



A. Narrative Report

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Introduction from the Chief Finance Officer – Phil Watts

The accounts have been prepared this year with a much tighter timetable than previously, as the Council prepares to close the accounts earlier in line with a Government requirement to close by 31 May each year from 2017/18, with the audit completed by the end of July each year.

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). It therefore aims to provide information so that members of the public, including electors and residents, Council Members, partners, stakeholders and other interested parties can:

- Understand the overarching financial position of the Council;
- Have confidence that the public money with which the Council has been entrusted and has used has been accounted for in an appropriate manner;
- Be assured that the financial position of the Council is sound and secure.

The style and format of the accounts complies with CIPFA standards and is similar to that of previous years. Once again the content has been reviewed in efforts to make the accounts more streamlined and easy to understand.

The Narrative Report provides some information about Medway and the Council as well as key issues affecting the business and the accounts. It also provides a summary of the financial position at the 31 March 2016.

I have therefore prepared the Narrative Report so that it is structured as follows:

1. An Introduction to Medway
2. Key Facts about Medway
3. The Political Structure of the Council
4. A Summary of the 2015/16 Financial position

1. An Introduction to Medway

Medway is an area of northern Kent comprising the towns of Rochester, Strood, Chatham, Gillingham and 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, including:

- Education
- Environment
- Social care
- Housing
- Planning
- Business Support

2. Key facts about Medway

Population (ONS estimate 2014) 274,000

Age	
0-15	20.20%
16-64	64.50%
65+	15.30%

Religion	
Christian	58.00%
Muslim	2.00%
Other	10.00%
No Religion	30.00%

Ethnicity (Census 2011)	
• White ethnicity	89.60%
• Born outside UK	10.40%

3. The Political Structure of the Council

Medway has 22 wards and the Council consists of 55 elected Members. Following the local election in May 2015 the political make-up of the Council is:

Political Party	Number of Councillors
Conservative	36
Labour	15
UKIP	3
Independent	1
Total	55

4. A Summary of the 2015/16 Financials

Revenue Account 2015/16 Final Outturn

Budget Requirement:	Actual Spend £'000	Budget £'000	Variance £'000
Business Support	6,727	8,994	(2,267)
Levies	1,090	1,039	51
Interest & Financing	9,788	13,243	(3,455)
Capital Charges	(38,977)	(38,977)	0
Regeneration Community & Culture	80,405	80,984	(579)
Children & Adults	248,284	243,194	5,090
Public Health	12,112	12,663	(551)
Better for Less	0	(450)	450
Medway Norse	(124)	(263)	139
Category Management Savings	0	(1,070)	1,070
Total General Fund	319,305	319,357	(52)
Funded by:			
Net Contribution to/(from) Reserves	2,620	(1,150)	3,770
RSG	(38,784)	(38,784)	0
NNDR	(47,542)	(45,866)	(1,676)
Council Tax	(97,344)	(95,250)	(2,094)
DSG	(107,877)	(107,877)	0
Other School Grants	(6,004)	(6,004)	0
Specific Grants	(186)	(186)	0
Education Support Grant	(2,326)	(2,236)	(90)
New Homes Bonus	(6,225)	(6,242)	17
Public Health Grant	(15,762)	(15,762)	0
Total Funding	(319,430)	(319,357)	(73)
Total funding and expenditure	(125)	0	(125)

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;
- Housing Revenue Account Income and Expenditure Statement
- Movement on Housing Revenue Account Statement
- Collection Fund

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 the Accounts and Audit Regulations 2011 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 Authority's financial position, and assists in the interpretation of the financial statements. It summarises the major influences affecting the Authority's income and expenditure and cash flow, and information on the financial needs and resources of the Authority.

Annual Governance Statement

The Authority 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 Authority has complied with the 'CIPFA/SOLACE Delivering Good Governance' Framework 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 Authority, the Statement of responsibilities to prepare the Statement of Accounts and the independent auditor's opinion on the financial statements.

Statement of responsibilities

This Statement sets out the responsibilities of the Authority and the Chief Finance Officer in respect of the proper administration of the financial affairs of the Authority 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 Authority 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 as to whether they give a true and fair view of the financial position and the expenditure and income of the Authority for the year in question. The auditor also has a responsibility to satisfy himself that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources by review and examination of the Authority's corporate performance management and financial management arrangements against criteria specified by the Audit Commission.

Financial statements and notes

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

The principal statements are set out on pages 46 to 53 and are presented as follows:

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Authority, 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 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 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 Authority.

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. Authorities 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 end of the accounting period of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority 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 Authority 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 Authority 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 (i.e. borrowing) to the Authority.

Notes to the principal financial statements

The notes to the principal financial 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. These notes are set out on pages 54 to 115.

The supplementary financial statements are set out on pages 116 to 130 and are presented as follows:

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) Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the accounting 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. Authorities 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.

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.

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 and is set out on pages 131-139.

Summary of the 2015/16 Financial Performance of the Authority

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

Budget

How the Authority's Budget has Changed		Budget 2015/16	
		£'000	£'000
Budget requirement 2014/15		337,414	
Changes in function and funding		(11,299)	
Adjusted Base Budget			326,115
Other cost pressures		800	
Service pressures		6,225	
Efficiency and other savings		(13,783)	
			(6,758)
Budget Requirement 2015/16			319,357
<u>Financed By:</u>			
National Non-Domestic Rates (NDR) Redistribution		45,866	
Revenue Support Grant (RSG)		38,784	
Other Specific Grant		138,307	
Council Tax		95,250	
Reserves		1,150	
Total			319,357

Summary of the Local Government Finance Settlement 2015/16

	Final	Final	Change	
	2014/15	2015/16	£'000	%
NDR Redistribution	44,916	45,866	950	2.1%
Revenue Support Grant	52,392	38,784	(13,608)	(26.0%)
Total	97,308	84,650	(12,658)	(13.0%)

The tables above show that 2015/16 was a financially difficult year with a 13% cut in Local Government Finance Settlement against the comparable figure for 2014/15. This pressure will continue into 2016/17 where funding has been reduced by a further 15.6%.

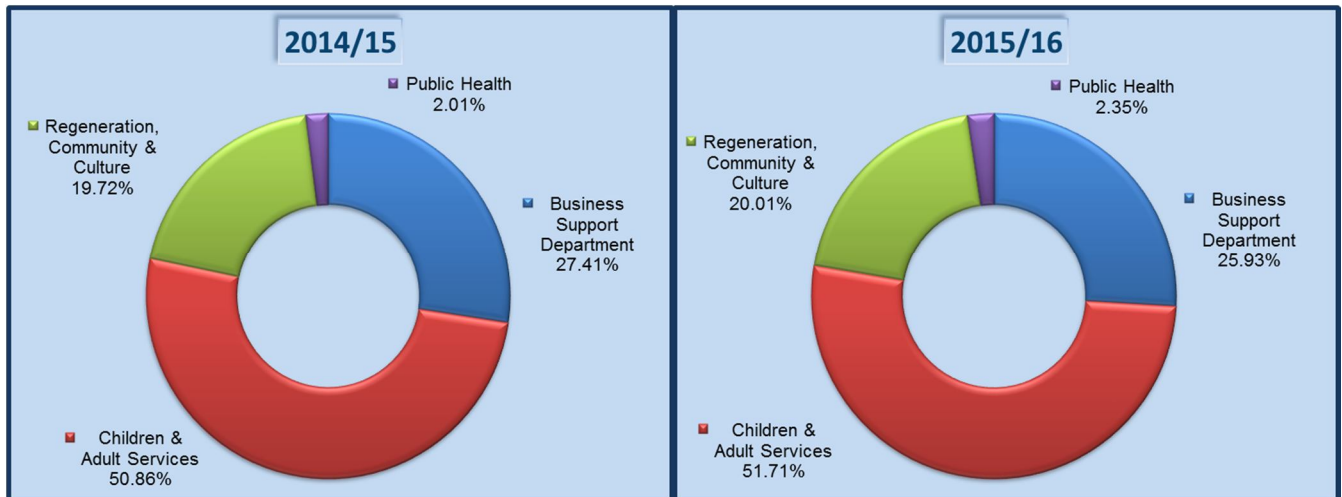
Revenue

A contribution from earmarked reserves of £1.15m was planned for 2015/16. However, a corporate underspend resulted in a contribution to the General Reserve of £0.125m at year end so, essentially, the reserve drawdown was reduced to £1.025m.

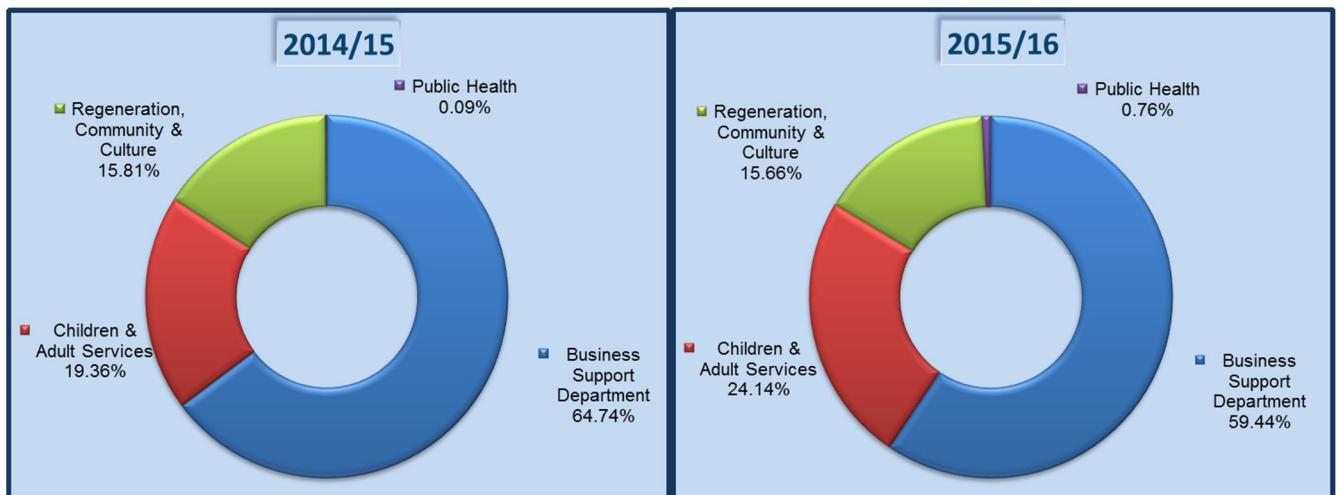
The table below details the management accounts summarising the income and expenditure for each directorate of the Council for 2015/16. Although these figures differ from the those shown in the Comprehensive Income and Expenditure Statement, the two sets can be linked by referring to Note 21 of the financial statements:

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	154,488	(147,392)	7,096	9,387	(2,291)
Children & Adult Services	308,134	(59,850)	248,284	243,194	5,090
Regeneration, Community & Culture	119,242	(38,837)	80,405	80,985	(580)
Public Health	14,000	(1,888)	12,112	12,663	(551)
Sub-total Services	595,864	(247,967)	347,897	346,229	1,668
Amounts included within management accounts but excluded from services within statutory accounts:					
Medway Nurse	0	(124)	(124)	(263)	139
BfL and Category Mgt. Savings	0	0	0	(1,520)	1,520
Investment Properties	0	(369)	(369)	(393)	24
Sub-total excluded from services within Statutory accounts	0	(493)	(493)	(2,176)	1,683
Sub-total Services reported within management accounts	595,864	(248,460)	347,404	344,053	3,351
Levies	1,090	0	1,090	1,039	51
Depreciation Credit	0	(38,977)	(38,977)	(38,977)	0
Interest & Financing	9,787	0	9,787	13,242	(3,455)
Total Expenditure	606,741	(287,437)	319,304	319,357	(53)
<u>Funded:-</u>					
Contributions from Reserves	0	(1,150)	(1,150)	(1,150)	0
Specific Non-ringfenced Grants	0	(138,380)	(138,379)	(138,307)	(72)
RSG	0	(38,784)	(38,784)	(38,784)	0
Retained Business Rate Income	0	(45,866)	(45,866)	(45,866)	0
Council Tax	0	(95,250)	(95,250)	(95,250)	0
Total Funding	0	(319,430)	(319,429)	(319,357)	(72)
Total Net Expenditure			(125)	0	(125)

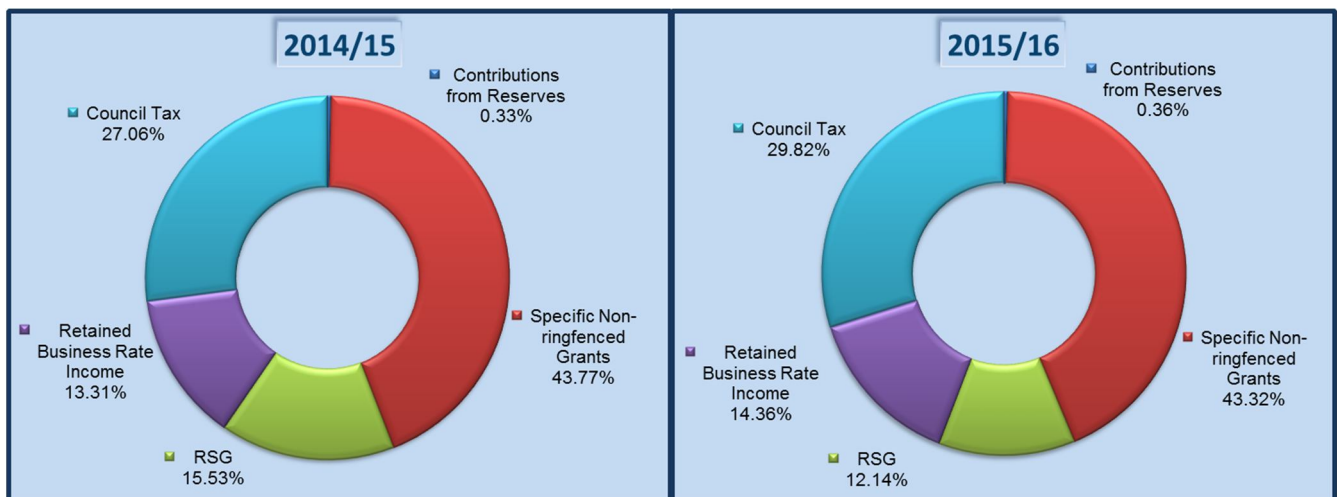
The graphs below show the breakdown of the gross expenditure to the individual costs of services. Note 21 to the financial statements gives further detail.



The graphs below show the breakdown of the gross Income to the individual costs of services. Note 21 to the financial statements gives further detail.



The graphs below show the funding of the budget.



The outturn on the Housing Revenue Account (HRA) was a surplus of £0.582m (2014/15 surplus £1.561m), compared to a surplus budget of £0.986m (2014/15 budget £0.821m). Having taken account of the 2015/16 surplus and a contribution from reserves, the Housing Revenue Account balance stands at £2.817m as at 31 March 2016 (£2.235m as at 31 March 2015).

Capital

The Council's capital investment in 2015/16 was £42.096m (2014/15 £41.112m). The expenditure was within the definition of the Local Government and Housing Act 1989.

Capital Expenditure has been financed from the following sources:

Funding source	Funding £'000
Borrowing (supported capital expenditure and unsupported)	8,994
Government Grants and Other Contributions	20,621
Major Repairs and Other Contributions	4,149
Capital Receipts	4,307
Developer Contributions	627
Revenue and Reserves	3,398
Total	42,096

The Council spent £22.894m 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 of £10.985m and £8.217m relating to "Revenue Expenditure Funded from Capital under Statute" (formerly 'deferred charges'). (see Accounting Policy 23).

Capital expenditure incurred by the Council in 2015/16 is summarised below:

Directorate	Approved Programme	Forecast Spend	Outturn	Variation to Forecast	Slippage to
	2015/16+ £'000	2015/16 £'000	2015/16 £'000	2015/16 £'000	2016/17+ £'000
Expenditure					
Business Support	5,892	2,324	2,529	205	3,363
Children and Adult Services	35,214	13,573	10,801	(2,772)	24,413
Regeneration, Community and Culture	66,814	24,603	21,585	(3,018)	45,229
Public Health	296	296	296	0	0
Member Priorities	402	374	101	(273)	301
Housing Revenue Account	20,589	8,163	6,784	(1,379)	13,805
Total	129,207	49,333	42,096	(7,237)	87,111

The capital programme for 2015/16 and beyond reflects the major investment priorities of the Authority which include a significant schools programme to deliver additional primary school and Special Educational Needs (SEN) places, Information and Communications Technology (ICT) investment to deliver the digital transformation agenda and a significant regeneration programme in which transport infrastructure features.

Borrowing/Investments

During 2015/16 the level of debt, i.e. money that the Council owes, increased by £14.497m from £166.006m to £180.797m. This is due to the current strategy of financing capital from investment balances rather than new debt and not replacing debt that falls due for repayment, during 2015/16, £8.994m 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 2015/16 considered by Audit Committee on 30 June 2016.

Non-Current Assets

The total value of the Authority's non-current assets has decreased in 2015/16 by £23 million. The main increases/decreases related to derecognitions/disposals/transfer of academies and other property disposals (£49m) revaluation gains (£34m) and depreciation (£43m). This was partially offset by capital investment (£34m).

Within the 2015/16 accounts, infrastructure assets (highways, footways, bridges etc) are included within the Property, Plant and Equipment on the Balance Sheet. In 2016/17 the Council will need to recognise a new asset category on the Balance Sheet, the Highways Network Asset. This will be disclosed as a separate line on the Council's Balance Sheet and separately in the notes to the accounts. This is as a result of changes to the 2016/17 Code of Practice which will require all Local Authorities to value their Highways Network Asset using a Depreciated Replacement Cost basis rather than the current valuation basis of Depreciated Historical Cost. It is expected that this change in accounting policy will result in a significant increase in the value of these assets and would normally require retrospective restatement of the Council's Balance Sheet from 1 April 2015. However, CIPFA/LASAAC has introduced transitional arrangements so that this will be applied from 1 April 2016 with no requirement to restate the information in the prior year. The Council has reviewed its transport infrastructure systems and data to ensure that it can meet the reporting requirements from 1 April 2016.