	**279,941**	**252,287**

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.

2012/13	Directorate Analysis	Services not in Analysis- HRA	Amounts not Reported to Management	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(100,246)	(13,351)	5,443	(108,154)	(190)	**(108,344)**
Interest and investment income	0	(93)	93	0	(4,564)	**(4,564)**
Income from Council tax	0	0	0	0	(99,468)	**(99,468)**
Government grants and contributions	(151,997)	0	(130,239)	(282,236)	(157,334)	**(439,570)**
Total Income	**(252,243)**	**(13,444)**	**(124,703)**	**(390,390)**	**(261,556)**	**(651,946)**
Employee Expenses	185,847	1,398	(747)	186,498	5,974	**192,472**
Other service expenses	361,386	6,798	5,334	373,518	12,046	**385,564**
Support service recharge	23,685	586	0	24,271	0	**24,271**
Depreciation, amortisation and impairment	36,294	3,351	18,745	58,390	(102)	**58,288**
Precepts and levies	0	0	0	0	1,234	**1,234**
Payments to Housing Capital Receipts Pool	0	0	0	0	0	**0**
Gain or loss on disposal of fixed assets	0	0	0	0	17,977	**17,977**
Total Expenditure	**607,212**	**12,133**	**23,332**	**642,677**	**37,129**	**679,806**
(Surplus)/Deficit on the provision of services	**354,969**	**(1,311)**	**(101,371)**	**252,287**	**(224,427)**	**27,860**

2011/12 restated	Directorate Analysis	Services not in Analysis - HRA	Amounts not Reported to Management	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income *	(89,329)	(12,494)	5,969	(110,191)	(161)	**(110,352)**
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 *	(156,912)	(7)	(144,753)	(287,335)	(165,430)	**(452,765)**
Total Income	**(246,241)**	**(12,608)**	**(138,677)**	**(397,526)**	**(266,655)**	**(664,182)**
Employee Expenses	205,685	1,301	(8,164)	198,822	3,255	**202,077**
Other service expenses	351,570	4,962	4,612	361,144	10,970	**372,114**
Support service recharge	27,047	716	0	27,763	0	**27,763**
Depreciation, amortisation and impairment	35,101	2,297	31,433	68,831	0	**68,831**
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	14,625	**14,625**
Total Expenditure	**619,403**	**30,183**	**27,881**	**677,467**	**30,229**	**707,696**
(Surplus)/Deficit on the provision of services	**373,162**	**17,575**	**(110,796)**	**279,941**	**(236,427)**	**43,514**

* The above 2011/12 figures have been restated as a number of Government grants and contributions were included in Fees & charges and other service income in 2011/12 Statement of Accounts. These changes do not affect the main financial statements.

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 children's 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

The Authority paid the following amounts to members of the council during the year 2012/13

	2011/12	2012/13
	£000	£000
Basic Allowance	487	473
Special Responsibility Allowance	266	253
Expenses	6	6
	759	732
National Insurance	51	44
Total	**810**	**776**

During 2012/13, 55 serving Members were entitled to claim allowances.
Full details can be found on the Council's website from the 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 (Neil Davies)	146,640	8,397	49	155,086	28,730	183,816
Director of Children & Adult Services (left 31/07/12)	116,597	4,377	0	120,974	8,255	129,229
Director of Children & Adult Services (started 03/09/12)	65,582	4,351	15	69,948	12,867	82,815
Director of Regeneration, Community & Culture (Robin Cooper)	117,106	13,130	0	130,236	24,063	154,299
Assistant Director Customer First, Leisure, Democracy & Governance	84,977	13,479	0	98,456	18,318	116,774
Assistant Director Front Line Services	84,993	5,198	0	90,190	16,706	106,896
Assistant Director Communications, Performance & Partnerships	84,977	8,403	0	93,380	17,328	110,708
Chief Finance Officer	82,737	19,271	0	102,008	19,011	121,018
Assistant Director Organisational Services	81,940	8,333	0	90,274	0	90,274
Assistant Director Inclusions	71,057	5,213	0	76,270	13,992	90,262
Assistant Director Social Care	71,060	5,213	0	76,273	13,992	90,265
Assistant Director Housing, Development and Transport	84,977	7,561	117	92,655	17,164	109,819
Assistant Director Legal & Corporate Services	75,666	5,213	0	80,879	14,890	95,769
Assistant Director Partnership Commissioning	44,139	3,041	129	47,308	8,686	55,994
Audit Services Manager	47,031	4,345	0	51,376	0	51,376

Comparative figures for 2011/12 are 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
Head of Internal Audit	34,275	2,951	44	37,270	0	37,270

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

	Number of Employees			
	Schools		Non-Schools	
Remuneration Band	**2011/12**	**2012/13**	**2011/12**	**2012/13**
£50,000 to £54,999	48	35	29	21
£55,000 to £59,999	22	21	12	14
£60,000 to £64,999	17	13	31	30
£65,000 to £69,999	14	11	9	8
£70,000 to £74,999	12	18	0	0
£75,000 to £79,999	3	4	0	1
£80,000 to £84,999	5	1	1	0
£85,000 to £89,999	2	0	0	0
£90,000 to £95,999	2	2	0	0
£95,000 to £99,999	2	0	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	0	0	0
£115,000 to £119,999	0	0	0	0
£120,000 to £124,999	0	0	0	0
£125,000 to £129,999	1	0	0	0
Total	**129**	**106**	**82**	**74**

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 £			
	Total	Schools	Non-School	Total	Total	Schools	Non-School	Total	Total	Schools	Non-School	Total	Total	Schools	Non-School	Total
	2011/12	2012/13			2011/12	2012/13			2011/12	2012/13			2011/12	2012/13		
£0 - £20,000	118	24	14	38	95	8	11	19	213	32	25	57	1,046,682	119,343	169,793	289,137
£20,001 - £40,000	13	1	6	7	11	0	3	3	24	1	9	10	702,616	25,432	256,186	281,618
£40,001 - £60,000	3	0	0	0	9	0	1	1	12	0	1	1	544,233	0	49,816	49,816
£60,001 - £80,000	0	0	1	1	3	0	0	0	3	0	1	1	267,888	0	70,594	70,594
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	2	0	0	0	2	0	0	0	19,717	0	0	0
Total	**134**	**25**	**21**	**46**	**120**	**8**	**15**	**23**	**254**	**33**	**36**	**69**	**2,781,135**	**144,775**	**546,390**	**691,165**

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 £		
	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total
	2011/12			2011/12			2011/12			2011/12		
£0 - £20,000	68	50	118	58	37	95	126	87	213	497,643	549,039	1,046,682
£20,001 - £40,000	8	5	13	4	7	11	12	12	24	363,717	338,898	702,615
£40,001 - £60,000	1	2	3	5	4	9	6	6	12	250,585	293,648	544,233
£60,001 - £80,000	0	0	0	0	3	3	0	3	3	69,390	198,498	267,888
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	2	0	2	2	0	2	219,717	0	219,717
Total	**77**	**57**	**134**	**69**	**51**	**120**	**146**	**108**	**254**	**1,401,052**	**1,380,083**	**2,781,135**

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 £'000	2012/13 £'000
Fees payable to BDO with regard to external audit services carried out by the appointed auditor for the year	344	207
Fees payable to BDO for the certification of grant claims and returns for the year	60	24
Total	**404**	**231**

25. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, through the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department for Education to fund academy schools in the Medway area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

During 2012/13 the Council incurred an underspend of £1,500,850 on DSG services. After taking account of the surplus of £2,100,767 brought forward from 2011/12 and £861,095 of expenditure agreed to be met from the reserve £2,740,522 was carried forward to 2013/14.

An analysis of the DSG for 2012/13 is provided in the table below:

	Central Expenditure £'000	ISB £'000	Total £'000
Final DSG for 2012/13 before Academy recoupment	21,481	177,990	199,470
Less: Academy figure recouped for 2012/13	0	69,613	69,613
Total DSG for 2012/13 after Academy recoupment	21,481	108,377	129,858
Brought forward from 2011/12	2,561	(461)	2,100
Total DSG available for use in 2012/13	24,042	107,916	131,958
Agreed initial budgeted distribution in 2012/13	22,530	104,418	126,948
In year adjustments	(1,050)	3,960	2,910
Final budgeted distribution in 2012/13	21,480	108,378	129,858
Less: Actual central expenditure	21,412		21,412
Less: Actual ISB deployed to schools		107,806	107,806
Plus: Local authority contribution for 2012/13	0	0	0
Carry forward to 2013/14	**2,629**	**110**	**2,740**

26. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13.

	2011/12 £'000	2012/13 £'000
Credited to Taxation and Non Specific Grant Income		
Formula Grant / Revenue Support Grant	0	1,535
Redistributed National Non-Domestic Rates	86,096	79,208
Early Intervention Grant	10,303	11,204
New Homes Bonus	1,229	2,369
Learning Disability and Health Reform Grant	9,098	9,320
Collection Fund Grant	0	2,477
Levy	438	144
Recognition of Capital Grants and Contributions	55,770	51,077
Total	**162,934**	**157,334**
Credited to Services		
Department for Education		
- Dedicated Schools Grant	148,290	129,858
- School Standards Grant	1,880	0
- Pupil Premium Grant	2,305	4,084
- DFE Other *	3,078	1,931
Department of Health	11	40
Department for Communities and Local Government		
- DCLG Other	2,977	1,294
Department of Transport	95	153
Department of Work & Pensions	0	233
Home Office	122	0
Ministry of Justice	0	104
Learning and Skills Council	6,938	3,536
Tax Collection & Benefit Administration	2,589	2,572
Benefit Subsidy	116,980	121,234
DEFRA	195	480
Skills Funding Agency	2,146	2,089
Other Miscellaneous Grants *	858	878
Contributions from NHS Partners *	11,965	10,889
Contributions from the Youth Justice Board	487	883
Contributions from Other Local Authorities *	1,999	1,788
Miscellaneous Contributions *	1,774	190
Total	**304,689**	**282,236**

* The above 2011/12 figures have been restated as a number of Government grants and contributions were included in Fees & charges and other service income in 2011/12 Statement of Accounts. These changes do not affect the main financial statements.

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	31/03/2013 £'000
Capital Grants Receipts in Advance (Capital Grants)		
Applicable Section Agreements	7,329	5,331
Total	**7,329**	**5,331**

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 significant influence 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. Grants receipts at 31 March 2013 are shown in Note 26.

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 £382,440 (£409,272 2011/12) from Medway Community Healthcare and paid £835,502 (£527,594 2011/12) 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 £334,458 during 2012/13 (£479,498 2011/12). Payments received from Medway CAB was £4,816 2012/13 (£11,653 2011/12)

Action for Borstal Community Project – One member is the Chairman of Trustees. The Council made payments to the organisation amounting to £73,173.67 during 2012/13 (£75,803 2011/12).

Home Start Medway – provides a unique service for families, recruiting and training volunteers to support parents with young children at home. One Member is a trustee of the organisation and during 2012/13 the Council made payments to the organisation of £125,620 (£124,781 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 was a Board Member with this Organisation. The Council made payments to the Organisation amounting to £7,098 during 2012/13 (£30,786 2011/12).

Norma's Catering Ltd and associated companies – One member and his wife are associated with this company that on occasions provides catering to the Council. The Council made payments to the Organisation amounting to £2072 during 2012/13 (£8,465.45 2011/12). The Council received £4,271 in 2012/13 (£2,903 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 wellbeing. One member is Chair of the Trustees. The Council made payments to the Trust amounting to £173,329 during 2012/13 (£135,319 2011/12). The Council received payments of £8,750 2012/13

Woodland Youth Centre - provides a range of activities for children. One Member is a trustee of this organisation. The Council made payments to this organisation amounting to £26,451 during 2012/13 (£30,345 2011/12).

Rochester HANDS Volunteer Centre - Hands Rochester Volunteer Centre acts as a recruiting agency between voluntary, statutory and other not for profit organisations. They match volunteers to people and organisations in communities throughout the Medway Towns. One Members' partner is Chair this organisation, the Council made payments to this organisation of £29,451in 2012/13 (£47,333 2011/12)

Officers

One senior officer is a Council Member of The University of Kent Governing Body. The total value of transaction from the University to the Council was £134,212 in 2012/13 (£151,770 2011/12). Transactions to the University from the Council totalled £1995 2012/13 (£50 2011/12)

One senior officer sits as Medway Council's representative on the Bishop of Rochester Academy Trust. Transactions from the Council to the Academy amounted to £1,045,939 in 2012/13 (£144,384 2011/12). Transactions from the Academy to the Council amounted to £94,002 2012/13 (£106,960 2011/12)

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

Housing Associations holding stock within Medway, including Circle which secure the right to nominate tenants to their stock in accordance with the Council's Allocations Policy.

One senior officer is a Council member of Mid Kent College Governing Body. The Council made payments of £69,019 to the College in 2012/13 (£49,344 2011/12). The total value of transactions to the Council from the College was £1,793 in 2012/13 (£3,365 2011/12)

One senior officer is a member of the PCT Cluster Board. Transactions to the PCT Cluster Board from the Council totalled £13,570 for 2012/13.

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	2012/13 £'000
Capital Investment		
Property Plant and Equipment	59,126	58,276
Investment Properties	0	216
Revenue Expenditure Funded from Capital under Statute	16,880	13,952
HRA Settlement	19,144	0
Total	**95,150**	**72,445**
Sources of Finance		
Capital receipts	(4,051)	(1,842)
Government grants and other contributions	(63,931)	(62,544)
Sums set aside from revenue	(1,975)	(3,001)
Direct revenue contributions	0	0
Borrowing	(25,193)	(5,057)
Total	**(95,150)**	**(72,445)**

The CFR at 31 March 2013 was £252,486,968 (31 March 2012 £253,992,000).

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 2013 £'000
Vehicles, Plant & Equipment	3,123	2,525

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 2013 £'000
Finance lease liabilities (net present value of minimum lease payments) :		
• current	606	580
• non-current	1,902	1,309
Finance costs payable in future years	1,067	972
Minimum Lease Payments	**3,575**	**2,861**

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

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Not later than one year	698	689	606	580
Later than one year and not later than five years	2,877	2,171	1,902	1,309
Later than five years	0	0	0	0
	3,575	**2,860**	**2,508**	**1,889**

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 2013 £'000
Not later than one year	1,880	1,974
Later than one year and not later than five years	2,884	2,409
Later than five years	2,645	2,613
Total	**7,409**	**6,996**

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 2013 £'000
Not later than one year	865	797
Later than one year and not later than five years	2,427	2,210
Later than five years	16,776	16,483
Total	**20,068**	**19,490**

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 2012/13 £757,124 contingent rents were receivable by the Authority (2011/12 £771,134).

30. Impairment Losses

During 2012/13, the Authority has recognised an impairment loss of £2,226,770 in relation to assets within Property, Plant and Equipment and Non-Current Assets Held for Sale. The assets within Property, Plant and Equipment including operational land and buildings (13 assets) and surplus assets (6 assets) have been impaired due to issues such as buildings becoming disused and the removal of advertising hoardings, buildings being demolished and valuations to reflect the assets being non-operational all of which reduce the value of the assets to the Authority.

With regards to Non-Current Assets Held for Sale, the impairment of one asset reflects the change of status to that of Asset Held for Sale and the revised method of valuation to reflect this.

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 £691,165 (2011/12 £2,713,135) in respect of redundancy, payment in lieu of notice and added years pension costs - see note 25 for the number of exit packages and total cost per band. Of this, £71,791.22 relates to the Head of 14–19 Strategy and Commissioning and £49,815.99 to the Centre Manager Finance and H&S in the form of compensation for loss of office and enhanced pension benefits as disclosed in Note 25. The remaining £585,230.43 was payable on 33 redundancies owing to school reorganisation and a further 36 local authority based staff who were made redundant as part of the Authority's rationalisation.

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 the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012/13, the Authority paid £6,682,533.87 to Teachers Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £8,741,667.35 and 14.1%. There were no contributions remaining payable at year end. The movement in the level of contributions is predominantly due to the number of schools that have converted to Academy status, on or since 1 April 2012.

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 £'000	2012/13 £'000
Comprehensive Income and Expenditure Statement		
Cost of Services		
Current service costs	14,987	18,528
Settlements and curtailments	(5,347)	(2,633)
Financing and Investment Income and Expenditure		
Interest cost	23,421	23,568
Expected return on scheme assets	(20,166)	(17,511)
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services	**12,895**	**21,952**
Other Post Employment benefit charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and (losses)	(84,657)	12,642
Total Post Employment benefit charged to the Comprehensive Income and Expenditure Statement	**(71,762)**	**34,594**
Movement in Reserves Statement		
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	21,852
Amount charged against the General Fund Balance for pensions in the year		
Employers' contributions payable to scheme	**16,835**	**15,362**

The cumulative amount of actuarial gain recognised in the Comprehensive Income and Expenditure Statement in the actuarial gains or losses on pensions assets and liabilities line was at 31 March 2013 a gain of £12,642,000 whilst at 31 March 2012 it was a loss of £84,657,000.

Revision to IAS19

The International Accounting Standards Board have published a final version of the revised IAS19 standard, which will apply for accounting periods beginning on or after 1 January 2013.

In summary, the main changes that affect the Income and Expenditure Charge are:

- Removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate;

- Some labelling changes to the Income and Expenditure charge e.g. “Service cost” now includes what was previously described as the “Current Service Cost” plus the “Past Service Cost” plus any “Curtailments” plus any “Settlements”.

Administration expenses are now accounted for within the Income and Expenditure charge; previously we made a deduction to the actual and expected returns on assets.
The changes set out above are effective for accounting periods beginning on or after 1 January 2013 so do not affect the disclosures for 2012/13.
If the revised IAS19 had been applied in 2012/13 the amounts that would have been recognised are as follows:

Illustrative Income & Expenditure Transactions if IAS 19 had been applied in 2012/13	2012/13 £'000
Comprehensive Income and Expenditure Statement	
Cost of Services	
Service Cost	15,895
Net Interest on the defined liability (asset)	9,586
Administrative expenses	267
Total	**25,748**

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities

	2011/12 £'000	2012/13 £'000
Opening balance 1 April	**430,087**	**519,683**
Current service cost	14,987	18,528
Interest cost	23,421	23,568
Contributions by scheme participants	5,019	4,754
Actuarial gains and losses	71,744	13,643
Benefits paid	(15,561)	(14,076)
Curtailments	1,319	343
Settlements	(11,333)	(4,361)
Closing balance 31 March	**519,683**	**562,082**

Reconciliation of fair value of the scheme assets

	2011/12 £'000	2012/13 £'000
Opening balance 1 April	**293,311**	**302,190**
Expected rate of return	20,166	17,511
Actuarial gains and losses	(12,913)	26,285
Employer contributions	16,835	15,362
Contributions by scheme participants	5,019	4,754
Benefits paid	(15,561)	(14,076)
Receipt of bulk transfer value	(4,667)	(1,385)
Closing balance 31 March	**302,190**	**350,641**

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 gain on scheme assets in the year was £26.285 million (2011/12: loss of £12.913 million)

Scheme History: Amounts for current and previous periods	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Present value of liabilities:					
Local Government Pension Scheme	(326,600)	(539,049)	(430,087)	(519,683)	(562,082)
Fair value of assets in the Local Government Pension Scheme	**194,500**	**273,814**	**293,311**	**302,190**	**350,641**
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	(132,100)	(265,235)	(136,776)	(217,493)	(211,441)
Total	**(132,100)**	**(265,235)**	**(136,776)**	**(217,493)**	**(211,441)**

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 2014 is £14.566 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 the following:

- Latest funding valuation of the scheme as at 31 March 2010

- Estimated whole fund income and expenditure items for the period to 31 March 2013

- Estimated whole fund returns for the period to 31 March 2013 are based on assets used for the purpose of the IAS19 valuation as at 31 March 2012, actual fund returns for the period to 31 March 2013 and then market returns (estimated where necessary) for the period to 31 March 2013

- Estimated Fund income and expenditure in respect of the Employer for the period to 31 January 2013

- Details of any new early retirements for the period to 31 March 2013 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

The estimated asset allocation for Medway Council as at 31 March 2012 is as follows:				
	31st March 2012		31st March 2013	
	£,000	%	£,000	%
Equity Investments	223,620	74	248,955	71
Gilts	3,022	1	0	0
Bonds	30,219	10	45,583	13
Property	27,197	9	28,051	8
Cash	12,088	4	14,026	4
Target Return Portfolio	6,044	2	14,026	4

	2011/12	2012/13
Long-term expected rate of return on assets in the scheme	5.80%	5.80%
Longevity at 65 for current pensioners		
Men	20.0	20.1
Women	24.0	24.1
Longevity at 65 for future pensioners		
Men	22.0	22.1
Women	25.9	26.0
Rate of inflation	2.50%	2.60%
Rate of increase in salaries	4.70%	4.80%
Rate of increase in pensions	2.50%	2.60%
Rate for discounting scheme liabilities	4.60%	4.60%

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31March 2013:

	2008/09	2009/10	2010/11	2011/12	2012/13
	%	%	%	%	%
Differences between the expected and actual return on assets	(31.90)	20.60	(2.80)	(4.30)	7.50
Experience gains and losses on liabilities	(0.20)	0.40	7.60	0.00	(0.10)

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 2013, the Authority has one material contingent liabilities:

Medway Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of £69.984 plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is £196,552 plus interest and costs. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

Within the 2011/12 Statement of Accounts a contingent liability was declared for the MMI (Municipal Mutual Insurance) Scheme of Arrangement, however, since that date the financial implications have been robustly assessed and if forthcoming would be funded from the Authority's insurance reserve. This liability therefore is no longer being classed as a contingent liability nor has a specific provision been made.

35. Contingent Assets

There were no known material contingent assets as at 31 March 2013.

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 follows the requirements of the Local Government Act 2003 and CIPFA's Code of Practice on Treasury Management. The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved annually by Medway Council in its Treasury Management Strategy. Medway Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the 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 (The Authority's borrowing and investment advisors). 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 (credit default swaps) spreads to give early warning of likely changes in credit ratings; sovereign ratings to select counterparties from only the most creditworthy countries.

Officers monitor all credit ratings, market data and other intelligence continuously. The maximum amount for investments by the in-house team is £20 million per counterparty, £25 million for counterparties with a Sector duration of 12 months or above, 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 2012/13 was approved by Full Council on 23 February 2012 and the 2013/14 strategy was approved on the 21 February 2013. 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 £55.962m (£65.507m in 2011/12) 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 2013 that this was likely to crystallise.

The following analysis 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 2013	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£'000	%	£'000
Deposits with banks and financial institutions*	55,962	0.00	0
Customers	9,070	21.01	1,906
Council Tax	9,755	25.15	2,453
Total	**74,787**	**5.83**	**4,359**

* This is made up of the following:	Amount at 31 March 2013 £'000
Lloyds TSB	10,000
Natwest	22,600
Stocks	5
Fund managers	23,024
Total	**55,629**
Accrued interest	333
Total including accrued interest	**55,962**

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 £6,503 million (£6.890m in 2011/12) of the £9,070 million balance (£10.619m in 2011/12) is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than three months	1,063
Three to six months	726
Six months to one year	1,425
More than one year	3,289
	6,503

Of the £9.755 million (£9.831m in 2011/12) Council Tax outstanding at 31 March 2013 £5.022 million (£5.268m in 2011/12) 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. These limits ensure that the Council is not required to repay or refinance a significant proportion of its debt at one time. The structure of fixed rate borrowing as stated in the strategy and the maturity analysis of financial liabilities is as follows:

	Lower Limit %	Upper Limit %	Actual 31/03/13 %	Actual 31/03/12 %
Under 12 Months	0	50	5.80	5.55
12 months and within 24 months	0	50	0.00	5.48
24 months and within 5 years	0	50	0.00	0.00
5 years and within 10 years	0	50	4.06	3.84
10 years and above	25	100	90.13	85.13

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

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

	Lower Limit %	Upper Limit %	Actual 31/03/13 %
Under 12 Months	0	50	44.28
12 months and within 24 months	0	50	2.90
24 months and within 5 years	0	50	17.7
5 years and within 10 years	0	50	4.06
10 years and above	25	100	31.06

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

Market risk

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

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. 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 £4,579. The Council has some exposure to losses arising from movements in the prices of the HM Treasury Stock.

The Stocks are classified as 'available for sale' meaning that movements in price will impact on gains and losses in Other Comprehensive Income and Expenditure for 2012/13.

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 £'000	2011/12 £'000	2012/13 £'000
Cost of Acquisitions of heritage assets			
Buildings	0	67	0
Furniture	0	0	0
Silver / Gold Collections	0	0	0
Art Collection	0	0	0
Other	0	0	0
Total cost of purchases	**0**	**67**	**0**
Value of heritage assets acquired by donation	0	0	0
Disposals of heritage assets	0	0	0
Impairment recognised in the period			
Buildings	0	(413)	0
Furniture	0	0	0
Silver / Gold Collections	0	0	0
Art Collection	0	0	0
Other	0	0	0
Total Impairments	**0**	**(413)**	**0**

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

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

Policy on acquiring Heritage Assets for its Museum Service

Medway Council's policy is to continue to acquire objects for permanent collections in order to provide a full range of services and fulfil its responsibilities to both the residents of the area administered by Medway Council and the wider audience of 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. The upgraded storage facilities have been secured and will be available for use during the latter part of 2013 which will mean that the Guildhall Museum will 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. Non-adjusting event post reporting period

Non Domestic Rates - Appeals Outstanding at 31 March 2013.

When the new arrangements for the retention of business rates came into effect on the 1 April 2013, local authorities assumed the liability for refunding ratepayers who have appealed against the rateable value of their properties on the ratings list.

This will include amounts that were paid over to Central Government in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the authority, but would have been transferred to Central Government.

When authorities assume these liabilities on 1 April 2013, a provision will be recognised. Local Authority Accounting Practice recommends that, despite the fact that these amounts relate to 2012/13 and earlier years authorities should only recognise these liabilities on 1 April 2013, as no liability rests with the local authority until then.

Early returns to Government indicated this figure to be £7.789m for 2013/14 however, more up to date estimates were used for building the Council tax requirement for 2013/14 and an assumed liability of £3.139m was used on the basis that regulation permits us to defer a proportion of the accumulated liability to the 31st March 2013 (payments predating 31st March 2013 to be phased over 5 years).

Council Tax Benefit/Council Tax Reduction Scheme

As part of the Spending Review 2010 the Government made a policy commitment to localise support for council tax by 2013/14 accompanied by a declared intention to reduce expenditure by 10%. Consequently, The Welfare Reform Act 2012 abolishes Council Tax Benefit (CTB) with effect from1 April 2013. A local council tax reduction scheme (CTRS) administered by local authorities replaces CTB from 1 April 2013.

Whilst Council Tax Benefit was fully funded by Central Government by way of a subsidy grant (with the exception of specific penalty areas) the Council Tax Reduction Scheme is not funded in this way. It is partially funded by way of a compensatory grant from central government based on previous CTB expenditure but reduced by 10%. The council estimates that despite reducing expenditure on the CTRS scheme relative to the former CTB regime by £2.7m it still leaves a further £0.3m to be achieved to meet the reduction in funding.

H SUPPLEMENTARY FINANCIAL STATEMENTS

Supplementary Statement

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.

Year Ended 31 March 2012 £'000		Notes	Year Ended 31 March 2013 £'000
	Amounts required by statute to be credited to the Collection Fund		
(98,611)	Council Tax	1	(99,936)
	Transfers from General Fund:		
(19,145)	• council tax benefits		(19,126)
(79,012)	Income Collectable from Business ratepayers	2	(85,400)
0	Contributions towards previous year's Collection Fund deficit		
0	Contributions – adjustment of previous years' community charges		
(196,768)	**Total Amount required by statute to be credited to the Collection Fund**		**(204,462)**
	Amounts required by statute to be debited to the Collection Fund		
	Precepts and demands from major preceptors and the authority:		
98,523	• Medway Council		99,080
12,208	• Kent Police Authority (KPA)		12,225
5,982	• Kent Fire and Rescue Service (KFRS)		5,990
341	• Parishes		359
	Business rates:		
78,722	• payment to national pool	3	85,112
290	• costs of collection		288
	Impairment of debts/appeals:		
1,081	• allowance for impairment	4	873
	Contribution		
0	- towards previous year's estimated Collection Fund surplus		0
0	- adjustment of previous years' community charges		0
197,147	**Total Amount required by statute to be debited to the Collection Fund**		**203,927**
379	**Movement on fund balance**		**(535)**
23	**Opening fund balance**		**402**
402	**Closing Fund Balance**		**(133)**

Notes to the Collection Fund Account

1. Council Tax

In 2012/13 Medway Council, the Police and Crime Commissioner for Kent 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:

Council Tax Base						
Band	**Value**	**Dwellings**		**Estimated no. of Chargeable Dwellings after Discounts**	**Band Ratio**	**Band D Equivalent Dwellings**
A	Not exceeding £40,000	11,117.0		8,890.50	6/9	5,927
B	£40,000 to £52,000	37,516.0		32,820.43	7/9	25,527
C	£52,000 to £65,000	32,761.0		29,695.50	8/9	26,396
D	£65,000 to £88,000	16,679.0		15,477.00	9/9	15,477
E	£88,000 to £120,000	8,198.0		7,605.00	11/9	9,295
F	£120,000 to £160,000	3,417.0		3,253.80	13/9	4,700
G	£160,000 to £320,000	1,296.0		1,221.60	15/9	2,036
H	Exceeding £320,000	63.0		156.00	18/9	78
						89,436
Less adjustment for collection rates and MOD properties						(885)
Tax Base for 2012/13						**88,551**
Tax Base for 2011/12						**88,034**

The Tax Base multiplied by the Council Tax levied indicates an estimated gross yield of approximately £117,000,000 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 2012/13 was £98,803,000

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 £.

	2011/12	**2012/13**
	£'000	**£'000**
Amount Collectable for the year	92,885	105,667
Less: Transitional and other Reliefs	(13,873)	(20,267)
Income Collectable from Non-Domestic Ratepayers	**79,012**	**85,400**

The total Non-Domestic Rateable Value at 31 March 2013 was £225,916,991 (31 March 2011 £230,687,671) and the Uniform Business Rate 45.8p (45.0p Small Business Rate) (2011/12 43.3p and 42.6p 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:

	Council Tax £'000
Balance 1 April 2012	**2,429**
Add: Provisions made during year	873
Less amounts written off	(848)
Balance 31 March 2013	**2,454**

5. Surplus/Deficit

The surplus attributable to Medway Council at the end of March 2013 was £113,228 and surplus due from The Police and crime Commissioner for Kent and Kent Fire and Rescue Service were £14,040 and £6,339 respectively. The Surplus for the year was £133,607.

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 was 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 2012/13.

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 (the Code) 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 (Service Reporting Code of Practice).

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 analyses in more detail the income and expenditure on HRA services included in the whole authority Surplus or Deficit on the Provision of Services. It shows that the Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The authority charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2011/12 £'000		Notes	2012/13 £'000
	Expenditure		
2,128	Repairs & maintenance		2,210
3,381	Supervision and management		3,589
168	Rents, rates, taxes and other charges		165
1,909	Negative Housing Revenue Account subsidy/rent rebate limitation subsidy payable	7&*1	140
3,574	Depreciation and impairment of non-current assets		3,950
52	Debt management costs		63
70	Movement in the allowance for bad debts	8	104
19,144	Self-financing settlement	*2	0
30,426	**Total Expenditure**		**10,221**
	Income		
(11,264)	Dwelling rents		(12,021)
(193)	Non-dwelling rents		(179)
(1,010)	Charges for services and facilities		(1,072)
(34)	Contributions towards expenditure		(20)
(7)	HRA Subsidy Receivable		0
(12,509)	**Total Income**		**(13,292)**
17,917	Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement		(3,071)
98	HRA services share of Corporate and Democratic Core		98
(10)	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services		13
18,006	**Net Cost of Housing Revenue Account Services**		**(2,960)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
(368)	Gain or (loss) on sale of HRA non-current assets		(420)
922	Interest payable and similar charges	*3	2,375
(95)	Interest and investment income		(81)
6	Pensions interest cost and expected return on pensions assets		33
18,471	**Deficit/(Surplus) for the year on Housing Revenue Account Services**		**(1,053)**

*1 - The Housing Revenue Account subsidy payment finished in 2011/12 with the introduction of self financing in 2012/13 and only rent rebates are now payable.

*2 - Additional debt of £19.144m was paid for the withdrawal from the HRA subsidy system which is not payable in 2012/13.

*3 - As a result of the withdrawal of HRA subsidy and the introduction of self financing, the HRA now makes a debt repayment and pays additional interest on the additional debt burden of £19.144m.

Movement on the Housing Revenue Account Statement

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

2011/12 £'000		2012/13 £'000
(6,156)	**Balance on the HRA at the end of the previous year**	**(4,835)**
18,471	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	(1,053)
(20,046)	Adjustments between accounting basis and funding basis under statute	(263)
(1,575)	**Net increase or (decrease) before transfers to or from reserves**	**(1,316)**
6	Transfers (to) or from reserves	5
(1,569)	**(Increase) or decrease in year on the HRA**	**(1,311)**
2,889	Contribution to capital expenditure from reserves	1,800
(4,835)	**Balance on the HRA at the end of the current year**	**(4,346)**

Notes to the Housing Revenue Account

1. Adjustments between accounting basis and funding basis under statute

2011/12 £'000		2012/13 £'000
ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:		
(3,232)	Charges for depreciation and impairment of non-current assets	(3,351)
(320)	Revaluation losses on Property, Plant and Equipment	(571)
(19,144)	Self Financing Settlement	0
(634)	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	(719)
ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:		
1,002	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,139
(10)	Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(16)
ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:		
2,296	Reversal of Major Repairs Allowance credited to HRA	3,351
ADJUSTMENTS PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT:		
(12)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(12)
ADJUSTMENTS PRIMARLY INVOLVING THE PENSIONS RESERVE:		
(22)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(300)
29	Employer's pension contributions and direct payments to pensioners payable in the year	210
ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:		
1	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	7
(20,046)	**Total Adjustments**	**(263)**

2. Transfers to or from (earmarked) reserves

In 2012/13, £0.006m was transferred from the HRA balance to fund HRA earmarked reserves (£0.006m in 2011/12). The following table shows an analysis of the amounts held in HRA earmarked reserves and the amounts set aside in year and the amounts posted back from earmarked reserves to meet expenditure in 2012/13:

	Balance 1 April 2011	Transfers in 2011/12	Transfers out 2011/12	Balance 31 March 2012	Transfers in 2012/13	Transfers out 2012/2013	Balance 31 March 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund							
HRA IT Reserve	(33)	(6)	0	**(39)**	(6)	8	**(37)**
Major Repair Reserve	(1,017)	(5,185)	5,855	**(348)**	(5,838)	5,900	**(286)**
Total	**(1,050)**	**(5,191)**	**5,855**	**(387)**	**(5,844)**	**5,908**	**(323)**

3. Dwelling Stock

The Council managed 3,024 rentable dwellings as at 31 March 2013. The movement in stock is analysed as follows:

Stock Type	01 April 2012	Adjustments	Additions	Disposals	31 March 2013
Houses	1,311	0	0	(6)	1,305
Flats	1,259	0	0	0	1,259
Maisonettes	215	0	0	0	215
Bungalows	245	0	0	(1)	244
Total	**3,030**	**0**	**0**	**(7)**	**3,023**

4. HRA Non-Current Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Balance Sheet. The market value at 1 April 2012 is estimated to be £305,524,955.

	Dwellings	Other Land and Buildings	Total
	£'000	£'000	£'000
Balance Sheet Value 1 April 2012	98,313	6,126	104,439
Revaluation	(571)	0	(571)
Book Value 1 April 2012	97,742	6,126	103,868
Depreciation	(2,922)	(430)	(3,351)
Additions (see HRA Note 6)	5,021	56	5,077
Disposals	(244)	0	(244)
Balance Sheet Value 31 March 2013	**99,597**	**5,752**	**105,349**

5. Major Repairs 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 or repayment of debt. The analysis of movement on the Major Repairs Reserve is as follows:

2011/12		2012/13
£'000	Major Repairs Reserve	£'000
(1,017)	**Opening Balance**	**(348)**
(2,296)	HRA Depreciation from Capital Adjustment Account	(3,351)
(2,889)	Transfer from Reserves	(1,800)
5,855	Financing of HRA Capital Expenditure	5,077
0	Debt Repayment from the HRA	(687)
0	Debt Repayment from the Capital Adjustment Account	823
(348)	**Closing Balance**	**(286)**

6. Analysis of HRA Capital Expenditure and Funding

2011/12 £'000		2012/13 £'000
	Operational Assets	
5,824	Dwellings	5,021
13	Other Land and Buildings	56
18	Non-Operational Assets	0
5,855	**Total**	**5,077**
	Funded by:	
(5,855)	Major Repairs Reserve	(5,077)
(5,855)	**Total Funding**	**(5,077)**

7. Summary of HRA Capital Receipts

2011/12 £'000		2012/13 £'000
(220)	Receipts from the sale of land	(11)
(741)	Receipts from the sale of other property	(934)
(7)	Repayment of discount	0
(266)	Receipts from disposals of houses through the Right To Buy scheme	(406)
(1,234)	**Total Capital Receipts**	**(1,351)**

8. Housing Subsidy

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

However, 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 2012/13 this amounted to £139,650 (£146,557 in 2011/12) and this does continue with the introduction of self financing.

2011/12 £'000	Housing Subsidy	2012/13 £'000
1,875	Management Allowance	0
3,689	Maintenance Allowance	0
2,296	Major Repairs Allowance	0
1,156	Charges for capital	0
9,016	Total Receivable Allowance	0
	Less	
(10,778)	Guideline Rent Income	0
(1)	Interest on Receipts	0
(10,779)	Total Income Allowance to be netted against Receivable Allowance	0
(1,763)	**Total Subsidy (Payable)/Receivable In-Year**	**0**
(147)	Rent Rebate Subsidy Limitation	(140)
(1,910)	**Housing Subsidy/Rent Rebate Subsidy (Payable)/Receivable In-Year**	**(140)**
(1,903)	**Total Housing Subsidy/Rent Rebate Subsidy (Payable)/Receivable**	**(140)**

9. Tenants' Arrears

Tenants' Arrears at 31 March were analysed as follows:

2011/12 £'000	Type of Debt	2012/13 £'000
289	General Stock	279
1	Garages	1
325	Former Tenancies – General Stock	297
4	Former Tenancies - Garages	1
39	Housing Benefit Overpayments – General Stock	36
28	Court Costs – General Stock	24
45	Former Tenancy Arrears of Current Tenants – General	56
32	Rechargeable Repairs	76
763	Total Arrears	770
6.95%	**Percentage of Gross Rents (HRA)**	**6.38%**

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

2011/12 £'000		2012/13 £'000
625	Opening Balance	590
70	Additional Provision made during year	104
3	Add Credit write-offs	3
(108)	Less amounts written off	(134)
590	**Closing Balance**	**563**

10. HRA Share of Contributions to the Pensions Reserve

In accordance with IAS 19 the HRA Income and Expenditure Statement includes £0.083m, for its share of the contribution from the Pensions Reserve. The costs calculated by the pensions' actuary include current service cost, interest on pension liability, and expected return on assets. The HRA share is calculated by apportioning costs based on employers contributions charged to the HRA for the year. In accordance with proper accounting practice, the contribution is then removed by crediting the Movement on the Housing Revenue Account Statement to ensure the HRA is only charged with pension fund contributions payable for the year.

11. Depreciation and Amortisation Charges

The HRA is charged with depreciation to reflect the consumption of HRA assets over their useful life. The method of calculation of depreciation relating to council dwellings is based on straight line depreciation, consistent with the other classes of non-current assets held by the authority.

In 2012/13 the depreciation charged on HRA assets was £3.351m (£3.323m 2011/12). The charge for depreciation of £2.922m relating to the housing stock is funded from the Major Repairs Allowance; in 2012/13 this allowance was £3.251m. The charge of £0.430m relating to other non-current assets is appropriated from the Major Repairs Reserve to the HRA. The following table shows the depreciation charged on HRA assets:

2011/12 £'000		2012/13 £'000
	Property, Plant and Equipment	
2,803	Council Dwellings	2,922
430	Other Land and Buildings	430
3,232	**Total Depreciation and Amortisation**	**3,351**

12. Item 8 Credit and Item 8 Debit (General) Determination

The capital asset charges accounting adjustment, calculated in accordance with the Item 8 credit and Item 8 debit (general) determination for 2012/13 was £6.434m.

The following table shows the breakdown of this adjustment:

2011/12 £'000	Type of Debt	2012/13 £'000
	Capital Asset Charges	
320	Revaluation Losses	571
2,803	Depreciation Charge in Respect of Council Dwellings	2,921
430	Other Depreciation Charges	430
0	Debt repayment	823
3,553	**Total Capital Asset Charges**	**4,745**
922	Actual Interest Charged on HRA Debt	1,689
4,475	**Capital Asset Charges Accounting Adjustment**	**6,434**

13. Gross Rent Debit

The rent income figure is net of voids. The level of voids in 2012/13 was on average equal to 0.46% (0.58% in 2011/12). The level of rebates provided was £8,536,970 (2011/12 £7,578,331), which amounted to 67.54% of rent and HB related service charges collectable (2011/12 61.75%).

I GLOSSARY OF TERMS

ACCOUNTING

The system of local authority accounting and reporting has been modernised to meet the changed needs of modern local government particularly the duty to secure and demonstrate Best Value in the provision of services. The Service Reporting Code of Practice provides guidance on the content and presentation of costs of service activities.

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 serves 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

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.

EMPLOYEE EXPENDITURE

The salaries and wages of employees together with national insurance, superannuation and all other pay-related allowances. Training expenses and professional fees are also included.

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.

INTANGIBLE ASSETS

Identifiable non-monetary asset without physical substance. The most common class of intangible asset is computer software.

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.