Appendix 1

Statement of Accounts

for the year ended 31 March 2014

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Medway Council

Serving You

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A. Explanatory Foreword

The financial statements are presented on an International Financial Reporting Standards (IFRS) basis and have been prepared by the authority in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and cover the period 1 April 2013 to 31 March 2014 (“the reporting period”).

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

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

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

Introduction

Overview of Medway

Medway is an area of northern Kent comprising the towns of Rochester, Strood, Chatham, Gillingham, 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%

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 financial officer in respect of the Statement of Accounts.

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

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

Information accompanying the Statement of Accounts

The Code and Accounts and Audit Regulations 2012 require that certain information accompanies the Statement of Accounts but are not formally part of the Statement of Accounts.

Explanatory foreword

This section offers interested parties an easily understandable guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the 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 2014 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).

The financial statements are set out on pages 37 to 43 and are presented as follows:

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.

The cost of services in this statement is analysed in accordance with the Service Reporting Code of Practice (SeRCOP) for consistency and comparability of local authorities.

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 2013/2014

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 2013/14	
	£'000	£'000
Budget requirement 2012/13	335,185	
Changes in function and funding	20,268	
Adjusted Base Budget		**355,453**
Inflation	917	
Other cost pressures	2,257	
Service pressures	4,090	
Efficiency and other savings	(13,106)	
		(5,842)
Budget Requirement 2013/14		**349,611**
Financed By:		
NNDR Redistribution		42,119
RSG		63,311
Other Specific Grant		156,616
Council Tax		87,565
Reserves		0
Total		**349,611**

Summary of the Local Government Finance Settlement 2013/14				
	Adjusted 2012/13	Final 2013/14	Change	
	£'000	£'000	£'000	%
Formula Grant	109,423	105,430	(3,993)	(3.65%)
Total	**109,423**	**105,430**	**(3,993)**	**(3.65%)**

The tables above show that 2013/14 was a financially difficult year with a 3.65% cut in Local Government Finance Settlement against the comparable figure for 2012/13. This pressure will continue into 2014/15 where funding has been reduced by a further 8.6%.

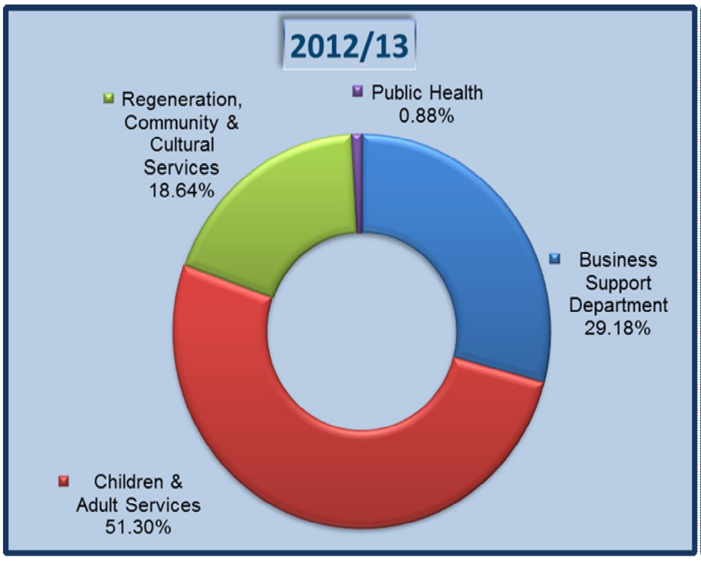
Revenue

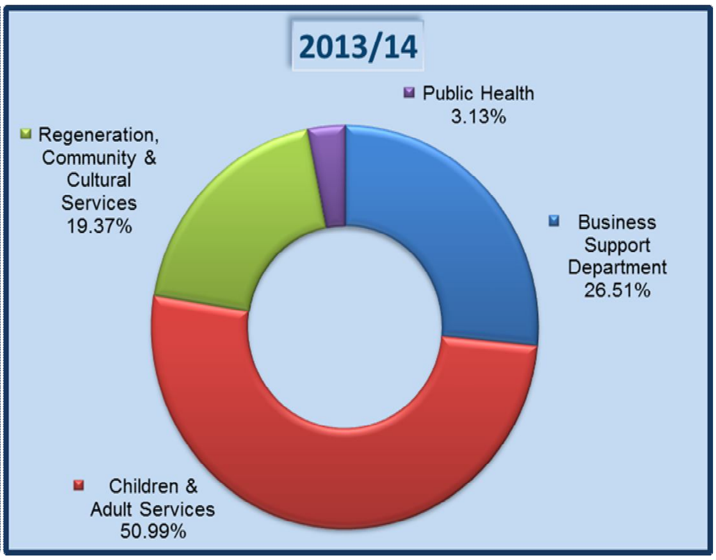
No general use of reserves was planned for 2013/14 and the corporate underspend resulted in a contribution to the General Reserve of £0.267m.

The table below summarises the income and expenditure for each directorate of the Council for 2013/2014:

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	161,909	(153,125)	8,785	9,765	(980)
Children & Adult Services	311,402	(40,033)	271,369	270,165	1,204
Regeneration, Community & Cultural Services	118,266	(34,925)	83,341	83,350	(9)
Public Health	19,103	(6,172)	12,931	12,931	(0)
Sub-total Services	610,680	(234,255)	376,425	376,211	214
Amounts included within management accounts but excluded from services within statutory accounts:					
Medway Norse	0	(282)	(282)	(263)	(19)
Investment Properties	0	(345)	(345)	(369)	23
Sub-total excluded from services within Statutory accounts	0	(627)	(627)	(632)	5
Sub-total Services reported within management accounts	610,680	(234,882)	375,799	375,579	220
Levies	975	(32)	943	879	64
Depreciation Credit	0	(41,781)	(41,781)	(41,782)	1
Interest & Financing	19,756	(4,862)	14,894	14,936	(42)
Planned Use of Reserves	0	0	0	0	0
Dedicated Schools Grant	0	(128,159)	(128,159)	(128,159)	(0)
	631,411	**(409,716)**	**221,695**	**221,452**	**243**
Funded:-					
Specific Non-ringfenced Grants	0	(28,967)	(28,967)	(28,457)	(510)
RSG	0	(63,311)	(63,311)	(63,311)	(0)
NNDR Redistribution	0	(42,119)	(42,119)	(42,119)	(0)
Council Tax	0	(87,565)	(87,565)	(87,565)	0
	0	**(221,962)**	**(221,962)**	**(221,452)**	**(510)**

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





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

Capital

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

Capital Expenditure has been financed from the following sources:

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

The Council spent £8,308,963 on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included a programme of improvements to the Council's housing stock, the provision of new classrooms and improvements to school infrastructure. The remainder of capital expenditure is split between capital works in progress £33,151,408 and £3,768,681 relating to "Revenue Expenditure Funded from Capital under Statute" (formerly deferred charges). (see Statement of Accounting Policies 23).

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

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

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

Borrowing/Investments

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

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

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

Non-Current Assets

The total value of the Authority’s non-current assets has decreased in 2013/2014 by approximately £25 million. The main decreases related to derecognitions/disposals/transfer of academies (£44m) and depreciation (£46m). This was partially offset by capital investment (£40m) and revaluation increases (£3m).

B. Annual Governance Statement

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1. Scope of responsibility

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

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

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

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

2. The purpose of the governance framework

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

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

The following section of the statement summarises Medway Council's governance framework that has been in place for the year ended 31 March 2014 and up to the date of approval of this Statement. The framework described reflects the arrangements in place to meet the six core principles of effective governance.

3. The Council's Governance Framework

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

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

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

In 2014 the council reviewed the Council Plan 2013-15, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2014 the council refreshed the Council Plan performance indicators. It forms an essential part of
the council's governance framework, setting out the council's priorities and the measures against which success will be judged.

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

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

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

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

The Council takes fraud and corruption very seriously and has

- An Anti-Bribery Act policy
- A Fraud Resilience Strategy
- An Anti Money Laundering Policy (approved 2013)

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

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

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

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

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

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

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

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

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

4. Review of effectiveness

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

An annual review of the code of corporate governance checks the control environment within the two directorates and the business support department, and the results of this review have been used to inform our assessment of significant control issues for the Council.

An internal audit report on the Annual Governance Statement for 2013/14 concluded:
“The AGS provides a reasonable and evidenced summary of the Authority's governance arrangements, which meets the requirements of the CIPFA/SOLACE framework. The overall opinion on the AGS is therefore **“strong”** “

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

5. Governance: Key Areas of Focus

The Authority faces another challenging year in 2014/15 as it seeks to manage significant budget reductions, increasing demand for some services and new ways of working, whilst ensuring it complies with its statutory duties. The following represent the key issues to be addressed in relation to significant governance issues:-

(a) A continuation of the significant reductions in Government grant funding and the on going demands for greater expenditure, particularly for children's services and older people. The Council has plans in place to respond to the challenges for 2014/15 but the budget reductions will require careful monitoring and immediate action if they fall behind during implementation. The Council will need to ensure that decisions are taken with "due regard" for the Public Sector Equality Duty given the successful legal challenges linked to budget reduction decisions nationally.

(b) An "inadequate" Ofsted report on child protection services and a subsequent "inadequate" for safeguarding and looked after children has required a detailed and comprehensive response from the Council including the setting up of an External Improvement Board. Senior Members and Officers and external experts and stakeholders are overseeing the delivery of a suite of recommendations designed to put right the short comings identified. The success of the improvement plan is critical to the Council. An Internal Improvement Board has also been set up to drive the recommendations made.

(c) In May 2015 there will be a General Election and simultaneously there will be all out Council elections in Medway. The Council will need to plan and conduct the elections in accordance with the law and good practice and prepare to respond to any changes needed following the outcome particularly of local elections. Policy changes at a national level will also need to be considered carefully.

6. Certification

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year 2013/14 although we recognise the areas for additional focus identified in section 5.

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

…………………………………….
Leader of the Council

……………………………………..
Chief Executive

Portfolio of evidence to support the Annual Governance Statement

3. (b)

The Council has done this by:

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

3. (c)
The Council has done this by establishing and keeping under review:

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

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

Conduct of Members is monitored by the Councillor Conduct Committee, which also considers investigations of allegations of misconduct by Members. There have been five formal complaints this year and for each no further action was taken. The conduct process has a strong emphasis on informal resolution.

The Council has:

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

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

3. (d)
The Council has ensured that under the risk management system:

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

3. (e)
The Council has done this by:

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

3. (f)
The Council has done this by:

- Improving effective corporate consultation including maintaining effective mechanisms for ongoing engagement eg, Children in Care Council, Young Commissioners, Learning Disability Partnership Board, Tenants Forums, Medway Ambassadors Scheme and the Community Safety Partnership
- Carrying out in depth consultation exercises as required to inform policy development and service change – eg Maintaining effective data exchange through the Corporate Research and Information Group to plan and coordinate consultation and to share findings

- Making use of local forums at ward, parish and neighbourhood level to maintain communication with all the Council's communities and other stakeholders e.g. Rural Liaison Committee with parishes, community futures workshops in our most deprived areas to inform the development of communityowned action plans, participation in Partner and Communities Together (PACT) meetings
- Maintaining and reviewing an effective complaints procedure

4.

Throughout 2013/14 the Council has received and considered a number of reports including:-

(a) Constitutional Matters (July 2013, October 2013)
(b) Exemptions to the contract procedure rules (January 2014)
(c) Budget Report 2014/15 (February 2014)
(d) Council Plan 2014/15 (February 2014)
(e) Special urgency decisions (April 2013, October 2013)

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

(a) Revenue Budget monitoring 2013/14 (July 2013, October 2013)
(b) Capital monitoring 2013/14 (October 2013)
(c) Council plan monitoring 2013/14 (August 2013)
(d) Six monthly review of the risk register (April 2013, October 2013)
(e) Annual Review of the Risk Management Strategy (October 2013)
(f) Medium Term Financial Plan 2014/17 (October 2013)
(g) Statement of Accounts 2012/2013 (July 2013)
(h) 2012/13 Year End Performance Monitoring (July 2013)

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

(a) Annual review of the whistle blowing policy (September 2013)
(b) Internal Audit Annual Plan 2014/15 (March 2014)
(c) Anti Money Laundering Policy (July 2013)
(d) Fraud Resilience Strategy (March 2013)
(e) Statement of Accounts 2012/13 (July 2013)

C. Statement of Responsibilities

Medway Council
Serving You

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 2014.

Mick Hayward
Chief Finance Officer 25 September 2014

Adoption of the Accounts

In accordance with Accounts and Audit Regulation 2011 the Chair of the meeting adopting the statement of Accounts must sign and date the statement in order to confirm that the adoption process has been completed.
I confirm that the Statement of Accounts for the period ending 31 March 2014 was approved at the meeting of Audit Committee held on 25 September 2014.

Councillor Craig Mackinlay
Chairman of the Audit Committee 25 September 2014

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

To be added

E. Statement of Accounting Policies

Medway Council
Serving You

Table of Contents

(i) Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. 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 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments 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. If conditions have not been met amounts are carried forward as grants received in advance.

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
- amortisation of intangible assets attributable to the service.

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

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 in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

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

Post employment benefits

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

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

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

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

The Local Government Pension Scheme

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

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

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

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

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

  - Service cost comprising:

    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the 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

- net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

  - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – 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 and depreciation of non-current assets, the provision for bad and doubtful debts, accruals, 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 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.

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
- 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.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the 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.

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

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

Available-for-Sale Assets

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

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

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

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

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

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

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

Fair Value through profit or loss

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.

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

All heritage assets are recognised by using the latest insurance valuation, which shall be subject to a five yearly rolling review, phased over 5 annual tranches. The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policy on impairments. By their nature, the useful life cannot be measured and therefore they will not be subject to annual depreciation charges. Where assets are being recognised for the first time, the initial valuation shall be recognised as a gain in the balance sheet and an increase in the 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 (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority and is above the de-minimis level of £25,000.

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the 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.

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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 non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the 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 2013/14* (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 valuer
- vehicles, plant, furniture and equipment – straight-line allocation over the projected life of the asset
- infrastructure – straight-line allocation over the outstanding life of the asset.

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

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

Disposals and Non-current Assets Held for Sale

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

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as 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. 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 operating leases and revenue funding. The Council responsibilities are detailed below:

School Status	Capital Expenditure & Non-Current Assets (Land/Buildings)	Revenue Expenditure
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 a legal or constructive obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case 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 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 the last year of it's 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.

Non Domestic Rate (NDR) Appeals Provision – Under the new NDR regime Local Authorities retain an element of all NDR collected and in Medway's case we retain 49% of collected NDR. With this responsibility we also suffer the loss of income from successful appeals against the rateable value of non-domestic property which include appeals submitted to the Valuation Office (VOA) prior to the introduction of this new regime. In order to mitigate against future losses of income from these appeals the Council has created a provision to offset the cost of back-dated refunds as the appeals are settled. The provision has been calculated as an estimate of potential cost against each individual appeal case and the cost is adjusted to take account of the probability of success. The value of this Provision is being spread to impact upon revenue over a 5 year period.

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

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

Contingent Assets – 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 out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus or Deficit on the Provision of Service in the 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 in the Comprehensive Income and Expenditure Statement 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 is included in the accounts as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

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

The Code of Practice on Local Authority Accounting in the United kingdom 2014/15 has introduced several changes in accounting policies which will be required from 1 April 2014. If these had been adopted for the financial year 2013/14 there would be no material changes as detailed below.

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

- IFRS 10 Consolidated Financial Statements. This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purpose of group accounts.
- IFRS 11 Joint Arrangements. This standard addresses the accounting for a 'joint arrangement' which is defined as a contractual arrangement over which two or more parties have joint control.
- IFRS 12 Disclosure of Interests in Other Entities. This is a consolidated disclosure standard requiring a range of disclosures over which two or more parties have joint control.
- IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. These statements have been amended to conform with the changes in IFRS 10, IFRS 11and IFRS 12.
- IAS 32 Financial Instruments Presentation. The Code references to amended application guidance when offsetting a financial asset and a financial liability.
- IAS 1 Presentation of the Financial Statements. The changes clarify the disclosure requirements in respect of comparative information of the preceding period.

The impact of these standards is not yet known.

(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.

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

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

Pension Liability

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

	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0%	-0.1%
Present value of Total Obligation	563,584	574,143	584,910
Projected Service Cost	17,098	17,492	17,895
Adjustment to long term salary increase	+0.1%	0%	-0.1%
Present value of Total Obligation	575,673	574,143	572,623
Projected Service Cost	17,492	17,492	17,492
Adjustment to pension increases and deferred revaluation	+0.1%	0%	-0.1%
Present value of Total Obligation	583,549	574,143	564,921
Projected Service Cost	17,902	17,492	17,091
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of Total Obligation	55,095	574,143	594,373
Projected Service Cost	16,896	17,492	18,093

Business rates

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

Debt Impairment

The balance of short term debtors shown in note 11 is net of £1,973,057 provision against general bad debts. However, in the current economic climate it is not certain that such allowance would be sufficient.

F. Principal Financial Statements

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Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the 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.

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 2014, the Housing Revenue Account working balance stood at £1.969m.

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

Schools Balances – Schools are allowed to carry forward, from one year to the next, any shortfall in expenditure relative to the school’s budget share for the year, plus or minus any balance brought forward from previous years. These surpluses can only be used for purposes that benefit pupils under delegated powers.

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

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

Capital Receipts Reserve – Proceeds from the sale of 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.

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

Movement in Reserves Statement for the years Ending 31 March 2013 and 31 March 2014

	Notes	General Fund Balance	Housing Revenue Account	Earmarked General Fund Reserves	Earmarked Housing Revenue Account Reserves	Schools Balances	General Reserve	Insurance Fund	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 31 March 2012		**10,000**	**4,835**	**9,743**	**39**	**7,707**	**7,855**	**2,067**	**0**	**348**	**29,777**	**72,371**	**396,820**	**469,191**
Movement in reserves during 2012/2013														
Surplus/(Deficit) on provision of services		(30,131)	1,103	0	0	0	0	0	0	0	0	(29,029)	0	(29,029)
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	0	0	0	0	25,495	25,495
Total Comprehensive Income and Expenditure		**(30,131)**	**1,103**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(29,029)**	**25,495**	**(3,534)**
Adjustments between accounting & funding bases under regulations	1	31,106	(1,723)	0	0	0	0	0	500	75	(5,439)	24,519	(24,519)	(0)
Net Increase/decrease before Transfers to Earmarked Reserves		**975**	**(621)**	**0**	**0**	**0**	**0**	**0**	**500**	**75**	**(5,439)**	**(4,509)**	**976**	**(3,534)**
Transfers to/from Earmarked Reserves	2	(5,974)	131	11,081	(2)	(269)	(4,390)	127	(437)	(137)	(130)	(0)	0	(0)
Increase/(Decrease) in 2012/13		**(4,999)**	**(490)**	**11,081**	**(2)**	**(269)**	**(4,390)**	**127**	**63**	**(62)**	**(5,569)**	**(4,510)**	**976**	**(3,534)**
Balance at 31 March 2013		**5,000**	**4,346**	**20,824**	**37**	**7,438**	**3,465**	**2,194**	**63**	**286**	**24,208**	**67,861**	**397,796**	**465,657**

IAS19 Employee Benefits has been adopted for reporting 2013/14 resulting in a restatement of the actuarial gain on pension assets/liabilities for both 2012/13 and 2013/14 to reflect the new basis.

	Notes	General Fund Balance	Housing Revenue Account	Earmarked General Fund Reserves	Earmarked Housing Revenue Account Reserves	Schools Balances	General Reserve	Insurance Fund	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 31 March 2013		**5,000**	**4,346**	**20,824**	**37**	**7,438**	**3,465**	**2,194**	**63**	**286**	**24,208**	**67,861**	**397,796**	**465,657**
Movement in reserves during 2013/2014														
Surplus/(Deficit) on provision of services		(44,564)	5,402	0	0	0	0	0	0	0	0	(39,162)	0	(39,162)
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	0	0	0	0	34,804	34,804
Total Comprehensive Income and Expenditure		**(44,564)**	**5,402**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(39,162)**	**34,804**	**(4,358)**
Adjustments between accounting & funding bases under regulations	1	49,368	(5,816)	504	0	0	(103)	0	(63)	(148)	(5,077)	38,665	(38,665)	0
Net Increase/decrease before Transfers to Earmarked Reserves		**4,804**	**(414)**	**504**	**0**	**0**	**(103)**	**0**	**(63)**	**(148)**	**(5,077)**	**(497)**	**(3,862)**	**(4,358)**
Transfers to/from Earmarked Reserves	2	(4,804)	(1,963)	8,536	(37)	(316)	(260)	270	(0)	0	(1,426)	0	0	0
Increase/(Decrease) in 2013/14		**0**	**(2,377)**	**9,040**	**(37)**	**(316)**	**(363)**	**270**	**(63)**	**(148)**	**(6,503)**	**(496)**	**(3,862)**	**(4,358)**
Balance at 31 March 2014		**5,000**	**1,969**	**29,864**	**0**	**7,122**	**3,102**	**2,464**	**0**	**138**	**17,706**	**67,365**	**393,935**	**461,301**

Comprehensive Income and Expenditure Statement

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

2012/2013			Service	2013/2014			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
2,275	(1,372)	903	Central services to the public		3,480	(1,713)	1,767
35,212	(8,699)	26,513	Cultural and related services		27,009	(8,337)	18,672
29,158	(5,379)	23,779	Environmental & regulatory services		32,830	(8,406)	24,424
15,714	(7,562)	8,152	Planning services		3,509	(6,660)	(3,152)
229,469	(157,624)	71,845	Children's and education services		229,034	(157,343)	71,691
47,189	(11,093)	36,096	Highways and transport services		44,679	(11,024)	33,654
10,227	(13,292)	(3,065)	Local authority housing (HRA)		5,195	(14,108)	(8,912)
134,555	(125,655)	8,900	Other housing services		115,923	(108,436)	7,487
90,140	(22,063)	68,077	Adult social care		88,436	(20,137)	68,299
7,559	(1,610)	5,949	Corporate and democratic core		7,093	(1,271)	5,822
9,435	(8,115)	1,320	Non-distributed costs		1,569	(4,503)	(2,935)
3,329	(3,631)	(302)	Public Health		16,671	(19,342)	(2,671)
614,263	**(366,095)**	**248,168**	**Cost of Services**		**575,427**	**(361,280)**	**214,147**
22,197	0	22,197	Other operating expenditure	3	37,812	(0)	37,812
22,254	(4,698)	17,556	Financing and investment income and expenditure	4	20,462	(3,903)	16,559
0	(258,892)	(258,892)	Taxation and non-specific grant income	5	0	(229,356)	(229,356)
658,713	**(629,685)**	**29,029**	**(Surplus) or Deficit on Provision of Services**		**633,701**	**(594,539)**	**39,162**
		Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services					
		(9,058)	(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets	17			(11,036)
		0	Impairment losses on non-current assets charged to the Revaluation Reserve				0
		(16,438)	Actuarial (gains)/losses on pension assets/liabilities	34			(23,768)
		(25,496)					**(34,804)**
		Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services					
		0	(Surplus)/Deficit on revaluation of available for sale financial assets				0
		0					**0**
		(25,496)	**Other Comprehensive Income and Expenditure**				**(34,804)**
		3,533	**Total Comprehensive Income and Expenditure**				**4,358**

Responsibility for Public Health transferred from the NHS to local authorities on 1 April 2014. In 2012/13 expenditure and income relating to Public Health originally reported under Environmental Health is now shown separately.

IAS19 Employee Benefits has been adopted for reporting 2013/14 resulting in a restatement of the actuarial gain on pension assets/liabilities for both 2012/13 and 2013/14 to reflect the new basis.

In 2012/13 support service costs were reported as both income and expenditure under Non-distribulted costs reflecting the costs recharged to services. Income and expenditure for non distributed costs have been restated to eliminate double counting of income and expenditure.

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 2013 £'000	Balance Sheet Summary	Notes	31 March 2014 £'000
844,024	Property Plant and Equipment	6	818,024
15,738	Heritage Assets	7	15,249
5,837	Investment Property	8	6,865
713	Intangible Assets	9	1,661
0	Assets Held for Sale	13	0
5	Long Term Investments	10	4
279	Long Term Debtors	10	196
866,595	**Long Term Assets**		**841,999**
53,310	Short Term Investments	10	0
625	Assets Held for Sale	13	2,900
187	Inventories		171
31,684	Short Term Debtors	11	42,644
5,197	Cash and Cash Equivalents	12	40,449
91,003	**Current Assets**		**86,164**
(11,543)	Short Term Borrowing	10	(1,278)
(52,180)	Short Term Creditors	14	(48,715)
(473)	Provisions	15	(5,203)
(64,196)	**Current Liabilities**		**(55,196)**
(41,901)	Long Term Creditors	10	(40,254)
(2,387)	Provisions	15	(2,197)
(164,138)	Long Term Borrowing	10	(164,854)
(213,988)	Other Long Term Liabilities	30,34	(196,493)
(5,331)	Grants Receipts in Advance - Capital	27	(7,869)
(427,745)	**Long Term Liabilities**		**(411,667)**
465,657	**Net Assets**		**461,301**
67,861	Usable Reserves	16	67,365
397,796	Unusable Reserves	17	393,935
465,657	**Total Reserves**		**461,301**

Cash Flow Statement

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

2012/13 £'000		2013/14 £'000
29,029	Net (Surplus) or deficit on the provision of services	39,162
(131,746)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements (Note 18)	(63,806)
55,739	Adjustments for items included in the net Surplus or deficit on the provision of service that are investing or financing activities (Note 18)	27,772
(46,978)	**Net cash flows from Operating Activities**	**3,128**
31,805	Investing Activities (Note 19)	(43,466)
24,986	Financing Activities (Note 20)	5,086
9,813	**Net (increase) or decrease in cash and cash equivalents**	**(35,252)**
15,010	**Cash and cash equivalents at the beginning of the reporting period**	**5,197**
5,197	**Cash and cash equivalents at the end of the reporting period (Note 12)**	**40,449**

G. Notes to the Principal Financial Statements

Medway Council
Serving You

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1. Adjustments between Accounting Basis and Funding Basis under Regulations

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

Adjustments for 2013/2014	Usable Reserves								
	General Fund Balance	Housing Revenue Account	Earmarked General Fund Reserves	General Reserve	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied		Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s		£000s
ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:									
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:									
Charges for depreciation and impairment of non-current assets	42,183	3,362							(45,545)
Revaluation movements on Property, Plant and Equipment	(3,217)	(5,148)							8,365
Movements in fair value of Investment Properties	(1,028)								1,028
Amortisation of Intangible Assets	222								(222)
Capital Grants and Contributions Applied	(20,575)								20,575
Revenue Expenditure Funded from Capital Under Statute	3,769								(3,769)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	36,731	1,628							(38,359)
Derecognition & other adjustments	214				(3)		(117)		(94)
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement:									
Statutory provision for the financing of capital investment	(7,650)								7,650
Capital expenditure charged against the General Fund and HRA balances	(1,888)	(5,213)							7,101
ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL GRANTS UNAPPLIED ACCOUNT:									
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(8,879)						8,879		0
Application of grants to capital financing transferred to the Capital Adjustment Account							(12,215)		12,215
Other Adjustments	895		504		225		(1,624)		0

Adjustments for 2013/2014	Usable Reserves								
	General Fund Balance	Housing Revenue Account	Earmarked General Fund Reserves	General Reserve	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied		Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s		£000s
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	(1,438)	(723)			2,161				0
Use of Capital Receipts Reserve to finance new capital expenditure					(2,324)				2,324
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	225				(225)				0
Other Adjustments				(103)	103				0
ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:									
Reversal of Major Repairs Allowance credited to HRA		(3,362)				3,362			0
Use of the Major Repairs Reserve to finance new capital expenditure		3,549				(3,549)			0
Other Adjustments		(40)				40			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	(468)	12							457
ADJUSTMENTS PRIMARLY INVOLVING THE PENSIONS RESERVE:									
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	21,241	372							(21,613)
Employer's pension contributions and direct payments to pensioners payable in the year	(14,511)	(258)							14,769
ADJUSTMENTS PRIMARILY INVOLVING THE COLLECTION FUND ADJUSTMENT ACCOUNT:									
Amount by which council tax and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement are different from council tax and non-domestic rate income calculated for the year in accordance with statutory requirements	3,187								(3,187)

Adjustments for 2013/2014	Usable Reserves								
	General Fund Balance	Housing Revenue Account	Earmarked General Fund Reserves	General Reserve	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied		Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s		£000s
ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:									
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	355	5							(360)
Total Adjustments 2013/2014	**49,368**	**(5,816)**	**504**	**(103)**	**(63)**	**(148)**	**(5,077)**		**(38,665)**

Adjustments for 2012/2013	Usable Reserves								
	General Fund Balance	Housing Revenue Account	Earmarked General Fund Reserves	General Reserve	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied		Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s		£000s
ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:									
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:									
Charges for depreciation and impairment of non-current assets	39,664	3,351							(43,016)
Revaluation movements on Property, Plant and Equipment	16,851	571							(17,422)
Movements in fair value of Investment Properties	(102)								102
Amortisation of Intangible Assets	126								(126)
Capital Grants and Contributions Applied	(39,496)								39,496
Revenue Expenditure Funded from Capital Under Statute	8,902								(8,902)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	22,178	719							(22,897)
Derecognition & other adjustments	(6)				6				0
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement:									
Statutory provision for the financing of capital investment	(7,715)								7,715
Capital expenditure charged against the General Fund and HRA balances	(3,084)	(5,077)							8,161
ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL GRANTS UNAPPLIED ACCOUNT:									
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(13,620)						13,620		0
Application of grants to capital financing transferred to the Capital Adjustment Account							(19,059)		19,059

Adjustments for 2012/2013	Usable Reserves								
	General Fund Balance	Housing Revenue Account	Earmarked General Fund Reserves	General Reserve	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied		Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s		£000s
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)	(1,325)			2,086				0
Transfer of cash proceeds credited on the repayment of a 1974 Local Government Reorganisation Loan	(453)				453				0
Use of Capital Receipts Reserve to finance new capital expenditure					(1,842)				1,842
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals		16			(16)				0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	186				(186)				0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash									0
ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:									
Reversal of Major Repairs Allowance credited to HRA		(3,351)				3,351			0
Use of the Major Repairs Reserve to finance new capital expenditure		3,277				(3,277)			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							462
ADJUSTMENTS PRIMARLY INVOLVING THE PENSIONS RESERVE:									
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	25,448	300							(25,748)
Employer's pension contributions and direct payments to pensioners payable in the year	(15,152)	(210)							15,362

Adjustments for 2012/2013	Usable Reserves								
	General Fund Balance	Housing Revenue Account	Earmarked General Fund Reserves	General Reserve	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied		Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s		£000s
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)								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)							1,363
Total Adjustments 2012/2013	**31,106**	**(1,723)**	**0**	**0**	**500**	**75**	**(5,439)**		**(24,519)**

2. Transfers to/from Earmarked Reserves

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

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

3. Other Operating Expenditure

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

4. Financing and Investment Income and Expenditure

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

5. Taxation and Non-Specific Grant income and expenditure

	2012/2013 £000s	2013/2014 £000s
Council tax income	(99,468)	(89,418)
Non-domestic rates income and expenditure	(79,208)	(38,985)
Non-ringfenced government grants	(27,016)	(71,593)
Capital grants and contributions	(53,200)	(29,360)
Total	**(258,892)**	**(229,356)**

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

6. Property, Plant and Equipment

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

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

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

It was noted that Non-Dwellings with a net book value of £4.389m were disclosed within Council Dwellings in error and have been moved to Other Land and Buildings during 2013-2014 to correct this anomaly.

Movement on Balances 2012/2013	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2012	107,668	597,179	9,188	240,000	10,898	4,477	30,519	999,929
Additions	5,077	6,305	214	6,737	267	0	45,780	64,379
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(6,662)	3	0	2,769	2,230	0	(1,661)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,800)	(25,478)	0	0	(15)	(1,867)	0	(31,160)
Derecognition – disposals	(252)	(26,812)	(789)	0	(501)	(808)	0	(29,162)
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	28,906	(505)	31,467	(4,681)	0	(55,746)	(559)
As at 31 March 2013	**108,693**	**570,969**	**8,111**	**276,506**	**8,737**	**7,402**	**20,553**	**1,000,971**
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)	(16,070)	(1,100)	(22,403)	0	(91)	0	(43,016)
Depreciation written out to the Revaluation Reserve	0	9,626	0	0	0	166	0	9,792
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,229	9,492	0	0	0	1,081	0	13,801
Derecognition – disposals	8	5,468	789	0	0	1	0	6,266
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
Other movements in depreciation and impairment	0	0	0	0	0	0	0	0
At 31 March 2013	**(3,344)**	**(39,624)**	**(4,380)**	**(109,599)**	**0**	**(0)**	**0**	**(156,947)**

Net Book Value	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
At 31 March 2013	**105,349**	**531,345**	**3,731**	**166,907**	**8,737**	**7,402**	**20,553**	**844,024**
At 31 March 2012	**104,439**	**548,113**	**5,120**	**152,650**	**10,898**	**4,399**	**30,519**	**856,137**

Depreciation

Depreciation is calculated using a straight line basis and the following useful lives have been used in the computation of depreciation:
· Council Dwellings – 60 years
· Other Land and Buildings – 10 to 60 years
· Vehicles, Plant, Furniture & Equipment – 5 to 30 years
· Infrastructure – 3 to 30 years
· Surplus Assets – 20 to 60 years

Capital Commitments

During the financial year 2013-2014 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 2014, the outstanding liability against these three contracts amounts to circa £2 million.
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Revaluations

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

Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

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

Inspections
In accordance with the relaxations agreed between the RICS and CIPFA, not all properties 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
The valuers have in some instances had to rely upon information regarding the properties provided to them by other Departments within Medway Council and their 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
The valuers have assumed good title exists, with no unusual or onerous restrictions, encumbrances or outgoings.

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

They rely on free of charge publicly available information and, unless informed otherwise, will assume the property has direct access onto a public highway and that there are no planning or highway proposals that directly affect the property

Construction and state of repair
The valuers 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. They 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.

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

Unless they are aware that a building has a limited economic life, or this is clear from inspection, assumptions that a reasonable standard of repair and that all reasonable internal and external repairs and maintenance have been carried out. They 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
The valuers 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 they are therefore unable to report that the properties are free from risk in this respect.

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

Environmental Assessment
The valuers 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 they 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.

They 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
No allowance or discount has been made for any 'flooding' of the market which might in practice occur if a number of properties were offered for sale simultaneously.

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

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

a) Depreciation of replacement build costs has been calculated according to age bands rather than a straight-line approach. No deduction is made for properties up to 10 years old and thereafter the factor increases with age up to a maximum 50%. 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.

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

Removal of Schools Transferring to Academies

Schools with a value of £25.430m (2012-13 £17.692m) have achieved academy status between 01.04.13 and 31.03.14 and therefore have been removed from the balance sheet for the 2013/14 financial statements. In addition there are likely to be existing schools with a value of £26.250m (2012-13 £14.38m) that will achieve academy status between 01.04.14 and 31.03.15 and three newly built academies with a value of £75.614m (2012-13 £69.266m) which will be removed from the balance sheet during 2014/15.

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 2012	8,388	244	656	1,107	3,049	13,444
Revaluations	2,239	0	0	0	0	2,239
Other Movements in Cost or Valuation	54	0	0	0	0	54
31 March 2013	**10,682**	**244**	**656**	**1,107**	**3,049**	**15,738**
Cost or Valuation						
1 April 2013	10,682	244	656	1,107	3,049	15,738
Additions	258	0	0	0	0	258
Revaluations	0	25	507	106		637
Impairment (Losses)/reversals recognised in the Revaluation Reserve	(792)				(592)	(1,384)
31 March 2014	**10,148**	**269**	**1,163**	**1,213**	**2,457**	**15,249**

Heritage Buildings

Those buildings which have been classified to Heritage are:

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

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

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

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

Upnor Castle is not included under Heritage Buildings as this is in the freehold ownership of Crown Estates. Medway Council 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

The Civic Silver was revalued during 2013/14 and this is the start of a rolling programme of revaluations that will take place over a rolling five year programme for non-building assets. The collection was valued by Vaughtons, bespoke regalia manufacturers. 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	2013/2014	2012/2013
	£'000	£'000
Rental income from investment property	345	375
Net gain/(loss)	**345**	**375**

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

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

Investment Properties	31 March 2014	31 March 2013
	£'000	£'000
Balance at start of year	5,837	5,735
Net gains/(loss) from fair value adjustments	1,028	102
Balance at end of year	**6,865**	**5,837**

9. Intangible Assets

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

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £222,000 for 2013/14 relates to Better For Less and the Integrated Care Management System. The Thin Client Software was not levied with amortisation during 2013/14 in line with the accounting policies of the authority.

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

	2012/13			2013/14		
	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	839	839
Accumulated amortisation	0	0	0	0	(126)	(126)
Net carrying amount at start of year	0	0	0	0	713	713
Additions:						
Purchases	0	334	334	0	1,170	1,170
Amortisation for the period	0	(126)	(126)	0	(222)	(222)
Other changes	0	505	505	0		0
Net carrying amount at end of year	**0**	**713**	**713**	**0**	**1,661**	**1,661**
Comprising:						
Gross carrying amounts	0	839	839	0	2,009	2,009
Accumulated amortisation	0	(126)	(126)	0	(348)	(348)
	0	**713**	**713**	**0**	**1,661**	**1,661**

10. Financial Instruments

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

Financial Instruments	Long-term		Current	
	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000
Investments				
Loans and Receivables	0	0	0	30,286
Available for sale financial assets	4	5	0	0
Fair value through profit or loss	0	0	0	23,024
Total Investments	**4**	**5**	**0**	**53,310**
Cash & Cash Equivalents				
Cash & Cash Equivalents	0	0	40,449	5,197
Total cash & Cash Equivalents	**0**	**0**	**40,449**	**5,197**
Debtors				
Loans and Receivables	196	279	31,863	21,882
Total Debtors	**196**	**279**	**31,863**	**21,882**
Borrowings				
Financial liabilities at amortised cost	(164,854)	(164,138)	(1,278)	(11,543)
Total Borrowings	**(164,854)**	**(164,138)**	**(1,278)**	**(11,543)**
Creditors				
Financial liabilities at amortised cost	(40,254)	(41,901)	(41,226)	(41,407)
Total Creditors	**(40,254)**	**(41,901)**	**(41,226)**	**(41,407)**

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

Income, Expenses, gains and Losses

	2013/2014					2012/2013				
	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
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	(12,018)	0	0	0	**(12,018)**	(9,889)				**(9,889)**
Total expense in Surplus or Deficit on the Provision of Services	**(12,018)**	**0**	**0**	**0**	**(12,018)**	**(9,889)**	**0**	**0**	**0**	**(9,889)**
Interest income	0	2,961	0	45	**3,006**		3,869	0	243	**4,112**
Total income in Surplus or Deficit on the Provision of Services	**0**	**2,961**	**0**	**45**	**3,006**	**0**	**3,869**	**0**	**243**	**4,112**
Net gain/(loss) for the year	**(12,018)**	**2,961**	**0**	**45**	**(9,012)**	**(9,889)**	**3,869**	**0**	**243**	**(5,777)**

Fair Value of Assets and Liabilities

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

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

The fair values calculated are as follows:

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

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

	31 March 2014		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and receivables	31,863	31,863	52,168	52,348
Long-term debtors	196	196	279	279

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

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

11. Debtors

	31 March 2013 £'000	31 March 2014 £'000
Central government bodies	7,641	8,449
Other Local Authorities	2,138	2,446
NHS bodies	657	7,071
Public corporations and trading funds	1,543	1,284
Bodies external to general government	19,705	23,394
Total Debtors	**31,684**	**42,644**

12. Cash and Cash Equivalents

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

	31 March 2013 £'000	31 March 2014 £'000
Cash held by the Council	24	22
Bank current accounts	2,526	1,011
Short-term deposits with financial institutions	2,647	39,416
Total Cash & Cash Equivalents	**5,197**	**40,449**

13. Assets Held for Sale

	Current		Non-Current	
	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000
Balance Outstanding at start of year	**1,209**	**625**	**0**	**0**
Assets newly classified as held for sale:				
▪ Property, Plant and Equipment	1,668	2,350	0	0
Revaluation Losses	(1,378)	0	0	0
Revaluation Gains	0	345	0	0
Assets declassified as held for sale:				
▪ Property, Plant and Equipment	(874)	0	0	0
Assets sold	0	(420)	0	0
Balance Outstanding at year end	**625**	**2,900**	**0**	**0**

14. Creditors

	31 March 2013 £'000	31 March 2014 £'000
Central government bodies	8,415	2,614
Other local authorities	9,730	10,120
NHS bodies	446	845
Public corporations and trading funds	3,453	3,219
Bodies external to general government	30,136	31,917
Total Creditors	**52,180**	**48,715**

15. Provisions

	Balance as at 1 April 2013 £000s	2013/14 Additional Provisions Made £000s	2013/14 Amounts Used £000s	2013/14 Unused Amounts Reversed £000s	2013/14 Unwinding of Discounting £000s	Balance as at 31 March 2014 £000s
Short Term Provisions						
Short Term Provisions	473	457	(253)			677
NDR Appeals	0	4,526	0	0	0	4,526
Total	**473**	**4,983**	**(253)**	**0**	**0**	**5,203**
Long Term Provisions						
Insurance Provision	1,987	896	(1,110)	0	0	1,773
Other Provisions	400	24	0	0	0	424
Total	**2,387**	**920**	**(1,110)**	**0**	**0**	**2,197**

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2014 in line with IAS 37. The majority of the unsettled claims are for public liability. The NDR appeals provision represents the sum set aside for unsettled claims to the Valuation Office Agency for rateable value reductions.

16. Usable Reserves (As per MiRS)

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

17. Unusable Reserves

	31 March 2013 £'000	31 March 2014 £'000
Revaluation Reserve	106,007	105,075
Capital Adjustment Account	505,895	489,132
Pensions Reserve	(211,441)	(194,517)
Financial Instruments Adjustment Account	(179)	278
Collection Fund Adjustment Account	(309)	(3,496)
Accumulated Absences Account	(2,177)	(2,536)
Total Unusable Reserves	**397,796**	**393,935**

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.

	2012/13	2013/14	
	£'000	£'000	£'000
Balance as at 1 April	107,180		106,007
Upward revaluation of assets	32,510	17,273	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(23,452)	(6,238)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	9,058		11,036
Difference between fair value depreciation and historical cost depreciation	(1,694)	(2,036)	
Accumulated gains on assets sold or scrapped	(8,537)	(9,932)	
Amount written off to the Capital Adjustment Account	(10,230)		(11,968)
Balance as at 31 March	**106,007**		**105,075**

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.

	2012/13	2013/14	
	£'000	£'000	£'000
Balance as at 1 April	511,652		505,895
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
• Charges for depreciation and impairment of non-current assets	(42,191)	(45,617)	
• Revaluation movements on Property, Plant and Equipment	(18,146)	8,437	
• Amortisation of Intangible Assets	(126)	(222)	
• Revenue Expenditure funded from Capital Under Statute	(8,902)	(3,769)	
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(22,897)	(38,359)	
	(92,262)		(79,530)
Adjusting amounts written out of the Revaluation Reserve	10,230	11,968	
HRA Self Financing Settlement	0	0	
Other adjustments	(0)	(94)	
Net written out amount of the cost of non-current assets consumed in the year	10,230		11,874
Capital financing applied in the year:			
• Use of Capital Receipts Reserve to finance new capital expenditure	1,842	2,324	
• Use of the Major Repairs Reserve to finance new capital expenditure	5,077	5,213	
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	39,496	20,575	
• Application of grants to capital financing from the Capital Grants Unapplied Account	19,059	12,215	
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,715	7,650	
• Capital expenditure charged against the General Fund and HRA balances	3,085	1,888	
	76,274		49,864
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	0		1,028
Balance as at 31 March	**505,895**		**489,132**

Pensions Reserve

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

	2012/13	2013/14
	£'000	£'000
Balance as at 1 April	**(217,493)**	**(211,441)**
Remeasurements of the net defined benefit liability/(asset)	16,438	23,768
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	(25,748)	(21,613)
Employer's pensions contributions and direct payments to pensioners payable in the year	15,362	14,769
Balance as at 31 March	**(211,441)**	**(194,517)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2014 will be charged to the General Fund over the next 33 years.

	2012/13	2013/14	
	£'000	£'000	£'000
Balance as at 1 April	**(641)**		**(179)**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	462	457	
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	0	0	
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		457
Balance as at 31 March	**(179)**		**278**

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.

	2012/13 £'000	2013/14 £'000
Balance as at 1 April	**(339)**	**(309)**
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	30	(3,187)
Balance as at 31 March	**(309)**	**(3,496)**

The balance of £3.496m shown above consists of the following component parts:

	2013/14 £'000
Medway Council Tax Surplus	(1,196)
Medway Non-Domestic Rate Deficit	2,015
Adjustment for back dated appeals	2,677
Balance as at 31 March	**3,496**

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.

	2012/13	2013/14	
	£'000		£'000
Balance as at 1 April	**(3,540)**		**(2,177)**
Settlement or cancellation of accrual made at the end of the preceding year	3,540	2,177	
Amounts accrued at the end of the current year	(2,177)	(2,537)	
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	1,363		(360)
Balance as at 31 March	**(2,177)**		**(2,536)**

18. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

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

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

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

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

	2012/13 £'000	2013/14 £'000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,539	2,182
Any other items for which the cash effects are investing or financing cash flows	53,200	25,590
	55,739	**27,772**

Cash Flow – Investing Activities

	2012/13 £'000	2013/14 £'000
Purchase of property, plant and equipment, investment property and intangible assets	77,493	45,229
Purchase of short-term and long-term investments	30,000	0
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(2,335)	(2,182)
Proceeds from short-term and long-term investments	(25,000)	(30,286)
Other receipts from investing activities	(48,381)	(56,227)
Net cash flows from investing activities	**31,805**	**(43,466)**

19. Cash Flow – Financing Activities

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

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

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	(26,257)	(31,482)	(41,006)	(1,501)	**(100,246)**
Interest and investment income	0	0	0	0	**0**
Government grants	(20,255)	(1,727)	(126,438)	(3,577)	**(151,997)**
Total Income	**(46,513)**	**(33,209)**	**(167,443)**	**(5,078)**	**(252,243)**
Employee expenses	135,823	22,592	26,974	459	**185,848**
Other service expenses	155,957	61,680	138,900	4,848	**361,385**
Support service recharge	7,486	6,361	9,784	55	**23,686**
Depreciation, amortisation and impairment	12,214	22,564	1,516	0	**36,294**
Payments to Housing Capital Receipts Pool	0	0	0	0	**0**
Total Expenditure	**311,480**	**113,197**	**177,174**	**5,362**	**607,213**
Net Expenditure	**264,967**	**79,988**	**9,731**	**284**	**354,970**

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

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

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

Reconciliation to Subjective Analysis

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

2013/14	Directorate Analysis £'000	Services not in Analysis-HRA £'000	Amounts not Reported to Management £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(108,053)	(14,108)	4,944	30,799	(86,418)	(120)	**(86,538)**
Interest and investment income	0	(37)	37	0	0	(3,558)	**(3,558)**
Income from Council tax	0	0	0	0	0	(89,418)	**(89,418)**
Income from NNDR	0	0	0	0	0	(37,820)	**(37,820)**
Government grants and contributions	(126,201)	0	(148,660)	0	(274,862)	(102,151)	**(377,012)**
Total Income	**(234,255)**	**(14,145)**	**(143,679)**	**30,799**	**(361,280)**	**(233,066)**	**(594,346)**
Employee Expenses	175,717	1,623	(2,293)	0	175,047	9,203	**184,250**
Interest Expense	0	0	0	0	0	12,018	**12,018**
Other service expenses	362,917	7,291	(7,031)	0	363,178	432	**363,610**
Support service recharge	30,187	611	0	(30,799)	(0)	0	**(0)**
Depreciation, amortisation and revaluations	41,781	3,362	(7,443)	0	37,699	0	**37,699**
Precepts and levies	0	0	0	0	0	1,259	**1,259**
Payments to Housing Capital Receipts Pool	77	0	0	0	77	0	**77**
Gain or loss on disposal of fixed assets	0	0	(867)	0	(867)	35,169	**34,302**
Pension Adjustment	0	0	294	0	294	0	**294**
Total Expenditure	**610,680**	**12,887**	**(17,341)**	**(30,799)**	**575,427**	**58,081**	**633,508**
(Surplus)/Deficit on the provision of services	**376,425**	**(1,258)**	**(161,020)**	**0**	**214,147**	**(174,985)**	**39,162**

2012/13 Restated	Directorate Analysis £'000	Services not in Analysis - HRA £'000	Amounts not Reported to Management £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(100,246)	(13,292)	5,407	24,271	(83,860)	(375)	**(84,235)**
Interest and investment income	0	(93)	93	0	0	(4,212)	**(4,212)**
Income from Council tax	0	0	0	0	0	(99,468)	**(99,468)**
Income from NNDR	0	0	0	0	0	0	**0**
Government grants and contributions	(151,997)	0	(130,239)	0	(282,236)	(159,425)	**(441,661)**
Total Income	**(252,243)**	**(13,385)**	**(124,739)**	**24,271**	**(366,096)**	**(263,480)**	**(629,576)**
Employee Expenses	185,847	1,398	(794)	0	186,451	9,853	**196,304**
Interest Expense	0	0	0	0	0	9,899	**9,899**
Other service expenses	361,386	6,739	(301)	0	367,824	2,494	**370,318**
Support service recharge	23,685	586	0	(24,271)	0	0	**0**
Depreciation, amortisation and revaluations	36,294	3,351	20,344	0	59,989	(102)	**59,887**
Precepts and levies	0	0	0	0	0	1,200	**1,200**
Payments to Housing Capital Receipts Pool	0	0	0	0	0	185	**185**
Gain or loss on disposal of fixed assets	0	0	0	0	0	20,811	**20,811**
Pension Adjustment	0	0	0	0	0	0	**0**
Total Expenditure	**607,212**	**12,074**	**19,249**	**0**	**614,264**	**44,340**	**658,604**
(Surplus)/Deficit on the provision of services	**354,969**	**(1,311)**	**(105,490)**	**24,271**	**248,168**	**(219,140)**	**29,028**

IAS19 Employee Benefits has been adopted for reporting 2013/14 resulting in a restatement of the actuarial gain on pension assets/liabilities for both 2012/13 and 2013/14 to reflect the new basis.

In 2012/13 support service costs were reported as both income and expenditure under Non-distributed costs reflecting the costs recharged to services. Income and expenditure for Non-distributed costs have been restated to eliminate double counting of income and expenditure.

21. Pooled Budgets

Whilst the Council continues to operate a number of joint funded initiatives with Medway Clinical Commissioning Group, 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 £000	2013/14 £000
Basic Allowance	473	471
Special Responsibility Allowance	253	256
Expenses	7	6
	733	733
National Insurance	44	43
Total	**777**	**776**

During 2013/14, 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	138	155,175	28,730	183,905
Director of Children & Adult Services (Barbara Peacock)	120,706	7,530	96	128,332	23,673	152,005
Director of Regeneration, Community & Culture (Robin Cooper)	117,106	13,130	122	130,358	24,063	154,421
Director of Public Health	93,654	46,961	865	141,480	16,753	158,233
Deputy Director Customer Contact, Leisure, Democracy & Governance	84,997	13,479	0	98,476	18,318	116,794
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	236	93,616	17,328	110,944
Chief Finance Officer	82,185	19,275	0	101,460	19,011	120,470
Assistant Director Organisational Services	81,622	8,301	0	89,923	16,870	106,793
Assistant Director Inclusions	77,197	5,199	0	82,396	15,226	97,622
Deputy Director - Children & Adult Services	84,330	12,904	0	97,235	18,080	115,314
Assistant Director Housing & Regeneration	84,977	7,561	53	92,591	17,164	109,755
Assistant Director Legal & Corporate Services	75,666	5,213	0	80,879	14,890	95,770
Assistant Director Partnership Commissioning (Started 01/08/2013)	48,314	3,433	81	51,829	9,627	61,456
Assistant Director Children's Care (Started 08/07/2013)	57,005	3,812	0	60,817	11,215	72,032
Audit Services Manager	45,980	4,558	0	50,537	0	50,537

Comparative figures for 2012/13 are 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
Deputy Director Customer Contact, 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 Environment & Regeneration	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

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	2012/13	2013/14	2012/13	2013/14
£50,000 to £54,999	35	25	21	25
£55,000 to £59,999	21	19	14	12
£60,000 to £64,999	13	15	30	32
£65,000 to £69,999	11	14	8	5
£70,000 to £74,999	18	6	0	3
£75,000 to £79,999	4	8	1	0
£80,000 to £84,999	1	1	0	0
£85,000 to £89,999	0	3	0	1
£90,000 to £95,999	2	1	0	1
£95,000 to £99,999	0	1	0	0
£105,000 to £109,999	1	1	0	0
£115,000 to £119,999	0	1	0	0
Total	**106**	**95**	**74**	**79**

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

Exit package cost band (including special payments)	Number of compulsory redundancies 2012/13			Number of other departures agreed 2012/13			Total number of exit packages by cost band 2012/13			Total cost of exit packages in each band £ 2012/13		
	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total
£0 - £20,000	27	11	38	5	14	19	32	25	57	130892	167129	298021
£20,001 - £40,000	1	6	7	0	3	3	1	9	10	25432	256186	281618
£40,001 - £60,000	0	0	0	0	1	1	0	1	1	0	49816	49816
£60,001 - £80,000	0	1	1	0	0	0	0	1	1	0	70594	70594
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0	0	0	0	0
Total	**28**	**18**	**46**	**5**	**18**	**23**	**33**	**36**	**69**	**156,324**	**543,726**	**700,050**

The total cost of £989,585 in the table above for exit packages has been charged to the Authority's Comprehensive Income and Expenditure Statement in the current year.

24. External Audit Costs

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

	2012/13 £'000	2013/14 £'000
Fees payable to BDO with regard to external audit services carried out by the appointed auditor for the year	207	216
Fees payable to BDO for the certification of grant claims and returns for the year	24	24
Total	**231**	**240**

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 2013/14 the Council incurred an underspend of £1,964,737 on DSG funded services. After taking account of the surplus of £2,740,523 brought forward from 2012/13 and £112,912 of expenditure agreed to be met from the reserve, £4,592,348 was carried forward to 2014/15.

An analysis of the DSG for 2013/14 is provided in the table below:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2013/14 before Academy recoupment			206,234
Less: Academy figure recouped for 2013/14			78,193
Total DSG for 2013/14 after Academy recoupment	6,046	121,995	128,041
Plus: Brought forward from 2012/13	2,631	110	2,741
Less: Carry forward to 2014/15 agreed in advance	(262)	0	(262)
Total DSG available for use in 2013/14	8,415	122,105	130,520
Agreed initial budgeted distribution in 2013/14	8,415	122,105	130,520
In year adjustments	118	0	118
Final budgeted distribution in 2013/14	8,533	122,105	130,638
Memorandum Analysis			
Final budgeted distribution in 2013/14	8,533	122,105	130,638
Carry forward to 2014/15 agreed in advance	262		262
Less: Actual central expenditure	8,090		8,090
Less: Actual Individual Schools Budget deployed to schools		118,218	118,218
Plus: Local authority contribution for 2013/14	0	0	0
Carry forward to 2014/15	**705**	**3,887**	**4,592**

26. Grant Income

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

	2012/13 £,000	2013/14 £,000
Credited to Taxation and Non Specific Grant Income		
Department for Communities and Local Government		
- Capitalisation Provision Redistribution Grant	0	334
- Formula Grant / Revenue Support Grant	1,535	63,311
- Redistributed National Non-Domestic Rates	79,208	0
- Community Rights Grant	0	16
- Council Tax Support New Burdens Funding	0	159
- Collection Fund Grant	2,477	0
- New Homes Bonus	2,369	3,931
- Non -Domestic Rates Top-Up Grant		413
- Small Business Rate Relief Grant		889
Department for Education		
- Early Intervention Grant	11,204	0
- Education Support Grant	0	3,451
Department for Environment, Food and Rural Affiars		
- Inshore Fisheries Conservation Authorities Grant	0	32
- Lead Local Flood Authorities Grant	0	77
Department of Health		
- Learning Disability and Health Reform Grant	9,320	0
- Healthwatch Grant	0	177
Other Grants and Levies	112	0
Recognition of Capital Grants and Contributions	53,200	29,360
Total	**159,425**	**102,151**

Credited to Services		
Cabinet Office		
- Cabinet	0	14
Department for Culture, Media & Sport		
- DCMS Other	0	86
Department for Education		
- Dedicated Schools Grant	129,858	127,854
- School Standards Grant	0	0
- Pupil Premium Grant	4,084	5,711
- Education Funding Agency	0	796
- Sixth Form Grant	0	1,941
- DFE Other *	1,931	3,376
Department of Health		
- Public Health Grant	0	13,170
- DoH Other	40	59
Department for Communities and Local Government		
- Tax Collection & Benefit Administration	2,572	293
- Housing Benefit Administration		1,995
- Benefit Subsidy	121,234	103,572
- DCLG Other	1,294	754
Department for Environment, Food and Rural Affiars		
- DEFRA Other	480	24
Department of Transport		
- DoT Other	153	86
Department for Work & Pensions		
- DWP Other	233	928
Home Office		
- HO Other	0	3
Ministry of Justice		
- Contributions from the Youth Justice Board	883	963
- MoJ Other	104	0
Department for Business, Innovation & Skills		
- Learning and Skills Council	3,536	0
- Skills Funding Agency	2,089	2,267
Other Miscellaneous Grants *	878	646
Contributions from NHS Partners *	10,889	8,776
Contributions from Other Local Authorities *	1,788	1,002
Miscellaneous Contributions *	190	547
Total	**282,236**	**274,862**

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	31/03/2013 £'000	31/03/2014 £'000
Capital Grants Receipts in Advance (Capital Grants)		
Applicable Section Agreements	5,331	7,869
Total	**5,331**	**7,869**

27. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the 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 Authority.

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 21 on reporting for resources allocation decisions.

Members

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

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

Two Members of the Council are Trust Members of Chatham Historic Dockyard Trust. During the year the Council paid £111,760 (£104,541 in 2012/13) to the organisation. At 31 March 2014 the Council was owed £850 by the Trust (31 March 2013 £nil).

One Member of the Council is a non-executive director of Medway Community Healthcare. During the year the Council received £248,537 (£382,440 2012/13) from Medway Community Healthcare and paid £992,224 (£835,502 2012/13) in respect of various services. At 31 March 2014 the Council was owed £11,661 (31 march 2013 £nil).

Three Members are Council appointed representatives of Medway Ethnic Minority Forum to engage the Ethnic Minority Communities in its core values to demonstarte inclusiveness and championing the forum in its strategic objectives of promoting multi-culturism. During the year the Council received £10,964 (£588.75 2012/13) from Medway Ethnic Minority Forum and paid £17,550 (£17,300 in 2012/13) in respect of multicultural activities. At 31 March 2014 the Council was owed £1,451 (31 March 2013 £nil).

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 £450,872 during 2013/14 (£334,458 in 2012/13). Payments received from Medway CAB was £1,092 2013/14 (£4,816 in 2012/13). At 31 march the Council was owed £1,500 (31 March 2013 £nil).

Action for Borstal Community Project - One member is the Chairman of Trustees. The Council made payments to the organisation amounting to £48,240 during 2013/14 (£73,174 in 2012/13).

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

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

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

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

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

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

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

One Member of the Council is a Governor for Chatham All Saints Primary School. During the year the Council paid £226,735 (£240,607 in 2012/13) to the School. At 31 March 2014 the Council was owed £1,870 (31 March 2013 £nil).

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

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

Officers

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

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

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

One senior officer is a Council appointed Director of Medway Norse - the joint venture company established between the Council and Norse plc to deliver Facilities Management activities. The Council made payments of £5,398,398 to Medway Norse in 2013/14. The total value of transactions to the Council from the Medway Norse was £63,139 in 2013/14. At 31 March 2014 the Council was owed £20,661 (31 March 2013 £nil).

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

Other Public Bodies

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

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

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

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

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

The Council became responsible for a proportion of Kent County Council's debt when Medway Council was formed in 1998. The amount outstanding at 31 March 2014 was £40,063,150 (31 March 2013 £41,732,447). In addition £30,902 was due to Kent County Council and £473,041 due from them at 31 March 2014.

28. Capital Expenditure and Capital Financing

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

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

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

29. Leases

Authority as Lessee

Finance Leases

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

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

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

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

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

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

	31 March 2013 £'000	31 March 2014 £'000
Vehicles, Plant & Equipment	2,525	1,976

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 2013 £'000	31 March 2014 £'000
Finance lease liabilities (net present value of minimum lease payments):		
• current	580	518
• non-current	1,309	791
Finance costs payable in future years	972	132
Minimum Lease Payments	**2,861**	**1,441**

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

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000
Not later than one year	689	452	580	518
Later than one year and not later than five years	2,171	989	1,309	791
Later than five years	0	0	0	0
	2,860	**1,441**	**1,889**	**1,309**

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 2013 £'000	31 March 2014 £'000
Not later than one year	1,855	1,540
Later than one year and not later than five years	1,934	917
Later than five years	2,613	2,848
Total	**6,402**	**5,305**

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

	2012/13 £'000	2013/14 £'000
Minimum Lease Payments	1,880	1,855
Sublease Payments Receivable	(155)	(296)
	1,725	**1,559**

Authority as Lessor

Operating Leases

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

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

The future minimum lease payments receivable are:

	31 March 2013 £'000	31 March 2014 £'000
Not later than one year	797	869
Later than one year and not later than five years	2,210	2,788
Later than five years	16,483	16,320
Total	**19,490**	**19,977**

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 2013/14 £796,960 contingent rents were receivable by the Authority (2012/13 £757,124).

30. Impairment Losses

During 2013/14, the Authority undertook a review of all non-current assets to determine whether or not an impairment should be recognised and has concluded that no impairments have taken place.

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 £989,585 (2012/13 £700,050) in respect of redundancy, payment in lieu of notice and added years pension costs - see note 24 for the number of exit packages and total cost per band. Of this, £45,936 relates to the Head of Capital Projects Road Safety. The remaining £943,649 (2012/13 £535,230) was payable on 53 (2012/13- 33) notice payments and redundancies owing to school reorganisation and a further 52 (2012/13 - 36) local authority based staff who were made redundant as part of the Authority's cost saving and reorganisation in response to Government funding cuts.

32. Pension Schemes Accounted for as Defined Contribution Schemes

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

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

In 2013/14, the Authority paid £6,170,979.11 to Teachers Pensions in respect of teachers retirement benefits, representing 14.1% of pensionable pay. The figures for 2012/13 were £6,682,533.87 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 2013. The contributions due to be paid in the next financial year are estimated to be £5,529,000.

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 34.

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

33. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The 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.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013/14, is contracted out of the State Second Pension and benefits accrued up to 31 March 2014 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1 April 2014 and any benefits accrued from this date will be based on career average revalued salary, with various protections in place for those members in the scheme before the changes take effect.
The Administering Authority for the Fund is Kent County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As Administering Authority to the Fund, Kent County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These should be amended when appropriate based on the Fund's performance and funding.
Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. On the Employer's withdrawal from the plan, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

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

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

- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.

- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.

- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

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

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

Transactions Relating to Post Employment Benefits

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

	2012/13 £'000	2012/13 £'000 (had the revised IAS19 standard applied	2013/14 £'000
Comprehensive Income and Expenditure Statement			
Cost of Services		15,895	12,116
Service cost comprising:			
● Current service costs	18,528		
● Past service costs	0		
● (gain)/loss from settlements	(2,633)		
Financing and Investment Income and Expenditure			
Net Interest expense	6,057	9,586	9,203
Administration expenses		267	294
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services	**21,952**	**25,748**	**21,613**
Other Post Employment benefit charged to the Comprehensive Income and Expenditure Statement			
Remeasurement of the net defined benefit liability comprising:			
● Return on plan assets in excess of interest		(30,081)	(12,175)
● Actuarial gains and losses arising on changes in demographic assumptions		0	7,095
● Actuarial gains and losses arising on changes in financial assumptions		13,361	21,545
● Experience gain / (loss) on defined benefit obligation		282	(31,260)
● Other (if applicable)			(8,973)
Actual Gains and (losses)	(12,642)		
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**9,310**	**9,310**	**(2,155)**
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	21,952	25,748	21,613

	2012/13 £'000	2012/13 £'000 (had the revised IAS19 standard applied	2013/14 £'000
Actual amount charged against the General Fund Balance for pensions in the year:			
Employers' contributions payable to scheme	15,362	15,362	14,769
Retirement benefits payable to pensioners			

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme	
	31/03/2013 £'000 (had the revised IAS19 standard applied	31/03/2014 £'000
Present value of the defined benefit obligation	555,509	567,361
Fair value of plan assets	350,641	379,626
Net Liability	**204,868**	**187,735**
Present Value of Unfunded Obligation	6,573	6,782
Net liability arising from defined benefit obligation	**211,441**	**194,517**

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

	Local Government Pension Scheme		
	31-Mar-13 £'000	31-Mar-13 £'000 (had the revised IAS19 standard applied	31-Mar-14 £'000
Opening fair value of scheme assets	302,190	302,190	350,641
Expected return on scheme assets	17,511		
Interest income		13,982	15,853
Remeasurement gain/(loss):			
● The return on plan assets, excluding the amount included in the net interest expense		30,081	12,175
● Other (if applicable)			8,973
Actuarial gains and losses	26,285		
Administration Expenses		(267)	(294)
Contributions from employer including unfunded	15,362	15,362	14,769
Contributions from employees into the scheme	4,754	4,754	4,500
Estimated Benefits paid	(14,076)	(14,076)	(17,823)
Other (if applicable)	(1,385)	(1,385)	(9,168)
Closing fair value of scheme assets	**350,641**	**350,641**	**379,626**

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

	Funded Liabilities: Local Government Pension Scheme		
	2012/13 £'000	2012/13 £'000 (had the revised IAS19 standard applied	2013/14 £'000
Opening balance at 1 April	**519,683**	**519,683**	**562,082**
Current service cost	18,528	18,528	18,113
Interest cost	23,568	23,568	25,056
Contributions by scheme participants	4,754	4,754	4,500
Actuarial gains and losses	13,643		
Remeasurement (gains) and losses:			
● Actuarial gains and losses arising on changes in demographic assumptions			7,095
● Actuarial gains and losses arising on changes in financial assumptions		13,361	21,545
● Experience loss/(dain) on defined benefit obligation		282	(31,260)
Past service cost			
Losses/(gains) on curtailment (where relevant)	343		
Liabilities extinguished on settlements	(4,361)	(4,361)	(15,612)
Liabilities assumed on entity combinations			
Benefits paid	(14,076)		
Estimated benefits paid net of transfers in		(13,533)	(17,281)
Past service cost, including curtailments		343	447
Unfunded pension payments		(543)	(542)
Closing balance at 31 March	**562,082**	**562,082**	**574,143**

Local Government Pension Scheme assets comprised:

Employer Asset Share - Bid Value	Fair value of scheme assets (a)	
	2012/13 £'000 (had the revised IAS19 standard applied	2013/14 £'000
Equities	248,955	269,534
Gilts		3,796
Other Bonds	45,583	41,759
Property	28,051	37,963
Cash	14,026	11,389
Target Return Portfolio	14,026	15,185
Total assets	**350,641**	**379,626**

a All scheme assets have quoted prices in active markets

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

The funds Actuaries have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2014 is likely to be different from that shown due to estimation techniques.

Basis for Estimating Assets and Liabilities

The principal assumptions used by the actuary have been:

To assess the value of the Employer's liabilities at 31 March 2014, the actuary has rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumption, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

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

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

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

The assumed life expectations from age 65:

Life Expectancy from age 65 (years)	Local Government Pension Scheme	
	31-Mar-13	31-Mar-14
Mortality assumptions:		
Longevity at 65 for current pensioners		
● Men	20.1	22.7
● Women	24.1	25.1
Longevity at 65 for future pensioners		
● Men	22.1	24.9
● Women	26	27.4

Further assumptions are:

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

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

	Local Government Pension Scheme	
	31-Mar-13	31-Mar-14
Rate of inflation CPI	2.60%	2.80%
Rate of inflation RPI	3.40%	3.60%
Rate of increase in salaries	4.80%	4.60%
Rate of increase in pensions	2.60%	2.80%
Rate for discounting scheme liabilities	4.60%	4.50%

These assumptions are set with the reference to market conditions at 31 March 2014.

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

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

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

This measure has historically overestimated future increases in the RPI and so, in the past, we have made a deduction of 0.25% to get the RPI assumption. However, the evidence for this in more recent periods is weaker and so the actuaries have made no such deduction at 31 March 2014. The RPI assumption is therefore 3.6%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.8%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.8% per annum above CPI in addition to a promotional scale. However, the actuaries have allowed for a short-term overlay from 31 March 2013 to 31 March 2015 for salaries to rise in line with CPI

Sensitivity Analysis				
		£000's	£000's	£000's
Adjustment to discount rate		**0.10%**	**0.00%**	**(0.10%)**
	Present Value of Total obligation	563,584	574,143	584,910
	Projected Service Cost	17,098	17,492	17,895
Adjustment to long term salary increase		**0.10%**	**0.00%**	**(0.10%)**
	Present Value of Total obligation	575,673	574,143	572,623
	Projected Service Cost	17,492	17,492	17,492
Adjustment to pension increases and deferred revaluation		**0.10%**	**0.00%**	**(0.10%)**
	Present Value of Total obligation	583,549	574,143	564,921
	Projected Service Cost	17,902	17,492	17,091
Adjustment to mortality age rating assumption		**+ 1 Year**	**None**	**-1 Year**
	Present Value of Total obligation	554,095	574,143	594,373
	Projected Service Cost	16,896	17,492	18,093

Impact on the Authority's Cash Flow

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

The authority anticipated to pay £12,889,000 expected contributions to the scheme in 2014/2015,

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 2014, the Authority has one significant contingent liability:

Medway Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of approximately £196,552 plus interest and costs. The 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. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

35. Contingent Assets

There were no known material contingent assets as at 31 March 2014.

36. Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the authority as a result of ` changes in such measures as interest rates and stock market movements.

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the 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 & Poors Credit Rating Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

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

Officers monitor all credit ratings, market data and other intelligence continuously. The maximum amount for investments 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 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 2013/14 was approved by Full Council on 21/02/13 and the 2014/15 strategy was approved on the 21/02/14. 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 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 2014 £'000	Historical experience of default %	Estimated maximum exposure to default and uncollectability £'000
Deposits with banks and financial institutions*	39,304	0.00	0
Customers	16,584	11.76	1,950
Total	**55,888**		**1,950**

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

The Council does not generally allow credit for customers, such that £8,189 million of the £16,778 million balance is past its due date for payment. The past amount can be analysed by age as follows:

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

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

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

Liquidity risk

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

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

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

The maturity analysis of financial liabilities is as follows:

	31 March 2013 £'000	31 March 2014 £'000
Not later than one year	63,758	11,889
Between one and two years	10,611	11,981
Between two and five years	30,953	10,441
More than five years	472,121	481,391
Total Principal and Interest	**577,443**	**515,702**

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 31/03/14 %
Under 12 Months	0	75	62.72
12 months and within 24 months	0	50	0.00
24 months and within 5 years	0	50	0.00
5 years and within 10 years	0	50	8.93
10 years and above	0	100	28.35

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

Market risk

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

Interest rate risk

The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure account will rise
- borrowings at fixed rates – the fair value of the borrowings will fall (no impact on revenue balances)
- investments at variable rates – the interest income credited to the Income and Expenditure account will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance, subject to influences from Government grants (i.e. HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. Current Authority policy is to not exceed a maximum of 40% of borrowings in variable rate loans. The Authority currently has no variable interest rate borrowing or investments. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is reduced by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and therefore provide some compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, this strategy is then used to monitor against the budget throughout the year. This allows for any adverse changes to be accommodated. The analysis will also advise if new borrowing is taken out whether it is fixed or variable.

At 31march 2014 if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000s
Increase in interest payable on variable rate investmets	474
Impact on Surplus or Deficit on the Provision of Services	474
Share of overall impact credited to HRA	365

Price Risk

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

The Stocks are classified as 'available for sale' meaning that movements in price will impact on gains and losses in Other Comprehensive Income and Expenditure for 2013/14.

Foreign Exchange Risk

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

37. Heritage Assets: Summary of Transactions

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

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

There are no non-adjusting events post reporting period

40. Interests in Companies and Other Entities

Local Authorities must consider all their interests in entities and prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. Before group accounts can be produced the following actions need to be carried out:

- Determine whether the Council has any form of interest in an entity
- Assess the nature of the relationship between the Council and the entity
- Determine the grounds of materiality whether group accounts should be prepared

Having considered the accounting requirements and the Council's involvement with all companies and organisations, Group Accounts have not been prepared.

Medway Norse Limited

In 2013/14 the Council entered into an arrangement with Norse Commercial Services Limited (NCS) for the provision of a package of services including Corporate Cleaning, Building Maintenance, Security Services, Window Cleaning, Printing Services and Catering. A new company, Medway Norse Ltd, was formed to deliver this service.

The Board of Medway Norse Ltd. Consists of five directors. Three directors are appointed by Medway Council.

The Council owns 20% of the share capital of Medway Norse. Under a Service Agreement Medway Council receives a discount on the cost of services supplied to the Council equal to 100% of the operating profit of the Company in its' first financial year and 50% in each subsequent year.

Medway Norse Ltd commenced trading on 1 June 2013 but did not become fully operational at its current level until August 2013. Medway Norse's financial year runs through to 2 February 2014, therefore the financial statements of the Company only represent six months of the Company being fully operational.

This company is still within it's first 12 months of trading and the company is developing, the value of the transactions to the end of the first financial year are not considered material. On this basis Medway Council are not completing group accounts for the financial year 2013/14, if however it is deemed necessary in future years full comparator figures will be produced.

Medway Harbour Authority

Medway Council is a Harbour Authority operating at Gillingham Pier. It is a requirement that the Harbour Authority produces an income and expenditure account. The Income and Expenditure Account for Medway Harbour Authority is shown below.

	2012/13 £	2013/14 £
Income		
Moorings	13,194	10,989
Rent & Other Income	14,308	19,187
Total Income	**27,502**	**30,176**
Expenditure		
Building Costs	2,983	48,274
Operational Costs	1,977	8,656
Recharges	2,681	4,833
Total Expenditure	**7,641**	**61,763**
NET INCOME/ (EXPENDITURE)	**19,861**	**(31,587)**

H. Supplementary Financial Statements

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The Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic rates. In its capacity as billing authority Medway Council acts as an agent for the other major precepting authorities (Police and Fire) and Central Government as it collects and distributes council tax and business rates on their behalf.

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The Purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and Non-Domestic Rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year. For Medway, the Council tax precepting bodies are The Police and Crime Commissioner for Kent and The Kent Fire and Rescue Service.

In 2013/14, the local government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give councils a greater incentive to grow business within the Medway area. It does, however, also increase the financial risk due to non-collection and volatility of the NDR tax base.

The scheme allows the Council to retain a proportion of the total NDR received. The Medway share is 49% with the remainder paid to preceptors by the following proportions Central Government 50%, Kent Fire and Rescue Service 1%

NDR surpluses or deficits declared by the billing authority in relation to the collection fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

The national code of practice followed by Local Authorities in England stipulates that a Collection Fund Income and Expenditure is included in the Council's accounts. The Collection Fund balance sheet is incorporated into the Council's consolidated balance sheet.

Year Ended 31 March 2013 Total £'000		Notes	Year Ended 31 March 2014 Business Rates £'000	Council Tax £'000	Total £'000
	Amounts required by statute to be credited to the Collection Fund				
(99,936)	Council Tax	1		(106,933)	(106,933)
	Transfers from General Fund:				0
(19,126)	• council tax benefits				0
	• Council tax Reduction Scheme				
(85,063)	Non-Domestic Rates	2	(87,779)		(87,779)
(204,125)	**Total Amount required by statute to be credited to the Collection Fund**		**(87,779)**	**(106,933)**	**(194,712)**
	Amounts required by statute to be debited to the Collection Fund				
	Precepts and demands from major preceptors and the authority				
99,080	• Medway Council		39,835	87,565	127,400
12,225	• Police and Crime Commissioner for Kent (PCCK)			10,852	10,852
5,990	• Kent Fire and Rescue Service (KFRS)		813	5,213	6,026
359	• Parishes			348	348
	Payment with respect to central share (including allowable deductions) of the non-domestic rating income to be paid to central government by billing authorities		40,648		40,648
	Business rates:				0
84,775	• payment to national pool				0
288	• costs of collection		293		293
	Impairment of debts/appeals				0
	• write-offs of uncollectable amounts	3	961	744	1,705
873	• allowance for impairment		107	28	135
	• Increase/Decrease in Provision for appeals		9,236		9,236
203,590	**Total Amount required by statute to be debited to the Collection Fund**		91,893	104,750	196,643
402	**Opening fund balance**		0	(133)	**(133)**
(133)	**Closing Fund Balance**	**4**	4,114	(2,316)	1,798
(535)	**Movement on fund balance**		4,114	(2,183)	1,931

Notes to the Collection Fund Account

1. Council Tax

Council Tax derives from charges raised according to the value of residual properties, which have been classified in 9 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and major preceptors for the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

The Council Tax Base for 2013/14 was 76,712.35 (88,531.34 in 2012/13). This reduction between financial years is as a result of the Governments Council Tax Localisation changes which revised the way Central Government pay Council tax benefit compensation to the Council. The tax base for 2013/14 was approved by the Portfolio Holder for Finance on 30 January 2013 and was calculated as follows:

In 2013/14, the local government finance regime was revised and Council Tax Benefit is no longer received by the Council. This has been replaced by a Council Tax Reduction Scheme which is administered in each authority.

Band	Chargeable Dwellings	Proportion of Band D Tax	Equivalent Band D Dwellings
A Reduced	10	5/9	5.56
A	10,534	6/9	7.022.67
B	36,385	7/9	28,299.44
C	31,937	8/9	28,388.44
D	16,423	1.0	16,423.00
E	8,037	11/9	9,823.00
F	3,421	13/9	4,941.44
G	1,277	15/9	2,128.33
H	44	18/9	88.00
Net effect of premiums and discounts			(20,407.53)
Tax Base for the Calculation of Council Tax 2013/14			**76,712.35**

2. Income from Business Rates

The Council collects Non-Domestic Rates for its' area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government. In previous financial years the total amount due, less certain allowances, was paid to a central pool administered by Central Government, which, in turn, paid to local Authorities their share of the pool, such shares being based on a standard amount per head of the local adult population.

In 2013/14, the administration of NDR changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectable rates due. In the case of Medway the local share is 49%, Central Government 50% and Kent Fire and Rescue service 1%.

The business rates shares payable for 2013/14 were estimated before the start of the financial year as £40.640m to Central Government, £0.813m to KFRS and £39.835m to Medway Council. These sums have been paid in 2013/14 and charged to the collection fund in that year.

The total income from business rate payers collected in 2013/14 was £87.779m (£85.063m 2012/13)

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and hence business rates outstanding as at 31 March 2014. As such, authorities are required to make provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. The total provision charged to the collection fund for 2013/14 has been calculated at £9.236m.

For 2013/14, the total non-domestic rateable value at the year-end is £222.9m (£225.9m in 2012/13). The national multipliers for 2013/14 were 46.2p for qualifying Small Business, and the standard multiplier being 47.1p for all other businesses (45.0p and 45.8p respectively in 2012/13).

3. Council Tax/NDR Bad Debt Provision and NDR provision for valuation appeals

The Collection Fund account provides for bad debts on arrears of Council Tax on the basis of prior years' experience and current years collection rates.

2012/13 £000s			2013/14 £000s	
Collection Fund	Medway Share		Collection Fund	Medway Share
2,429	2,050	Balance at 1 April	2,454	2,071
(848)	(716)	Write-offs during year	(744)	(629)
873	737	Contributions to provisions during year	772	653
25	**21**	**Net Increase/decrease in Provisions**	**28**	**24**
2,454	2,071	Balance at 31 March	2,482	2,095

The Collection Fund account also provides for bad debts on Non-domestic rates arrears.

2012/13 £000s			2013/14 £000s	
Bad Debt Provision NDR	Medway Share		Collection Fund	Medway Share
1,976	968	Balance at 1 April	2,426	1,189
(1,345)	(659)	Write-offs during year	(961)	(471)
1,795	880	Contributions to provisions during year	1,068	523
450	**221**	**Net Increase/decrease in Provisions**	**107**	**52**
2,426	1,189	Balance at 31 March	2,533	1,241

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2014. This is the first year of the provision.

	2013/14 £000s	
	Collection Fund	Medway Share
Balance at 1 April	0	0
Contributions to provisions during year	9,236	4,526
Net Increase/decrease in Provisions	9,236	4,526
Balance at 31 March	9,236	4,526

4. Surplus/Deficit

For 2013/14 the Collection Fund incorporates both Council Tax and Non Domestic Rates, overall the Collection Fund shows a deficit of £1,798,000 (2012/13 surplus £133,000), apportioned as follows;

Medway Council deficit £60,000 (2012/13 surplus £133,000), The Police and Crime Commissioner for Kent surplus £244,000 (2012/13 surplus £14,000), Kent and Medway Fire and Rescue Authority surplus £75,000 (2012/13 surplus £6,000) and Central Government deficit of £2,057,000 (2015/13 £0). The makeup of these surpluses and deficits are shown in the table below.

	Total Collection Fund £'000	Medway Council £'000	Police and Crime Commissioner for Kent £'000	KFRS £'000	Central Government £'000
NDR Collection Fund Surplus/deficit	(4,114)	(2,016)	0	(41)	(2,057)
Council Tax	2,316	1,956	244	116	0
Total	**(1,798)**	**(60)**	**244**	**75**	**(2,057)**

Housing Revenue Account

Explanatory Foreword

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to the authority's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently, the HRA is a statutory account, ring fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa).

The ring fence is controlled by Schedule 4 to the Local Government and Housing Act 1989, which specifies the debits and credits to be made to the HRA and excludes any other postings. The Schedule has been supplemented by an Item 8 determination issued for 2012-2013 and subsequent years.

Authorities are required by section 74(1) of the 1989 Act to keep the HRA in accordance with proper practices. Proper practices are defined in section 21(2) of the Local Government Act 2003 as those accounting practices which:

- the authority is required to follow by virtue of any enactment (statutory proper practices) – the principal statutory proper practices are determined by the 1989 Act, the 1993 Act, the Audit Commission Act 1998, the Accounts and Audit (England) Regulations 2011, the HRA (Accounting Practices) Directions 2011 and the Item 8 Determination

- are contained in a code of practice which is identified for this purpose by regulations made by the Secretary of State (non-statutory proper practices) – the most relevant to the HRA are the Code and SeRCOP.

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 Statement

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

2012/13 £'000		Notes	2013/14 £'000
	Expenditure		
2,210	Repairs & maintenance		2,640
3,595	Supervision and management		3,915
165	Rents, rates, taxes and other charges		163
140	Rent Rebate Subsidy Limitation	8	97
0	Revaluation of dwellings as at 31 March 2014 due to increased valuations during 2013-2014	4	(7,498)
3,950	Depreciation and impairment of non-current assets	11	5,723
63	Debt management costs		63
104	Movement in the allowance for bad debts	9	92
10,227	**Total Expenditure**		**5,195**
	Income		
(12,021)	Dwelling rents		(12,639)
(179)	Non-dwelling rents		(183)
(1,072)	Charges for services and facilities		(1,227)
(20)	Contributions towards expenditure		(52)
0	Reimbursement of Costs		(7)
(13,292)	**Total Income**		**(14,108)**
(3,065)	Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement		(8,912)
98	HRA services share of Corporate and Democratic Core		98
(43)	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services		(105)
(3,010)	**Net Expenditure/(Income) for Housing Revenue Account Services**		**(8,919)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
(606)	(Gain) or loss on sale of HRA non-current assets		905
2,511	Interest payable and similar charges	*1	2,477
(81)	Interest and investment income		(26)
83	Net interest on the net defined benefit liability (asset)		160
0	Capital grants and contributions receivable		0
(1,103)	**Deficit/(Surplus) for the year on Housing Revenue Account Services**		**(5,402)**

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

Movement on the Housing Revenue Account Statement

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

2012/13 £'000		2013/14 £'000
(4,835)	**Balance on the HRA at the end of the previous reporting period**	**(4,346)**
(1,103)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	(5,402)
(77)	Adjustments between accounting basis and funding basis under statute	4,112
(1,179)	**Net (increase) or decrease before transfers to or from reserves**	**(1,290)**
(132)	Transfers to or (from) HRA reserves	3
0	Transfers to or (from) GF reserves	2,000
1,800	Contribution to capital expenditure from reserves	1,664
489	**(Increase) or decrease in year on the HRA**	**2,377**
(4,346)	**Balance on the HRA at the end of the current reporting period**	**(1,969)**

Notes to the Housing Revenue Account

1. Adjustments between accounting basis and funding basis under statute

2012/13 £'000		2013/14 £'000
ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:		
(3,351)	Charges for depreciation and impairment of non-current assets	(3,362)
(571)	Revaluation losses on Property, Plant and Equipment	5,148
(719)	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	(1,628)
ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:		
1,325	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	723
(16)	Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(0)
ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:		
3,351	Reversal of Major Repairs Allowance credited to HRA	3,362
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:		
(300)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(372)
210	Employer's pension contributions and direct payments to pensioners payable in the year	258
ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:		
7	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	(5)
(77)	**TOTAL ADJUSTMENTS**	**4,112**

2. Transfers to or from (earmarked) reserves

In 2013/14, £0.040m was transferred from the HRA balance to fund HRA earmarked reserves (£0.006m in 2012/13). 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 2013/14:

	Balance 1 April 2012 £'000	Transfers in 2012/2013 £'000	Transfers out 2012/2013 £'000	Balance 31 March 2013 £'000	Transfers in 2013/2014 £'000	Transfers out 2013/2014 £'000	Balance 31 March 2014 £'000
Housing Revenue Account							
HRA IT Reserve	**(39)**	(6)	8	**(37)**	0	37	**0**
Major Repair Reserve	**(348)**	(5,838)	5,900	**(286)**	(5,872)	6,020	**(138)**
Total	**(387)**	**(5,844)**	**5,908**	**(323)**	**(5,872)**	**6,057**	**(138)**

3. Housing Revenue Account Stock

a. Rentable Dwelling Stock

The Council managed 3,013 rentable dwellings as at 31 March 2014. The movement in stock is analysed as follows:

Stock Type	01 April 2013	Adjustments	Additions	Disposals	31 March 2014
Houses	1,305	0	0	(9)	1,296
Flats	1,259	0	0	(1)	1,258
Maisonettes	215	0	0	0	215
Bungalows	244	0	0	0	244
Total	**3,023**	**0**	**0**	**(10)**	**3,013**

b. Non-Rentable Dwelling Stock

The Council owned 1 non rentable dwelling as at 31 March 2014. The movement in stock is analysed as follows:

Stock Type	01 April 2013	Adjustments	Additions	Disposals	31 March 2014
Flats	1	0	0	0	1
Total	**1**	**0**	**0**	**0**	**1**

c. Non-Dwelling Stock

The Council owned 1,073 non dwellings as at 31 March 2014. The movement in stock is analysed as follows:

Stock Type	01 April 2013	Adjustments	Additions	Disposals	31 March 2014
Garages	751	0	0	(169)	582
Garages with water	348	0	0	(77)	271
Carports	118	0	0	(4)	114
Carspaces	13	0	63	0	76
Underground carspaces	30	0	0	0	30
Other spaces	79	0	(63)	(16)	0
Total	**1,339**	**0**	**0**	**(266)**	**1,073**

4. HRA Non-Current Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Balance Sheet. The estimated market value at 1 April 2012 was £305,354,548 and 1 April 2013 was £304,060,660. The 'discounted' existing use value reflects the economic cost to government of providing council housing at less than market rents.

	Dwellings £'000	Other Land and Buildings £'000	Total £'000
Cost or Valuation 1 April 2013	102,511	6,182	108,693
Additions	4,968	245	5,213
Donations	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	0	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(751)	(502)	(1,253)
Derecognition – disposals	(403)	(1,464)	(1,867)
Derecognition - Surplus Assets	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0
Other movements in cost or valuation	93	122	215
As at 31 March 2014	**106,418**	**4,584**	**111,002**
Depreciation as at 1 April 2013	(2,914)	(430)	(3,344)
Depreciation charge	(3,062)	(300)	(3,362)
Depreciation written out to the Revaluation Reserve			0
Depreciation written out to the Surplus//Deficit on the Provision of Services	5,971	430	6,401
Derecognition – disposals	11	106	117
Derecognition - Surplus Assets			0
Assets reclassified (to)/from Held for Sale			0
Other movements in depreciation and impairment	(7)		(7)
As at 31 March 2014	**0**	**(195)**	**(195)**

Net Book Value			
As at 31 March 2013	99,597	5,752	105,350
As at 31 March 2014	106,418	4,389	110,807

The impairments shown in the table above relate to various garage sites and have been calculated due to poor condition of various garages/sites which means that they are no longer available for the use they were originally built for. Therefore, the value assigned to these particular units relates to a land value only. The change in use has resulted in an impairment in their value.

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:

Major Repairs Reserve	2012/13 £'000	2013/14 £'000
Opening Balance	**(347)**	**(286)**
HRA Depreciation from Capital Adjustment Account	(3,351)	(3,362)
Depreciation Adjusting Transfer from HRA	0	0
Specific Revenue Contributions towards Capital Expenditure	0	(40)
Transfer from Reserves	(1,800)	(1,664)
Financing of HRA Capital Expenditure	5,077	5,214
Debt Repayment from the HRA	(687)	(806)
Debt Repayment from the Capital Adjustment Account	823	806
Closing Balance	**(286)**	**(138)**

6. Analysis of HRA Capital Expenditure and Funding

	2012/13 £'000	2013/14 £'000
Operational Assets		
Dwellings	5,021	4,969
Other Land and Buildings	56	245
Non-Operational Assets	0	0
Revenue Expenditure Funded from Capital under Statute	0	0
Total	**5,077**	**5,214**
Funded by:		
Major Repairs Reserve	(5,077)	(5,214)
Borrowing	0	0
Housing Right To Buy Capital Receipts	0	0
Revenue contributions from the HRA	0	0
Total Funding	**(5,077)**	**(5,214)**

7. Summary of HRA Capital Receipts

	2012/13 £'000	2013/14 £'000
Receipts from the sale of land	(11)	(12)
Receipts from the sale of other property	(934)	0
Repayment of discount	0	(16)
Receipts from the sale of houses other than through the right to buy scheme	0	0
Receipts from disposals of houses through the Right To Buy scheme	(406)	(697)
Total Capital Receipts	**(1,351)**	**(725)**

8. Rent Rebate Subsidy Limitation

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 pre-set limit, a transfer equal to the loss of rent rebate subsidy should be made from the Housing Revenue Account to the credit of the General Fund. In 2013/14 this amounted to £97,209 (£139,650 in 2012/13) and this does continue with the introduction of self-financing.

9. Tenants' Arrears

Tenants' Arrears at 6 April were analysed as follows:

Type of Debt	2012/13 £'000	2013/14 £'000
General Stock	279	254
Garages	1	1
Former Tenancies – General Stock	297	332
Former Tenancies - Garages	1	1
Housing Benefit Overpayments – General Stock	36	28
Court Costs – General Stock	24	26
Former Tenancy Arrears of Current Tenants – General	56	49
Rechargeable Repairs	76	71
Total Arrears	770	762
Percentage of Gross Rents (HRA)	**6.38%**	**6.00%**

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

	2012/13 £'000	2013/14 £'000
Opening Balance	590	563
Additional Provision made during year	104	92
Add Credit write-offs	3	3
Less amounts written off	(134)	(61)
Closing Balance	**563**	**597**

10. HRA Share of Contributions to the Pensions Reserve

In accordance with IAS 19 the HRA Income and Expenditure Statement includes £0.119m (£0.083m in 2012/13), 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 employer's 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 2013/14 the depreciation charged on HRA assets was £3.362m (£3.351m 2012/13). The charge for depreciation of £3.062m relating to the housing stock is funded from the Major Repairs Allowance. The charge of £0.300m 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:

	2012/13 £'000	2013/14 £'000
Property, Plant and Equipment		
Council Dwellings	2,922	3,062
Other Land and Buildings	430	300
Total Depreciation and Amortisation	**3,351**	**3,362**

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 2013/14 was £8.188m (2012/13 was £6.434m.)

The following table shows the breakdown of this adjustment:

Type of Debt	2012/13 £'000	2013/14 £'000
Capital Asset Charges		
Revaluation and Impairment (Gain) / Losses	571	(5,148)
Revenue Expenditure Funded from Capital Under Statute	0	0
Depreciation Charge in Respect of Council Dwellings	2,921	3,062
Other Depreciation Charges	430	300
Debt repayment	823	806
Total Capital Asset Charges	**4,745**	**(981)**
Actual Interest Charged on HRA Debt	1,689	1,670
Capital Asset Charges Accounting Adjustment	**6,434**	**690**

13. Gross Rent Debit

The rent income figure is net of voids. The level of voids in 2013/14 was on average equal to 0.56% (0.46% in 2012/13). The level of rebates provided was £8,845,775 (2012/13 £8,536,970), which amounted to 66.36% of rent and HB related service charges collectable (2012/13 67.54%).

I. Glossary of Terms

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

ACTUARIAL GAINS & LOSSES
These are changes in the actuary's assessment of the value of future pension fund requirement. Changes result from actual events not matching previous actuarial assumptions or from a change in assumptions on which the valuation is based.

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

APPOINTED AUDITORS
The Audit Commission appoints external auditors to each local authority, from one of the firms of registered auditors.

ASSET
An item having a value measurable in monetary terms. Assets can be defined as current or non-current. A current asset can be readily converted into cash (for example stocks or a short term debtor). A long-term asset is expected to yield economic benefits to the council 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.

AUTHORISED LIMIT
The maximum amount of external debt the Council can owe to external lenders under the Local Government Act 2003

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

CAPITAL ADJUSTMENT ACCOUNT
This account shows the timing difference between the recognition of the consumption of fixed assets based on their historic cost and the amount financed under statutory requirements.

CAPITAL EXPENDITURE
Expenditure to acquire or enhance long-term assets.

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

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

CAPITAL RECEIPT
The proceeds from the disposal of land or other long-term assets.

CHARTERED INSTITUTE OF PUBLIC FINANCE & ACCOUNTANCY (CIPFA)

The professional accountancy body specialising in the public sector.

CORPORATE AND DEMOCRATIC CORE

Incorporates

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

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

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

COLLECTION FUND

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

COMMUNITY ASSETS

Assets that the 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.

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.

CURRENT SERVICE COST

The increase in the present value of a defined benefit pension scheme's liability expected to arise from employee service in the current year. It is the pension benefit earned by employees in the current year.

DEBTOR
Amounts due to the 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.

DEFINED BENEFIT SCHEME

A pension scheme under which members pension benefits are calculated independently of contributions payable.

DEFINED CONTRIBUTION SCHEME

A pension scheme under which contributions into the scheme are set but the pension benefits payable are related to the performance of investments made by the fund.

DEPRECIATION

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

DERECOGNITION

This is the process of removing financial assets or liabilities from the Balance Sheet once performance under the contract is complete or the contract is terminated.

EARMARKED RESERVES

These are reserved held to meet specific, known or predicted future expenditure.

EXCEPTIONAL ITEMS

Significant items of income or expenditure on ordinary activities of the Council but which due to their size or incidence are disclosed separately.

EXTERNAL AUDIT

The independent examination of accounts and activities by a Registered Auditor to ensure accounts have been prepared in accordance with legislation and relevant accounting practices and that the Council has made proper arrangements to secure value for money.

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.

FAIR VALUE

The price at which an asset could be exchanged in an arms length transaction, less any grants receivable towards the purchase or use of the asset.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term ‘financial instrument’ covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex such as derivatives and embedded derivatives.

FINANCE LEASE

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

GENERAL FUND

The main revenue fund of the Council including all services financed by local taxation and government grants.

GOVERNMENT GRANTS

Grants made by the government towards either revenue or capital expenditure to support the cost of the provision of local 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).

HERITAGE ASSET

A tangible asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

HOUSING 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 fund which includes all the expenditure and income arising from the provision of council housing by the Council.

IMPAIRMENT

The reduction in value of a fixed asset caused by factors such as general price decreases, a significant decline in market value and evidence of obsolescence or physical damage.

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.

INVENTORIES

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

LEASING COSTS

This is rental paid for the use of an asset for a specific period of time.

LENDER OPTION BORROWER OPTION (LOBO)

A form of loan offered by the market that provides discounted rates of interest in the earlier years of the term of the loan.

LIABILITY

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

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.

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

A financial planning document setting out future years financial forecasts for the Council. It considers local and national policy influences and their impact on both revenue and capital budgets across both housing revenue account (HRA) and general fund.

MINIMUM REVENUE PROVISION (MRP)

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

NON-DOMESTIC RATE

The Non-Domestic Rate (Business Rate) is a tax based on the 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 that 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.

PUBLIC WORKS LOAN BOARD (PWLB)

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

RATEABLE VALUE

The annual assumed rental value of a property that is used for Non Domestic Rate purposes.

RELATED 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 that have been accumulated over past years. Reserves of a revenue nature are available and can be spent 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.

REPORTING STANDARDS

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. The Code is based on International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Financial Reporting Standards (FRS) and Generally Accepted Accounting Practice (GAAP).

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

REVENUE SUPPORT GRANT

The main unringfenced grant from Central Government to the Council to support revenue budgets.

SERVICE REPORTING CODE OF PRACTICE (SeRCOP)

SeRCOP is published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and establishes best practice for consistent financial reporting of services. The Local Government Act 2003 endorses SeRCOP as proper accounting practice.

TEMPORARY LOAN

Money borrowed for a period of less than one year.

TREASURY MANAGEMENT

The process of controlling the Council's cash flow, borrowing and lending.

TREASURY MANAGEMENT STRATEGY

A document prepared by council setting out the framework for treasury management activity.

UNSUPPORTED (PRUDENTIAL) BORROWING

Borrowing undertaken for capital purposes with interest and principal repayments funded from revenue.