

## **AUDIT COMMITTEE**

**14 JULY 2015**

### **STATEMENT OF ACCOUNTS 2014/15**

Report from: Phil Watts, Chief Finance Officer

Author: John Chance, Head of Finance Strategy

#### **Summary**

This report requests that the Audit Committee approve the Council's draft Statement of Accounts for 2014/15.

The Cabinet will be considering this report on 7 July 2015 and its comments will be reported to the Audit Committee in an addendum report

#### **1. Budget and Policy Framework**

- 1.1 Cabinet, as the body charged with the executive management of the council's budget recommends approval of the accounts by the Audit Committee whose terms of reference include approval of the annual Statement of accounts.
- 1.2 The Statement of Accounts is required to be certified by the Chief Finance Officer by 30 June each year. It is good practice to present the accounts to Members as soon as possible after that date, prior to the audit and ahead of the submission of the audited accounts in September 2015, and the statutory publication date of 30 September 2015.

#### **2. Background**

- 2.1 Local authorities are required under the Accounts and Audit Regulations 2011 (as amended) (the Regulations) to produce an annual Statement of Accounts that is subject to scrutiny by the external auditors. The auditor will give an opinion on the accounts and additionally, interested persons have the right to inspect the accounts and make representations to the auditor. BDO are the auditors responsible for the audit of accounts that must be published by 30 September 2015. The Regulations now give authority to the 'responsible finance officer' to certify these by 30 June rather than formal adoption by the Council, however, good practice suggests that they are formally presented to the authority as soon as practicable after completion.

#### **3. Statement of Accounts**

- 3.1 The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which sets out the proper accounting practices for accounting for transactions of the Council and the

presentation of the financial statements. The Code is based on International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) interpreted for use by Local Authorities.

- 3.2 In accordance with proper accounting practice, the Statement of Accounts includes the following elements which are subject to scrutiny by the appointed auditor:
- An explanatory introduction and statement by the Chief Financial Officer;
  - A statement of responsibilities which outlines responsibility for efficiently managing the affairs of the Council;
  - The auditor's opinion which is given at the completion of the audit and must occur by 30 September 2015;
  - Annual Governance Statement, which will be reported to the Audit Committee on 14 July 2015 and incorporated into the accounts by the 30 September 2015;
  - A statement of accounting policies which highlights practices adopted by the authority;
  - The principal financial statements which comprise:
    - The movement in reserves statement which shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce council tax) and other reserves;
    - The comprehensive income and expenditure statement which shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. This statement combines the income and expenditure relating to all the Council's functions including the General Fund and the Housing Revenue Account;
    - The balance sheet, which shows the value as at the year-end of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council; and
    - The cash flow statement which summarises the inflows and outflows of cash, arising from transactions between the Council and third parties, for revenue and capital;
  - Notes to the core financial statements, which give further explanation and analysis of some of the movement in the comprehensive income and expenditure statement and balance sheet together with a number of disclosures required by the Code.
- 3.3 Further supplementary financial statements are required to expand on the information included within the statements above;
- The Housing Revenue Account (HRA) which summarises the major items of expenditure and income relevant to the account with supplementary notes where required and
  - The Collection Fund which records council tax and business rate income and disbursements to precepting authorities (the Council's own requirement, Kent Police & Crime Commissioner, Kent Fire and Rescue Service and Parish Councils) and payments to central government in respect of the central share of non-domestic rate income.
- 3.4 The draft Statement of Accounts is attached as Appendix 1 to this report, however Members are more familiar with the revenue outturn analysis as set out in the explanatory foreword in Section A and considered in section 4, below. The elements of the financial statements that support this 'management accounting summary' are

the comprehensive income and expenditure statement, movement in reserves statement and the balance sheet, which can be found in Section F of the Accounts.

- 3.5 The presentation of the comprehensive income and expenditure statement requires all expenditure and income to be allocated to service headings. This shows a 'deficit on the provision of services' of £98.7m (General Fund deficit of £105.8m and HRA surplus of £7.1m). This deficit is subsequently netted out through the Movement in Reserves Statement or other 'below the line' adjustments.
- 3.6 Paragraph 2.1 refers to the audit of the statements being completed by the 30 September 2015. The actual audit of the statements is scheduled to commence on 13 July and clearly the draft Statement of Accounts that is presented for approval does not reflect any changes that this audit may require. If there are significant amendments to the Statement of Accounts these will need to be reported back to Members prior to formal publication.

#### **4. Summary financial position for 2014/2015 (General Fund)**

- 4.1 Throughout the year, quarterly monitoring reports have identified the major variations from approved budgets. An initial forecast overspend of some £4.2 million has progressively reduced and the last report to Cabinet, based on January spend, had indicated a £2.6 million overspend. The final accounts now show a revenue surplus of £388,000.
- 4.2 The final position, shown in table 1 below, which is replicated in the 'Explanatory Forward' to the Statement of Accounts, is a significant achievement and is a reflection both of the successful efforts to maintain services at minimum cost and the robustness of the budgets that were set.

**Table 1 - General Fund Revenue Outturn**

| Directorate                                 | Budget           | Out-turn         | Variation    |
|---|------------------|------------------|--------------|
|   | £'000            | £'000            | £'000        |
| Business Support Department                 | 9,327            | 9,674            | 347          |
| Children & Adult Services                   | 257,339          | 259,830          | 2,491        |
| Regeneration, Community & Cultural Services | 82,227           | 80,892           | (1,335)      |
| Public Health                               | 12,820           | 11,863           | (957)        |
| <b>Sub-total Services</b>                   | <b>361,713</b>   | <b>362,259</b>   | <b>546</b>   |
| Medway Norse                                | (263)            | (347)            | (84)         |
| Levies                                      | 878              | 958              | 80           |
| Depreciation Credit                         | (39,158)         | (39,158)         | 0            |
| Interest & Financing                        | 14,244           | 13,245           | (999)        |
| <b>Sub-total Other</b>                      | <b>337,414</b>   | <b>336,957</b>   | <b>(457)</b> |
| <u>Funded:-</u>                             |                  |                  |              |
| Contributions from Reserves                 | (1,100)          | (1,100)          | 0            |
| Specific Non-ringfenced Grants              | (147,721)        | (147,653)        | 68           |
| RSG   | (52,392)         | (52,391)         | 1            |
| NNDR Redistribution                         | (44,916)         | (44,916)         | 0            |
| Council Tax                                 | (91,285)         | (91,285)         | 0            |
| <b>Sub Total Funding</b>                    | <b>(337,414)</b> | <b>(337,345)</b> | <b>69</b>    |
| <b>Overall Total</b>                        | <b>0</b>         | <b>(388)</b>     | <b>(388)</b> |

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

4.3.1 Children and Adult Services (£2.5m over-spend)

**There was a £4.4m overspend on Children's Social Care, due to:**

- £1.3m in respect of additional placement costs due to higher number of looked after children
- £2.6m of additional staffing/agency costs as a result of required investment following Ofsted reports on child protection services, safeguarding and looked after children
- Various other pressures account for the balance.

**There was a £1.1m underspend on Adult Social Care, due to:**

- £1.7m overspend on Disability services due to additional placement costs and agency cover for staff vacancies
- £900,000 underspend on older people services due to reduced placement costs and staffing vacancies throughout the year
- £600,000 underspend on Local Welfare Provision
- £1.1m transfers from reserves

**There was an underspend of £800,000 on various other services, some relative to DSG funding.**

#### 4.3.2 Regeneration, Community and Culture (£1.3m under-spend)

Final outturn for RCC produced an underspend of £1.3m which was a favourable movement of £1.3m since Round 2 monitoring. The majority of this can be attributed to Frontline Services.

- **Highways Services** reported a saving of £286,000 with much of this resulting from savings on maintenance costs and supplies and services. Safer Communities once again returned a large underspend due to staff savings of circa £200,000. Integrated Transport Service underspent by £449,000 by overachieving income targets from Traffic Management and underspending on concessionary fares.
- **Housing & Regeneration** spent to budget with underspends from the capitalisation of Physical Regeneration salaries helping to offset the £243,000 overspend in Housing.
- **Leisure & Culture** reported an overspend of £31,000. The Events, Arts and Theatres overspend of £226,000 was offset by underspends in Greenspaces and Libraries.

#### 4.3.3 Business Support

The Directorate was underspent by £347,000 against its revenue budget of £9.3m.

The following were the principal areas of underspend / saving or overspend within the Directorate:

- **Central Finance underspent by £616,000**
  - £500,000 was as a result of the strategically managing the funding of Medpay compensation accounting.
  - £100,000 resulted from vacancy savings
- **Democracy and Governance underspent by £632,000**
  - £246,000 Customer contact underspend mainly from vacancy savings (£212,000)
  - £98,000 Register of electors, mainly as a result of a strategic decision to manage the annual provision for election for 14/15 only (£130,000)
  - £220,000 Bereavement services over recovered its income target
- **Legal, Category Management & Property overspent by £967,000**
  - £800,000 Medway Norse due to £400,000 underfunded contract budget; this doubled in 14/15 due to the legacy of 13/14 accrued.
  - £187,000 Legal services high staff turnover and increased case load resulting in the use of costly Locums
  - £321,000 Category management work stream saving unrealised
  - This is offset by a number of favourable variances.

- **Organisational services overspent by £166,000**
  - £446,000 adult education under recovery of income and reduced grant.
  - £415,000 ICT over recovery of income
  - £111,000 vacancy saving target not achieved

#### 4.3.4 Public Health:-

Underspend by £957,000 within the Public Health division, however the balance of the grant was applied to delivering health outcomes across wider council services.

#### 4.4 Interest and Financing

The treasury outturn report elsewhere on this agenda identifies in some detail the factors influencing both borrowing and investment strategies. External borrowing increased over the year from £164.3m to £166.8m and invested funds reduced from £39.3m to £31.9m. Overall the treasury budget recorded a surplus of £0.998m which is a creditable performance against a difficult economic position.

### 5. Summary financial position for 2014/15 (HRA)

- 5.1 The Housing Revenue Account (HRA) is a ring-fenced account to record the 'landlord' costs and income associated with the maintenance of our housing stock. It includes costs of management and maintenance for the property portfolio, housing benefit costs in the form of rent rebates and capital financing costs, offset by housing rents and government grant. The summary of that account is set out in Section H of the Statement of Accounts. The outturn on the Housing Revenue Account (HRA) was a surplus £1.561m (2013/14 surplus £1.258m), compared to a surplus budget of £821,000 (2013/14 surplus budget £1.059m). Having taken account of the 2014/15 surplus, the Housing Revenue Account balance stands at £2.235m as at 31 March 2015 (£1.967m as at 31 March 2014).

### 6. Summary financial position for 2014/15 (Delegated Schools Budget)

- 6.1 A significant proportion of the overall budget of the council is delegated to schools and is then ring-fenced for that purpose. The total funding provided to schools includes the sum delegated by the council from the Dedicated Schools Grant, plus sixth form grants provided by the Young People's Learning Agency. In 2014/2015 schools received revenue funding amounting to £116.1m compared to £118.2m the previous year. Whilst it might have been expected that this figure would reduce, reflecting the shift of resources to directly funded academies, changes in the schools funding methodology means that the local authority is now responsible for paying high needs top ups to all SEN provision, including academies and other non-maintained schools. Expenditure incurred by schools is included in the figure for Children and Adult Services shown in section 4, above. Any surplus or deficit relating to schools is 'rolled-forward' as part of the schools' reserves balances shown in the balance sheet. This has the effect of showing schools budget as balanced.
- 6.2 However the reality of the schools' spending position is reflected in the movement in the schools' balances figure incorporated in usable reserves shown at the foot of the Balance Sheet (Section F of the Statement of Accounts). This shows that schools' balances have reduced from £7.122m as at 31 March 2014 to £6.277m as at 31 March 2015, however £1.215m of this movement relates to the transfer of

balances to converting academies and if this figure is ignored the movement becomes a net increase of £370k in schools reserves:

- 6.3 Net revenue reserves have reduced, as a percentage of the total resources available, from 6.0% to 5.4%;
- 6.4 Fourteen of the fifty eight eligible schools have not yet submitted three year plans, twenty of the returned submissions have been analysed by finance to date with no school forecasting a deficit by March 2016, and only one school forecasting a deficit by March 2018. The remaining twenty four schools budget submissions are still be analysed by finance.

## **7. Summary financial position for 2014/15 (Capital)**

- 7.1 The capital monitoring, considered by Cabinet in February 2014, detailed a programme of £86.5 m for 2014/15 and beyond, with a forecast spend of £50.2m for the financial year. Actual spend for 2014/15 was £41.1m, with some £9m slipping to future years with £5m recorded as slippage in Children and Adults (primary places schemes) and £3.5m mainly covering highway maintenance projects. Capital forecasts for individual years are continually monitored and expenditure re-profiled as appropriate.
- 7.2 The table below analyses spend across directorates and the source of funding and section 7.3 highlights the major achievements during 2014/15.

**Table 2 - Summary capital outturn position**

| Directorate                         | Approved Programme 2014/15+ £000s | Forecast Spend 2014/15 £000s | Outturn 2014/15 £000s | Variation to Forecast £000s | Slippage to 2015/16 £000s |
|-------------------------------------|-----------------------------------|------------------------------|-----------------------|-----------------------------|---------------------------|
| Business Support                    | 4,944                             | 2,339                        | 1,959                 | (380)                       | (380)                     |
| Children and Adult Services         | 34,333                            | 22,771                       | 17,717                | (5,053)                     | (5,053)                   |
| Regeneration, Community and Culture | 46,292                            | 24,726                       | 21,239                | (3,487)                     | (3,487)                   |
| Public Health                       | 300                               | 4                            | 4                     | 0                           | 0                         |
| Member Priorities                   | 595                               | 352                          | 193                   | (160)                       | (160)                     |
| <b>Total</b>                        | <b>86,464</b>                     | <b>50,192</b>                | <b>41,112</b>         | <b>(9,080)</b>              | <b>(9,080)</b>            |

| Funding source                            | Funding £'000 |
|---|---------------|
| Borrowing (supported and unsupported)     | 6,535         |
| Government Grants and Other Contributions | 22,668        |
| Major Repairs and Other Contributions     | 4,315         |
| Capital Receipts                          | 3,264         |
| Developer Contributions                   | 2,038         |
| Revenue and Reserves                      | 2,292         |
| <b>Total</b>                              | <b>41,112</b> |

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

#### 7.3.1 Children and Adult Services

- Continued progress and investment in creating the first phase of additional primary school places
- Significant condition works on the school estates amounting to around £2.6m, delivering roofs, boilers, asbestos works and other priority area
- Significant progress achieved in delivering three new Academies

#### 7.3.2 Regeneration, Community and Culture

- £9.54m was spent on highways maintenance including £450,000 on pot holes and £560,000 on structures including the Medway Tunnel
- £204,000 was spent on Play Area improvements
- 2014/15 saw the completion of the Strood Hub scheme and the near completion on the major refurbishment of the Strood Leisure Centre
- £4.25m was spent on refurbishment of Medway's housing stock and £2.03m was spent on the building of new council housing with nine properties being completed by the end of 2014/15
- £1.04m was spent on the initial stages of the Riverside projects



### 7.3.3 Business Support

- Smarter working at Gun Wharf supports the council's property rationalisation strategy for enhanced efficiency
- Riverside one relocation also supports the council's property rationalisation strategy for enhanced efficiency
- Digitalisation supports the council's channel shift programme, to improve customer experience and resource efficiency
- Improvements and mercury abatement works at Medway Crematorium

### 7.3.4 Public Health

- Creating a prominent public health presence at the heart of the council for easy customer access to service to improve their health

### 7.3.5 Members Priorities

Considerable progress has been achieved on a great number of smaller projects across all directorates including:

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

## 8. Reserves

8.1 The Movement in Reserves Statement identifies the year-to-year position on the various reserves held by the Council and the following paragraphs provide commentary on the more significant useable reserves.

8.2 The General Fund Balance (contingency) has been maintained at £5.0 million, the level that it was reduced to in 2012/13.

8.3 The total of Earmarked Reserves (those held for specific purposes) has decreased from £29.9m to £23.1m in accordance with planned expenditure requirements across the year.

8.4 School Reserves are discussed in 6.2 above.

8.5 The Housing Revenue Account balance is discussed in 5.1 above.

8.6 The Insurance Fund is held to protect the Council from uninsured losses (as the Council 'self insures' to balance the cost of external premiums with the potential risk). The Fund has increased from £2.4m to £3.1m at the end of 2014/15 due to a reduction in the number of claims, mainly due to schools opting to become academies. We are currently working with our brokers to carry out a fund review based on changing current levels of business.

## 9. Risk Management

9.1 The Council's Strategic Risk Register records the long term finances of the Council as one of the highest risks faced and the more short-term risks associated with in-year budget management are regularly addressed as part of the monitoring cycle. The monitoring cycle provides for a continual review of forecast expenditure and

income and enables corrective action to be taken where appropriate. The success of this continual review is clearly borne out by this and previous outturn results.

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

## **10. Financial and legal implications**

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

## **11. Recommendation**

- 11.1 That the Audit Committee approves the draft Statement of Accounts for 2014/15.

### **Lead officer contact**

|            |  |
|------------|--|
| Name       | John Chance  |
| Job Title  | Head of Finance Strategy   |
| Telephone: | 01634 332151   |
| email:     | <a href="mailto:john.chance@medway.gov.uk">john.chance@medway.gov.uk</a> |

### **Background papers**

Revenue and Capital budget monitoring reports to Cabinet during 2014/15:

30 September 2014 – Round 1

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=2957&Ver=4>

13 January 2015 - Round 2

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=2961&Ver=4>

### **Appendices**

Appendix 1 – Statement of Accounts



# Statement of Accounts

for the  
year ended  
31 March 2015

(Unaudited)

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

1

**Medway**  
COUNCIL  
*Serving You*

## Contents

### Information Accompanying the Statement of Accounts

|                                       |      |
|---------------------------------------|------|
| Section A – Explanatory Foreword..... | 3-11 |
| Section B – To be added.....          | 12   |

### Statement of Accounts

|   |         |
|---|---------|
| Section C – Statement of Responsibilities.....            | 13      |
| Section D – To be Added.....                              | 14      |
| Section E - Statement of Accounting Policies.....         | 15-41   |
| Section F - Principal Financial Statements.....           | 42-49   |
| Section G - Notes to the Principal Financial Statements.. | 50-120  |
| Section H – Supplementary Financial Statements.....       | 121-134 |

### Other Information

|                                    |         |
|------------------------------------|---------|
| Section I – Glossary of Terms..... | 135-143 |
|------------------------------------|---------|

## Table of Contents

|   |    |
|---|----|
| Introduction .....  | 4  |
| Financial Statements, their Purpose and Relationship between them .....   | 5  |
| Information accompanying the Statement of Accounts .....  | 5  |
| Explanatory foreword .....  | 5  |
| Annual Governance Statement .....   | 5  |
| Statement of Accounts .....   | 5  |
| Statement of responsibilities .....   | 6  |
| Independent auditor's report .....  | 6  |
| Financial statements and notes .....  | 6  |
| Movement in Reserves Statement .....  | 6  |
| Comprehensive Income and Expenditure Statement.....   | 6  |
| Balance Sheet.....  | 6  |
| Cash Flow Statement.....  | 7  |
| Notes to the core accounting statements.....  | 7  |
| Collection Fund.....  | 7  |
| Housing Revenue Account (HRA).....  | 7  |
| Other information .....   | 7  |
| Review of Finance 2014/2015.....  | 8  |
| Budget.....   | 8  |
| 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. .... | 10 |
| Capital .....   | 10 |
| Capital expenditure incurred by the Council in 2014/2015 is summarised below: .....   | 11 |
| Borrowing/Investments .....   | 11 |
| Non-Current Assets .....  | 11 |

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 2014 to 31 March 2015 (“the reporting period”).

The objectives of financial statements are to provide information about the financial position, financial performance and cash flows of 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 (36 members).

Key facts from 2011 Census:

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

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

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

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

- Movement in Reserves Statement for the period;
- Comprehensive Income and Expenditure Statement for the period;
- Balance Sheet as at the end of the period;
- Cash Flow Statement for the period;
- Notes comprising explanatory information;
- 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 2015 and its income and expenditure for the year.

## Independent auditor's report

The independent auditor is required to publish an opinion on the financial statements 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.

### *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 2014/2015

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 2014/15 |                |
|  |  |  | £'000          | £'000          |
| Budget requirement 2013/14             |  |  | 349,611        |                |
| Changes in function and funding        |  |  | (8,248)        |                |
| <b>Adjusted Base Budget</b>            |  |  |                | <b>341,363</b> |
| Inflation                              |  |  | 0              |                |
| Other cost pressures                   |  |  | 3,099          |                |
| Service pressures                      |  |  | 7,579          |                |
| Efficiency and other savings           |  |  | (14,627)       |                |
|  |  |  |                | <b>(3,949)</b> |
| <b>Budget Requirement 2014/15</b>      |  |  |                | <b>337,414</b> |
| <b>Financed By:</b>                    |  |  |                |                |
| NDR Redistribution                     |  |  | 44,916         |                |
| RSG                                    |  |  | 52,392         |                |
| Other Specific Grant                   |  |  | 147,721        |                |
| Council Tax                            |  |  | 91,285         |                |
| Reserves                               |  |  | 1,100          |                |
| <b>Total</b>                           |  |  |                | <b>337,414</b> |

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

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

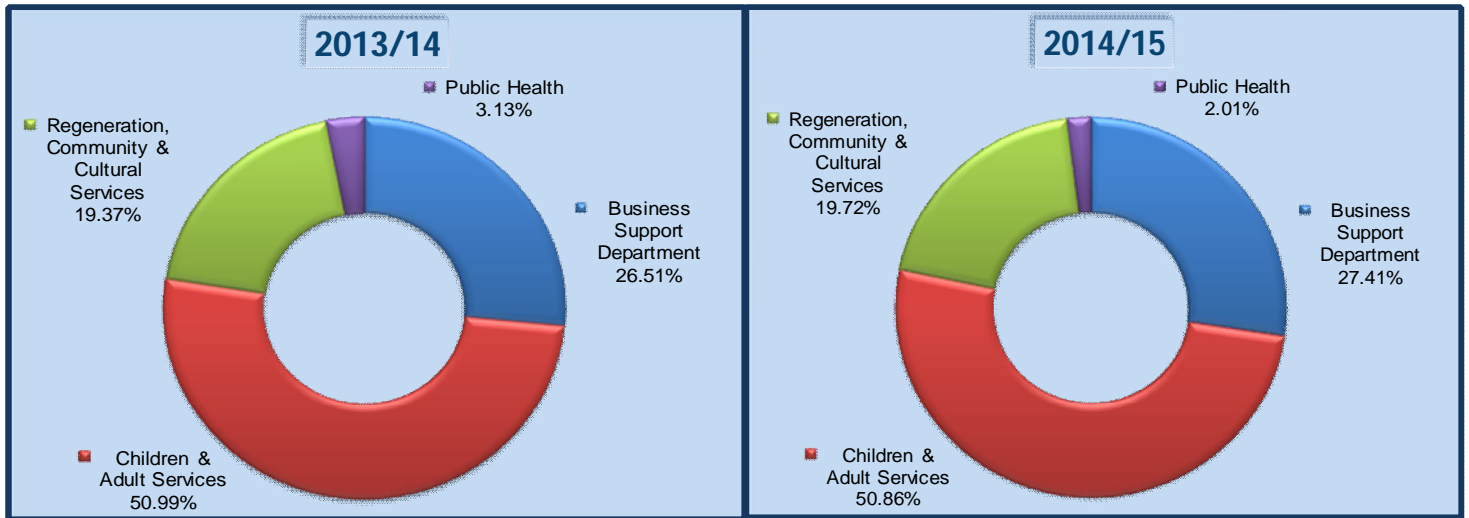
## Revenue

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

The table below summarises the income and expenditure for each directorate of the Council for 2014/2015:

| Directorate   | Expenditure<br>£'000 | Income<br>£'000  | Net<br>£'000     | Budget<br>£'000  | Variation<br>£'000 |
|---|----------------------|------------------|------------------|------------------|--------------------|
| Business Support Department   | 165,002              | (154,957)        | 10,044           | 9,696            | 349                |
| Children & Adult Services   | 306,173              | (46,343)         | 259,830          | 257,339          | 2,491              |
| Regeneration, Community & Cultural Services   | 118,729              | (37,836)         | 80,893           | 82,227           | (1,334)            |
| Public Health   | 12,071               | (208)            | 11,863           | 12,820           | (957)              |
| <b>Sub-total Services</b>   | <b>601,975</b>       | <b>(239,345)</b> | <b>362,630</b>   | <b>362,082</b>   | <b>549</b>         |
| Amounts included within management accounts but excluded from services within statutory accounts: |                      |                  |                  |                  |                    |
| Medway Norse  | 0                    | (347)            | (347)            | (263)            | (84)               |
| Investment Properties   | 0                    | (371)            | (371)            | (369)            | (2)                |
| <b>Sub-total excluded from services within Statutory accounts</b>                                 | <b>0</b>             | <b>(718)</b>     | <b>(718)</b>     | <b>(632)</b>     | <b>(86)</b>        |
| <b>Sub-total Services reported within management accounts</b>                                     | <b>601,975</b>       | <b>(240,062)</b> | <b>361,912</b>   | <b>361,450</b>   | <b>462</b>         |
| Levies  |                      | 958              | 958              | 878              | 80                 |
| Depreciation Credit   |                      | (39,158)         | (39,158)         | (39,158)         | 0                  |
| Interest & Financing  | 13,245               | 0                | 13,245           | 14,244           | (999)              |
| <b>Total Expenditure</b>  | <b>615,220</b>       | <b>(278,262)</b> | <b>336,957</b>   | <b>337,414</b>   | <b>(457)</b>       |
| <u>Funded:-</u>   |                      |                  |                  |                  |                    |
| Contributions from Reserves   | 0                    | (1,100)          | (1,100)          | (1,100)          | 0                  |
| Specific Non-ringfenced Grants  | 0                    | (147,653)        | (147,653)        | (147,721)        | 68                 |
| RSG   | 0                    | (52,391)         | (52,391)         | (52,392)         | 1                  |
| NNDR Redistribution   | 0                    | (44,916)         | (44,916)         | (44,916)         | 0                  |
| Council Tax   | 0                    | (91,285)         | (91,285)         | (91,285)         | 0                  |
| <b>Total Funding</b>  | <b>0</b>             | <b>(337,345)</b> | <b>(337,345)</b> | <b>(337,414)</b> | <b>69</b>          |
| <b>Total Net Expenditure</b>  |                      |                  |                  |                  | <b>(388)</b>       |

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



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

## Capital

The Council's capital investment in 2014/15 was £41,111,810 (2013/2014 £45,229,052). The expenditure was within the definition of the Local Government and Housing Act 1989.

Capital Expenditure has been financed from the following sources:

| Funding source                            | Funding<br>£'000<br>£'000 |
|---|---------------------------|
| Borrowing (supported and unsupported)     | 6,535                     |
| Government Grants and Other Contributions | 22,668                    |
| Major Repairs and Other Contributions     | 4,315                     |
| Capital Receipts                          | 3,264                     |
| Developer Contributions                   | 2,038                     |
| Revenue and Reserves                      | 2,292                     |
| <b>Total</b>                              | <b>41,112</b>             |

The Council spent £28,417,992 on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included a programme of improvements to the 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 £731,575 and £11,962,414 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 2014/2015 is summarised below:

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

The capital programme for 2014/15 and beyond reflects the major investment priorities of the Council which include a significant schools programme to deliver additional primary school and SEN places, ICT investment to deliver the digital transformation agenda and a significant regeneration programme in which transport infrastructure features.

#### *Borrowing/Investments*

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

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

#### *Non-Current Assets*

The total value of the Authority's non-current assets has decreased in 2014/15 by approximately £63 million. The main decreases related to derecognitions/disposals/transfer of academies (£28m), other property disposals (£12m) revaluation losses (£6m) and depreciation (£43m). This was partially offset by capital investment (£29m).

## B. Annual Governance Statement



To Be Added

# C. Statement of Responsibilities

## The Authority's Responsibilities

The authority is required to:

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

## The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the local authority code.

The Chief Finance Officer has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Certificate of the Chief Finance Officer

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31 March 2015.

Phil Watts  
Chief Finance Officer

30 June 2015

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



To be added



# E. Statement of Accounting Policies

## Table of Contents

|   |           |
|---|-----------|
| <b>(i) Accounting Policies</b> .....  | <b>17</b> |
| 1. <b>General Principles</b> .....  | <b>17</b> |
| 2. <b>Accruals of Income and Expenditure</b> .....                                      | <b>17</b> |
| 3. <b>Cash and Cash Equivalents</b> .....   | <b>18</b> |
| 4. <b>Period Adjustments, Changes in Accounting Policy and Estimates and Errors</b> ... | <b>18</b> |
| 5. <b>Charges to Revenue for Non-Current Assets</b> .....                               | <b>18</b> |
| 6. <b>Customer and Client Receipts</b> .....  | <b>18</b> |
| 7. <b>Employee Benefits</b> .....   | <b>19</b> |
| <i>Termination benefits</i> .....   | 19        |
| <i>Post-employment benefits</i> .....   | 19        |
| <i>The Local Government Pension Scheme</i> .....  | 20        |
| <i>Discretionary Benefits</i> .....   | 21        |
| 8. <b>Events after the Reporting Period</b> .....                                       | <b>21</b> |
| 9. <b>Financial Instruments</b> .....   | <b>21</b> |
| <i>Financial Liabilities</i> .....  | 21        |
| <i>Financial Assets</i> .....   | 22        |
| <i>Loans and Receivables</i> .....  | 22        |
| <i>Available-for-Sale Assets</i> .....  | 23        |
| 10. <b>Foreign Currency Translation</b> .....   | <b>24</b> |
| 11. <b>Government Grants and Contributions</b> .....                                    | <b>24</b> |
| 12. <b>Heritage Assets</b> .....  | <b>24</b> |
| <i>Buildings</i> .....  | 25        |
| <i>Furniture</i> .....  | 25        |
| <i>Silver/Gold Collections</i> .....  | 25        |
| <i>Art Collection</i> .....   | 25        |
| <i>Other</i> .....  | 25        |
| <i>Heritage Assets – General</i> .....  | 25        |
| 13. <b>Intangible Assets</b> .....  | <b>26</b> |
| 14. <b>Interests in Companies and Other Entities</b> .....                              | <b>26</b> |
| 15. <b>Inventories and Long-Term Contracts</b> .....                                    | <b>26</b> |
| 16. <b>Investment Property</b> .....  | <b>27</b> |
| 17. <b>Jointly Controlled Operations and Jointly Controlled Assets</b> .....            | <b>27</b> |
| 18. <b>Leases</b> .....   | <b>27</b> |
| <i>The Authority as Lessee</i> .....  | 28        |
| <i>Finance Leases</i> .....   | 28        |
| <i>Operating Leases</i> .....   | 28        |
| <i>The Authority as Lessor</i> .....  | 28        |
| <i>Finance Leases</i> .....   | 28        |
| <i>Operating Leases</i> .....   | 29        |
| 19. <b>Overheads and Support Services</b> .....   | <b>29</b> |
| 20. <b>Property Plant and Equipment</b> .....   | <b>30</b> |
| <i>Recognition</i> .....  | 30        |
| <i>Measurement</i> .....  | 30        |
| <i>Componentisation</i> .....   | 31        |
| <i>Impairment</i> .....   | 32        |

|  |           |
|--|-----------|
| <i>Depreciation</i> .....  | 32        |
| <i>Disposals and Non-current Assets Held for Sale</i> .....                                | 33        |
| <i>Accounting for Schools and Academies</i> .....  | 34        |
| <b>21. Provisions, Contingent Liabilities and Contingent Assets</b> .....                  | <b>36</b> |
| <i>Provisions</i> .....  | 36        |
| <i>Landfill Allowance Schemes</i> .....  | 36        |
| <i>Carbon Reduction Commitment Scheme</i> .....  | 36        |
| <i>Non Domestic Rate (NDR) Appeals Provision</i> .....                                     | 37        |
| <i>Contingent Liabilities</i> .....  | 37        |
| <i>Contingent Assets</i> .....   | 37        |
| <b>22. Reserves</b> .....  | <b>37</b> |
| <b>23. Revenue Expenditure Funded from Capital under Statute</b> .....                     | <b>37</b> |
| <b>24. VAT</b> .....   | <b>38</b> |
| <b>(ii) Accounting Standards that have been issued but have not yet been adopted</b> ..... | <b>39</b> |
| <b>(iii) Critical Judgements in applying Accounting Policies</b> .....                     | <b>40</b> |
| <b>(iv) Assumptions Made About the Future and Other Major Sources of Estimation</b>        |           |
| <b>Uncertainty</b> .....   | <b>41</b> |
| <i>Business rates</i> .....  | 41        |
| <i>Pension Liability</i> .....   | 41        |
| <i>Debt Impairment</i> .....   | 41        |

## **(i) Accounting Policies**

### **1. General Principles**

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

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

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

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments 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. 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.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates will be accounted for prospectively, 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.

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

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

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

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

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

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

## 7. Employee Benefits

### Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (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 they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the 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.
- Liabilities are discounted to their fair value at current prices, using a discount rate of 3.3%

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

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

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

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### Discretionary Benefits

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

## 8. Events after the Reporting Period

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

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

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

## 9. Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the 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

## 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 shares with no quoted market prices – independent appraisal of company valuations.

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

## 10. Foreign Currency Translation

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.

## 11. 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.

## 12. 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.

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

### Buildings

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

### Furniture

The Authority holds 51 items of furniture ranging from clocks, chairs, chaise longues, and various types of chests and writing cabinets dating from the 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> centuries. Some of these items are on display whilst others are held in storage. The insurance valuations which form part of the balance sheet will be reviewed by industry experts as part of the five year programme of valuations.

### Silver/Gold Collections

There are currently 153 different pieces held within this collection including various items of civic regalia, iron age coins and other miscellaneous items from the 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> centuries and are held within the Balance Sheet using an insurance valuation. These items were revalued by industry experts during 2013-2014 as part of the five year programme of revaluations.

### Art Collection

The collection consists of 138 items including various paintings, marble busts and engravings dating from the 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> centuries and is held within the Balance Sheet using insurance valuations updated for inflationary purposes. This sub-category is due to be revalued during 2014-2015 by industry experts as part of the five year programme of revaluations.

### Other

The Authority holds 188 items within this category including collections of medals, various coins and trading tokens, pianos, cameras, costumes and jewellery dating from the Bronze Age to the 20<sup>th</sup> century. All items are held within the Balance Sheet using an insurance valuation updated for inflationary purposes. Many can be found on display whilst a few are held in storage. The insurance valuations will be reviewed by industry experts as part of the five year programme of valuations.

### Heritage Assets – General

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

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

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

### **13. 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.

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

The Authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

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

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the [FIFO/weighted average] costing formula.

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

## **16. Investment Property**

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

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

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

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

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

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

## **18. Leases**

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

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

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

## The Authority as Lessee

### Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the 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 (e.g. there is a rent-free period at the commencement of the lease).

## The Authority as Lessor

### Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the 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 2014/15* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

These two cost categories are defined in SeRCOP and accounted for as separate headings in the 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.

### Componentisation

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

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

- Schools – rolling programme starting from 01/04/11
- Leisure centres with swimming pools – rolling programme starting from 01/04/12
- Medway Park – componentised from 01/04/10
- Crematorium – componentised from 01/04/11

### Schools

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

The Building components will be typically:

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

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

### Leisure Centres/Medway Park

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

- Plant
- Structure
- Car Park
- Changing Rooms

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

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

### *Crematorium*

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

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

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

### *Impairment*

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

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

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

### [Accounting for Schools and Academies](#)

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

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

### [Confirmation of the Application of IFRS 10 Consolidated Financial Statements to Schools](#)

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

- Community & Community Special Schools - There are forty-six community schools. These are provided for and maintained by the council. The council is responsible for admission to these schools.
- Foundation & Foundation Special Schools - There are no foundation schools in Medway. The governing body employs the school's staff and has primary responsibility for admission arrangements. The school's land and buildings are owned by the governing body or by a charitable foundation.
- Voluntary Aided Schools - There are ten voluntary aided schools. These are also founded by voluntary bodies, usually religious. The council is involved with the schools but the individual governing bodies have much greater powers. These powers include responsibility for admissions.
- Voluntary Controlled Schools - There are seven voluntary controlled schools. These were founded by voluntary bodies, usually religious, but are now maintained by the council. The council is responsible for admissions to these schools.

At the same time, in order to simplify the consolidation process and to avoid consolidating a considerable number of separate, relatively small entities, the Code confirms that the definition of the single entity financial statements includes all the transactions of local authority schools, ie the income, expenditure, assets, liabilities, reserves and cash flows of the schools. So instead of these transactions being consolidated in the Group Accounts, they are consolidated into the single entity financial statements. It is important to note that this would be subject to the school controlling these transactions in accordance with the relevant accounting definitions. For example, if a school is using an item of property, plant and equipment acquired by means of an

operating lease, this asset would not be recognised in the local authority boundary (unless the authority is leasing the asset to the school).

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

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

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

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

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

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

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

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

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

If a school obtains academy status, then all responsibilities transfer to the Academy. The only exception to this will be where the school was previously a maintained school where the

Authority had a form of control over the future ability to provide a school, whereby the responsibility for the non-current assets will be transferred to the Academy by way of a long-term lease, and therefore, the present value of that lease relating to the freehold will be all that remains within the Council's Balance Sheet.

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

### **Provisions**

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

Provisions are charged as an expense to the appropriate service line in the 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. 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

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

A contingent asset arises 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 and 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 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 2015/16 has introduced several changes in accounting policies which will be required from 1 April 2015. If these had been adopted for the financial year 2014/15 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 13 Fair Value Measurement.** This standard provides a consistent definition of fair value and enhanced disclosure requirements. This standard is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13. This standard is not expected to have a material impact on the Statement of Accounts; this is due to the low value of surplus assets that the council holds.
- **IFRIC 21 Levies.** This standard provides guidance on levies that are imposed by government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a threshold is reached, or both. This standard will not have a material impact on the Statement of Accounts.

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.

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

##### **Business rates**

On 1 April 2013 local authorities assumed liability for successful business rate appeals relating to 2012-13 and earlier, in proportion to their share of business rate income. Provision has been made for the 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.

##### **Pension Liability**

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

##### **Debt Impairment**

The balance of short term debtors shown in note 11 is net of £1,955,052 provision against general bad debts. In the current economic climate it is not certain that such allowance would be sufficient.

# F. Principal Financial Statements



## Table of Contents

|   |    |
|---|----|
| Movement in Reserves Statement.....   | 43 |
| Movement in Reserves Statement for the years Ending 31 March 2014 and 31 March 2015 ..... | 44 |
| Comprehensive Income and Expenditure Statement .....                                      | 47 |
| Balance Sheet .....   | 48 |
| Cash Flow Statement .....   | 49 |

## 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 2015, the Housing Revenue Account working balance stood at £2.235m.

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

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

*General Reserve* – This is the available, non-earmarked reserve of the 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.

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

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

|   | 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          |
| <b>Balance at 31 March 2013</b>                                     |       | 5,000                | 4,346                   | 20,824                          | 37   | 7,438            | 3,465           | 2,194          | 63                       | 286                   | 24,208                   | 67,861                | 397,796           | 465,658        |
| <b>Movement in reserves during 2013/2014</b>                        |       |                      |                         |                                 |  |                  |                 |                |                          |                       |                          |                       |                   |                |
| 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         |
| <b>Total Comprehensive Income and Expenditure</b>                   |       | <b>(44,564)</b>      | <b>5,402</b>            | <b>0</b>                        | <b>0</b>                                   | <b>0</b>         | <b>0</b>        | <b>0</b>       | <b>0</b>                 | <b>0</b>              | <b>0</b>                 | <b>(39,162)</b>       | <b>34,805</b>     | <b>(4,357)</b> |
| Adjustments between accounting & funding basis under regulations    | 1     | 50,794               | (5,816)                 | 504                             | 0  | 0                | (103)           | 0              | (63)                     | (148)                 | (6,502)                  | 38,666                | (38,666)          | (0)            |
| <b>Net Increase/decrease before Transfers to Earmarked Reserves</b> |       | <b>6,230</b>         | <b>(414)</b>            | <b>504</b>                      | <b>0</b>                                   | <b>0</b>         | <b>(103)</b>    | <b>0</b>       | <b>(63)</b>              | <b>(148)</b>          | <b>(6,502)</b>           | <b>(496)</b>          | <b>(3,862)</b>    | <b>(4,357)</b> |
| Transfers to/from Earmarked Reserves                                | 2     | (6,230)              | (1,963)                 | 8,536                           | (37)                                       | (316)            | (260)           | 270            | (0)                      | 0                     | 0                        | 0                     | 0                 | 0              |
| <b>Increase/(Decrease) in 2013/14</b>                               |       | <b>(0)</b>           | <b>(2,377)</b>          | <b>9,040</b>                    | <b>(37)</b>                                | <b>(316)</b>     | <b>(363)</b>    | <b>270</b>     | <b>(63)</b>              | <b>(148)</b>          | <b>(6,502)</b>           | <b>(495)</b>          | <b>(3,862)</b>    | <b>(4,357)</b> |
|   |       |                      |                         |                                 |  |                  |                 |                |                          |                       |                          |                       |                   |                |
| <b>Balance at 31 March 2014</b>                                     |       | <b>5,000</b>         | <b>1,969</b>            | <b>29,864</b>                   | <b>0</b>                                   | <b>7,122</b>     | <b>3,102</b>    | <b>2,464</b>   | <b>0</b>                 | <b>138</b>            | <b>17,706</b>            | <b>67,366</b>         | <b>393,935</b>    | <b>461,301</b> |

|   | 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            |
| <b>Balance at 31 March 2014</b>                                     |       | 5,000                | 1,969                   | 29,864                          | 0  | 7,122            | 3,102           | 2,464          | 0                        | 138                   | 17,706                   | 67,366                | 393,935           | 461,301          |
| <b>Movement in reserves during 2014/15</b>                          |       |                      |                         |                                 |  |                  |                 |                |                          |                       |                          |                       |                   |                  |
| Surplus/(Deficit) on provision of services                          |       | (103,758)            | 5,003                   |                                 |  |                  |                 |                |                          |                       |                          | (98,756)              |                   | (98,756)         |
| Other Comprehensive Income and Expenditure                          |       |                      |                         |                                 |  |                  |                 |                |                          |                       |                          | 0                     | (46,058)          | (46,058)         |
| <b>Total Comprehensive Income and Expenditure</b>                   |       | <b>(103,758)</b>     | <b>5,003</b>            | <b>0</b>                        | <b>0</b>                                   | <b>0</b>         | <b>0</b>        | <b>0</b>       | <b>0</b>                 | <b>0</b>              | <b>0</b>                 | <b>(98,756)</b>       | <b>(46,058)</b>   | <b>(144,814)</b> |
| Adjustments between accounting & funding basis under regulations    | 1     | 97,644               | (4,731)                 | (2,238)                         |  |                  | 351             |                | 2,014                    | 531                   | (1,625)                  | 91,946                | (91,397)          | 549              |
| <b>Net Increase/decrease before Transfers to Earmarked Reserves</b> |       | <b>(6,114)</b>       | <b>271</b>              | <b>(2,238)</b>                  | <b>0</b>                                   | <b>0</b>         | <b>351</b>      | <b>0</b>       | <b>2,014</b>             | <b>531</b>            | <b>(1,625)</b>           | <b>(6,809)</b>        | <b>(137,455)</b>  | <b>(144,264)</b> |
| Transfers to/from Earmarked Reserves                                | 2     | 6,114                | (6)                     | (4,565)                         | 6  | (845)            | (1,414)         | 710            | 0                        | 0                     | 0                        | 0                     | 0                 | 0                |
| <b>Increase/(Decrease) in 2014/15</b>                               |       | <b>(0)</b>           | <b>266</b>              | <b>(6,804)</b>                  | <b>6</b>                                   | <b>(845)</b>     | <b>(1,062)</b>  | <b>710</b>     | <b>2,014</b>             | <b>531</b>            | <b>(1,625)</b>           | <b>(6,809)</b>        | <b>(137,455)</b>  | <b>(144,264)</b> |
|   |       |                      |                         |                                 |  |                  |                 |                |                          |                       |                          |                       |                   |                  |
| <b>Balance at 31 March 2015</b>                                     |       | <b>5,000</b>         | <b>2,235</b>            | <b>23,060</b>                   | <b>6</b>                                   | <b>6,277</b>     | <b>2,040</b>    | <b>3,174</b>   | <b>2,014</b>             | <b>669</b>            | <b>16,082</b>            | <b>60,556</b>         | <b>256,481</b>    | <b>317,037</b>   |





## 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.

| 2013/2014   |                  |                 | Service  | Notes | 2014/15           |                  |                 |
|---|------------------|-----------------|--|-------|-------------------|------------------|-----------------|
| Gross Expenditure   | Gross Income     | Net Expenditure |  |       | Gross Expenditure | Gross Income     | Net Expenditure |
| £'000   | £'000            | £'000           |  |       | £'000             | £'000            | £'000           |
| 3,480   | (1,713)          | 1,767           | Central services to the public   |       | 3,773             | (1,642)          | 2,130           |
| 27,009  | (8,337)          | 18,672          | Cultural and related services  |       | 27,470            | (8,019)          | 19,451          |
| 32,830  | (8,406)          | 24,424          | Environmental & regulatory services  |       | 36,348            | (9,324)          | 27,023          |
| 3,509   | (6,660)          | (3,152)         | Planning services  |       | 20,346            | (8,285)          | 12,061          |
| 228,197   | (157,343)        | 70,854          | Children's and education services  |       | 247,781           | (145,358)        | 102,423         |
| 44,679  | (11,024)         | 33,654          | Highways and transport services  |       | 43,095            | (11,901)         | 31,194          |
| 5,195   | (14,108)         | (8,912)         | Local authority housing (HRA)  |       | 7,140             | (14,301)         | (7,160)         |
| 115,923   | (108,436)        | 7,487           | Other housing services   |       | 118,976           | (110,055)        | 8,921           |
| 88,386  | (20,137)         | 68,250          | Adult social care  |       | 87,393            | (21,112)         | 66,281          |
| 7,093   | (1,271)          | 5,822           | Corporate and democratic core  |       | 5,817             | (1,723)          | 4,094           |
| 1,569   | (4,503)          | (2,935)         | Non-distributed costs  |       | 38,228            | (37,603)         | 625             |
| 16,671  | (19,342)         | (2,671)         | Public Health  |       | 11,827            | (14,489)         | (2,661)         |
| <b>574,541</b>  | <b>(361,280)</b> | <b>213,261</b>  | <b>Cost of Services</b>  |       | <b>648,193</b>    | <b>(383,811)</b> | <b>264,382</b>  |
| 37,812  | (0)              | 37,812          | Other operating expenditure  | 3     | 38,379            | 0                | 38,379          |
| 21,490  | (4,931)          | 16,559          | Financing and investment income and expenditure                            | 4     | 20,639            | (4,456)          | 16,183          |
| 0   | (228,470)        | (228,470)       | Taxation and non-specific grant income                                     | 5     | 0                 | (220,189)        | (220,189)       |
| <b>633,844</b>  | <b>(594,682)</b> | <b>39,162</b>   | <b>(Surplus) or Deficit on Provision of Services</b>                       |       | <b>707,212</b>    | <b>(608,456)</b> | <b>98,756</b>   |
| <b>Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services</b> |                  |                 |  |       |                   |                  |                 |
| (11,036)  |                  |                 | (Surplus)/Deficit on revaluation of Property, Plant and Equipment assets   | 17    |                   |                  | (21,102)        |
| 0   |                  |                 | Impairment losses on non-current assets charged to the Revaluation Reserve |       |                   |                  | 0               |
| (23,768)  |                  |                 | Actuarial (gains)/losses on pension assets/liabilities                     | 34    |                   |                  | 67,160          |
| <b>(34,804)</b>   |                  |                 |  |       |                   |                  | <b>46,058</b>   |
| <b>Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services</b>      |                  |                 |  |       |                   |                  |                 |
| 0   |                  |                 | (Surplus)/Deficit on revaluation of available for sale financial assets    |       |                   |                  | 0               |
| <b>0</b>  |                  |                 |  |       |                   |                  | <b>0</b>        |
| <b>(34,804)</b>   |                  |                 | <b>Other Comprehensive Income and Expenditure</b>                          |       |                   |                  | <b>46,058</b>   |
| <b>4,358</b>  |                  |                 | <b>Total Comprehensive Income and Expenditure</b>                          |       |                   |                  | <b>144,814</b>  |

## 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<br>2014 |                                      | Notes | 31 March<br>2015 |
|------------------|--------------------------------------|-------|------------------|
| £'000            | Balance Sheet Summary                |       | £'000            |
| 818,024          | Property Plant and Equipment         | 6     | 758,212          |
| 15,249           | Heritage Assets                      | 7     | 15,380           |
| 6,865            | Investment Property                  | 8     | 6,450            |
| 1,661            | Intangible Assets                    | 9     | 1,175            |
| 0                | Assets Held for Sale                 | 13    | 0                |
| 4                | Long Term Investments                | 10    | 4                |
| 196              | Long Term Debtors                    | 10    | 155              |
| <b>841,999</b>   | <b>Long Term Assets</b>              |       | <b>781,376</b>   |
| 0                | Short Term Investments               | 10    | 19,733           |
| 2,900            | Assets Held for Sale                 | 13    | 900              |
| 171              | Inventories                          |       | 179              |
| 42,644           | Short Term Debtors                   | 11    | 50,110           |
| 40,449           | Cash and Cash Equivalents            | 12    | 8,799            |
| <b>86,164</b>    | <b>Current Assets</b>                |       | <b>79,721</b>    |
| (1,278)          | Short Term Borrowing                 | 10    | (1,277)          |
| (48,715)         | Short Term Creditors                 | 14    | (49,927)         |
| (5,203)          | Provisions                           | 15    | (8,608)          |
| <b>(55,196)</b>  | <b>Current Liabilities</b>           |       | <b>(59,813)</b>  |
| (40,254)         | Long Term Creditors                  | 10    | (38,695)         |
| (2,197)          | Provisions                           | 15    | (1,611)          |
| (164,854)        | Long Term Borrowing                  | 10    | (164,729)        |
| (196,493)        | Other Long Term Liabilities          | 30,34 | (271,642)        |
| (7,869)          | Grants Receipts in Advance - Capital | 27    | (7,569)          |
| <b>(411,667)</b> | <b>Long Term Liabilities</b>         |       | <b>(484,246)</b> |
| <b>461,301</b>   | <b>Net Assets</b>                    |       | <b>317,038</b>   |
| 67,366           | Usable Reserves                      | 16    | 60,556           |
| 393,935          | Unusable Reserves                    | 17    | 256,482          |
| <b>461,301</b>   | <b>Total Reserves</b>                |       | <b>317,038</b>   |

## 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.

| 2013/14<br>£'000 |   | 2014/15<br>£'000 |
|------------------|---|------------------|
| 39,162           | Net (Surplus) or deficit on the provision of services   | 98,756           |
| (63,806)         | Adjustments to net Surplus or deficit on the provision of service for non-cash movements (Note 18)  | (108,933)        |
| 26,886           | Adjustments for items included in the net Surplus or deficit on the provision of service that are investing or financing activities (Note 18) | 17,475           |
| <b>2,242</b>     | <b>Net cash flows from Operating Activities</b>   | <b>7,298</b>     |
| (42,580)         | Investing Activities (Note 19)  | 31,900           |
| 5,086            | Financing Activities (Note 20)  | (7,548)          |
| <b>(35,252)</b>  | <b>Net (increase) or decrease in cash and cash equivalents</b>  | <b>31,650</b>    |
| <b>5,197</b>     | <b>Cash and cash equivalents at the beginning of the reporting period</b>   | <b>40,449</b>    |
| <b>40,449</b>    | <b>Cash and cash equivalents at the end of the reporting period (Note 12)</b>   | <b>8,799</b>     |

# G. Notes to the Principal Financial Statements

|  |           |
|--|-----------|
| <b>1. Adjustments between Accounting Basis and Funding Basis under Regulations</b>   | <b>52</b> |
| <b>2. Transfers to/from Earmarked Reserves</b>   | <b>58</b> |
| <b>3. Other Operating Expenditure</b>  | <b>59</b> |
| <b>4. Financing and Investment Income and Expenditure</b>  | <b>59</b> |
| <b>5. Taxation and Non-Specific Grant income and expenditure</b>   | <b>60</b> |
| <b>6. Property, Plant and Equipment</b>  | <b>61</b> |
| Depreciation   | 65        |
| Capital Commitments  | 65        |
| Revaluations   | 65        |
| <i>Inspections</i>   | 65        |
| <i>Information</i>   | 65        |
| <i>Title</i>   | 65        |
| <i>Planning and highway proposals</i>  | 66        |
| <i>Construction and state of repair</i>  | 66        |
| <i>Deleterious or hazardous substances</i>   | 66        |
| <i>Environmental Assessment</i>  | 66        |
| <i>Plant and machinery</i>   | 67        |
| <i>VAT, taxation and costs of realisation</i>  | 67        |
| <i>Lotting</i>   | 67        |
| <i>Valuation Commentary</i>  | 67        |
| Removal of Schools Transferring to Academies   | 67        |
| <b>7. Heritage Assets</b>  | <b>68</b> |
| Heritage Buildings   | 68        |
| Furniture, Silver/Gold Collections, Art Collection and Other Historical Interest Items   | 69        |
| <b>8. Investment Properties</b>  | <b>69</b> |
| <b>9. Intangible Assets</b>  | <b>70</b> |
| <b>10. Financial Instruments</b>   | <b>72</b> |
| Fair Value of Assets and Liabilities   | 74        |
| <b>11. Debtors</b>   | <b>75</b> |
| <b>12. Cash and Cash Equivalents</b>   | <b>75</b> |
| <b>13. Assets Held for Sale</b>  | <b>75</b> |
| <b>14. Creditors</b>   | <b>76</b> |
| <b>15. Provisions</b>  | <b>76</b> |
| <b>16. Usable Reserves (As per MiRS)</b>   | <b>76</b> |
| <b>17. Unusable Reserves</b>   | <b>77</b> |
| Revaluation Reserve  | 77        |
| Capital Adjustment Account   | 77        |
| Pensions Reserve   | 79        |
| Financial Instruments Adjustment Account   | 80        |
| Collection Fund Adjustment Account   | 80        |
| Accumulated Absences Account   | 81        |
| <b>18. Cash Flow Statement – Operating Activities</b>  | <b>81</b> |
| <b>19. Cash Flow – Investing Activities</b>  | <b>82</b> |
| <b>20. Cash Flow – Financing Activities</b>  | <b>82</b> |
| <b>21. Amounts Reported for Resource Allocation Decisions</b>  | <b>82</b> |
| Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement | 85        |
| Reconciliation to Subjective Analysis  | 85        |

|   |            |
|---|------------|
| <b>22. Pooled Budgets .....</b>   | <b>86</b>  |
| <b>23. Members' Allowances .....</b>  | <b>87</b>  |
| <b>24. Officers' Remuneration .....</b>   | <b>88</b>  |
| <b>25. External Audit Costs .....</b>   | <b>92</b>  |
| <b>26. Dedicated Schools Grant .....</b>  | <b>92</b>  |
| <b>27. Grant Income.....</b>  | <b>93</b>  |
| <b>28. Related Parties.....</b>   | <b>95</b>  |
| Central Government .....  | 95         |
| Members.....  | 95         |
| Officers .....  | 97         |
| Other Public Bodies.....  | 98         |
| Other Public Bodies (subject to common control by Central Government) .....                 | 98         |
| <b>29. Capital Expenditure and Capital Financing.....</b>                                   | <b>99</b>  |
| <b>30. Leases .....</b>   | <b>100</b> |
| Authority as Lessee .....   | 100        |
| <i>Finance Leases</i> .....   | 100        |
| <i>Operating Leases</i> .....   | 101        |
| Authority as Lessor .....   | 101        |
| <i>Operating Leases</i> .....   | 101        |
| <b>31. Impairment Losses .....</b>  | <b>102</b> |
| <b>32. Termination Benefits .....</b>   | <b>103</b> |
| <b>33. Pension Schemes Accounted for as Defined Contribution Schemes.....</b>               | <b>103</b> |
| <b>34. Defined Benefit Pension Schemes.....</b>   | <b>103</b> |
| Participation in Pension Schemes .....  | 103        |
| Transactions Relating to Post-Employment Benefits.....                                      | 105        |
| Pensions Assets and Liabilities Recognised in the Balance Sheet.....                        | 107        |
| Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets.....              | 107        |
| Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation) .... | 108        |
| Local Government Pension Scheme assets comprised:.....                                      | 108        |
| Basis for Estimating Assets and Liabilities.....  | 109        |
| Impact on the Authority's Cash Flow .....   | 111        |
| <b>35. Contingent Liabilities .....</b>   | <b>112</b> |
| <b>36. Contingent Assets .....</b>  | <b>112</b> |
| <b>37. Nature and Extent of Risks Arising from Financial Instruments.....</b>               | <b>112</b> |
| Credit risk .....   | 112        |
| Liquidity risk.....   | 114        |
| Market risk.....  | 115        |
| Interest rate risk.....   | 115        |
| Price Risk .....  | 116        |
| Foreign Exchange Risk.....  | 116        |
| <b>38. Heritage Assets: Summary of Transactions.....</b>                                    | <b>117</b> |
| <b>39. Heritage Assets: Further Information on the buildings and collections.....</b>       | <b>117</b> |
| Policy on acquiring Heritage Assets for its Museum Service .....                            | 117        |
| <i>Preservation of Heritage Assets</i> .....  | 118        |
| Management of Heritage Assets .....   | 118        |
| Disposals of Heritage Assets.....   | 118        |
| <b>40. Non-adjusting event post reporting period .....</b>                                  | <b>118</b> |
| <b>41. Interests in Companies and Other Entities.....</b>                                   | <b>119</b> |
| Medway Norse Limited .....  | 119        |
| Medway Norse Transport .....  | 119        |
| Medway Harbour Authority .....  | 120        |

## 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 2014/05  | Usable Reserves      |                         |                                 |                 |                          |                       |                          | Movement in Unusable Reserves |
|--|----------------------|-------------------------|---------------------------------|-----------------|--------------------------|-----------------------|--------------------------|-------------------------------|
|  | General Fund Balance | Housing Revenue Account | Earmarked General Fund Reserves | General Reserve | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |                               |
|  | £000s                | £000s                   | £000s                           | £000s           | £000s                    | £000s                 | £000s                    |                               |
| <b>ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:</b>   |                      |                         |                                 |                 |                          |                       |                          |                               |
| <b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>  |                      |                         |                                 |                 |                          |                       |                          |                               |
| Charges for depreciation and impairment of non-current assets  | 38,919               | 3,516                   | 0                               | 0               | 0                        | 0                     | 0                        | (42,434)                      |
| Revaluation movements on Property, Plant and Equipment   | 29,560               | (3,162)                 | 0                               | 0               | 0                        | 0                     | 0                        | (26,398)                      |
| Movements in fair value of Investment Properties   | 415                  | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | (415)                         |
| Amortisation of Intangible Assets  | 589                  | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | (589)                         |
| Capital Grants and Contributions Applied   | (16,928)             | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 16,928                        |
| Income in relation to donated assets   | 0                    | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 0                             |
| Revenue Expenditure Funded from Capital Under Statute  | 11,962               | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | (11,962)                      |
| Self Financing Settlement  | 0                    | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 0                             |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 41,512               | 700                     | 0                               | 0               | 0                        | 0                     | 0                        | (42,212)                      |
| Derecognition & other adjustments  | 33                   | (33)                    | (43)                            | 0               | 0                        | 0                     | 0                        | 43                            |
| <b>Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>   |                      |                         |                                 |                 |                          |                       |                          |                               |
| Statutory provision for the financing of capital investment  | (7,549)              | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 7,549                         |
| Capital expenditure charged against the General Fund and HRA balances  | (2,292)              | (4,248)                 | 0                               | 0               | 0                        | 0                     | 0                        | 6,540                         |
| Other Adjustments  | 0                    | 0                       | (352)                           | 352             | 0                        | 0                     | 0                        | 0                             |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL GRANTS UNAPPLIED ACCOUNT:</b>   |                      |                         |                                 |                 |                          |                       |                          |                               |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement  | (6,504)              | 0                       | 0                               | 0               | 0                        | 0                     | 6,504                    | 0                             |
| Application of grants to capital financing transferred to the Capital Adjustment Account   | 0                    | 0                       | 0                               | 0               | 0                        | 0                     | (7,846)                  | 7,846                         |
| Other Adjustments  | (0)                  | (0)                     | 833                             | (0)             | 0                        | 0                     | (283)                    | 0                             |
| Transfers in respect of Community Infrastructure Levy Receipts   | 0                    | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 0                             |

| Adjustments for 2014/15   | Usable Reserves      |                         |                                 |                 |                          |                       |                          | Movement in Unusable Reserves |
|---|----------------------|-------------------------|---------------------------------|-----------------|--------------------------|-----------------------|--------------------------|-------------------------------|
|   | General Fund Balance | Housing Revenue Account | Earmarked General Fund Reserves | General Reserve | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |                               |
|   | £000s                | £000s                   | £000s                           | £000s           | £000s                    | £000s                 | £000s                    | £000s                         |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:</b>  |                      |                         |                                 |                 |                          |                       |                          |                               |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement  | (4,355)              | (1,158)                 | 0                               | 0               | 5,513                    | 0                     | 0                        | 0                             |
| Transfer of cash proceeds credited on the repayment of a 1974 Local Government Reorganisation Loan  | 0                    | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 0                             |
| Use of Capital Receipts Reserve to finance new capital expenditure  | 0                    | 0                       | 0                               | 0               | (3,264)                  | 0                     | 0                        | 3,264                         |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals  | 0                    | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 0                             |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool  | 235                  | 0                       | 0                               | 0               | (235)                    | 0                     | 0                        | 0                             |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash  | 0                    | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 0                             |
| Other Adjustments   | 0                    | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 0                             |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE DEFERRED CAPITAL RECEIPTS RESERVE:</b>   |                      |                         |                                 |                 |                          |                       |                          |                               |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement  | 0                    | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 0                             |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:</b>   |                      |                         |                                 |                 |                          |                       |                          |                               |
| Reversal of Major Repairs Allowance credited to HRA   | 0                    | (3,516)                 | 0                               | 0               | 0                        | 3,516                 | 0                        | 0                             |
| Use of the Major Repairs Reserve to finance new capital expenditure   | 0                    | 2,985                   | 0                               | 0               | 0                        | (2,985)               | 0                        | 0                             |
| Other Adjustments   | 0                    | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | 0                             |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT:</b>  |                      |                         |                                 |                 |                          |                       |                          |                               |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | (249)                | 12                      | 0                               | 0               | 0                        | 0                     | 0                        | 237                           |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE PENSIONS RESERVE:</b>  |                      |                         |                                 |                 |                          |                       |                          |                               |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement   | 22,597               | 439                     | 0                               | 0               | 0                        | 0                     | 0                        | (23,036)                      |
| Employer's pension contributions and direct payments to pensioners payable in the year  | (13,632)             | (268)                   | 0                               | 0               | 0                        | 0                     | 0                        | 13,900                        |



| Adjustments for 2014/15   | Usable Reserves      |                         |                                 |                 |                          |                       |                          | Movement in Unusable Reserves |
|---|----------------------|-------------------------|---------------------------------|-----------------|--------------------------|-----------------------|--------------------------|-------------------------------|
|   | General Fund Balance | Housing Revenue Account | Earmarked General Fund Reserves | General Reserve | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |                               |
|   | £000s                | £000s                   | £000s                           | £000s           | £000s                    | £000s                 | £000s                    | £000s                         |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE COLLECTION FUND ADJUSTMENT ACCOUNT:</b>  |                      |                         |                                 |                 |                          |                       |                          |                               |
| Amount by which council tax and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement are different from council tax and non-domestic rate income calculated for the year in accordance with statutory requirements | 3,349                | 0                       | 0                               | 0               | 0                        | 0                     | 0                        | (3,349)                       |
| Other Adjustments   | 0                    | 0                       | (2,677)                         | 0               | 0                        | 0                     | 0                        | 2,677                         |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE UNEQUAL PAY BACK PAY ADJUSTMENT ACCOUNT:</b>   |                      |                         |                                 |                 |                          |                       |                          |                               |
| Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements                                |                      |                         |                                 |                 |                          |                       |                          | 0                             |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:</b>  |                      |                         |                                 |                 |                          |                       |                          |                               |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements                               | (18)                 | 3                       | 0                               | 0               | 0                        | 0                     | 0                        | 15                            |
| <b>Total Adjustments 2014/15</b>  | <b>97,644</b>        | <b>(4,731)</b>          | <b>(2,238)</b>                  | <b>351</b>      | <b>2,014</b>             | <b>531</b>            | <b>(1,625)</b>           | <b>(91,397)</b>               |



| Adjustments for 2013/2014  | Usable Reserves      |                         |                                 |                 |                          |                       |                          | Movement in Unusable Reserves |
|--|----------------------|-------------------------|---------------------------------|-----------------|--------------------------|-----------------------|--------------------------|-------------------------------|
|  | General Fund Balance | Housing Revenue Account | Earmarked General Fund Reserves | General Reserve | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |                               |
|  | £000s                | £000s                   | £000s                           | £000s           | £000s                    | £000s                 | £000s                    | £000s                         |
| <b>ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:</b>   |                      |                         |                                 |                 |                          |                       |                          |                               |
| <b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>  |                      |                         |                                 |                 |                          |                       |                          |                               |
| Charges for depreciation and impairment of non-current assets  | 42,183               | 3,362                   |                                 |                 |                          |                       |                          | (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   | (19,687)             |                         |                                 |                 |                          |                       |                          | 19,687                        |
| Income in relation to donated assets   |                      |                         |                                 |                 |                          |                       |                          | 0                             |
| Revenue Expenditure Funded from Capital Under Statute  | 3,769                |                         |                                 |                 |                          |                       |                          | (3,769)                       |
| Self Financing Settlement  |                      |                         |                                 |                 |                          |                       |                          | 0                             |
| 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)                          |
| <b>Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>   |                      |                         |                                 |                 |                          |                       |                          |                               |
| Statutory provision for the financing of capital investment  | (7,650)              |                         |                                 |                 |                          |                       |                          | 7,650                         |
| Capital expenditure charged against the General Fund and HRA balances  | (1,888)              | (5,213)                 |                                 |                 |                          |                       |                          | 7,101                         |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL GRANTS UNAPPLIED ACCOUNT:</b>   |                      |                         |                                 |                 |                          |                       |                          |                               |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement  | (8,879)              |                         |                                 |                 |                          |                       | 8,879                    | 0                             |
| Application of grants to capital financing transferred to the Capital Adjustment Account   |                      |                         |                                 |                 |                          |                       | (13,101)                 | 13,101                        |
| Other Adjustments  | 1,434                |                         | 504                             |                 | 225                      |                       | (2,163)                  | 504                           |
| Transfers in respect of Community Infrastructure Levy Receipts   |                      |                         |                                 |                 |                          |                       |                          | 0                             |

| Adjustments for 2013/2014   | Usable Reserves      |                         |                                 |                 |                          |                       |                          |       | Movement in Unusable Reserves |
|---|----------------------|-------------------------|---------------------------------|-----------------|--------------------------|-----------------------|--------------------------|-------|-------------------------------|
|   | General Fund Balance | Housing Revenue Account | Earmarked General Fund Reserves | General Reserve | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |       |                               |
|   | £000s                | £000s                   | £000s                           | £000s           | £000s                    | £000s                 | £000s                    | £000s |                               |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:</b>  |                      |                         |                                 |                 |                          |                       |                          |       |                               |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement  | (1,438)              | (723)                   |                                 |                 | 2,161                    |                       |                          |       | 0                             |
| Transfer of cash proceeds credited on the repayment of a 1974 Local Government Reorganisation Loan  |                      |                         |                                 |                 |                          |                       |                          |       | 0                             |
| Use of Capital Receipts Reserve to finance new capital expenditure  |                      |                         |                                 |                 | (2,324)                  |                       |                          |       | 2,324                         |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals  |                      | 0                       |                                 |                 | 0                        |                       |                          |       | 0                             |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool  | 225                  |                         |                                 |                 | (225)                    |                       |                          |       | 0                             |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash  |                      |                         |                                 |                 |                          |                       |                          |       | 0                             |
| Other Adjustments   |                      |                         |                                 | (103)           | 103                      |                       |                          |       | 0                             |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:</b>   |                      |                         |                                 |                 |                          |                       |                          |       |                               |
| 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                             |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT:</b>  |                      |                         |                                 |                 |                          |                       |                          |       |                               |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | (468)                | 12                      |                                 |                 |                          |                       |                          |       | 457                           |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE PENSIONS RESERVE:</b>  |                      |                         |                                 |                 |                          |                       |                          |       |                               |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement   | 21,241               | 372                     |                                 |                 |                          |                       |                          |       | (21,613)                      |
| Employer's pension contributions and direct payments to pensioners payable in the year  | (14,511)             | (258)                   |                                 |                 |                          |                       |                          |       | 14,769                        |

| Adjustments for 2013/2014   | Usable Reserves      |                         |                                 |                 |                          |                       |                          | Movement in Unusable Reserves |
|---|----------------------|-------------------------|---------------------------------|-----------------|--------------------------|-----------------------|--------------------------|-------------------------------|
|   | General Fund Balance | Housing Revenue Account | Earmarked General Fund Reserves | General Reserve | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |                               |
|   | £000s                | £000s                   | £000s                           | £000s           | £000s                    | £000s                 | £000s                    | £000s                         |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE COLLECTION FUND ADJUSTMENT ACCOUNT:</b>  |                      |                         |                                 |                 |                          |                       |                          |                               |
| Amount by which council tax and non-domestic rate income credited to the Comprehensive Income and Expenditure Statement are different from council tax and non-domestic rate income calculated for the year in accordance with statutory requirements | 3,187                |                         |                                 |                 |                          |                       |                          | (3,187)                       |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE UNEQUAL PAY BACK PAY ADJUSTMENT ACCOUNT:</b>   |                      |                         |                                 |                 |                          |                       |                          |                               |
| Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements                                |                      |                         |                                 |                 |                          |                       |                          | 0                             |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:</b>  |                      |                         |                                 |                 |                          |                       |                          |                               |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements                               | 355                  | 5                       |                                 |                 |                          |                       |                          | (360)                         |
| <b>Total Adjustments 2013/14</b>  | <b>50,794</b>        | <b>(5,816)</b>          | <b>504</b>                      | <b>(103)</b>    | <b>(63)</b>              | <b>(148)</b>          | <b>(6,502)</b>           | <b>(38,162)</b>               |

## 2. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General fund and Housing Revenue Account balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2014/15.

|  | Balance<br>1 April<br>2013 | Transfers<br>in<br>2013/2014 | Transfers<br>out<br>2013/2014 | Balance<br>31<br>March<br>2014 | Transfers<br>in<br>2014/15 | Transfers<br>out<br>2014/15 | Balance<br>31<br>March<br>2015 |
|--|----------------------------|------------------------------|-------------------------------|--------------------------------|----------------------------|-----------------------------|--------------------------------|
|  | £'000                      | £'000                        | £'000                         | £'000                          | £'000                      | £'000                       | £'000                          |
| <b>Earmarked General Fund Reserves</b>             |                            |                              |                               |                                |                            |                             |                                |
| School Rev Contributions To Capital                | 0                          | (343)                        | 0                             | (343)                          | (66)                       | 0                           | (409)                          |
| Revenue Contributions To Capital C&A               | (360)                      | (2,838)                      | 707                           | (2,491)                        | 0                          | 227                         | (2,264)                        |
| Development Plan Reserve                           | (292)                      | (80)                         | 152                           | (220)                          | (80)                       | 0                           | (300)                          |
| Provision For Local Election                       | (457)                      | (149)                        | 0                             | (605)                          | (17)                       | 18                          | (605)                          |
| Maintenance Of Graves Fund                         | (21)                       | (0)                          | 0                             | (21)                           | 0                          | 0                           | (21)                           |
| Cremator Repairs Fund                              | 0                          | (113)                        | 113                           | 0                              | (165)                      | 0                           | (165)                          |
| Crematorium Gifts Fund                             | (27)                       | (15)                         | 0                             | (42)                           | 0                          | 36                          | (5)                            |
| Bereavement Services Reserves                      | (48)                       | (128)                        | 113                           | (63)                           | (165)                      | 36                          | (192)                          |
| Community Hubs Reserve                             | 0                          | (2,000)                      | 0                             | (2,000)                        | 0                          | 6                           | (1,994)                        |
| Reserve Fund Computer Development                  | (106)                      | 0                            | 0                             | (106)                          | 0                          | 0                           | (106)                          |
| Res Fd GilligLight                                 | 0                          | 0                            | 0                             | 0                              | 0                          | 0                           | 0                              |
| DSG Reserve  | (2,741)                    | (2,002)                      | 2,150                         | (2,592)                        | (420)                      | 1,167                       | (1,845)                        |
| Economic Dev Loans Fund                            | (180)                      | 0                            | 7                             | (173)                          | 0                          | 17                          | (156)                          |
| Carry Forwards Reserve                             | (397)                      | (178)                        | 0                             | (575)                          | (25)                       | 209                         | (391)                          |
| Revenue C/Fwd C&A                                  | (4,276)                    | (2,819)                      | 942                           | (6,153)                        | (587)                      | 2,875                       | (3,865)                        |
| Revenue C/Fwd Pub Health                           | (2,027)                    | (2,448)                      | 495                           | (3,981)                        | (472)                      | 23                          | (4,430)                        |
| Revenue C/Fwd RCC                                  | (822)                      | 0                            | 371                           | (451)                          | (18)                       | 451                         | (18)                           |
| Directorate Carry Forwards                         | (7,523)                    | (5,445)                      | 1,808                         | (11,160)                       | (1,103)                    | 3,558                       | (8,705)                        |
| Collection Fund Holding Account                    | 0                          | (4,692)                      | 2,997                         | (1,695)                        | (5,892)                    | 7,587                       | 0                              |
| Invest To Save                                     | (223)                      | 0                            | 223                           | 0                              | 0                          | 0                           | 0                              |
| Invest To Save                                     | (171)                      | (75)                         | 98                            | (148)                          | 0                          | 0                           | (148)                          |
| Invest To Save                                     | (394)                      | (75)                         | 321                           | (148)                          | 0                          | 0                           | (148)                          |
| Severance Payments Reserve                         | (3,000)                    | 0                            | 324                           | (2,676)                        | 0                          | 1,708                       | (967)                          |
| South Medway Development Res                       | (5,000)                    | 0                            | 94                            | (4,906)                        | 0                          | 55                          | (4,851)                        |
| Transformation Reserve                             | (1,100)                    | 0                            | 518                           | (582)                          | 0                          | 262                         | (320)                          |
| Salix Repayments                                   | (102)                      | (67)                         | 165                           | (5)                            | (97)                       | 29                          | (73)                           |
| Medway Tunnel Maintenance                          | 0                          | 0                            | 0                             | 0                              | 0                          | 0                           | 0                              |
| Mayors Expenses Fund                               | (0)                        | (0)                          | 0                             | (0)                            | 0                          | 0                           | (0)                            |
| Unpresented Chqs Written Back                      | (167)                      | (27)                         | 182                           | (11)                           | (29)                       | 27                          | (14)                           |
| Medway Archives and Local Studies Centre Donations | (0)                        | (0)                          | 0                             | (0)                            | (0)                        | 0                           | (0)                            |
| Country Park Donations                             | (2)                        | (5)                          | 3                             | (3)                            | (5)                        | 4                           | (3)                            |
| Museum Exhibits Fund                               | (50)                       | (4)                          | 0                             | (53)                           | 0                          | 14                          | (40)                           |
| Temple Manor Public                                | (1)                        | (1)                          | 0                             | (1)                            | (1)                        | 0                           | (2)                            |

| Donations                                    |                            |                              |                               |                                |                            |                             |                                |
|--|----------------------------|------------------------------|-------------------------------|--------------------------------|----------------------------|-----------------------------|--------------------------------|
|  | Balance<br>1 April<br>2013 | Transfers<br>in<br>2013/2014 | Transfers<br>out<br>2013/2014 | Balance<br>31<br>March<br>2014 | Transfers<br>in<br>2014/15 | Transfers<br>out<br>2014/15 | Balance<br>31<br>March<br>2015 |
|  | £'000                      | £'000                        | £'000                         | £'000                          | £'000                      | £'000                       | £'000                          |
| Eastgate House Chalet Donations              | (1)                        | 0                            | 0                             | (1)                            | 0                          | 0                           | (1)                            |
| Rochester Castle Donations                   | 0                          | (0)                          | 0                             | (0)                            | 0                          | 0                           | (0)                            |
| Res Fd Pier & Wharf Mtc                      | (8)                        | (16)                         | 0                             | (24)                           | (11)                       | 0                           | (36)                           |
| Res Fd Pier & Wharf Reserve                  | (8)                        | 0                            | 0                             | (8)                            | 0                          | 0                           | (8)                            |
| Gun Wharf Reserve                            | 612                        | (2,335)                      | 1,723                         | 0                              | 0                          | 0                           | 0                              |
| ADPH South East                              | 0                          | 0                            | 0                             | 0                              | (18)                       | 0                           | (18)                           |
| Theatres Gift Vouchers                       | 0                          | 0                            | 0                             | 0                              | (4)                        | 3                           | (1)                            |
| Other Earmarked Reserves                     | 375                        | (2,387)                      | 1,909                         | (103)                          | (46)                       | 45                          | (104)                          |
| <b>Total Earmarked General Fund Reserves</b> | <b>(20,927)</b>            | <b>(20,206)</b>              | <b>11,265</b>                 | <b>(29,869)</b>                | <b>(7,909)</b>             | <b>14,718</b>               | <b>(23,060)</b>                |
| <b>Earmarked HRA Reserves</b>                |                            |                              |                               |                                |                            |                             |                                |
| HRA IT Reserve                               | (37)                       | 0                            | 37                            | 0                              | (6)                        | 0                           | (6)                            |
| <b>General Reserve</b>                       |                            |                              |                               |                                |                            |                             |                                |
| General Reserve                              | (3,465)                    | (400)                        | 763                           | (3,102)                        | (530)                      | 1,593                       | (2,040)                        |
| <b>Reserves Held by Schools</b>              |                            |                              |                               |                                |                            |                             |                                |
| Schools Balances                             | (7,438)                    | (1,485)                      | 1,801                         | (7,122)                        | (1,861)                    | 2,706                       | (6,277)                        |
| <b>Insurance Reserves</b>                    |                            |                              |                               |                                |                            |                             |                                |
| Insurance Fund                               | (2,194)                    | (271)                        | 1                             | (2,464)                        | (719)                      | 9                           | (3,174)                        |
| <b>Total Earmarked Reserves</b>              | <b>(34,061)</b>            | <b>(22,363)</b>              | <b>13,867</b>                 | <b>(42,557)</b>                | <b>(11,025)</b>            | <b>19,025</b>               | <b>(34,557)</b>                |

### 3. Other Operating Expenditure

|   | 2013/2014     | 2014/15       |
|---|---------------|---------------|
|   | £'000         | £'000         |
| Parish Council Precepts                                 | 348           | 357           |
| Levies  | 943           | 958           |
| HRA Share of Corporate and Democratic Core              | 98            | 99            |
| Payment to the Government Housing Capital receipts Pool | 225           | 235           |
| Gains/losses on disposal of non-current assets          | 36,198        | 36,699        |
| <b>Total</b>  | <b>37,812</b> | <b>38,347</b> |

### 4. Financing and Investment Income and Expenditure

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

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

|   | 2013/2014        | 2014/15          |
|---|------------------|------------------|
|   | £000s            | £000s            |
| Council tax income                        | (89,418)         | (94,000)         |
| Non-domestic rates income and expenditure | (38,985)         | (38,521)         |
| Non-ringfenced government grants          | (71,593)         | (64,203)         |
| Capital grants and contributions          | (28,474)         | (23,432)         |
| <b>Total</b>                              | <b>(228,470)</b> | <b>(220,157)</b> |

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

## **6. Property, Plant and Equipment**

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

| Movement on Balances 2014/15   | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture and Equipment | Infrastructure Assets | Community assets | Surplus Assets | Assets Under Construction | Total Property, Plant and Equipment |
|--|-------------------|--------------------------|--|-----------------------|------------------|----------------|---------------------------|-------------------------------------|
| Cost or Valuation  | £'000             | £'000                    | £'000                                    | £'000                 | £'000            | £'000          | £'000                     | £'000                               |
| As at 1 April 2014   | 106,418           | 576,268                  | 14,909                                   | 285,216               | 10,378           | 150            | 4,204                     | 997,543                             |
| Additions  | 5,437             | 11,797                   | 1,108                                    | 9,840                 | 74               |                | 732                       | 28,986                              |
| Donations  | 0                 | 0                        | 0  | 0                     | 0                | 0              | 0                         | 0                                   |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve                          | 0                 | 8,467                    | 0  | 288                   | 5,119            |                |                           | 13,874                              |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (145)             | (44,762)                 | 0  | 0                     | (1,411)          |                |                           | (46,318)                            |
| Derecognition – disposals  | (684)             | (47,633)                 | (2,299)                                  | (51)                  | 0                |                |                           | (50,667)                            |
| Derecognition - Surplus Assets   |                   | 0                        |  |                       |                  |                |                           | 0                                   |
| Assets reclassified (to)/from Held for Sale  |                   | 0                        |  |                       |                  |                |                           | 0                                   |
| Other movements in cost or valuation   | 1,198             | 8,109                    | 1,143                                    | 2                     | (6,249)          |                | (4,204)                   | 0                                   |
| <b>As at 31 March 2015</b>   | <b>112,223</b>    | <b>512,246</b>           | <b>14,861</b>                            | <b>295,295</b>        | <b>7,912</b>     | <b>150</b>     | <b>732</b>                | <b>943,419</b>                      |
| <b>Accumulated Depreciation and Impairment</b>   |                   |                          |  |                       |                  |                |                           |                                     |
| As at 1 April 2014   | (0)               | (45,018)                 | (4,113)                                  | (130,334)             | (54)             | (0)            | 0                         | (179,519)                           |
| Depreciation charge  | (3,216)           | (19,654)                 | (2,066)                                  | (17,477)              |                  |                |                           | (42,413)                            |
| Depreciation written out to the Revaluation Reserve  |                   | 7,129                    | 0  |                       | 29               |                |                           | 7,158                               |
| Depreciation written out to the Surplus//Deficit on the Provision of Services                    | 3,252             | 16,193                   |  |                       | 5                |                |                           | 19,450                              |
| Impairment losses/(reversals) recognised in the Revaluation Reserve                              |                   | 0                        |  |                       |                  |                |                           | 0                                   |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services     |                   | 438                      |  |                       | 0                |                |                           | 438                                 |
| Derecognition – disposals  | 18                | 8,160                    | 1,501                                    |                       |                  |                |                           | 9,679                               |
| Derecognition - Surplus Assets   |                   | 0                        |  |                       |                  |                |                           | 0                                   |
| Assets reclassified (to)/from Held for Sale  |                   | 0                        |  |                       |                  |                |                           | 0                                   |
| Other movements in depreciation and impairment   | (54)              | 54                       | (8)                                      |                       | 8                |                |                           | 0                                   |
| <b>At 31 March 2015</b>  | <b>0</b>          | <b>(32,699)</b>          | <b>(4,686)</b>                           | <b>(147,811)</b>      | <b>(12)</b>      | <b>(0)</b>     | <b>0</b>                  | <b>(185,207)</b>                    |

| Net Book Value | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture and Equipment | Infrastructure Assets | Community assets | Surplus Assets | Assets Under Construction | Total Property, Plant and Equipment |
|----------------|-------------------|--------------------------|--|-----------------------|------------------|----------------|---------------------------|-------------------------------------|
|----------------|-------------------|--------------------------|--|-----------------------|------------------|----------------|---------------------------|-------------------------------------|



|                  |         |         |        |         |        |     |       |         |
|------------------|---------|---------|--------|---------|--------|-----|-------|---------|
| At 31 March 2015 | 112,223 | 479,547 | 10,175 | 147,485 | 7,900  | 150 | 732   | 758,212 |
| At 31 March 2014 | 106,418 | 531,250 | 10,796 | 154,882 | 10,324 | 150 | 4,204 | 818,024 |

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)                               |
| <b>As at 31 March 2013</b>   | <b>108,693</b>    | <b>570,969</b>           | <b>8,111</b>                             | <b>276,506</b>        | <b>8,737</b>     | <b>7,402</b>   | <b>20,553</b>             | <b>1,000,971</b>                    |
| <b>Accumulated Depreciation and Impairment</b>   |                   |                          |  |                       |                  |                |                           |                                     |
| 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                                   |
| <b>At 31 March 2013</b>  | <b>(3,344)</b>    | <b>(39,624)</b>          | <b>(4,380)</b>                           | <b>(109,599)</b>      | <b>0</b>         | <b>(0)</b>     | <b>0</b>                  | <b>(156,947)</b>                    |

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

## Depreciation

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

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

## Capital Commitments

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

## Revaluations

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

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

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

### *Inspections*

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

### *Information*

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

### *Title*

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

### *Planning and highway proposals*

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

### *Construction and state of repair*

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

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

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

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

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

### *Deleterious or hazardous substances*

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

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

### *Environmental Assessment*

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

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

### *Plant and machinery*

Plant and machinery installed to provide services normally expected with that type or quality of building or land holding has been valued as an integral part of the asset unless the plant and machinery element has been identified as forming a significant proportion of the overall value of the asset. In such limited cases 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%. This cap assumes that basic health & safety/legal requirements have been complied with and that basic service provision is able to continue on the site.

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

### *Removal of Schools Transferring to Academies*

Schools with a value of £26.891m (2013-14 £25.430m) have achieved academy status between 01.04.14 and 31.03.15 and therefore have been removed from the balance sheet for the 2014/15 financial statements. In addition there are likely to be existing schools with a value of £2.991m (2013-14 £26.250m) that will achieve academy status between 01.04.15 and 31.03.16 and three newly built academies with a value of £80.559m (2013-14 reported as £75.614m relating to the same three academies) which will be removed from the balance sheet during 2015/16.

## 7. Heritage Assets

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

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

### Heritage Buildings

Those buildings which have been classified to Heritage are:

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

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

Eastgate House has ceased to be a museum but is a historical building being used to promote the public's enjoyment 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 Art Collection regarding Charles Spencelayh was revalued during 2014/15 as a continuation of a rolling programme of revaluations that take place over a rolling five year programme for non-building assets. The valuation was undertaken by Culvertons on an insurance basis in accordance Council policy. The majority of the Council's heritage assets are held at the Guildhall Museum. There are also a number of items held at Eastgate House.

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

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

Other historical interest items include:

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

## 8. Investment Properties

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

| Investment properties                                      | 2014/2015  | 2013/2014  |
|--|------------|------------|
|  | £'000      | £'000      |
| Rental income from investment property                     | 371        | 345        |
| Direct operating expenses arising from investment property | 0          | 0          |
| <b>Net gain/(loss)</b>                                     | <b>371</b> | <b>345</b> |

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

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

| Investment Properties                             | 31<br>March<br>2015 | 31<br>March<br>2014 |
|---|---------------------|---------------------|
|   | £'000               | £'000               |
| Balance at start of year                          | 6,865               | 5,837               |
| Additions   | 0                   | 0                   |
| Disposals   | 0                   | 0                   |
| Net gains/(loss) from fair value adjustments      | (415)               | 1,028               |
| Transfers (to)/from Property, Plant and Equipment | 0                   | 0                   |
| <b>Balance at end of year</b>                     | <b>6,450</b>        | <b>6,865</b>        |

## 9. Intangible Assets

Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and internally generated 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                        | Better For Less CRM System<br>Better For Less Mobile Working System<br>Better For Less Document Management System<br>Integrated Care Management System<br>Mobile Working Software |
| 7 Years | None                        | Thin Client Software  |

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

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

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

|                           | 2013/14                                    |                          |                | 2014/15                                    |                          |                |
|---------------------------|--|--------------------------|----------------|--|--------------------------|----------------|
|                           | Internally<br>Generated<br>Assets<br>£'000 | Other<br>Assets<br>£'000 | Total<br>£'000 | Internally<br>Generated<br>Assets<br>£'000 | Other<br>Assets<br>£'000 | Total<br>£'000 |
| Balance at start of year: |  |                          |                |  |                          |                |
| Gross carrying amounts    | 0  | 839                      | 839            | 0  | 2,009                    | 2,009          |



|  |          |              |              |          |              |              |
|--|----------|--------------|--------------|----------|--------------|--------------|
| Accumulated amortisation   | 0        | (126)        | (126)        | 0        | (348)        | (348)        |
| Net carrying amount at start of year   | 0        | 713          | 713          | 0        | 1,661        | 1,661        |
| Additions:   |          |              |              |          |              |              |
| Internal development   | 0        | 0            | 0            | 0        | 0            | 0            |
| Purchases  | 0        | 1,170        | 1,170        | 0        | 103          | 103          |
| Acquired through business combinations   | 0        | 0            | 0            | 0        | 0            | 0            |
|  |          |              | 0            |          |              | 0            |
| Assets reclassified as held for sale   | 0        | 0            | 0            | 0        | 0            | 0            |
| Other disposals  | 0        | 0            | 0            | 0        | 0            | 0            |
| Revaluations increases or decreases  | 0        | 0            | 0            | 0        | 0            | 0            |
| Impairment losses recognised or reversed directly in the Revaluation Reserve                         | 0        | 0            | 0            | 0        | 0            | 0            |
| Impairment losses recognised in the Surplus/Deficit on the Provision of Services                     | 0        | 0            | 0            | 0        | 0            | 0            |
| Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services | 0        | 0            | 0            | 0        | 0            | 0            |
| Amortisation for the period  | 0        | (222)        | (222)        | 0        | (589)        | (589)        |
| Other changes  | 0        |              | 0            | 0        | 0            | 0            |
| <b>Net carrying amount at end of year</b>  | <b>0</b> | <b>1,661</b> | <b>1,661</b> | <b>0</b> | <b>1,175</b> | <b>1,175</b> |
| Comprising:  |          |              |              |          |              |              |
| Gross carrying amounts   | 0        | 2,009        | 2,009        | 0        | 2,112        | 2,112        |
| Accumulated amortisation   | 0        | (348)        | (348)        | 0        | (937)        | (937)        |
|  | <b>0</b> | <b>1,661</b> | <b>1,661</b> | <b>0</b> | <b>1,175</b> | <b>1,175</b> |

## 10. Financial Instruments

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

| Financial Instruments                    | Long-term              |                        | Current                |                        |
|--|------------------------|------------------------|------------------------|------------------------|
|  | 31 March 2015<br>£'000 | 31 March 2014<br>£'000 | 31 March 2015<br>£'000 | 31 March 2014<br>£'000 |
| <b>Investments</b>                       |                        |                        |                        |                        |
| Loans and Receivables                    | 0                      | 0                      | 19,733                 | 0                      |
| Available for sale financial assets      | 4                      | 4                      | 0                      | 0                      |
| Fair value through profit or loss        | 0                      | 0                      | 0                      | 0                      |
| <b>Total Investments</b>                 | <b>4</b>               | <b>4</b>               | <b>19,733</b>          | <b>0</b>               |
| <b>Cash &amp; Cash Equivalents</b>       |                        |                        |                        |                        |
| Cash & Cash Equivalents                  | 0                      | 0                      | 8,799                  | 40,449                 |
| <b>Total cash &amp; Cash Equivalents</b> | <b>0</b>               | <b>0</b>               | <b>8,799</b>           | <b>40,449</b>          |
| <b>Debtors</b>                           |                        |                        |                        |                        |
| Loans and Receivables                    | 155                    | 196                    | 32,734                 | 23,971                 |
| <b>Total Debtors</b>                     | <b>155</b>             | <b>196</b>             | <b>32,734</b>          | <b>21,882</b>          |
| <b>Borrowings</b>                        |                        |                        |                        |                        |
| Financial liabilities at amortised cost  | (164,729)              | (164,854)              | (1,277)                | (1,278)                |
| <b>Total Borrowings</b>                  | <b>(164,729)</b>       | <b>(164,854)</b>       | <b>(1,277)</b>         | <b>(11,543)</b>        |
| <b>Creditors</b>                         |                        |                        |                        |                        |
| Financial liabilities at amortised cost  | (38,695)               | (40,254)               | (42,762)               | (41,226)               |
| <b>Total Creditors</b>                   | <b>(38,695)</b>        | <b>(40,254)</b>        | <b>(42,762)</b>        | <b>(41,226)</b>        |

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

## Income, Expenses, gains and Losses

|  | 2014/2015  |   |                                      |  |                 | 2013/2014  |   |                                      |  |                 |
|--|--|---|--------------------------------------|--|-----------------|--|---|--------------------------------------|--|-----------------|
|  | 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   | (11,448)   | 0                                       | 0                                    | 0  | (11,448)        | (12,018)   | 0                                       | 0                                    | 0  | (12,018)        |
| Losses on derecognition  | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| Reductions in fair value   | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| Fee expense  | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| <b>Total expense in Surplus or Deficit on the Provision of Services</b>                                  | <b>(11,448)</b>                                  | <b>0</b>                                | <b>0</b>                             | <b>0</b>   | <b>(11,448)</b> | <b>(12,018)</b>                                  | <b>0</b>                                | <b>0</b>                             | <b>0</b>   | <b>(12,018)</b> |
| Interest income  | 0  | 2,963                                   | 0                                    | 0  | 2,963           | 0  | 2,961                                   | 0                                    | 45   | 3,006           |
| Interest income accrued on impaired financial assets   | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| Increases in fair value  | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| Gains on derecognition   | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| Fee income   | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| <b>Total income in Surplus or Deficit on the Provision of Services</b>                                   | <b>0</b>   | <b>2,963</b>                            | <b>0</b>                             | <b>0</b>   | <b>2,963</b>    | <b>0</b>   | <b>2,961</b>                            | <b>0</b>                             | <b>45</b>  | <b>3,006</b>    |
| Gains on revaluation   | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| Losses on revaluation  | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| Amounts recycled to the surplus or deficit on the Provision of Services after Impairment                 | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure | 0  | 0                                       | 0                                    | 0  | 0               | 0  | 0                                       | 0                                    | 0  | 0               |
| <b>Net gain/(loss) for the year</b>  | <b>(11,448)</b>                                  | <b>2,963</b>                            | <b>0</b>                             | <b>0</b>   | <b>(8,485)</b>  | <b>(12,018)</b>                                  | <b>2,961</b>                            | <b>0</b>                             | <b>45</b>  | <b>(9,012)</b>  |

## Fair Value of Assets and Liabilities

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

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

The fair values calculated are as follows:

|                       | 31 March 2015            |                     | 31 March 2014            |                     |
|-----------------------|--------------------------|---------------------|--------------------------|---------------------|
|                       | Carrying Amount<br>£'000 | Fair Value<br>£'000 | Carrying Amount<br>£'000 | Fair Value<br>£'000 |
| Financial liabilities | 208,448                  | 201,682             | 209,336                  | 201,062             |
| Long-term Creditors   | 38,695                   | 38,695              | 40,254                   | 40,254              |

The fair value is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. The reverse was true at 31 March 2014.

|                       | 31 March 2015            |                     | 31 March 2014            |                     |
|-----------------------|--------------------------|---------------------|--------------------------|---------------------|
|                       | Carrying Amount<br>£'000 | Fair Value<br>£'000 | Carrying Amount<br>£'000 | Fair Value<br>£'000 |
| Loans and receivables | 29,896                   | 50,546              | 23,971                   | 23,971              |
| Long-term debtors     | 155                      | 155                 | 196                      | 196                 |

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<br>2014<br>£'000 | 31 March<br>2015<br>£'000 |
|---------------------------------------|---------------------------|---------------------------|
| Central government bodies             | 8,449                     | 8,633                     |
| Other Local Authorities               | 2,446                     | 1,895                     |
| NHS bodies                            | 7,071                     | 6,293                     |
| Public corporations and trading funds | 1,284                     | 37                        |
| Bodies external to general government | 23,394                    | 33,253                    |
| <b>Total Debtors</b>                  | <b>42,644</b>             | <b>50,110</b>             |

## 12. Cash and Cash Equivalents

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

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

## 13. Assets Held for Sale

|   | Current          |                  | Non-Current      |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2013/14<br>£'000 | 2014/15<br>£'000 | 2013/14<br>£'000 | 2014/15<br>£'000 |
| <b>Balance Outstanding at start of year</b>   | <b>625</b>       | <b>2,900</b>     | <b>0</b>         | <b>0</b>         |
| Assets newly classified as held for sale:     |                  |                  |                  |                  |
| ▪ Property, Plant and Equipment               | 2,350            | 0                | 0                | 0                |
| ▪ Intangible Assets                           |                  | 0                | 0                | 0                |
| ▪ Other assets/liabilities in disposal groups |                  | 0                | 0                | 0                |
| Revaluation Losses                            | 0                | 0                | 0                | 0                |
| Revaluation Gains                             | 345              | 0                | 0                | 0                |
| Impairment Losses                             |                  | 0                | 0                | 0                |
| Assets declassified as held for sale:         |                  |                  |                  |                  |
| ▪ Property, Plant and Equipment               | 0                | 0                | 0                | 0                |
| ▪ Intangible Assets                           |                  | 0                | 0                | 0                |
| ▪ Other assets/liabilities in disposal groups |                  | 0                | 0                | 0                |
| Assets sold                                   | (420)            | (2,000)          | 0                | 0                |
| Transfers from non-current to current         |                  | 0                | 0                | 0                |
| Other movements                               |                  | 0                | 0                | 0                |
| <b>Balance Outstanding at year end</b>        | <b>2,900</b>     | <b>900</b>       | <b>0</b>         | <b>0</b>         |

## 14. Creditors

|                                       | 31 March<br>2014<br>£'000 | 31 March<br>2015<br>£'000 |
|---------------------------------------|---------------------------|---------------------------|
| Central government bodies             | 2,614                     | 11,861                    |
| Other Local Authorities               | 10,120                    | 6,466                     |
| NHS bodies                            | 845                       | 537                       |
| Public corporations and trading funds | 3,219                     | 6                         |
| Bodies external to general government | 31,917                    | 31,058                    |
| <b>Total Creditors</b>                | <b>48,715</b>             | <b>49,927</b>             |

## 15. Provisions

|                              | Balance<br>as at 31<br>March<br>2014<br>£000s | 2014/15                                   |                          |  |   | Balance<br>as at 31<br>March<br>2015<br>£000s |
|------------------------------|---|---|--------------------------|--|---|---|
|                              |   | Additional<br>Provisions<br>Made<br>£000s | Amounts<br>Used<br>£000s | Unused<br>Amounts<br>Reversed<br>£000s | Unwinding<br>of<br>Discounting<br>£000s |   |
| <b>Short Term Provisions</b> |   |   |                          |  |   |   |
| Short Term Provisions        | 677   | 0   | 0                        | 0                                      | 0                                       | 677   |
| NDR Appeals                  | 4526  | 3406                                      | 0                        | 0                                      | 0                                       | 7932  |
| <b>Total</b>                 | <b>5,202</b>                                  | <b>3,406</b>                              | <b>0</b>                 | <b>0</b>                               | <b>0</b>                                | <b>8,608</b>                                  |
| <b>Long Term Provisions</b>  |   |   |                          |  |   |   |
| Insurance Provision          | 1,774   | 542                                       | (1,130)                  | 0                                      | 0                                       | 1,186   |
| NDR Appeals                  | 0   |   |                          |  |   | 0   |
| Other Provisions             | 424   | 1   | 0                        | 0                                      | 0                                       | 425   |
| <b>Total</b>                 | <b>2,198</b>                                  | <b>543</b>                                | <b>(1,130)</b>           | <b>0</b>                               | <b>0</b>                                | <b>1,611</b>                                  |

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

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

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

## 16. Usable Reserves (As per MiRS)

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

## 17. Unusable Reserves

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

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the 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.

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

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and

Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

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

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

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

|  | 2013/14        | 2014/15  |                |
|--|----------------|----------|----------------|
|  | £'000          | £'000    | £'000          |
| Balance as at 1 April  | 505,895        |          | 489,132        |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:                               |                |          |                |
| • Charges for depreciation and impairment of non-current assets  | (45,617)       | (42,434) |                |
| • Revaluation movements on Property, Plant and Equipment   | 8,437          | (26,377) |                |
| • Amortisation of Intangible Assets  | (222)          | (589)    |                |
| • Revenue Expenditure funded from Capital Under Statute  | (3,769)        | (11,962) |                |
| • Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (38,359)       | (42,190) |                |
|  | (79,530)       |          | (123,552)      |
| Adjusting amounts written out of the Revaluation Reserve   | 11,968         | 10,430   |                |
| HRA Self Financing Settlement  | 0              |          |                |
| Other adjustments  | (94)           | 0        |                |
| Net written out amount of the cost of non-current assets consumed in the year  | 11,874         |          | 10,430         |
| Capital financing applied in the year:   |                |          |                |
| • Use of Capital Receipts Reserve to finance new capital expenditure   | 2,324          | 3,264    |                |
| • Use of the Major Repairs Reserve to finance new capital expenditure  | 5,213          | 4,248    |                |
| • Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing              | 19,688         | 16,928   |                |
| • Application of grants to capital financing from the Capital Grants Unapplied Account   | 13,101         | 7,846    |                |
| • Statutory provision for the financing of capital investment charged against the General Fund and HRA balances  | 7,650          | 7,549    |                |
| • Capital expenditure charged against the General Fund and HRA balances  | 1,888          | 2,292    |                |
|  | 49,864         |          | 42,126         |
| Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement                           | 1,028          |          | (415)          |
| <b>Balance as at 31 March</b>  | <b>489,132</b> |          | <b>417,721</b> |



## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The 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.

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

## Financial Instruments Adjustment Account

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

|   | 2013/14    | 2014/15 |            |
|---|------------|---------|------------|
|   | £'000      | £'000   | £'000      |
| <b>Balance as at 1 April</b>  | (179)      |         | 278        |
| Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement   | 457        | 237     |            |
| 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 | 457        |         | 237        |
| <b>Balance as at 31 March</b>   | <b>278</b> |         | <b>516</b> |

## Collection Fund Adjustment Account

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

|  | 2013/14        | 2014/15        |
|--|----------------|----------------|
|  | £'000          | £'000          |
| <b>Balance as at 1 April</b>   | (309)          | (3,496)        |
| Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements | (3,187)        | (672)          |
| <b>Balance as at 31 March</b>  | <b>(3,496)</b> | <b>(4,168)</b> |

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

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

#### Accumulated Absences Account

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

|   | 2013/14        | 2014/15 |                |
|---|----------------|---------|----------------|
|   | £'000          |         | £'000          |
| <b>Balance as at 1 April</b>  | <b>(2,177)</b> |         | <b>(2,536)</b> |
| Settlement or cancellation of accrual made at the end of the preceding year   | 2,177          | 2,536   |                |
| Amounts accrued at the end of the current year  | (2,537)        | (2,521) |                |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (360)          |         | 15             |
| <b>Balance as at 31 March</b>   | <b>(2,536)</b> |         | <b>(2,521)</b> |

### 18. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

|                   | 2013/14<br>£'000 | 2014/15<br>£'000 |
|-------------------|------------------|------------------|
| Interest received | (845)            | (233)            |
| Interest paid     | 9,424            | 9,098            |

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

|   | 2013/14<br>£'000 | 2014/15<br>£'000 |
|---|------------------|------------------|
| Depreciation  | (37,428)         | (23,551)         |
| Impairment and revaluations   | (607)            | 438              |
| (Increase) / decrease in creditors  | 6,123            | 347              |
| Increase / (decrease) in debtors/Impairment for Bad Debts   | 8,911            | 7,425            |
| Increase / (decrease) in inventories  | (17)             | 8                |
| Movement in pension liability   | 2,155            | (90,196)         |
| Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised | (36,943)         | (4,127)          |
| Other non-cash items charged to the net surplus or deficit on the provision of services           | (6,000)          | 723              |
|   | <b>(63,806)</b>  | <b>(108,933)</b> |

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

|  | 2013/14       | 2014/15       |
|--|---------------|---------------|
|  | £'000         | £'000         |
| The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:                       |               |               |
| Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries) | 0             | 0             |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets   | 2,182         | 5,513         |
| Any other items for which the cash effects are investing or financing cash flows   | 24,704        | 11,962        |
|  | <b>26,886</b> | <b>17,475</b> |

## 19. Cash Flow – Investing Activities

|  | 2013/14         | 2014/15       |
|--|-----------------|---------------|
|  | £'000           | £'000         |
| Purchase of property, plant and equipment, investment property and intangible assets               | 45,229          | 41,112        |
| Purchase of short-term and long-term investments   | 0               | 19,733        |
| Other payments for investing activities  |                 | 0             |
| Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets | (2,182)         | (5,513)       |
| Proceeds from short-term and long-term investments   | (30,286)        | 0             |
| Other receipts from investing activities   | (55,341)        | (23,432)      |
| <b>Net cash flows from investing activities</b>  | <b>(42,580)</b> | <b>31,900</b> |

## 20. Cash Flow – Financing Activities

|  | 2013/14      | 2014/15        |
|--|--------------|----------------|
|  | £'000        | £'000          |
| Cash receipts of short- and long-term borrowing  | (716)        | 0              |
| Other receipts from financing activities   | (4,198)      | (7,673)        |
| 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   | 10,000       | 125            |
| Other payments for financing activities  | 0            | 0              |
| <b>Net cash flows from financing activities</b>  | <b>5,086</b> | <b>(7,548)</b> |

## 21. Amounts Reported for Resource Allocation Decisions

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

| Directorate Income and Expenditure 2013/14 | Children and Adult Services | 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)        |
| <b>Total Income</b>                        | <b>(40,033)</b>             | <b>(34,925)</b>                     | <b>(153,125)</b> | <b>(6,172)</b> | <b>(234,255)</b> |
| Employee expenses                          | 125,888                     | 21,767                              | 25,074           | 2,989          | 175,717          |
| Other service expenses                     | 160,965                     | 62,966                              | 123,232          | 15,755         | 362,917          |
| Support service recharge                   | 7,977                       | 9,371                               | 12,481           | 359            | 30,187           |
| Depreciation, amortisation and impairment  | 16,572                      | 24,086                              | 1,123            | 0              | 41,781           |
| Payments to Housing Capital Receipts Pool  | 0                           | 77                                  | 0                | 0              | 77               |
| <b>Total Expenditure</b>                   | <b>311,402</b>              | <b>118,266</b>                      | <b>161,909</b>   | <b>19,103</b>  | <b>610,680</b>   |
| <b>Net Expenditure</b>                     | <b>271,369</b>              | <b>83,341</b>                       | <b>8,785</b>     | <b>12,931</b>  | <b>376,425</b>   |



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

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

|  | 2013/14        | 2014/15        |
|--|----------------|----------------|
|  | £'000          | £'000          |
| Net expenditure in Directorate analysis  | 376,425        | 362,630        |
| Net expenditure of services and support services not included in the Analysis                            | (1,258)        | (1,561)        |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | (161,906)      | (96,687)       |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement      | (163,164)      | (98,248)       |
| <b>Cost of Services in Comprehensive Income and Expenditure Statement</b>                                | <b>213,261</b> | <b>264,382</b> |

## Reconciliation to Subjective Analysis

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

| 2014/15   | Directorate Analysis | Services not in Analysis- HRA | Amounts not Reported to Management | Allocation of Recharges | Net Cost of Services | Corporate Amounts | Total            |
|---|----------------------|-------------------------------|------------------------------------|-------------------------|----------------------|-------------------|------------------|
|   | £'000                | £'000                         | £'000                              | £'000                   | £'000                | £'000             | £'000            |
| Fees, charges & other service income                  | (107,961)            | (14,301)                      | 9,121                              | 31,600                  | (81,541)             | (371)             | (81,911)         |
| Interest and investment income                        | (160)                | (35)                          | (21)                               | 0                       | (216)                | (4,085)           | (4,302)          |
| Income from Council tax                               | 0                    | 0                             | 0                                  | 0                       | 0                    | (94,000)          | (94,000)         |
| Income from NNDR                                      | 0                    | 0                             | 0                                  | 0                       | 0                    | (41,121)          | (41,121)         |
| Government grants and contributions                   | (130,996)            | 0                             | (139,458)                          | 0                       | (270,454)            | (85,067)          | (355,521)        |
| Pension Adjustment                                    | 0                    | 0                             | 0                                  | 0                       | 0                    | 0                 | 0                |
| <b>Total Income</b>                                   | <b>(239,117)</b>     | <b>(14,336)</b>               | <b>(130,358)</b>                   | <b>31,600</b>           | <b>(352,211)</b>     | <b>(224,645)</b>  | <b>(576,856)</b> |
| Employee Expenses                                     | 159,177              | 1,709                         | 1,102                              | 0                       | 161,988              | 8,349             | 170,337          |
| Interest Expense                                      | 0                    | 0                             | 0                                  | 0                       | 0                    | 11,764            | 11,764           |
| Other service expenses                                | 372,381              | 6,980                         | 5,855                              | 0                       | 385,217              | 277               | 385,494          |
| Support service recharge                              | 31,031               | 569                           | 0                                  | (31,600)                | 0                    | 0                 | 0                |
| Depreciation, amortisation and revaluations           | 39,158               | 3,516                         | 26,430                             | 0                       | 69,104               | 415               | 69,519           |
| Precepts and levies                                   | 0                    | 0                             | 0                                  | 0                       | 0                    | 1,280             | 1,280            |
| Payments to Housing Capital Receipts Pool             | 0                    | 0                             | 0                                  | 0                       | 0                    | 235               | 235              |
| Gain or loss on disposal of fixed assets              | 0                    | 0                             | 0                                  | 0                       | 0                    | 36,699            | 36,699           |
| Pension Adjustment                                    | 0                    | 0                             | 284                                | 0                       | 284                  | 0                 | 284              |
| <b>Total Expenditure</b>                              | <b>601,748</b>       | <b>12,775</b>                 | <b>33,671</b>                      | <b>(31,600)</b>         | <b>616,593</b>       | <b>59,019</b>     | <b>675,612</b>   |
|   |                      |                               |                                    |                         |                      |                   |                  |
| <b>(Surplus)/Deficit on the provision of services</b> | <b>362,630</b>       | <b>(1,561)</b>                | <b>(96,687)</b>                    | <b>0</b>                | <b>264,382</b>       | <b>(165,626)</b>  | <b>98,756</b>    |

| 2013/14   | Directorate Analysis | Services not in Analysis - HRA | Amounts not Reported to Management | Allocation of Recharges | Net Cost of Services | Corporate Amounts | Total            |
|---|----------------------|--------------------------------|------------------------------------|-------------------------|----------------------|-------------------|------------------|
|   | £'000                | £'000                          | £'000                              | £'000                   | £'000                | £'000             | £'000            |
| Fees, charges & other service income                  | (108,053)            | (14,108)                       | 4,944                              | 30,799                  | (86,418)             | (1,631)           | <b>(88,049)</b>  |
| Interest and investment income                        | 0                    | (37)                           | 37                                 | 0                       | 0                    | (3,288)           | <b>(3,288)</b>   |
| Income from Council tax                               | 0                    | 0                              | 0                                  | 0                       | 0                    | (89,418)          | <b>(89,418)</b>  |
| Income from NNDR                                      | 0                    | 0                              | 0                                  | 0                       | 0                    | (38,985)          | <b>(38,985)</b>  |
| Government grants and contributions                   | (126,201)            | 0                              | (148,660)                          | 0                       | (274,862)            | (100,100)         | <b>(374,961)</b> |
| Pension Adjustment                                    | 0                    | 0                              | 0                                  | 0                       | 0                    | 0                 | <b>0</b>         |
| <b>Total Income</b>                                   | <b>(234,255)</b>     | <b>(14,145)</b>                | <b>(143,679)</b>                   | <b>30,799</b>           | <b>(361,280)</b>     | <b>(233,421)</b>  | <b>(594,701)</b> |
| Employee Expenses                                     | 175,717              | 1,623                          | (2,293)                            | 0                       | 175,047              | 9,203             | <b>184,250</b>   |
| Interest Expense                                      | 0                    | 0                              | 0                                  | 0                       | 0                    | 12,018            | <b>12,018</b>    |
| Other service expenses                                | 362,917              | 7,291                          | (7,917)                            | 0                       | 362,291              | 645               | <b>362,937</b>   |
| Support service recharge                              | 30,187               | 611                            | 0                                  | (30,799)                | (0)                  | 0                 | <b>(0)</b>       |
| Depreciation, amortisation and revaluations           | 41,781               | 3,362                          | (7,443)                            | 0                       | 37,699               | 0                 | <b>37,699</b>    |
| Precepts and levies                                   | 0                    | 0                              | 0                                  | 0                       | 0                    | 1,259             | <b>1,259</b>     |
| Payments to Housing Capital Receipts Pool             | 77                   | 0                              | 0                                  | 0                       | 77                   | 0                 | <b>77</b>        |
| Gain or loss on disposal of fixed assets              | 0                    | 0                              | (867)                              | 0                       | (867)                | 36,197            | <b>35,330</b>    |
| Pension Adjustment                                    | 0                    | 0                              | 294                                | 0                       | 294                  | 0                 | <b>294</b>       |
| <b>Total Expenditure</b>                              | <b>610,680</b>       | <b>12,887</b>                  | <b>(18,227)</b>                    | <b>(30,799)</b>         | <b>574,541</b>       | <b>59,322</b>     | <b>633,863</b>   |
|   |                      |                                |                                    |                         |                      |                   |                  |
| <b>(Surplus)/Deficit on the provision of services</b> | <b>376,425</b>       | <b>(1,258)</b>                 | <b>(161,906)</b>                   | <b>0</b>                | <b>213,261</b>       | <b>(174,099)</b>  | <b>39,162</b>    |

## 22. Pooled Budgets

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



### 23. Members' Allowances

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

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

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

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

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

## 24. Officers' Remuneration

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

| Post  | Salary  | Fees and Allowances | Expenses | Total Excluding Pension Contribution | Pension Contribution | Total   |
|---|---------|---------------------|----------|--------------------------------------|----------------------|---------|
|   | £       | £                   | £        | £                                    | £                    | £       |
| Chief Executive (Neil Davies)                                     | 146,640 | 8397                | 150      | 155,187                              | 26,962               | 182,149 |
| Director of Children & Adult Services (Barbara Peacock)           | 121,606 | 7530                | 144      | 129,280                              | 22,381               | 151,661 |
| Director of Regeneration, Community & Culture (Robin Cooper)      | 118,006 | 13130               | 152      | 131,288                              | 22,747               | 154,035 |
| Director of Public Health   | 95,860  | 50114               | 1,867    | 147,841                              | 17,495               | 165,336 |
| Deputy Director Customer Contact, Leisure, Democracy & Governance | 93,393  | 5213                | 0        | 98,606                               | 17,218               | 115,824 |
| Assistant Director Front Line Services                            | 85,127  | 5213                | 0        | 90,340                               | 15,705               | 106,046 |
| Assistant Director Communications, Performance & Partnerships     | 85,127  | 8403                | 83       | 93,613                               | 15,705               | 109,319 |
| Chief Finance Officer (left 28.02.2015)                           | 89,185  | 4779                | 0        | 93,964                               | 16,438               | 110,402 |
| Chief Finance Officer (started 01.03.2015)                        | 7,081   | 434                 | 0        | 7,516                                | 1,307                | 8,822   |
| Assistant Director Organisational Services                        | 85,434  | 6055                | 48       | 91,537                               | 15,762               | 107,298 |
| Assistant Director Inclusions (left 15.06.2014)                   | 16,242  | 3798                | 0        | 20,040                               | 2,999                | 23,039  |
| Deputy Director - Children & Adult Services (left 26.10.2014)     | 53,288  | 2971                | 0        | 56,259                               | 9,824                | 66,084  |
| Deputy Director - Children & Adult Services (started 16.03.2015)  | 3,786   | 224                 | 0        | 4,010                                | 698                  | 4,709   |
| Assistant Director Housing & Regeneration                         | 85,127  | 7561                | 99       | 92,788                               | 15,705               | 108,493 |
| Assistant Director Legal & Corporate Services                     | 76,972  | 5213                | 0        | 82,185                               | 14,213               | 96,398  |
| Assistant Director Partnership Commissioning                      | 73,808  | 5213                | 82       | 79,103                               | 13,634               | 92,737  |
| Assistant Director Childrens Care                                 | 78,113  | 5213                | 0        | 83,326                               | 14,422               | 97,748  |
| Audit Services Manager  | 40,278  | 4601                | 0        | 44,879                               | 0                    | 44,879  |

Comparative figures for 2013/14 are as follows:

| Post  | Salary<br>£ | Fees and Allowances<br>£ | Expenses<br>£ | Total Excluding Pension Contribution<br>£ | Pension Contribution<br>£ | Total<br>£ |
|---|-------------|--------------------------|---------------|---|---------------------------|------------|
| 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     |

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

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

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

| Exit package cost band<br>(including special payments) | Number of compulsory redundancies |            |           | Number of other departures agreed |            |           | Total number of exit packages by cost band |            |            | Total cost of exit packages in each band £ |                  |                  |
|--|-----------------------------------|------------|-----------|-----------------------------------|------------|-----------|--|------------|------------|--|------------------|------------------|
|  | 2014/15                           |            |           | 2014/15                           |            |           | 2014/15                                    |            |            | 2014/15                                    |                  |                  |
|  | Schools                           | Non-School | Total     | Schools                           | Non-School | Total     | Schools                                    | Non-School | Total      | Schools                                    | Non-School       | Total            |
| £0 - £20,000   | 20                                | 59         | 79        | 1                                 | 6          | 7         | 21   | 65         | 86         | 102,755                                    | 438,521          | 541,276          |
| £20,001 - £40,000                                      | 2                                 | 5          | 7         | 0                                 | 5          | 5         | 2  | 10         | 12         | 48,301                                     | 283,506          | 331,807          |
| £40,001 - £60,000                                      | 0                                 | 1          | 1         | 0                                 | 1          | 1         | 0  | 2          | 2          | 0  | 109,354          | 109,354          |
| £60,001 - £80,000                                      | 0                                 | 0          | 0         | 0                                 | 2          | 2         | 0  | 2          | 2          | 0  | 150,647          | 150,647          |
| £80,001 - £100,000                                     | 0                                 | 1          | 1         | 0                                 | 0          | 0         | 0  | 1          | 1          | 0  | 169,409          | 169,409          |
| £100,001 - £150,000                                    | 0                                 | 0          | 0         | 0                                 | 1          | 1         | 0  | 1          | 1          | 0  | 146,100          | 146,100          |
| £150,001 - £200,000                                    | 0                                 | 0          | 0         | 0                                 | 1          | 1         | 0  | 1          | 1          | 0  | 155,500          | 155,500          |
| <b>Total</b>   | <b>22</b>                         | <b>66</b>  | <b>88</b> | <b>1</b>                          | <b>16</b>  | <b>17</b> | <b>23</b>                                  | <b>82</b>  | <b>105</b> | <b>151,056</b>                             | <b>1,453,035</b> | <b>1,604,091</b> |

The total cost of £1,604,091 in the table above for exit packages has been charged to the Authority's Comprehensive Income and Expenditure Statement in the current year.

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

The total cost of £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.

## 25. External Audit Costs

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

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

## 26. 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 2014/15 the Council incurred an overspend of £587,490 on DSG funded services. After taking account of the surplus of £2,592,348 and £ of expenditure agreed to be met from reserves, £3,845,399 was carried forward to 2015/16.

An analysis of the DSG for 2014/15 is provided in the table below:

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

## 27. Grant Income

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

|   | 2013/14<br>£'000 | 2014/15<br>£'000 |
|---|------------------|------------------|
| <b>Credited to Taxation and Non Specific Grant Income</b> |                  |                  |
| <u>Department for Communities and Local Government</u>    |                  |                  |
| - Capitalisation Provision Redistribution Grant           | 334              | 0                |
| - Formula Grant / Revenue Support Grant                   | 63,311           | 52,391           |
| - Redistributed National Non-Domestic Rates               | 0                | 0                |
| - PSA Reward Grant  | 0                | 0                |
| - Area Based Grant  | 0                | 0                |
| - Community Rights Grant                                  | 16               | 0                |
| - Council Tax Support New Burdens Funding                 | 159              | 162              |
| - Collection Fund Grant                                   | 0                | 0                |
| - Safer Communities Grant                                 | 0                | 0                |
| - New Homes Bonus   | 3,931            | 5,605            |
| - Non -Domestic Rates Top-Up Grant                        | 0                | 0                |
| - Small Business Rate Relief Grant                        | 0                | 0                |
| <u>Department for Education</u>                           |                  |                  |
| - Early Intervention Grant                                | 0                | 0                |
| - Education Support Grant                                 | 3,451            | 3,187            |
| <u>Department for Environment, Food and Rural Affairs</u> |                  |                  |
| - Inshore Fisheries Conservation Authorities Grant        | 32               | 33               |
| - Lead Local Flood Authorities Grant                      | 77               | 77               |
| <u>Department of Health</u>                               |                  |                  |
| - Learning Disability and Health Reform Grant             | 0                |                  |
| - Healthwatch Grant                                       | 177              | 180              |
| Other Grants and Levies                                   | 138              | 0                |
| Recognition of Capital Grants and Contributions           | 28,474           | 23,432           |
| <b>Total</b>  | <b>100,100</b>   | <b>85,067</b>    |

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

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

| <b>Current Liabilities</b>                                 | 31/03/2014<br>£'000 | 31/03/2015<br>£'000 |
|--|---------------------|---------------------|
| <b>Capital Grants Receipts in Advance (Capital Grants)</b> |                     |                     |
| Applicable Section Agreements                              | 7,869               | 7,651               |
| <b>Total</b>   | <b>7,869</b>        | <b>7,651</b>        |



## 28. 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, and 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 £125,584 (£111,760 in 2013/14) to the organisation and the Trust paid the Council £3,936. At 31 March 2015 the Council was owed £1,365 by the Trust (31 March 2014 £850).

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

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

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

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 £446,228 during 2014/15 (£450,872 in 2013/14). No payments were received, or owing, from Medway CAB in 2014/15 (£1,092 2013/14 and £1,500 owed).

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

Home Start Medway - provides a unique service for families, recruiting and training volunteers to support parents with young children at home. One Member is a trustee of the organisation and during 2014/15 the Council made payments to the organisation of £113,409 (£125,578 in 2013/14).

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

Sunlight Development Trust– is a community owned organisation that works with partners across all Sectors. Its overriding aim is to improve health, inequality and well being. One member is Chair of the Trustees. The Council made payments to the Trust amounting to £215,706 during 2014/15 (£229,277 2013/14).

One member is a Council appointed Director of Medway Norse and Medway Norse Transport-joint venture companies established between the Council and Norse plc to deliver Facilities Management activities. The Council made payments of £10,112,787 to Medway Norse/Medway Norse Transport in 2014/15 (£5,398,398 2013/14). The total value of transactions to the Council from these companies was £207,157 in 2014/15 (£6,139 2013/14). At 31 March 2015 the Council was owed £111,763 (31 March 2014 £20,183) and owed £29,628 (13/14 Nil).

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

Womens Royal Voluntary Service (WRVS) - is an age-positive charity that offers a range of practical services to help and support older people to live well, maintain their independence and play a part in their local community. The Partner of one Member has an association with this organisation. The Council made payments to this organisation amounting to £80,075 during 2014/15 (£80,108 in 2013/14). The Council received no payments from the WRVS 2014/15 (£515 in 2013/14). At 31 March 2015 the Council was owed £93 (31 March 2014 £187).

Rochester HANDS Volunteer Centre - Hands Rochester Volunteer Centre acts as a recruiting agency between voluntary, statutory and other not for profit organisations. They match volunteers to people and organisations in communities throughout the Medway Towns. One Members' partner is Chair of this organisation, the Council made payments to this organisation of £18,783 in 2014/15 (£37,567 in 2013/14)

Kent & Medway Fire & Rescue Authority - Four Members are Medway representatives for the Kent & Medway Fire and Rescue Authority. Excluding precept payments the Council received £33,700 income from this organisation in 2014/15. (£51,223 in 2013/14). At 31 March 2015 the Council was owed nothing (31 March 2014 £21,428). Excluding precepts the Council paid this organisation £19,900 (2013/14 nil) and owed them £1,269 as at 31 March 2015 (nil at 31/03/14).

Frindsbury Extra Parish Council - One Members' spouse is a Parish Councillor of Frindsbury Extra Parish Council. Excluding precept payments the Medway Council made to this organisation in 2014/15 was £17,942 (£12,988 in 2013/14). Frindsbury Extra Parish Council had transactions of £25 with the Council in 2014/15 ( £105 2013/14).

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

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

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

## Officers

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

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

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

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

Design South East (Formerly Kent Architecture Centre) - is a not-for-profit organisation and is the region's leading source of built environment design support for local authorities, the development sector and communities. The company supports policy development and plan making, neighbourhood plans and public buildings, housing and public space projects by offering a clear, constructive and consistent voice on design issues. One Senior Officer is a Non-Exec Board Director of this organisation, the Council made payments to this organisation of £148,663 in 2014/15 (£78,668 in 2013/14). The Council owed the organisation £4,200 at 31 March 2015 (31 March 2014: Nil).

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

#### Other Public Bodies

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

The Authority has a 20% equity share in Medway Norse Limited. The company provides corporate cleaning, building maintenance, security services, window cleaning, printing services and catering to the council.

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

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

#### 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 2015 was £40,063,150 (31 March 2014 £41,732,448). In addition £298,856 (£30,902) was due to Kent County Council and £144,389 due from them at 31 March 2015 (£473,041 2014).

## 29. Capital Expenditure and Capital Financing

The following table shows the total amount of capital expenditure incurred in the year together with the resources used to finance it.

|   | 2013/2014       | 2014/2015       |
|---|-----------------|-----------------|
|   | £'000           | £'000           |
| <b>Capital Investment</b>                             |                 |                 |
| Property Plant and Equipment                          | 40,032          | 28,986          |
| Heritage Assets                                       | 258             | 61              |
| Investment Properties                                 | 0               | 0               |
| Intangible Assets                                     | 1,170           | 103             |
| Revenue Expenditure Funded from Capital under Statute | 3,769           | 11,962          |
| <b>Total</b>  | <b>45,229</b>   | <b>41,112</b>   |
| <b>Sources of Finance</b>                             |                 |                 |
| Capital receipts                                      | (2,324)         | (3,264)         |
| Government grants and other contributions             | (38,002)        | (29,022)        |
| Sums set aside from revenue                           | (1,888)         | (2,292)         |
| Direct revenue contributions                          | 0               | 0               |
| Borrowing   | (3,015)         | (6,535)         |
| <b>Total</b>  | <b>(45,229)</b> | <b>(41,112)</b> |

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

|  | 2013/2014      | 2014/2015      |
|--|----------------|----------------|
|  | £'000          | £'000          |
| <b>Opening Capital Financing Requirement</b>   | <b>253,152</b> | <b>248,517</b> |
| Explanation of Movements in Capital Financing Requirement                              |                |                |
| Increase in underlying need to borrow (unsupported by government financial assistance) | 3,015          | 6,535          |
| Repayment of loans (MRP)   | (7,650)        | (7,549)        |
| <b>Increase / (Decrease) in Capital Financing Requirement</b>                          | <b>(4,635)</b> | <b>(1,014)</b> |
| <b>Closing Capital Financing Requirement</b>   | <b>248,517</b> | <b>247,502</b> |

### 30. 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<br>March<br>2014<br>£'000 | 31<br>March<br>2015<br>£'000 |
|------------------------|------------------------------|------------------------------|
| Other Land & Buildings | 438                          | 430                          |

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

The Authority has a small number of finance leases for the acquiring of Plant and Equipment, however, these are all below the 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<br>March<br>2014<br>£'000 | 31<br>March<br>2015<br>£'000 |
|-----------------------------|------------------------------|------------------------------|
| Vehicles, Plant & Equipment | 1,976                        | 829                          |

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

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

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

|   | Minimum Lease Payments |               | Finance Lease Payments |               |
|---|------------------------|---------------|------------------------|---------------|
|   | 31 March 2014          | 31 March 2015 | 31 March 2014          | 31 March 2015 |
|   | £'000                  | £'000         | £'000                  | £'000         |
| Not later than one year                           | 452                    | 333           | 518                    | 261           |
| Later than one year and not later than five years | 989                    | 322           | 791                    | 240           |
| Later than five years                             | 0                      | 0             | 0                      | 0             |
| <b>Total</b>                                      | <b>1,441</b>           | <b>655</b>    | <b>1,309</b>           | <b>501</b>    |

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

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

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

### Authority as Lessor

#### *Operating Leases*

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

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

The future minimum lease payments receivable are:

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

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

### 31. Impairment Losses

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

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

|                          | Impairment charges to Surplus/(Deficit) | Impairment charges to Revaluation Reserve | Impairment charges to Surplus/(Deficit) |
|--------------------------|---|---|---|
|                          | £'000                                   | £'000                                     | £'000                                   |
| <b>2014/15</b>           |   |   |   |
| Council Dwellings        | 0                                       | 0   | 0                                       |
| Other Land and Buildings | 130                                     | 211                                       | 341                                     |
| Community Assets         | 0                                       | 0   | 0                                       |
| Heritage Assets          | 0                                       | 0   | 0                                       |
| Intangible Assets        | 0                                       | 0   | 0                                       |
| Assets Held for Sale     | 0                                       | 0   | 0                                       |
|                          | <b>130</b>                              | <b>211</b>                                | <b>341</b>                              |

|                          | Impairment charges to Surplus/(Deficit) | Impairment charges to Revaluation Reserve | Impairment charges to Surplus/(Deficit) |
|--------------------------|---|---|---|
|                          | £'000                                   | £'000                                     | £'000                                   |
| <b>2013/14</b>           |   |   |   |
| Council Dwellings        | 0                                       | 0   | 0                                       |
| Other Land and Buildings | 0                                       | 0   | 0                                       |
| Community Assets         | 0                                       | 0   | 0                                       |
| Heritage Assets          | 0                                       | 0   | 0                                       |
| Intangible Assets        | 0                                       | 0   | 0                                       |
| Assets Held for Sale     | 0                                       | 0   | 0                                       |
|                          | <b>0</b>                                | <b>0</b>                                  | <b>0</b>                                |



## 32. 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 £1,604,091 (2013/14 £989,585) 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, £301,560 relates to the Head of Corporate Finance and the Finance Support Manager. The remaining £1,302,531 (2013/14 £943,649) was payable on 23 (2013/14- 53) notice payments and redundancies owing to school reorganisation and a further 80 (2013/14 - 52) local authority based staff who were made redundant as part of the Authority's cost saving and reorganisation in response to Government funding cuts.

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

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

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

In 2014/15, the Authority paid £5,566,875.12 to Teachers Pensions in respect of teachers retirement benefits, representing 14.1% of pensionable pay. The figures for 2013/14 were £6,170,979.11 and 14.1%. There were no contributions remaining payable at year end. The movement in the level of contributions is predominantly due to the number of schools that have converted to Academy status, on or since 1 April 2014. The contributions due to be paid in the next financial year are estimated to be £5,612,308 and account for an increase in rate on 1 September 2015 to 16.4%.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 34.

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

## 34. 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:

|  | 2013/14<br>£'000 | 2014/15<br>£'000 |
|--|------------------|------------------|
| <b>Comprehensive Income and Expenditure Statement</b>  |                  |                  |
| <b>Cost of Services</b>  | 12,116           | 14,403           |
| <b>Service cost comprising:</b>  |                  |                  |
| • Current service costs  |                  |                  |
| • Past service costs   |                  |                  |
| • (gain)/loss from settlements   |                  |                  |
| <b>Financing and Investment Income and Expenditure</b>   |                  |                  |
| Net Interest expense   | 9,203            | 8,349            |
| <b>Administration expenses</b>   | 294              | 284              |
| <b>Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services</b>  | <b>21,613</b>    | <b>23,036</b>    |
| <b>Other Post Employment benefit charged to the Comprehensive Income and Expenditure Statement</b>   |                  |                  |
| <b>Remeasurement of the net defined benefit liability comprising:</b>  |                  |                  |
| • Return on plan assets in excess of interest  |                  | 0                |
| • Actuarial gains and losses arising on changes in demographic assumptions   |                  | 0                |
| • Actuarial gains and losses arising on changes in financial assumptions   |                  | 0                |
| • Experience gain / (loss) on defined benefit obligation   |                  | 0                |
| • Other (if applicable)  |                  | 0                |
| <b>Actual Gains and (losses)</b>   |                  |                  |
| <b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>  | <b>21,613</b>    | <b>23,036</b>    |
| <b>Movement in Reserves Statement</b>  |                  |                  |
| Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code | 21,613           | 23,036           |

|   | 2013/14 | 2014/15 |
|---|---------|---------|
|   | £'000   | £'000   |
| <b>Actual amount charged against the General Fund Balance for pensions in the year:</b> |         |         |
| Employers' contributions payable to scheme  | 14,769  | 13,900  |
| 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 |                |
|--|---------------------------------|----------------|
|  | 31/03/2014                      | 31/03/2015     |
|  | £'000                           | £'000          |
| Present value of the defined benefit obligation              | 567,361                         | 680,260        |
| Fair value of plan assets                                    | 379,626                         | 416,454        |
| <b>Net Liability</b>   | <b>187,735</b>                  | <b>263,806</b> |
| Present Value of Unfunded Obligation                         | 6,782                           | 7,007          |
| <b>Net liability arising from defined benefit obligation</b> | <b>194,517</b>                  | <b>270,813</b> |

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

|  | Local Government Pension Scheme |                |
|--|---------------------------------|----------------|
|  | 31/03/2014                      | 31/03/2015     |
|  | £'000                           | £'000          |
| Opening fair value of scheme assets  | 350,641                         | 379,626        |
| Expected return on scheme assets   |                                 |                |
| Interest income  | 15,853                          | 16,970         |
| Remeasurement gain/(loss):   |                                 |                |
| • The return on plan assets, excluding the amount included in the net interest expense | 12,175                          | 25,032         |
| • Other (if applicable)  | 8,973                           | 0              |
| Actuarial gains and losses   |                                 |                |
| Administration Expenses  | (294)                           | (284)          |
| Contributions from employer including unfunded   | 14,769                          | 13,900         |
| Contributions from employees into the scheme   | 4,500                           | 4,480          |
| Estimated Benefits paid  | (17,823)                        | (18,599)       |
| Other (if applicable)  | (9,168)                         | (4,671)        |
| <b>Closing fair value of scheme assets</b>   | <b>379,626</b>                  | <b>416,454</b> |

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

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

Local Government Pension Scheme assets comprised:

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

a All scheme assets have quoted prices in active markets

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

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

### Basis for Estimating Assets and Liabilities

The principal assumptions used by the actuary have been:

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

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

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

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

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

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

The assumed life expectations from age 65:

| Life Expectancy from age 65 (years)           | Local Government Pension Scheme |           |
|---|---------------------------------|-----------|
|   | 31-Mar-14                       | 31-Mar-15 |
| <b>Mortality assumptions:</b>                 |                                 |           |
| <b>Longevity at 65 for current pensioners</b> |                                 |           |
| • Men   | 22.7                            | 22.8      |
| • Women                                       | 25.1                            | 25.2      |
| <b>Longevity at 65 for future pensioners</b>  |                                 |           |
| • Men   | 24.9                            | 25.1      |
| • Women                                       | 27.4                            | 27.6      |

Further assumptions are:

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

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

|   | Local Government Pension Scheme |           |
|---|---------------------------------|-----------|
|   | 31-Mar-14                       | 31-Mar-15 |
| Rate of inflation CPI                   | 2.80%                           | 2.40%     |
| Rate of inflation RPI                   | 3.60%                           | 3.20%     |
| Rate of increase in salaries            | 4.60%                           | 4.20%     |
| Rate of increase in pensions            | 2.80%                           | 2.40%     |
| Rate for discounting scheme liabilities | 4.50%                           | 3.30%     |

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

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

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

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



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

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

### Impact on the Authority's Cash Flow

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

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

Further information can be found in Kent County Council's Superannuation Fund's Annual Report which is available upon request from the Investment Section, Sessions House, County Hall, Maidstone, Kent, ME14 1QX.

## 35. Contingent Liabilities

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

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

## 36. Contingent Assets

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

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

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

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

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

### Credit risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch, Moody's and Standard and 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 Capita. This service uses a sophisticated modelling approach with credit ratings from all three ratings agencies forming the core element. It also uses the following as overlays: credit watches and credit outlooks from credit rating agencies; CDS spreads to give early warning of likely changes in credit ratings; sovereign ratings to select counterparties from only the most creditworthy countries.

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

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

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

The following analysis summarises the 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 2015 | Historical experience of default | Estimated maximum exposure to default and uncollectability |
|---|-------------------------|----------------------------------|--|
|   | £'000                   | %                                | £'000  |
| Deposits with banks and financial institutions* | 32,072                  | 0.00                             | 0  |
| Customers                                       | 17,120                  | 11.66                            | 1,996  |
| <b>Total</b>                                    | <b>49,192</b>           |                                  | <b>1,996</b>   |

| * This is made up of the following:     | Amount at 31 March 2015 |
|---|-------------------------|
|   | £'000                   |
| Barclays                                | 12,487                  |
| Handlesbanken                           | 81                      |
| Bank of Scotland                        | 29                      |
| Other Local Authorities                 | 19,475                  |
| <b>Total</b>                            | <b>32,072</b>           |
| Accrued interest                        | 526                     |
| <b>Total including accrued interest</b> | <b>32,598</b>           |

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

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

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

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

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

The maturity analysis of financial liabilities is as follows:

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

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

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

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

#### Market risk

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

#### Interest rate risk

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

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

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

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

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

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

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

### Price Risk

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

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

### Foreign Exchange Risk

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

### 38. Heritage Assets: Summary of Transactions

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

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

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

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

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

The Authority recognises its responsibility, in acquiring additions to the collections, to ensure the care of collections, documentation arrangements and use of collections will meet the requirements of the Accreditation Standard. It will take into account limitations on collecting imposed by such factors as inadequate staffing, storage facilities and care of collections arrangements and 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 its heritage assets. The upgraded storage facilities have been secured and were made available for use during the latter part of 2013 which means that the authority is in a position to house medium-size archaeological excavation archives in environmental conditions that meet the national standard. Medway Council recognises that the long-term storage of archaeological site archives is a County-wide problem on a massive scale that may require a County-wide solution (including the possible creation of a centralised staffed storage facility to house archaeological site archives from the historic county of Kent).

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

## Management of Heritage Assets

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

## Disposals of Heritage Assets

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

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

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

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

## **40. Non-adjusting event post reporting period**

There are no non-adjusting events post reporting period



## 41. 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. As the company was within its first 12 months of trading the value of transactions was not considered to be material in Medway Council's accounts for 2013/14. Medway Norse's first complete financial year ran from 2 February 2014 to 1 February 2015.

Under IFRS 11 the relationship between Medway Council and Medway Norse Ltd is a joint venture. We have, therefore, included under cost of services, the costs charged by Medway Norse net of rebate in the Income and Expenditure Account and have included the investment at cost plus post acquisition reserves in the Balance Sheet.

### Medway Norse Transport

In 2013/14 the Council entered into an arrangement with Commercial Services for the provision of transport services. A new company, Medway Norse Transport, was formed to deliver this service. The Council's relationship with Medway Norse Transport is identical to that with Medway Norse Ltd.

Medway Norse Transport commenced trading on 1 April 2014 and its financial year runs through to 1 February 2015, therefore the financial statements of the Company only represent ten months of the Company being fully operational.

Under IFRS 11 the relationship between Medway Council and Medway Norse Transport is a joint venture. We have, therefore, included under cost of services, the costs charged by Medway Norse Transport net of rebate in the Income and Expenditure Account and have included the investment at cost plus post acquisition reserves in the Balance Sheet.

## 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.

|                                  | 2013/14       | 2014/15       |
|----------------------------------|---------------|---------------|
|                                  | £             | £             |
| <b>Income</b>                    |               |               |
| Moorings                         | 13,194        | 11,982        |
| Rent & Other Income              | 14,308        | 20,766        |
| <b>Total Income</b>              | <b>27,502</b> | <b>32,748</b> |
| <b>Expenditure</b>               |               |               |
| Building Costs                   | 2,983         | 19,638        |
| Operational Costs                | 1,977         | 1,709         |
| Recharges                        | 2,681         | 5,462         |
| <b>Total Expenditure</b>         | <b>7,641</b>  | <b>26,809</b> |
|                                  |               |               |
| <b>NET INCOME/ (EXPENDITURE)</b> | <b>19,861</b> | <b>5,939</b>  |

## H. Supplementary Financial Statements

### Table of Contents

|   |            |
|---|------------|
| <b>The Collection Fund Statement</b> .....  | <b>122</b> |
| <b>Notes to the Collection Fund Account</b> .....                                   | <b>124</b> |
| 1. Council Tax .....  | 124        |
| 2. Income from Business Rates .....   | 124        |
| 3. Council Tax/NDR Bad Debt Provision and NDR provision for valuation appeals ..... | 125        |
| 4. Surplus/Deficit .....  | 126        |
| <b>Housing Revenue Account</b> .....  | <b>127</b> |
| Explanatory Foreword .....  | 127        |
| <b>HRA Income and Expenditure Statement</b> .....                                   | <b>128</b> |
| <b>Movement on the Housing Revenue Account Statement</b> .....                      | <b>129</b> |
| <b>Notes to the Housing Revenue Account</b> .....                                   | <b>129</b> |
| 1. Adjustments between accounting basis and funding basis under statute .....       | 129        |
| 2. <i>Transfers to or from (earmarked) reserves</i> .....                           | 130        |
| 3. Housing Revenue Account Stock .....  | 130        |
| a. <i>Rentable Dwelling Stock</i> .....   | 130        |
| b. <i>Non-Rentable Dwelling Stock</i> .....   | 130        |
| c. <i>Non-Dwelling Stock</i> .....  | 131        |
| 4. HRA Non-Current Assets .....   | 131        |
| 5. Major Repairs Reserve .....  | 132        |
| 6. Analysis of HRA Capital Expenditure and Funding .....                            | 132        |
| 7. Summary of HRA Capital Receipts .....  | 133        |
| 8. Rent Rebate Subsidy Limitation .....   | 133        |
| 9. Tenants' Arrears .....   | 133        |
| 10. HRA Share of Contributions to the Pensions Reserve .....                        | 133        |
| 11. Depreciation and Amortisation Charges .....                                     | 134        |
| 12. Item 8 Credit and Item 8 Debit (General) Determination .....                    | 134        |
| 13. Gross Rent Debit .....  | 134        |

## 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.

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

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

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

| Year Ended<br>31<br>March<br>2014<br>Restated |  | Notes    | Year Ended      |                  |                  |
|---|--|----------|-----------------|------------------|------------------|
|   |  |          | 31 March 2015   |                  |                  |
| Total   |  |          | Business Rates  | Council Tax      | Total            |
| £'000   |  |          | £'000           | £'000            | £'000            |
|   | <b>Amounts required by statute to be credited to the Collection Fund</b>   |          |                 |                  |                  |
| (106,585)                                     | Council Tax  | 1        |                 | (110,758)        | (110,758)        |
| 0   | Transfers from General Fund:   |          |                 |                  |                  |
|   | • council tax benefits   |          |                 |                  | 0                |
|   | • Council tax Reduction Scheme   |          |                 |                  | 0                |
| (87,779)                                      | Non-Domestic Rates   | 2        | (86,530)        |                  | (86,530)         |
| <b>(194,364)</b>                              | <b>Total Amount required by statute to be credited to the Collection Fund</b>  |          | <b>(86,530)</b> | <b>(110,758)</b> | <b>(197,288)</b> |
|   | <b>Amounts required by statute to be debited to the Collection Fund</b>  |          |                 |                  |                  |
|   | Precepts and demands from major preceptors and the authority   |          |                 |                  |                  |
| 127,822                                       | • Medway Council   |          | 42,670          | 92,477           | 135,147          |
| 10,852  | • Police and Crime Commissioner for Kent (PCCK)  |          |                 | 11,417           | 11,417           |
| 6,026   | • Kent Fire and Rescue Service (KFRS)  |          | 871             | 5,484            | 6,355            |
|   | Payment with respect to central share (including allowable deductions) of the non-domestic rating income to be paid to central government by billing authorities |          |                 |                  |                  |
|   | Business rates:  |          |                 |                  |                  |
| 40,648  | • payment to national pool   |          | 43,540          |                  | 43,540           |
| 293   | • costs of collection  |          | 289             |                  | 289              |
|   | Impairment of debts/appeals  |          |                 |                  |                  |
| 1,705   | • write-offs of uncollectable amounts  | 3        | 0               |                  | 0                |
| 135   | • allowance for impairment   |          | 715             | 886              | 1,601            |
| 9,236   | • Increase/Decrease in Provision for appeals   |          | 6,951           |                  | 6,951            |
| <b>196,717</b>                                | <b>Total Amount required by statute to be debited to the Collection Fund</b>   |          | <b>95,036</b>   | <b>110,264</b>   | <b>205,300</b>   |
| <b>(133)</b>                                  | <b>Opening fund balance</b>  |          | <b>4,113</b>    | <b>(1,893)</b>   | <b>2,220</b>     |
| <b>2,220</b>                                  | <b>Closing Fund Balance</b>  | <b>4</b> | <b>12,619</b>   | <b>(2,387)</b>   | <b>10,232</b>    |
| <b>2,353</b>                                  | <b>Movement on fund balance</b>  |          | <b>8,506</b>    | <b>(494)</b>     | <b>8,012</b>     |

## Notes to the Collection Fund Account

### 1. Council Tax

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

The Council Tax Base for 2014/15 was 78,406.79 (76,712.35 in 2013/14). The tax base for 2014/5 was approved by the Portfolio Holder for Finance on 27 January 2014 and was calculated as follows:

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 | Ratio 9ths | Band D Equivalent Gross | Exemptions & Discounts | Band D Equivalent Net |
|--|----------------------|------------|-------------------------|------------------------|-----------------------|
| A  | 11,179               | 6          | 7,453                   | 1,358                  | 6,094.39              |
| B  | 37,859               | 7          | 29,446                  | 3,444                  | 26,002.16             |
| C  | 32,995               | 8          | 29,329                  | 2,530                  | 26,798.76             |
| D  | 16,987               | 9          | 16,987                  | 1,202                  | 15,785.20             |
| E  | 8,450                | 11         | 10,328                  | 650                    | 9,677.93              |
| F  | 3,550                | 13         | 5,128                   | 216                    | 4,912.19              |
| G  | 1,336                | 15         | 2,227                   | 112                    | 2,114.17              |
| H  | 63                   | 18         | 126                     | 50                     | 76.30                 |
| <b>Total</b>   | <b>112,419</b>       |            | <b>101,024</b>          | <b>9,562</b>           | <b>91,461.10</b>      |
| Council Tax Support  |                      |            |                         |                        | (11,478.57)           |
| Sub Total  |                      |            |                         |                        | 79,982.53             |
| Allowance for Non Collection (2.4%)                        |                      |            |                         |                        | (1,919.57)            |
| Sub Total  |                      |            |                         |                        | 78,062.96             |
| Crown Contribution   |                      |            |                         |                        | 343.83                |
| <b>Tax Base for the Calculation of Council Tax 2014/15</b> |                      |            |                         |                        | <b>78,406.79</b>      |
| <b>Tax Base for the Calculation of Council Tax 2013/14</b> |                      |            |                         |                        | <b>76,712.35</b>      |

### 2. Income from Business Rates

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

In 2013/14, the administration of NDR changed following the introduction of a business rates retention scheme which aims to give 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 2014/15 were estimated before the start of the financial year as £43.54m to Central Government, £0.871m to KFRS and £42.959m to Medway Council. These sums have been paid in 2014/15 and charged to the collection fund in that year.

The total income from business rate payers collected in 2014/15 was £86.53m (£87.779m 2013/14)

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and hence business rates outstanding as at 31 March 2015. As such, authorities are required to make provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. The total provision charged to the collection fund for 2014/15 has been calculated at £6.951m.

For 2014/15, the total non-domestic rateable value at the year-end is £217.3m (£222.9m in 2013/14). The national multipliers for 2014/15 were 47.1p for qualifying Small Business, and the standard multiplier being 48.1p for all other businesses (46.2p and 47.1p respectively in 2013/14).

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

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

| 2013/14<br>£000s |              |  | 2014/15<br>£000s |              |
|------------------|--------------|--|------------------|--------------|
| Collection Fund  | Medway Share |  | Collection Fund  | Medway Share |
| 2,454            | 2,071        | Balance at 1 April                         | 2,482            | 2,095        |
| (744)            | (629)        | Write-offs during year                     | (688)            | (582)        |
| 772              | 653          | Contributions to provisions during year    | 886              | 742          |
| <b>28</b>        | <b>24</b>    | <b>Net Increase/decrease in Provisions</b> | <b>198</b>       | <b>160</b>   |
| <b>2,482</b>     | <b>2,095</b> | <b>Balance at 31 March</b>                 | <b>2,680</b>     | <b>2,255</b> |

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

| 2013/14<br>£000s |              |  | 2014/15<br>£000s |              |
|------------------|--------------|--|------------------|--------------|
| Collection Fund  | Medway Share |  | Collection Fund  | Medway Share |
| 2,426            | 1,189        | Balance at 1 April                         | 2,533            | 1,241        |
| (961)            | (471)        | Write-offs during year                     | (1,067)          | (522)        |
| 1,068            | 523          | Contributions to provisions during year    | 715              | 350          |
| <b>107</b>       | <b>52</b>    | <b>Net Increase/decrease in Provisions</b> | <b>(352)</b>     | <b>(172)</b> |
| <b>2,533</b>     | <b>1,241</b> | <b>Balance at 31 March</b>                 | <b>2,181</b>     | <b>1,069</b> |

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2015. This is the first year of the provision.

| 2013/14<br>£000s |              |  | 2014/15<br>£000s |              |
|------------------|--------------|--|------------------|--------------|
| Collection Fund  | Medway Share |  | Collection Fund  | Medway Share |
| 0                | 0            | Balance at 1 April                         | 9,236            | 4,526        |
| 9,236            | 4,526        | Contributions to provisions during year    | 6,951            | 3,406        |
| <b>9,236</b>     | <b>4,526</b> | <b>Net Increase/decrease in Provisions</b> | <b>6,951</b>     | <b>3,406</b> |
| <b>9,236</b>     | <b>4,526</b> | <b>Balance at 31 March</b>                 | <b>16,187</b>    | <b>7,932</b> |

#### 4. Surplus/Deficit

For 2014/5 the Collection Fund incorporates both Council Tax and Non Domestic Rates, overall the Collection Fund shows a deficit of £10,232,000 (2013/14 originally reported deficit £1,798,000, restated deficit £2,220,000), apportioned as follows:

Medway Council deficit £4,168,000 (2013/14 originally reported deficit £60,000, restated deficit £482,000), The Police and Crime Commissioner for Kent surplus £251,000 (2013/14 surplus £244,000), Kent and Medway Fire and Rescue Authority deficit £5,000 (2013/14 surplus £75,000) and Central Government deficit of £6,310,000 (2013/14 deficit £2,057,000). The makeup of these surpluses and deficits are shown in the table below.

|                                     | Total Collection Fund | Medway Council | Police and Crime Commissioner for Kent | KFRS       | Central Government |
|-------------------------------------|-----------------------|----------------|--|------------|--------------------|
|                                     | £'000                 | £'000          | £'000                                  | £'000      | £'000              |
| NDR Collection Fund Surplus/deficit | (12,619)              | (6,183)        | 0                                      | (126)      | (6,310)            |
| Council Tax                         | 2,387                 | 2,015          | 251                                    | 121        | 0                  |
| <b>Total</b>                        | <b>(10,232)</b>       | <b>(4,168)</b> | <b>251</b>                             | <b>(5)</b> | <b>(6,310)</b>     |



## Housing Revenue Account

### Explanatory Foreword

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

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

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

- the authority is required to follow by virtue of any enactment (statutory proper practices) – the principal statutory proper practices are determined by the 1989 Act, the 1993 Act, the Audit Commission Act 1998, the Accounts and Audit (England) Regulations 2011, the HRA (Accounting Practices) Directions 2011 and the Item 8 Determination
- are contained in a code of practice which is identified for this purpose by regulations made by the Secretary of State (non-statutory proper practices) – the most relevant to the HRA are the Code and SeRCOP.

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.

| 2013/14<br>£'000 |  | Notes | 2014/15<br>£'000 |
|------------------|--|-------|------------------|
|                  | <b>Expenditure</b>   |       |                  |
| 2,640            | Repairs & maintenance  |       | 2,558            |
| 3,915            | Supervision and management   |       | 3,868            |
| 163              | Rents, rates, taxes and other charges  |       | 184              |
| 97               | Rent Rebate Subsidy Limitation   | 8     | 0                |
| (7,498)          | Revaluation of dwellings as at 31 March 2015 due to increased valuations during 2014-15  | 4     | 0                |
| 5,723            | Depreciation and impairment of non-current assets  | 11    | 386              |
| 63               | Debt management costs  |       | 75               |
| 92               | Movement in the allowance for bad debts  | 9     | 71               |
| 0                | Sums directed by the Secretary of State that are expenditure in accordance with the Code                                       |       | 0                |
| <b>5,195</b>     | <b>Total Expenditure</b>   |       | <b>7,140</b>     |
|                  | Income   |       |                  |
| (12,639)         | Dwelling rents   |       | 12,818           |
| (183)            | Non-dwelling rents   |       | 152              |
| (1,227)          | Charges for services and facilities  |       | 1,283            |
| (52)             | Contributions towards expenditure  |       | 35               |
| (7)              | Reimbursement of Costs   |       | 13               |
| 0                | Sums directed by the Secretary of State that are income in accordance with proper practices                                    |       | 0                |
| <b>(14,108)</b>  | <b>Total Income</b>  |       | <b>14,300</b>    |
|                  |  |       |                  |
| (8,912)          | Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement |       | (7,160)          |
| 98               | HRA services share of Corporate and Democratic Core  |       | 99               |
| (105)            | HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services             |       | (59)             |
| <b>(8,919)</b>   | <b>Net Expenditure/(Income) for Housing Revenue Account Services</b>   |       | <b>(7,121)</b>   |
|                  | <b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</b>       |       |                  |
| 905              | (Gain) or loss on sale of HRA non-current assets   |       | (458)            |
| 2,477            | Interest payable and similar charges   | *1    | 2,472            |
| (26)             | Interest and investment income   |       | (24)             |
| 160              | Net interest on the net defined benefit liability (asset)  |       | 161              |
| 0                | Capital grants and contributions receivable  |       | 0                |
| <b>(5,402)</b>   | <b>Deficit/(Surplus) for the year on Housing Revenue Account Services</b>  |       | <b>(4,970)</b>   |

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

## Movement on the Housing Revenue Account Statement

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

| 2013/14<br>£'000 |   | 2014/15<br>£'000 |
|------------------|---|------------------|
| (4,346)          | <b>Balance on the HRA at the end of the previous reporting period</b>         | <b>(1,969)</b>   |
| (5,402)          | (Surplus) or deficit for the year on the HRA Income and Expenditure Statement | (4,970)          |
| 4,112            | Adjustments between accounting basis and funding basis under statute          | 3,435            |
| <b>(1,290)</b>   | <b>Net (increase) or decrease before transfers to or from reserves</b>        | <b>(1,535)</b>   |
| 3                | Transfers to or (from) HRA reserves   | 6                |
| 2,000            | Transfers to or (from) GF reserves  | 0                |
| 1,664            | Contribution to capital expenditure from reserves                             | 1,264            |
| <b>2,377</b>     | <b>(Increase) or decrease in year on the HRA</b>                              | <b>(266)</b>     |
|                  |   |                  |
| <b>(1,969)</b>   | <b>Balance on the HRA at the end of the current reporting period</b>          | <b>(2,235)</b>   |

## Notes to the Housing Revenue Account

### 1. Adjustments between accounting basis and funding basis under statute

| 2013/14<br>£'000   |   | 2014/15<br>£'000 |
|--|---|------------------|
| <b>ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:</b>               |   |                  |
| (3,362)  | Charges for depreciation and impairment of non-current assets   | (3,516)          |
| 5,148  | Revaluation losses on Property, Plant and Equipment   | 3,162            |
| (1,628)  | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement  | (700)            |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:</b>                 |   |                  |
| 723  | Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement  | 1,158            |
| (0)  | Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals  | 0                |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:</b>                    |   |                  |
| 3,362  | Reversal of Major Repairs Allowance credited to HRA   | 3,516            |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT:</b> |   |                  |
| (12)   | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements                           | (12)             |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE PENSIONS RESERVE:</b>                         |   |                  |
| (372)  | Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement   | (439)            |
| 258  | Employer's pension contributions and direct payments to pensioners payable in the year  | 268              |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:</b>             |   |                  |
| (5)  | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (3)              |
| <b>4,112</b>   | <b>TOTAL ADJUSTMENTS</b>  | <b>3,435</b>     |

## 2. Transfers to or from (earmarked) reserves

In 2014/15, £0.563m was transferred from New build reserves to fund 30% of 2014/15 new build construction costs. The following table shows an analysis of the amounts held in HRA earmarked reserves and the amounts set aside in year and the amounts posted back from earmarked reserves to meet expenditure in 2014/15:

|                                | Balance 1 April 2013<br>£'000 | Transfers in 2013/14<br>£'000 | Transfers out 2013/14<br>£'000 | Balance 31 March 2014<br>£'000 | Transfers in 2014/15<br>£'000 | Transfers out 2014/15<br>£'000 | Balance 31 March 2015<br>£'000 |
|--------------------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|-------------------------------|--------------------------------|--------------------------------|
| <b>Housing Revenue Account</b> |                               |                               |                                |                                |                               |                                |                                |
| HRA IT Reserve                 | (37)                          | 0                             | 37                             | 0                              | (6)                           | 0                              | (6)                            |
| Major Repair Reserve           | (286)                         | (5,872)                       | 6,020                          | (138)                          | (7,604)                       | 7,073                          | (669)                          |
| HRA Capital Receipt(1-4-1)     | (64)                          | (204)                         | 0                              | (268)                          | (486)                         | 563                            | (190)                          |
| <b>Total</b>                   | <b>(386)</b>                  | <b>(6,076)</b>                | <b>6,056</b>                   | <b>(407)</b>                   | <b>(8,095)</b>                | <b>7,637</b>                   | <b>(865)</b>                   |

## 3. Housing Revenue Account Stock

### a. Rentable Dwelling Stock

The Council managed 3,007 rentable dwellings as at 31 March 2015. The movement in stock is analysed as follows:

| Stock Type   | 01 April 2014 | Adjustments | Additions | Disposals   | 31 March 2015 |
|--------------|---------------|-------------|-----------|-------------|---------------|
| Houses       | 1,296         | 0           | 9         | (14)        | 1,291         |
| Flats        | 1,258         | 0           | 0         | (1)         | 1,257         |
| Maisonettes  | 215           | 0           | 0         | 0           | 215           |
| Bungalows    | 244           | 0           | 0         | 0           | 244           |
| <b>Total</b> | <b>3,013</b>  | <b>0</b>    | <b>9</b>  | <b>(15)</b> | <b>3,007</b>  |

### b. Non-Rentable Dwelling Stock

The Council owned 1 non rentable dwelling as at 31 March 2015. The movement in stock is analysed as follows:

| Stock Type   | 01 April 2014 | Adjustments | Additions | Disposals | 31 March 2015 |
|--------------|---------------|-------------|-----------|-----------|---------------|
| Flats        | 1             | 0           | 0         | 0         | 1             |
| <b>Total</b> | <b>1</b>      | <b>0</b>    | <b>0</b>  | <b>0</b>  | <b>1</b>      |

### c. Non-Dwelling Stock

The Council owned 878 non dwellings as at 31 March 2015. The movement in stock is analysed as follows:

| Stock Type             | 01 April 2014 | Adjustments | Additions | Disposals    | 31 March 2015 |
|------------------------|---------------|-------------|-----------|--------------|---------------|
| Garages                | 582           | 0           | 15        | (157)        | 440           |
| Garages with water     | 271           | 0           | 0         | (88)         | 183           |
| Carports               | 114           | 0           | 0         | (32)         | 82            |
| Car spaces             | 76            | 0           | 71        | 0            | 147           |
| Underground car spaces | 30            | 0           | 0         | (4)          | 26            |
| Other spaces           | 0             | 0           | 0         | 0            | 0             |
| <b>Total</b>           | <b>1,073</b>  | <b>0</b>    | <b>86</b> | <b>(281)</b> | <b>878</b>    |

#### 4. HRA Non-Current Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Balance Sheet. The estimated market value at 31 March 2015 was £325,313,400 (31 March 2014 £324,807,236). The 'discounted' existing use value reflects the economic cost to government of providing council housing at less than market rents.

|  | Dwellings<br>£'000 | Other<br>Land and<br>Buildings<br>£'000 | Total<br>£'000 |
|--|--------------------|---|----------------|
| Cost or Valuation 1 April 2014   | 106,418            | 4,584                                   | 111,002        |
| Additions  | 5,437              | 185                                     | 5,622          |
| 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 | (145)              | (414)                                   | (559)          |
| Derecognition – disposals  | (684)              | (37)                                    | (720)          |
| Derecognition - Surplus Assets   | 0                  | 0                                       | 0              |
| Assets reclassified (to)/from Held for Sale  | 0                  | 0                                       | 0              |
| Other movements in cost or valuation   | 1,198              | (821)                                   | 377            |
| <b>As at 31 March 2015</b>   | <b>112,224</b>     | <b>3,497</b>                            | <b>115,720</b> |
| Depreciation as at 1 April 2014  | 0                  | (195)                                   | (195)          |
| Depreciation charge  | (3,216)            | (300)                                   | (3,516)        |
| Depreciation written out to the Revaluation Reserve  | 0                  | 0                                       | 0              |
| Depreciation written out to the Surplus//Deficit on the Provision of Services                    | 3,252              | 438                                     | 3,690          |
| Derecognition – disposals  | 18                 | 3                                       | 21             |
| Derecognition - Surplus Assets   | 0                  | 0                                       | 0              |
| Assets reclassified (to)/from Held for Sale  | 0                  | 0                                       | 0              |
| Other movements in depreciation and impairment   | (54)               | 54                                      | 0              |
| <b>As at 31 March 2015</b>   | <b>0</b>           | <b>(0)</b>                              | <b>(0)</b>     |

| Net Book Value      |         |       |         |
|---------------------|---------|-------|---------|
| As at 31 March 2014 | 106,418 | 4,389 | 110,807 |
| As at 31 March 2015 | 112,224 | 3,496 | 115,720 |

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

## 5. Major Repairs Reserve

The Major Repairs Reserve is the account that can be used to fund capital works and repay debt. The Major Repairs Reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account for Major Repairs Allowance, Impairment on Non Dwellings and debt repayment as well as from the retained 1-4-1 Capital Receipts Reserves and the Prudential Borrowing for the New Housing Build Programme. If the depreciation is of a different value to the Major Repairs Allowance, then a transfer from or to the Housing Revenue Account is required to adjust this amount back to the value of the Major Repairs Allowance. The net sum is then available to finance Housing Revenue Account capital expenditure. The analysis of movement on the Major Repairs Reserve is as follows:

|  | 2013/14      | 2014/15      |
|--|--------------|--------------|
|  | £'000        | £'000        |
| <b>Major Repairs Reserve</b>                               |              |              |
| <b>Opening Balance</b>                                     | <b>(286)</b> | <b>(138)</b> |
| HRA Depreciation from Capital Adjustment Account           | (3,362)      | (3,516)      |
| Depreciation Adjusting Transfer from HRA                   | 0            | 0            |
| Specific Revenue Contributions towards Capital Expenditure | (40)         | 0            |
| Transfer from Reserves                                     | (1,664)      | (1,264)      |
| Transfer from 1-4-1 Capital Receipts Reserves              | 0            | (563)        |
| Borrowing  | 0            | (1,471)      |
| Financing of HRA Capital Expenditure                       | 5,214        | 6,283        |
| Debt Repayment from the HRA                                | (806)        | (790)        |
| Debt Repayment from the Capital Adjustment Account         | 806          | 790          |
| <b>Closing Balance</b>                                     | <b>(138)</b> | <b>(669)</b> |

## 6. Analysis of HRA Capital Expenditure and Funding

|   | 2013/14        | 2014/15        |
|---|----------------|----------------|
|   | £'000          | £'000          |
| <b>Operational Assets</b>                             |                |                |
| Dwellings   | 4,969          | 5,437          |
| Other Land and Buildings                              | 245            | 185            |
| Non-Operational Assets                                | 0              |                |
| Asset under Construction                              | 0              | 661            |
| Revenue Expenditure Funded from Capital under Statute | 0              | 0              |
| <b>Total</b>  | <b>5,214</b>   | <b>6,283</b>   |
| <b>Funded by:</b>                                     |                |                |
| Major Repairs Reserve                                 | (5,214)        | (6,283)        |
| Borrowing   | 0              |                |
| Housing Right To Buy Capital Receipts                 | 0              |                |
| Revenue contributions from the HRA                    | 0              |                |
| <b>Total Funding</b>                                  | <b>(5,214)</b> | <b>(6,283)</b> |

## 7. Summary of HRA Capital Receipts

|   | 2013/14<br>£'000 | 2014/15<br>£'000 |
|---|------------------|------------------|
| Receipts from the sale of land  | (12)             | (20)             |
| Receipts from the sale of other property                                    | 0                | 0                |
| Repayment of discount   | (16)             | 0                |
| 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           | (697)            | (1,144)          |
| <b>Total Capital Receipts</b>   | <b>(725)</b>     | <b>(1,164)</b>   |

## 8. Rent Rebate Subsidy Limitation

From 1 April 2004, the responsibility for the cost of rent rebates relating to Council Tenants was transferred from the Housing Revenue Account to the General Fund. In order to ensure a neutral effect, the Secretary of State determined under Item 10 of the Local Government and Housing Act 1989 that where authorities had set rents in excess of a specified pre-set limit, a transfer equal to the loss of rent rebate subsidy should be made from the Housing Revenue Account to the credit of the General Fund. In 2014/15 this amounted to NIL (£97,209 in 2013/14) 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  | 2013/14<br>£'000 | 2014/15<br>£'000 |
|---|------------------|------------------|
| General Stock                                       | 254              | 236              |
| Garages   | 1                | 1                |
| Former Tenancies – General Stock                    | 332              | 307              |
| Former Tenancies - Garages                          | 1                | 1                |
| Housing Benefit Overpayments – General Stock        | 28               | 0                |
| Court Costs – General Stock                         | 26               | 31               |
| Former Tenancy Arrears of Current Tenants – General | 49               | 52               |
| Rechargeable Repairs                                | 71               | 74               |
| <b>Total Arrears</b>                                | <b>762</b>       | <b>702</b>       |
| <b>Percentage of Gross Rents (HRA)</b>              | <b>6.00%</b>     | <b>5.45%</b>     |

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

|                                       | 2013/14<br>£'000 | 2014/15<br>£'000 |
|---------------------------------------|------------------|------------------|
| Opening Balance                       | 563              | 596              |
| Additional Provision made during year | 92               | 71               |
| Add Credit write-offs                 | 3                | 4                |
| Less amounts written off              | (61)             | (89)             |
| <b>Closing Balance</b>                | <b>597</b>       | <b>582</b>       |

## 10. HRA Share of Contributions to the Pensions Reserve

In accordance with IAS 19 the HRA Income and Expenditure Statement includes £0.174m (£0.119m in 2013/14), for its share of the contribution from the Pensions Reserve. The costs calculated by the pensions' actuary include current service cost, interest on pension liability, and



expected return on assets. The HRA share is calculated by apportioning costs based on employers contributions charged to the HRA for the year. In accordance with proper accounting practice, the contribution is then removed by crediting the Movement on the Housing Revenue Account Statement to ensure the HRA is only charged with pension fund contributions payable for the year.

## 11. Depreciation and Amortisation Charges

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

In 2014/15 the depreciation charged on HRA assets was £3.516m (£3.362m 2013/14). The charge for depreciation of £3.216m 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:

|  | 2013/14      | 2014/15      |
|--|--------------|--------------|
|  | £'000        | £'000        |
| <b>Property, Plant and Equipment</b>       |              |              |
| Council Dwellings                          | 3,062        | 3,216        |
| Other Land and Buildings                   | 300          | 300          |
| <b>Total Depreciation and Amortisation</b> | <b>3,362</b> | <b>3,516</b> |

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

The capital asset charges accounting adjustment, calculated in accordance with the Item 8 credit and Item 8 debit (general) determination for 2013/14 was £8.188m (2012/13 was £6.434m.)

The following table shows the breakdown of this adjustment:

| Type of Debt  | 2013/14      | 2014/15      |
|---|--------------|--------------|
|   | £'000        | £'000        |
| <b>Capital Asset Charges</b>                          |              |              |
| Revaluation and Impairment (Gain) / Losses            | (5,148)      | (3,162)      |
| Revenue Expenditure Funded from Capital Under Statute | 0            | 0            |
| Depreciation Charge in Respect of Council Dwellings   | 3,062        | 3,216        |
| Other Depreciation Charges                            | 300          | 300          |
| Debt repayment  | 806          | 790          |
| <b>Total Capital Asset Charges</b>                    | <b>(981)</b> | <b>1,144</b> |
| Actual Interest Charged on HRA Debt                   | 1,670        | 1,681        |
| <b>Capital Asset Charges Accounting Adjustment</b>    | <b>690</b>   | <b>2,825</b> |

## 13. Gross Rent Debit

The rent income figure is net of voids. The level of voids in 2014/15 was on average equal to 0.43% (0.56% in 2013/14). The level of rebates provided was £8,877,591 (2013/14 £8,845,775), which amounted to 65.48% of rent and HB related service charges collectable (2013/14 66.36%).



# I. Glossary of Terms

## **ACCRUAL**

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

## **ACTUARIAL GAINS & LOSSES**

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

## **AGENCY**

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

## **APPOINTED AUDITORS**

The Audit Commission appoints external auditors to each local authority, from one of the firms of registered auditors. The Audit Commission ceased on 31 March 2015 and in its place there will be a new framework for local public audit, due to start after the Commission's current contracts with audit suppliers end in 2016/17, or potentially in 2019/20 if all the contracts are extended.

## **ASSET**

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

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions.

## **CAPITAL EXPENDITURE**

Expenditure to acquire or enhance long-term assets.

## **CAPITAL FINANCING**

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

## **CAPITAL PROGRAMME**

The capital schemes the 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.

## **DISCOUNTS**

Discounts represent the outstanding discount received on the premature repayment of Public Works Loan Board loans. In line with the requirements of the Code, gains arising from the repurchase or early settlement of borrowing have been written back to revenue. However, where the repurchase or borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains have been recognised over the life of the replacement loan.

## **EARMARKED RESERVES**

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

## **EXCEPTIONAL ITEMS**

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

## **EXTERNAL AUDIT**

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

## **EMPLOYEE EXPENDITURE**

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

## **EXPENDITURE**

This is amounts paid by the Authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for.

## **FAIR VALUE**

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

## **FINANCIAL INSTRUMENTS**

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

**FINANCE LEASE**

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

**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).

**GROUP ACCOUNTS**

Group Accounts consolidate the financial results of the Council, any of its subsidiaries and/or associates. The Council is not required to produce this for the 2014/15 Statement of Accounts, due to materiality.

**HERITAGE ASSET**

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

**HOUSING BENEFITS**

This is an allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Authority's own tenants are known as rent rebate and that paid to private tenants as rent allowance.

**HOUSING REVENUE ACCOUNT (HRA)**

Local Authorities are required to maintain a separate account - the Housing Revenue Account - which sets out the expenditure and income arising from the provision of Council housing. Other services are charged to the General Fund.

**IMPAIRMENT**

A reduction in the value of a non-current asset below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a non-current asset's market value and evidence of obsolescence or physical damage to the asset.

**INCOME**

These are amounts due to the Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment. Income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the Council).

**INFRASTRUCTURE ASSETS**

Non-current assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges and water and drainage facilities.

**INTANGIBLE ASSETS**

These are non-current assets that do not have physical substance but are identifiable and controlled by the Council. Examples include software, licenses and patents.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

## **INVENTORIES**

Amounts of unused or unconsumed stocks held in expectation of future use. Inventories are comprised of the following categories:

- Goods or other assets purchased for resale
- Consumable stores
- Raw materials and components
- Products and services in intermediate stages of completion
- Finished goods

## **JOINT VENTURE**

This is an entity in which the reporting Authority has an interest on a longer term basis and is jointly controlled by the reporting Authority and one or more other entities under a contractual or other binding arrangement.

## **LEASING COSTS**

This is rental paid for the use of an asset for a specific period of time. Two forms of lease exist: finance leases and operating leases.

## **LENDER OPTION BORROWER OPTION (LOBO)**

A LOBO is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

## **LIABILITIES**

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

## **LONG TERM DEBTORS**

Amounts due to Medway Council where payment is to be made over a time period of time in excess of one year.

## **MATERIALITY**

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

## **MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

A financial planning document setting out future years financial forecasts for the Council. It considers local and national policy influences and their impact on the general fund revenue budget, capital programme and HRA. In Medway it usually covers a four year timeframe.

## **MINIMUM REVENUE PROVISION (MRP)**

MRP is the minimum amount which must be charged to an Authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing Act 1989.

**NON-CURRENT ASSETS**

Assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**NATIONAL NON-DOMESTIC RATE (NNDR or BUSINESS RATES)**

NNDR is the levy on business property, based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines a national rate poundage each year which is applicable to all Local Authorities. The income derived from business rates is distributed between preceptors (Medway, Kent Fire and Rescue Service and Central Government) based upon a pre-determined allocation percentage.

**NET BOOK VALUE (NBV)**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**NET DEBT**

Net debt is the Council's borrowings less cash and liquid resources.

**NET OPERATING EXPENDITURE**

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

**NON-OPERATIONAL ASSETS**

Fixed assets held by the 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.

**NET REALISABLE VALUE (NRV)**

NRV is the open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

**OPERATING LEASE**

This is a type of lease, usually of computer equipment, office equipment, furniture, etc. where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Authority.

**OPERATIONAL ASSETS**

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

**PRECEPT**

The amount levied by various Authorities that is collected by the Council on their behalf. The precepting Authorities in Medway are the Police and Crime Commissioner for Kent (PCC) and the Kent Fire and Rescue Service (KFRS)

**PREMIUMS**

These are discounts that have arisen following the early redemption of long term debt, which are written down over the lifetime of replacement loans where applicable.

**PRIOR PERIOD ADJUSTMENTS**

These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

**PROPERTY PLANT AND EQUIPMENT**

Assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**PROVISION**

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

**PUBLIC WORKS LOAN BOARD (PWLB)**

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

## **RATEABLE VALUE**

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

## **RELATED PARTIES**

Related parties are Central Government, other Local Authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Assistant Director and above and the Pension Fund. For individuals identified as related parties, the following are also presumed to be related parties:-

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

## **RELATED PARTY TRANSACTIONS**

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

## **REPORTING STANDARDS**

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

## **RESERVES**

Amounts set aside for general contingencies, to provide working balances or earmarked to specific future expenditure. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the revaluation reserve cannot be used to meet current expenditure.

## **REVALUATION RESERVE**

The Reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

## **REVENUE EXPENDITURE**

The day-to-day expenses of providing services.

## **REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the Comprehensive Income and Expenditure Statement (CIES).

## **REVENUE SUPPORT GRANT**

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



## **SERVICE REPORTING CODE OF PRACTICE (SeRCOP)**

Prepared and published by CIPFA, the Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP). It is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SeRCOP establishes proper practices with regard to consistent financial reporting for services and in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

## **TREASURY MANAGEMENT**

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

## **TREASURY MANAGEMENT STRATEGY**

A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council.

## **UNSUPPORTED (PRUDENTIAL) BORROWING**

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from revenue budgets.