

CABINET

29 JUNE 2010

STATEMENT OF ACCOUNTS 2009/2010

Portfolio Holder: Councillor Alan Jarrett, Deputy Leader and Finance

Report from: Mick Hayward, Chief Finance Officer

Summary

This report requests Cabinet to recommend that the Audit Committee approve the council's draft statement of accounts for 2009/2010. The Accounts and Audit Regulations 2003 (as amended) (the Regulations) require these accounts to be formally approved by the authority before 30 June 2010.

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.

2. Background

2.1 Local authorities are required under the Regulations to produce an annual statement of accounts that is subject to scrutiny by the external auditors. The auditor will give an opinion on the accounts and additionally interested persons have the right to inspect the accounts and make representations to the auditor. PKF are the auditors responsible for the audit of accounts that must be published by 30 September 2010.

3. Statement of accounts

3.1 These documents are subject to detailed requirements as to content and style mainly prescribed by the Code of Practice on Local Authority Accounting and the Best Value Accounting Code of Practice (BVACOP). The 2009 Code and subsequent regulations have introduced a number of changes to the accounts, some requiring restatement of the April 2009 opening balances, which are explained further in paragraph 3.5.

3.2 The 2009 Code is the last to be based on UK GAAP (Generally Accepted Accounting Principles). The 2010/2011 and future accounts will be based on International Financial Reporting Standards (IFRS). The major implications of this change were reported to Members last year and work is continuing to ensure that the 2010/2011 accounts will be IFRS compliant.

- 3.3 In accordance with proper accounting practice, the statement of accounts includes the following elements which are subject to scrutiny by the appointed auditor:
- an explanatory introduction and statement by the Chief Financial Officer;
 - a statement of responsibilities which outlines responsibility for efficiently managing the affairs of the Council;
 - the auditor's opinion which is given at the completion of the audit and must occur by 30 September 2010 (following audit);
 - a statement of accounting policies which highlights practices adopted by the authority;
 - an income and expenditure account which combines the income and expenditure relating to all the Council's functions including the General Fund and the Housing Revenue Account. Although this indicates a 'deficit' for the year approaching £108m, this is more than negated by an 'Additional amount credited to the General Fund in accordance with statute and proper practice' (see below);
 - a statement of movement on the general fund balance which indicates an increase of approximately £2.2m during 2009/2010;
 - statement of total recognised gains and losses which includes a number of significant adjustments, although having no effect on the bottom line of the accounts imply a 'loss' for the year of over £144m;
 - the balance sheet which shows the assets, liabilities and net worth of the authority at the end of the financial year with comparatives for 2008/2009;
 - 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 and
 - notes to the core financial statements which give further explanation and analysis of some of the movement in the income and expenditure account, balance sheet and cash flow statement together with a number of disclosures required by the Code. These notes also include the 'Additional Amount Credited To The General Fund In Accordance With Statute And Proper Practice' which are amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance.
- 3.4 Further supplementary financial statements are required to expand on the information included within the statements above;
- the housing revenue account (HRA) which summarises the major items of expenditure and income relevant to the account with supplementary notes where required and
 - the collection fund which records council tax and business rate income and disbursements to precepting authorities (the council's own requirement, Kent Police Authority, Kent Fire and Rescue Service and parish councils) and payments to central government in respect of the contribution to the business rates pool.

- 3.5 The major changes to the 2009/2010 accounts are as follows:
- The net Cost of Services within the Income and Expenditure Account has been restated in 2008/2009 to reflect the new requirement to include an estimate of the cost of accrued leave and flexitime at the year end. To negate any effect in the deficit for the year an 'Accumulated Absences Account' has been created. It can be seen from the balance sheet that the movement on this account in 2009/2010 was only £30,000;
 - Collection of council tax for precepting authorities i.e. police and fire, is now treated as an agency agreement. A proportion of the cash collected, arrears and provision for doubtful debts belongs to these Precepting authorities who have been notified of the amounts for 2008/2009 and 2009/2010. The debtor and creditor figures, together with a notional 'cash' balance have been reflected in the accounts for both years;
 - Similarly, National Non-Domestic Rates collected on behalf of central government is an agency agreement and debtor and creditor figures adjusted accordingly;
 - Local authorities have, for a number of years, been required to disclose 'Officers' Emoluments' by number of staff in each £10,000 band starting at £50,000. The banding has now been changed to £5,000 and there is a new requirement to disclose additional individual remuneration details for senior employees. Senior employees include the head of paid service, statutory chief officers and those having responsibility for the management of the Council. Should any officer receive a salary in excess of £150,000 they will have to be identified by name rather than post.
- 3.6 The draft statement of accounts is attached as Appendix 1 to this report. The elements that may be of most interest to Members are the income and expenditure account, statement of movement on the general fund balance, statement of total recognised gains and losses and the balance sheet which can be found on pages 11 to 13.
- 3.7 The presentation of the income and expenditure account (I&EA) requires costs to be allocated to service headings that are subsequently netted out through the appropriation or other 'below the line' adjustments. To assist Members in making the comparison to the more familiar management accounting format as shown on page 2.
- 3.8 Paragraph 2.1 refers to the audit of the statements being completed by the 30 September 2010. The actual audit of the statements is scheduled to commence on 12 July and clearly the statement of accounts that is presented for approval does not reflect any changes that this audit may require. If there are significant amendments to the statement of accounts these will need to be reported back to Members prior to formal publication.

4. Summary financial position for 2009/2010 (General Fund)

- 4.1 Throughout the year, regular monitoring reports have identified the major variations from approved budgets. An initial forecast overspend of over £1 million has progressively reduced and the last report to Cabinet, based on January spend, had indicated a potential underspend of £1 million. The final accounts now show a revenue surplus of £2.2 million (summary on page 2 of Appendix 1 and an increase in General Fund balance for the year at page 31).

- 4.2 The final position, shown in the table below, is a significant achievement and is a reflection both of the successful efforts to maintain services at minimum cost and the robustness of the budgets that were set.

Directorate	Budget £000s	Outturn £000s	Variation £000s
Children and Adult Services	291,788	289,214	(2,574)
Regeneration, Community and Culture	69,591	68,446	(1,145)
Business Support	18,708	17,370	(1,338)
Public Health	487	445	(42)
Interest & Financing	13,450	14,049	599
Levies	882	921	39
Planned Use of Reserves	(3,276)	(1,026)	2,250
Asset Rentals	(38,917)	(38,913)	4
DSG	(164,588)	(164,588)	0
Total	188,125	185,918	(2,207)

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

4.3.1 Children and Adults Services

The net underspend for the directorate was £2.574 million, predominantly from within the Adult Social care division. The major variances within this service were as follows:

- Commissioning and Client Financial Services underspend £407,000. Predominantly from Supporting People contracts:
- Older People underspend £475,000. Net income greater than anticipated;
- Physical Disability underspend £521,000. Based on current service users and
- Learning Disability £1.456 million underspend. Changes to service users care packages have resulted in reduction in the forecasts for homecare and residential care and direct payments.

In respect of Learning and Achievement , Early Years generated an underspend of £321,000. The number of children accessing their free entitlement to nursery education in private, voluntary and independent sector being lower than previously estimated.

An overspend of £0.9 million has resulted from costs of maternity leave, pension and redundancy costs and reimbursement of school deficits although over 50% of the overspend is DSG funded.

4.3.2 Regeneration, Community and Culture

The Directorate underspent by £1.145 million against its revenue budget of £69.591 million. The major variances within the directorate were as follows:

- Waste Services £1.9m underspend generated by a delay in awarding the new contract and reduced tonnage of waste collected;
- Integrated Transport £505,000 underspend with a lower than expected take-up of the youth scheme (£302,000 saving), and additional staff charges to capital (£137,000 saving);
- Greenspaces & Country Parks £350,000 underspend, largely staff savings from vacancies (£271,000);
- Leisure & Sports £588,000 overspend with reduced footfall leading to non-achievement of income targets (£780,000) offset by savings achieved on expenditure of £192,000;
- Parking Services £403,000 overspend – income shortfall to target (£173,000), expenditure overspend (£230,000) including agency staff costs, works to Strood offices and costs for establishing Medway Street car park;
- Highways £281,000 overspend – cost of winter maintenance & related repairs and
- Economic Development £221,000 overspend, mostly as a result of the operating deficit at Medway Innovation Centre in respect of financing costs.

4.3.3 Business Support

The Department's outturn for 2009/2010 was £17.370 million, an underspend of £1.338 million against its revenue budget of £18.708 million. The main areas of cost saving were achieved within the following services:

- Staff costs – stringent control over staff appointment resulted in an underspend across the department of some £1.2 million;
- Benefit Payments £813,000 overspend due to a increased volume of Exempt Accommodation claims, offset by a £330,000 transfer from reserves resulting in a net overspend of £483,000;
- Housing Property Management £193,000 overspend due to lower than anticipated rental income from shops as a result of the recession;
- Revenues & Benefits Administration £303,000 underspend largely from staff savings and reduced contract costs;
- Central Accommodation £283,000 underspend due to additional rental income being received and savings made, in particularly on utility costs and NNDR; and
- Corporate Provisions £235,000 underspend mainly due to the planned maintenance budget not being fully spent.

4.3.4 Interest and Financing

The sustained drop in investment returns and ending of prior term investments at more favourable rates has resulted in an overspend of £599,000 with the review of MRP (Minimum Revenue Provision) failing to provide any mitigation.

4.3.5 Planned Use of reserves

The 2009/2010 revenue budget anticipated that £3.276 million would be required from general and specific reserves to support expenditure. In the event only the £1.026 million from PSA Reward Grant was drawn upon. This has preserved balances and the underspend has resulted in reserves increasing by some £2.2 million.

- 4.4 In accordance with the recommendations of Council in February of this year, £500,000 of the 2009/2010 revenue underspend has been applied to the General Fund Balance. The excess above this amount (£1.707 million) has been allocated to the General Reserve and the Balance Sheet (page 13 of Appendix 1) shows a balance of £10 million for the General Fund and a General Reserve balance of £7.111 million (including £409,000 PSA Reward grant). The former represents 5.0% of the 2010/2011 non-schools budget for the council of £206,320 million.

5. Summary financial position for 2009/2010 (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 at page 45 of Appendix 1 and reveals a surplus for the year of £824,000. This is then incorporated into the balance shown at the foot of the Balance Sheet (page 13) as the Housing Revenue Account balance that now stands at just over £5.1 million. This is only available for housing purposes and cannot be used to support General Fund (council tax) costs.

6. Summary financial position for 2009/2010 (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 Learning and Skills Council and Standards Fund grants from the DCSF. In 2009/2010 schools received funding totalling £183 million. 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 at the foot of the Consolidated Balance Sheet (page 13). This shows that the schools balances have reduced from £5.850 million as at 31 March 2009 to £5.230 million as at 31 March 2010 with schools drawing upon their balances to fund expenditure in excess of delegated budgets. In addition:
- Net revenue reserves have fallen, as a percentage of the total resources available, from 3.2% to 2.9%
 - There has been a reduction of £0.339 million in the level of reserves held by schools with positive balances;
 - There has been an increase of £0.281 million in the level of deficits held by schools; but
 - The number of schools in deficit has reduced from ten to seven.

7. Summary financial position for 2009/2010 (Capital)

7.1 The total approved capital programme for 2009/2010 and future years was some £155 million. Capital forecasts for individual years are continually monitored and expenditure reprofiled as appropriate. The final capital expenditure for 2009/2010 was £63.40 million compared to the 2008/2009 outturn of £60.19 million. The variance of £8.72 million against the latest forecast expenditure for the year of £72.13 million arose from a variety of schemes, and the commitments will largely be rolled forward to be spent in future years. The table below analyses spend across directorates and the funding streams and section 7.3 highlights the major achievements during 2009/2010.

Summary capital outturn position

Directorate	Approved programme 2009/2010 and beyond £000	Forecast Spend 2009/2010 £000	Outturn 2009/2010 £000	Variance £000
Children and Adults	41,933	24,205	21,824	(2,381)
Regeneration, Community & Culture	92,586	36,886	32,111	(4,775)
Business Support	20,980	11,037	9,469	(1,568)
Total	155,499	72,128	63,404	(8,724)
Funding Source			Funding of expenditure £000's	
Borrowing (supported and unsupported)			9,015	
Government Grants			32,750	
Major Repairs Allowance/Reserve			4,413	
Capital Receipts			4,609	
General and Earmarked Reserves			1,188	
Developer and Other Contributions			11,429	
Total			63,404	

7.2 Borrowing represents supported capital expenditure (revenue), (SCE(R)) together with unsupported (invest to save) borrowing, predominantly for the highways investment programme. Government grants represents the proportion of the supported capital expenditure (grant), (SCE(C)), used in financing spend in the year. The balance of government grants that have not been spent during 2009/2010 will roll forward to support spend in later years. These grants include certain education grants linked to the academic year, and thus available to the end of the summer term.

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 Adults Services

- Improvements to the Old vicarage;
- Mobile technology to support children's social workers;
- Completion of Children's Centres at Twydall Infant, Saxons Primary, St Margaret's at Troy Town, Primary, Kingfisher Primary, Oaklands Infant, Temple Mill Primary, St James' CE Primary, Brompton Westbrook Primary and All Faiths primary schools;
- Establishment of Foundation Stage Units at Abbey Court, Luton Infant and Greenvale Infant schools;
- Improvements to White Road Community Centre;
- Adaptations and extension to Hoo St. Werburgh Early Years Foundation Stage units;
- Creation of one form of entry at Pilgrim CE Primary school;
- Enhancement of swimming pool facilities at Hilltop Primary school and
- Provision of specialist sports college facilities at The Howard and Greenacre schools.

7.3.2 Regeneration, Community and Culture

- Setting up Jobshop, Chatham advice centre;
- Provision of bus stop improvements through Kickstart programme;
- Acquisition and development of Medway Street car park;
- Rebuilding of Church Terrace retaining wall;
- Medway Park development at Black Lion;
- Installation of air conditioning at Central Theatre and
- Installation of retractable seating at Brook Theatre.

7.3.3 Business Support

- New library PCs have been installed;
- ICT Strategic Fund – continuation of projects to ensure Medway has the infrastructure in place to deliver services efficiently and effectively;
- Improvements to housing stock together with disabled adaptations to properties;
- Improvements to private sector housing through renovation loans, Coldbusters initiative, Empty Homes programme and Crisis Grants and
- Property adaptations for disabled persons, with more funds added to reduce the backlog of cases.

7.3.4 Member's Priorities

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

- Further phase of allotment improvements, refurbishment of redundant allotment site at Cornwall Road and installation of solar pump at Bloors Lane;
- Improvements to Hook Meadow Youth and Community Centre;
- Contribution to improvements at Parkwood Community Centre;
- Parkwood Green toilet refurbishment;
- Various pavement, highway, lighting and CCTV improvements;
- Improvements to play areas at Hoo, Albemarle Road, Wigmore Park,
- New grand piano at The Brook and
- Youth shelter at Rainham Recreation Ground.

8. Reserves

- 8.1 Recent years have seen the Council's reserves diminish, largely as a result of financing capital investment but also in supporting revenue expenditure in the earlier years of Medway Council. The budget setting process for 2010/2011 forecast available reserves (General Reserve plus General Fund Balance) at 31 March 2010 at approximately £13 million after support for the revenue budget in 2009/2010. As reported earlier the revenue outturn for 2009/2010 produced an underspend of some £2 million and, together with the reserve funding not required for that year, results in available reserves of approximately £16.7 million.
- 8.2 As indicated in paragraph 4.4, The Revenue Balance (contingency) has been increased to £10 million, representing 5% of the 2010/2011 net budget excluding DSG, and the General Reserve stands at £6.702 million as at March 2010. The revenue budget for 2010/2011 requires £3.170 million support from the General Reserve and the balance of the capital programme £336,000 leaving an anticipated balance of £3.196 million as at 31 March 2010.
- 8.3 Members will note that the negative Pensions 'Reserve' shown at the foot of the balance sheet (page 13) has more than doubled to over £265 million. This would imply a massive increase in the net liability year to year. However the asset value of the fund increased significantly from £194 million to £274 million and this is consistent with the overall increase in the Kent County Council Fund being of the order of 35%. The increase in pension deficit has arisen principally due to the technical increase in the valuation of the liabilities by the fund's actuary. Accounting standard FRS17 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields which decreased year on year. Had these markets remained at their 2009 levels then the pensions deficit would have been £189 million less at £76 million.
- 8.4 The FRS17 valuation does not have any impact on the actual level of employer contributions paid to the Kent County Council Fund. Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields). A triennial valuation is being carried out as at 31 March 2010 and the results are expected to be known towards the end of the calendar year. Initial feedback from the actuary is that he does not expect there to be a significant increase in employer contribution rates.

9. Risk Management

- 9.1 The more significant financial risks faced by the Council in providing services were considered by Members in July 2009 during the first monitoring cycle for 2009/2010. Directorate management teams continually review expenditure and income and take corrective action where appropriate. The success of this continual review is clearly borne out by the outturn result.
- 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 Local Authorities (Functions and Responsibilities) (England) Regulations 2000 places a duty on Council or a designated committee to approve the statement of accounts and it is a function that cannot be delegated to Cabinet.

11 Recommendations

- 11.1 That Cabinet notes the revenue and capital outturns as reported in sections 4, 5, 6 and 7 and approves the actions taken in producing the Statement of Accounts as set out in these sections.
- 11.2 That Cabinet recommends to the Audit Committee that it approves the draft statement of accounts for 2009/2010.

12. Suggested reason for decision

- 12.1 There is a statutory requirement to approve the statement of accounts prior to 30 June 2010

Background papers

Revenue and Capital budget monitoring reports to Cabinet during 2009/2010. These are available on the Council's website www.medway.gov.uk

Report author: Mick Hayward, Chief Finance Officer.

MEDWAY COUNCIL

**DRAFT STATEMENT OF
ACCOUNTS**

2009/2010

Contents

A.	Explanatory Foreword	1
B.	Statement of Responsibilities for the Statement of Accounts	5
C.	Auditor's Report (Following Audit)	
D.	Statement of Accounting Policies	6
E.	Core Financial Statements	11
	<ul style="list-style-type: none">• Income and Expenditure Account• Statement of Movement on the General Fund Balance• Statement of Total Recognised Gains and Losses• Balance Sheet• Cash Flow Statement	
F.	Notes to the Core Financial Statements	16
G.	Supplementary Financial Statements	41
	<ul style="list-style-type: none">• Collection Fund Accounts• Housing Revenue Accounts	
H.	Glossary of Terms	50

A EXPLANATORY FOREWORD

Introduction

The Statement of Accounts for the year ended 31 March 2010 has been prepared in accordance with the Accounts and Audit Regulations 2003. The format of the accounts reflects the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom (SORP) 2009 published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The SORP introduces further changes to the format of the Statement of Accounts in preparation for the introduction of IFRS accounting and accounts being prepared under UK GAAP principles in 2010/2011. Major changes from the 2008/2009 accounts are explained where appropriate.

Statement of Accounts

The statements which follow summarise the Council's accounts for the financial year ended 31 March 2010. The main statements are:

- **Statement of Responsibilities** – this outlines the responsibilities of the Council and the Chief Financial Officer in preparing the accounts. From 2009/2010 the Chief Finance Officer has to certify that the accounts present a 'true and fair view' rather than 'presents fairly' in previous years. This change has no practical effect on the preparation of the accounts.
- **Statement of Accounting Policies** – this explains the basis of the figures presented in the accounts.
- **Income and Expenditure Account** – This account measures Medway Council's financial performance in terms of resources consumed and generated in providing services during the year. It is prepared using essentially the same accounting conventions that a company would use to produce its profit and loss account. However, this accounting basis does not reflect certain items which the Council, as a local authority, is required by statute and non-statutory proper practices to debit or credit to the General Fund. For example, statute allows capital expenditure to be directly funded from revenue but generally accepted accounting practice excludes this from the Income and Expenditure Account. Generally accepted accounting practice also requires depreciation of fixed assets to be included in the Income and Expenditure Account whereas statute precludes depreciation being charged to the General Fund. Therefore, although the outturn on the Income and Expenditure Account is important, to give a full presentation of the Council's financial performance, the impact of statutory requirements and non-statutory proper practices have to be considered.
- **Statement of Movements on the General Fund Balance** – this statement provides a reconciliation between the outturn on the Income and Expenditure Account and the balance established under the relevant statutory provisions and non statutory proper practices. This statement reconciles the surplus or deficit on the Income and Expenditure Account with the actual movement in reserves and hence the actual spending power carried forward to future years.
- **Statement of Total Recognised Gains and Losses (STRGL)** – this statement brings together the operational gains and losses for the year recognised in the Income and Expenditure Account and other gains and losses which are only recognised in the Balance Sheet, for example the revaluation of fixed assets or pension actuarial gains or losses, to show the total movement in the Council's net worth for the year.
- **Balance Sheet** – this explains the Council's financial position at the year-end. It provides details of the balances and reserves at the Council's disposal, its long-term indebtedness, the fixed and net current assets employed in operations and summarised information on the fixed assets held.

- **Cash Flow Statement** – this shows the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Housing Revenue Account** – this is the separate statutory account for income and expenditure relating to council housing.
- **Collection Fund** – this reflects the statutory requirement for the Council to maintain a separate account providing details of receipts of Council Tax and Business Rates and the associated payments to precepting authorities and to the National Non Domestic Rate (NNDR) Pool.

Review of Finance 2009/2010

Revenue

The final General Fund outturn was £185.9m, an underspend of £2.2m against the budget of £188.1m.

The table below summarises the income and expenditure for each directorate of the Council for 2009/2010.

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	162,793	(145,423)	17,370	18,708	(1,338)
Children & Adult Services	405,832	(116,618)	289,214	291,788	(2,574)
Regeneration, Community & Cultural Services	101,992	(33,546)	68,446	69,591	(1,145)
Public Health	1,439	(994)	445	487	(42)
Levies	921	0	921	882	39
Depreciation Credit	0	(38,913)	(38,913)	(38,917)	4
Interest & Financing	19,771	(5,722)	14,049	13,450	599
Planned Use of Reserves	0	(1,026)	(1,026)	(3,276)	2,250
Dedicated Schools Grant	0	(164,588)	(164,588)	(164,588)	0
	692,748	(506,830)	185,918	188,125	(2,207)
Funded:-					
Area Based Grant				11,852	
RSG				15,420	
NNDR Redistribution				66,805	
Council Tax				94,048	
				188,125	

The outturn on the Housing Revenue Account (HRA) was a surplus £824,000 (2008/2009 surplus £1,199,000), compared to a budget of £206,000 (2008/2009 budget £1,231,000). This surplus was credited to the HRA Reserve, which stands at £5,127,000 as at 31 March 2010 (£4,303,000 as at 31 March 2009).

Capital

The Council's capital investment in 2009/2010 was £63,404,000 (2008/2009 £60,489,000). The expenditure was within the definition of the Local Government and Housing Act 1989.

Capital Expenditure has been financed from the following sources: -

- Supported Capital Expenditure (Revenue) and Prudential borrowing (£9,016,000);
- Grants or contributions from Government bodies or other agencies and organisations (£44,178,000);
- Part proceeds from the sale of capital assets or the repayment of advances, the usable part, following pooling of HRA capital receipts (£4,609,000);
- Contributions from the Revenue Account and specific reserves (£5,601,000).

The Council spent £31,607,000 on the creation of new fixed assets used in the provision of services in the Medway area. Major schemes completed included a number of integrated transport measures, a programme of improvements to the Council's housing stock, the provision of new classrooms and improvements to school infrastructure. The remainder of capital expenditure is split between capital works in progress £8,808,000 and £22,989,000 relating to "Revenue Expenditure Funded from Capital under Statute" (formerly deferred charges). (see Statement of Accounting Policies 5).

Capital expenditure incurred by the Council in 2009/2010 is summarised below:

Directorate	Total Programme £'000	2009/2010 Forecast £'000	Outturn £'000	Variation £'000
Expenditure				
Business Support	20,980	11,037	9,469	1,568
Children and Adult Services	41,933	24,205	21,824	2,381
Regeneration, Community and Culture	92,586	36,886	32,111	4,775
Total	155,499	72,128	63,404	8,724

The capital programme for 2010/2011 and beyond reflects the major investment priorities of the Council which are as follows:

Regeneration of Chatham including the new road network and improvements to the Waterfront; Medway Park Development; the Local Transport Plan including improvements to the A228, Quality Bus Corridor; investment in the Council's housing stock and investment in schools to support delivery of high standards of education.

- **Borrowing/Investments**

During 2009/2010 the level of debt, i.e. money that the Council owes decreased by £50,576,000 from £252,610,000 to £202,034,000. This is due to the current strategy of financing capital from investment balances rather than new debt. Additionally as debt falls due for repayment it is not being replaced, whilst interest rates are low.

The level of investments has subsequently decreased from £134,751,000 to £89,059,000 primarily due to the above strategy.

- **Fixed Assets**

The total value of the Authority's fixed assets has decreased marginally in 2009/2010 by approximately £3,000. Although there was capital investment of some £40m, there was a similar decrease in the value of all classes of assets as a result of revaluation, impairment, depreciation and disposals.

B STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets and
- 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 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 applied them consistently;
- made judgements and decisions that were reasonable and prudent; and
- complied with the Code of Practice.

The Chief Finance Officer has also:

- kept proper accounting records which were up to date; and
- 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 31 March 2010 and its income and expenditure for the year ended 31 March 2010.

Mick Hayward
Chief Finance Officer

21 June 2010

D STATEMENT OF ACCOUNTING POLICIES

1. General

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

The following accounting practices are adhered to in respect of the specific areas of income, expenditure and balances listed below.

Employee Cost – these are charged to the accounts based upon full weeks or months worked, and an accrual made for salaries earned but unpaid at the end of the financial year. The exception to the accruals basis is for employee expenses and overtime allowances where the amounts involved year to year are not material. However, in preparation for the future requirements of International Financial Reporting Standards (IFRS) the value of annual leave not taken at the year end in respect of teaching staff has been calculated and accrued.

Pension Costs – In common with all local authorities the Council is required to participate in a pension scheme to provide specific deferred benefits to its employees by way of retirement pensions, widows' pensions, lump sum retirement payments and death grants. Benefits are paid from the Pension Fund, which receives contributions from both employees and employers. The Council participates in the scheme administered by Kent County Council.

The costs are recognised in full in the year the benefits are agreed. In the Income and Expenditure Account the liability is debited to the net cost of services. However, the charge required to be made against the Council Tax is based on the amount payable for the year, so the FRS 17 costs are reversed out in the Statement of Movements on the General Fund Balance as a transfer to the negative pension reserve. In the Balance Sheet the negative pension reserve is matched by a pension liability

Teaching staff are entitled to be members of the Teachers Pension Scheme and the administration for this scheme is carried out by the Teachers' Pensions Agency on behalf of the Department for Children Schools and Families (DCSF).

Premises Related Costs – all such costs are accrued and accounted for in the period to which they relate, with the exception of utilities (gas, electricity, water etc) where the effect is not considered material. Administrative buildings costs are allocated to directorates based on floor area with subsequent apportionments to service users on a per capita basis.

Supplies and Services – the costs of supplies and services are accrued and accounted for in the period during which they were consumed or received. Accruals are made for all material sums unpaid at the year-end where the goods and services have been received or work completed.

Insurance – in order to keep its external premium to the minimum, the Council operates a policy of self-insured retention for its insurable risks through an internal insurance fund. An insurance provision is held to cover the potential claims within the self-insured retention.

Government Grants – are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account in accordance with the principle of total cost, or, in the case of capital grants, to a government grants deferred account. Amounts are released from this account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate and reflected under Central Government Grants in the Income and Expenditure Account.

Customer and Client Receipts – these are accrued and accounted for in the period to which they relate. Provision is made for doubtful debts and known uncollectible debts are written off.

VAT is excluded from the income and expenditure in the accounts where it is able to be recovered. The Council is able to recover VAT on nearly all its expenditure.

2. Fixed Assets

All expenditure on projects, above the de minimis level of £10,000, on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefits to the Council and the service it provides for a period of more than one year. It excludes expenditure on routine repairs and day to day maintenance of fixed assets which is charged directly to service revenue accounts. Capital expenditure below the de minimis threshold, together with deferred charges, is written off through the Income and Expenditure Account.

Fixed assets are valued on the basis recommended by CIPFA in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. Fixed assets are classified into the groups required by the Code and are included in the accounts on the following basis:

- Council dwellings and other land and buildings used in the provision of services included in the balance sheet are valued on the basis of the net realisable value in existing use or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost.
- Non-operational assets and investment properties are included in the balance sheet at their open market value. In instances where it is lower, depreciated replacement cost has been used.
- Infrastructure Assets, Community Assets and Vehicles, Plant and Equipment are included in the balance sheet at historical cost less depreciation where applicable. These assets are not shown at market value and so are not subject to a revaluation review.

With effect from 1 April 2007, surpluses arising from the revaluation of fixed assets have been credited to the Revaluation Reserve. Any surpluses/deficits occurring on subsequent revaluations are also taken to this account. Assets are valued according to a rolling programme of revaluations to ensure where applicable each asset is valued every five years.

At the end of each financial year the value at which each category of assets is included in the balance sheet is reviewed. Fixed assets other than land are reviewed each year when no depreciation charge is made, or when the estimated useful life of the asset exceeds 50 years, or when there is some other influence that may have a material effect upon valuations. If the value has changed materially the valuation is adjusted. The reasons for these adjustments include:

- significant decline in the asset's market value over the year;
- obsolescence or physical damage;
- significant adverse change in the statutory or regulatory environment; or
- commitment to significant reorganisation.

Impairment caused by a clear consumption of economic benefits is recognised in the service revenue account.

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis. Where the Government requires that a proportion of the receipt is reserved for the repayment of external loans, this is credited to the Capital Adjustment Account. Upon disposal, the net book value of assets disposed of is written off against the Revaluation Reserve. Gains and losses on disposal of fixed assets are now included within the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.

3. Depreciation

Depreciation has been applied to most of the Council's fixed assets using the straight-line method over their economic lives. The objective of depreciation is to reflect in the revenue account the cost of the use of tangible fixed assets (ie amount of economic benefit consumed) in a period. No depreciation is charged in the year of acquisition of an asset.

Depreciation is calculated upon the following basis:

Council Dwellings – properties in this asset category are valued using the Beacon valuation method. This means properties are grouped on the basis of size, type and location and an average value is given to each property in the group. Depreciation is charged on a straight-line basis dependant on the age of the property.

Other Land and Buildings – all the Council buildings although regularly repaired and maintained, are depreciated over their useful economic lives;

Vehicles, Plant and Equipment – depreciation is applied on a straight-line basis over the useful economic lives of the assets. The majority of these range between three and ten years;

Infrastructure Assets – are depreciated on a straight-line basis over a thirty year period;

Community Assets – buildings are depreciated over their useful economic lives. Land is not depreciated;

Non-Operational Assets – investment properties are not depreciated as any change in value over time is reflected in annual revaluations on an open market value basis.

4. Charges for the Use of Fixed Assets

The capital charges made to service revenue accounts, central support services and trading accounts, equate to the sum of depreciation. Notional interest is no longer charged to services. Actual interest payable on outstanding borrowings, including interest payable under finance leases, and provision for depreciation is charged directly to the Income and Expenditure Account

5. Revenue Expenditure Funded from Capital Under Statute

The 2008 Code introduced this new classification of expenditure, with effect from the 2008/2009 accounts, where capital expenditure does not create a tangible fixed asset, as is the case with disabled facilities grants, for example. Prior to 2008/2009 this expenditure was recorded as a deferred charge.

Expenditure is charged to the Income and Expenditure Account with a corresponding credit to the General Fund Balance, from the Capital Adjustment Account, showing as a reconciliation item in the Statement of Movement on the General Fund Balance.

6. Basis of the Provision for the Repayment of Debt

Local authorities are required each year to set aside some of their revenues as provision for the repayment of debt. In 2004 the Prudential Code was introduced which specified detailed formulae for calculating the Minimum Revenue Provision (MRP) for the repayment of principal on the amount of loans borrowed by the Council. New regulations were introduced in February 2008 where Councils are able to agree differing methods of calculating MRP. For 2009/2010 MRP has been calculated on the basis of the new regulations whereby the debt is split between "grant funded debt" and "prudential borrowing". The Grant funded debt has MRP calculated on the basis of the 2004 regulations and for Prudential funded debt MRP is calculated on either the expected life of the asset or the anticipated lifespan of the invest to save scheme in accordance with the February 2008 regulations.

7. Interest Charges

All interest charges and expenses arising on loans are recharged between the Housing Revenue Account and the General Fund as determined by a statutory formula (referred to as the Item 8 Determination).

External interest payable and external interest receivable are separate entries in the Income and Expenditure Account.

8. Capital Receipts

The sale of assets gives rise to capital receipts. In 2004/2005 new rules were introduced for capital receipts resulting from the sale of 'Right to Buy' HRA assets. These capital receipts are subject to pooling arrangements which require that 75% of receipts from the disposal of dwellings. The Council can however net off allowable expenditure such as sale and improvement costs before pooling the receipts to the CLG. Other HRA assets are subject to a 50% pooling arrangement except that payments to CLG can be reduced by an accumulated 'Capital Allowance' comprising allowable expenditure on social housing and regeneration. These rules do not apply to capital receipts generated from the sale of General Fund assets and the Council can continue to use 100% of these capital receipts to fund new capital expenditure. Deferred capital receipts are shown separately in the balance sheet and refer specifically to amounts due on the sale of Council houses to tenants when the capital sum is payable over the life of the mortgage given by the Council.

9. Debtors and Creditors

All sums owed to or by the Council are set up in the accounts when due and not when received or paid, ie the Council uses the accruals method of accounting for both revenue and capital expenditure. However, no attempt is made at the year-end to apportion periodic charges such as utility and rental accounts, nor employee expenses and overtime allowances. This does not comply with the Code of Practice, but the year on year effect is not considered material.

10. Stocks

Stocks are valued at the lower of cost or net realisable value in accordance with SSAP9.

11. Accounting for Overheads

In accordance with the BVACOP all overheads not defined as Non Distributed Costs are fully recharged to service expenditure. Unapportionable Central Overheads, which are clearly defined in the Code, together with Democratic Representation and Management and Corporate Management Costs, are service expenditure headings in their own right, to which overheads have been allocated, and are not apportioned further. See Glossary for definitions.

12. Reserves

All amounts set aside to cover future specific expenditure or in support of net revenue expenditure are treated as reserves.

13. Balances

These are amounts held to cover unforeseen costs and cash flow management.

14. Provisions

The Council makes provision in compliance with FRS 12 where there is a present obligation as a result of a past event; where it is probable that a transfer of economic benefits will be required to settle the obligation; and where a reliable estimate can be made of the obligation.

15. Leasing

Items that are acquired through operating leases are not shown in the balance sheet, but are charges against the appropriate service revenue account in accordance with the SORP. No new assets have been acquired through finance leases during 2009/2010.

16. Investments and Borrowing

Under SORP 2009 financial liabilities are classified as amortised cost or fair value through profit or loss. All financial liabilities have been classified as amortised cost. Financial investments are classified as:

- loans and receivables – financial assets not traded in an active market will usually fall into this category e.g. fixed term deposits;
- available-for-sale – financial assets traded in an active market e.g. Gilt Edged Securities;
- fair value through profit or loss – acquired principally for the purpose of selling or repurchasing in the near term or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit taking or a derivative e.g. fund manager portfolio.

Loans and receivables are shown on the balance sheet at amortised cost but are disclosed at fair value in the notes to the accounts.

Available-for-sale and fair value through profit or loss are shown on the balance sheet at fair value.

Financial liabilities are shown on the balance sheet at amortised cost and disclosed at fair value in the notes to the accounts.

Fair Values have been determined based upon comparable new borrowing / deposit rates for the same financial instrument from a comparable lender. A consistent approach has been applied to both assets and liabilities.

E CORE FINANCIAL STATEMENTS

Figures for 2008/2009 have been restated to reflect the new requirements for the Collection Fund described further within the notes in Section F and Collection Fund in Section G and the new requirement to accrue for leave not taken at the year end.

Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing Council services during 2009/2010. It includes all day to day expenses and related income on an actual basis as well as transactions measuring the value of fixed assets actually consumed and the real projected retirement value of retirement benefits earned by employees during the year.

Restated 2008/2009 £'000	Service	Notes	Expenditure 2009/2010 £'000	Income 2009/2010 £'000	Net 2009/2010 £'000
1,607	Central services to the public		3,616	1,530	2,086
384	Court Services		458	0	458
64,628	Cultural, environmental and planning		74,164	27,418	46,757
72,623	Education services		351,641	248,341	103,300
25,321	Highways, roads and transport services		34,148	12,068	22,080
11,442	Local authority housing		10,577	11,840	(1,263)
5,653	Other housing services		122,918	114,787	8,131
85,608	Social services		113,456	25,479	87,977
20,303	Corporate and Democratic core		11,968	539	11,429
723	Non-distributed costs		24,580	23,906	674
288,292	Net Cost of Services		747,527	465,908	281,619
2,691	(Gain)/loss on disposal of fixed assets				(779)
259	Parish council precepts				279
(2,752)	Trading (surpluses) / deficits	4			(2,168)
12,170	Interest payable and similar charges	39			10,444
544	Contribution of housing capital receipts to Government Pool				191
(10,126)	Interest and investment income	39			(3,390)
6,400	Pension interest cost & return on assets				9,868
297,478	Net Operating Expenditure				296,064
(89,292)	Demand on the Collection Fund				(94,859)
(20,752)	Central Government Grant				(29,812)
(69,452)	Non-domestic rates redistribution				(66,805)
117,982	Deficit for the year				104,588

Statement of Movement on the General Fund Balance

This reconciliation statement summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance.

2008/2009 Restated £'000		Note	2009/2010 £'000
117,982	Deficit for the year on the income and expenditure account		104,588
(121,457)	Additional amount credited to the General Fund in accordance with statute and proper practice	1	(106,795)
(3,475)	Increase in General Fund balance for the year		(2,207)
(8,344)	General Fund balance brought forward		(9,500)
2,319	Transfer to General Reserve		1,707
(9,500)	General Fund Balance carried forward		(10,000)

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council and shows the aggregate increase or decrease in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2008/2009 Restated £'000			2009/2010 £'000
117,982	Deficit for the year on the income and expenditure account		104,588
(17,289)	Amortisation of grant funded fixed assets		(26,654)
(1,745)	(Surplus) / deficit arising on the revaluation of fixed assets		(69,193)
30,300	Actuarial (gains) / losses on pension fund assets & liabilities		132,537
129,248	Total recognised (gains) / losses for the year		141,278

Balance Sheet

	Notes	31 March 2010		31 March 2009
		£'000	£'000	Restated £'000
Fixed Assets				
Council Dwellings	11	176,600		173,934
Other Land and Buildings	11	702,578		719,493
Vehicles, Plant and Equipment	11	1,351		1,311
Infrastructure and Community Assets	11	144,291		133,838
Investment Properties	11	70,872		72,566
Work in Progress	11	<u>13,039</u>		<u>4,230</u>
			1,108,731	1,105,372
Long Term Investments	15		10,004	20,004
Long Term Debtors	16		787	882
TOTAL LONG TERM ASSETS			<u>1,119,522</u>	<u>1,126,258</u>
Current Assets				
Landfill Usage Allowances	17	0		0
Stocks and Work in Progress	17	152		144
Debtors	18	61,651		51,211
Short-term investments	15 & 38	79,055		114,747
Cash and Bank		<u>23,658</u>		<u>17,736</u>
		164,516		183,838
Current Liabilities				
Creditors	19	(58,768)		(55,457)
Short Term Borrowing	20	(26,895)		(52,351)
Bank Overdraft		<u>(23,719)</u>		<u>(16,466)</u>
		(109,382)		(123,817)
NET CURRENT ASSETS			55,134	59,564
Unapplied Capital Grants and Contributions				
Long Term Borrowing	20 & 38		(32,737)	(20,276)
Deferred Liabilities	21		(175,139)	(200,259)
Pensions Liabilities	22		(49,665)	(51,948)
Deferred Capital Receipts	23		(265,235)	(132,100)
Government Grant Deferred Account	24		(44)	(58)
Capital Contributions Deferred Account	24		(99,061)	(87,840)
Provisions	25		(9,476)	(9,970)
			<u>(2,941)</u>	<u>(1,735)</u>
TOTAL ASSETS LESS LIABILITIES			<u>540,358</u>	<u>681,636</u>
Financed by				
Reserves:-				
Revaluation Reserve	26		111,942	71,386
Usable Capital Receipts Reserve	27		1,799	4,719
Capital Adjustment Account	28		658,184	705,719
Earmarked Capital Reserves	29		682	2,847
Earmarked Revenue Reserves	29		6,584	7,272
General Reserve	29		7,111	3,263
Pensions Reserve	29		(265,235)	(132,100)
Financial Instrument Adjustment Account	38		(988)	(873)
Collection Fund Adjustment Account	40		609	77
Accumulated Absences Adjustment Account	41		(687)	(657)
Revenue Balances:-				
General Fund Balance	29		10,000	9,500
Housing Revenue Account Balance	29		5,127	4,303
Schools Balances	29		5,230	5,850
Trading Balances	29		0	330
TOTAL RESERVES AND BALANCES			<u>540,358</u>	<u>681,636</u>

Cash Flow Statement

	Notes	2009/2010 £'000	2008/2009 Restated £'000
REVENUE ACTIVITIES			
Cash Outflows			
Employees		261,958	256,274
Other operating payments		274,361	244,862
Housing and Council Tax Benefits		86,129	87,340
Precept Paid		279	259
Payments to Capital Receipts Pool		191	543
		<u>622,918</u>	<u>589,278</u>
Cash Inflows			
Goods and Services		(37,158)	(35,565)
Rents		(15,000)	(14,997)
Government Grants	34	(227,502)	(223,656)
DSS Grant - Housing Benefits	34	(102,825)	(86,909)
Revenue Support Grant		(15,420)	(9,668)
Other Funding Grants		(14,392)	(11,091)
Council Tax Receipts		(76,906)	(73,743)
Receipt from NNDR Pool		(66,805)	(69,452)
Other Revenue Receipts		(90,558)	(68,447)
		<u>(646,566)</u>	<u>(593,528)</u>
Net Cash Outflow/(Inflow)	31	<u>(23,648)</u>	<u>(4,250)</u>
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Cash Outflows			
Interest Paid		10,480	10,310
Cash Inflows			
Interest Received		(3,528)	(8,889)
Net Cash Outflow/(Inflow)		<u>6,952</u>	<u>1,421</u>
CAPITAL ACTIVITIES			
Cash Outflows			
Purchase of fixed assets		40,267	41,258
Purchase of Long term Investments		0	19,929
Other Capital Cash Payments		26,072	20,150
Cash Inflows			
Sales of fixed assets		(3,861)	(4,788)
Government Grants	34	(55,978)	(32,948)
Sale of long term investments		(10,000)	0
Other capital Cash Receipts		0	0
Net cash outflow/(inflow) from Capital Activities		<u>(3,500)</u>	<u>43,601</u>
NET CASH OUTFLOW / (INFLOW) BEFORE FINANCING	32	<u><u>(20,196)</u></u>	<u><u>40,772</u></u>

		2008/2009 £'000	2008/2009 Restated £'000
NET CASH OUTFLOW/(INFLOW) BEFORE FINANCING		(20,196)	40,772
(From previous page)			
MANAGEMENT OF LIQUID RESOURCES			
Cash Outflow/(Inflow)			
Increase (Decrease) in Short Term Deposits	32	(35,691)	1,881
Net Increase (Decrease) in Council Tax Liquid Resources	32	312	133
Net Increase (Decrease) in NNDR Liquid Resources	32	6,517	(2,689)
Net Cash Outflow/(Inflow)		(28,862)	(675)
FINANCING			
Cash Outflows			
Repayments of Amounts Borrowed		50,698	98,185
Cash Inflows			
New Long Term Loans Raised		0	(136,745)
New Short Term Loans Raised		0	0
Net Cash Outflow/(Inflow) from Financing		50,698	(38,560)
DECREASE/(INCREASE) IN CASH	33	1,640	1,537

F NOTES TO THE CORE FINANCIAL STATEMENTS

1. Additional amount credited to the General Fund in accordance with statute and proper practice
2. Dedicated Schools Grant
3. Trading operations
4. Local Authority (Goods and Services) Act 1970 and Pooled Budgets
5. Officers' Emoluments
6. Members' Allowances
7. Related Party Transactions
8. Leasing contracts
9. Euro Implementation Costs
10. Audit Fees
11. Movement on Fixed Assets
12. Capital Commitments
13. Revenue Expenditure Funded from Capital Under Statute
14. Financing of Capital
15. Investments
16. Long Term Debtors
17. Stocks and work in progress
18. Debtors
19. Creditors
20. Borrowing
21. Deferred Liabilities
22. Pension Liability
23. Deferred Capital Receipts
24. Deferred Government Grants and Contributions
25. Provisions
26. Revaluation Reserve
27. Usable Capital Receipts Reserve
28. Capital Adjustment Account
29. Movement on Reserves
30. Post Balance Sheet Events
31. Reconciliation from the Income and Expenditure Account surplus to the revenue activities net cash flow
32. Analysis of Liquid Resources and Financing
33. Reconciliation between Cash and Net Debt
34. Government Revenue and Capital Grants Received
35. Financial Instruments Balances
36. Financial Instruments gains/losses
37. Fair Value of assets and liabilities carried at amortised cost
38. Financial Instruments Adjustment Account
39. Nature and extent of risks arising from financial instruments
40. Collection Fund Adjustment Account
41. Accumulated Absences Adjustment Account
42. Analysis of Net Assets Employed

1. Additional Amount Credited To The General Fund In Accordance With Statute And Proper Practice

2008/2009 Restated £'000	<i>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance.</i>	2009/2010 £'000
(114,613)	Depreciation and impairment of fixed assets	(101,411)
4,724	Government grants deferred amortisation	5,658
78	Excess of depreciation charged to HRA services over MRA element of housing subsidy	501
(20,150)	Revenue Expenditure Funded from Capital Under Statute	(22,989)
(2,370)	Net (loss)/gain on sale of fixed assets	729
1,143	Adjustment for LOBO & soft loan interest	(115)
(43)	Reversal of difference between share of previous year outturn surplus on Collection Fund and share of estimated surplus distributed in year	(77)
120	Share of actual Collection Fund Surplus in year of accounts	609
(21,200)	Net charges made for retirement benefits in accordance with FRS17	(19,480)
(152,311)		(136,575)
	<i>Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the movement on the General Fund Balance</i>	
7,155	Minimum revenue provision for capital financing	6,520
2,209	Capital expenditure charged to the General Reserve	1,188
(544)	Transfer from usable capital receipts to meet payments to the Pool	(191)
18,400	Employers contributions payable to the Pension Fund	18,882
27,220		26,399
	<i>Transfers to or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund Balance</i>	
0	Voluntary revenue provision for capital financing	1,975
1,199	Housing Revenue Account Balance	824
2,133	Principal repayment in respect of pre-reorganisation county debt	2,047
302	Net transfer to or from earmarked reserves	(1,465)
3,634		3,381
(121,457)	Net additional amount required to be credited to the General Fund Balance	(106,795)

2. Dedicated Schools Grant

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

During 2009/2010 the Council incurred an underspend of £32,000 on DSG services. Consequently the deficit of £100,000 brought forward from 2008/2009 was reduced to a deficit of £68,000 carried forward to 2010/2011.

An analysis of the DSG for 2009/2010 is provided in the table below.

	Central Expenditure £'000	ISB £'000	Total £'000
Budgeted DSG in 2009/2010	20,416	143,584	164,000
Difference between budgeted and actual DSG	(3)	588	585
Final DSG for 2009/2010	20,413	144,172	164,585
Brought forward from 2008/2009	(100)	0	(100)
Carry forward to 2010/2011 agreed in advance			0
DSG available in 2009/2010	20,313	144,172	164,485
Actual central expenditure	20,195		20,195
Actual ISB deployed to schools		144,358	144,358
Local authority contribution for 2009/2010			0
Carry forward to 2010/2011	118	(186)	(68)

3. Trading Operations

	Gross Expenditure 2009/2010 £'000	Gross Income 2009/2010 £'000	Net (Surplus)/ Deficit 2009/2010 £'000	Net (Surplus)/ Deficit 2008/2009 £'000
Markets and Street Trading	132	(257)	(125)	(141)
Commercial Property	258	(1,182)	(924)	(1,083)
Revenues and Benefits	-	-	-	(451)
Reprographics	182	(302)	(120)	55
Building Surveying	783	(1,207)	(424)	(568)
Temporary Staff Agency	3,363	(3,938)	(575)	(569)
(Surplus)/Deficit	4,718	(6,886)	(2,168)	(2,758)

The Revenues & Benefits Service operated under a competitive contract award until 2008/2009.

4. Local Authority (Goods and Services) Act 1970 and Pooled Budgets

From 1 April 2009, commissioning responsibility for **all** learning disabled clients requiring social care transferred to local authorities. This meant that the Section 31 agreement which the PCT entered into with Medway Council was no longer necessary and the transfer of PCT funding to the Council was dictated by the Department of Health. The transfer sum agreed for 2009/2010 was £8,310,236.

During 2008/2009, the Council also entered into two further agreements with Medway PCT for the delivery of joint service priorities within the Local Area Agreement:

- An agreement, under Section 256 of the National Health Services Act 2006, for the delivery of various one-off projects. £990,000 was received, of which £910,000 was spent during 2008/2009 and a further £30,000 rolled forward and spent in 2009/2010.

- The establishment of an LAA Innovation Fund, under Section 75 of the National Health Services Act 2006. This funding was committed, over a three year period, to various projects which meet LAA health targets. The PCT made a contribution of £1,200,000. Expenditure during 2008/2009 amounted to £89,452 and a further £388,426 was spent during 2009/2010. The balance of £722,122 has been rolled forward into 2010/2011.

In total the Council's accounts reflect income from local authorities and other public bodies amounting to £19,942,643 (2008/2009 £17,648,491).

Income from Other Public Bodies	2009/2010	2008/2009
	£	£
NHS Medway		
- Learning Disability Section 31 Agreement	0	(8,965,007)
- Learning Disability Transfer of Commissioning Responsibility	(8,310,236)	0
- LAA Innovation Fund Section 75 Agreement	(388,426)	(89,452)
- Section 256 Agreement	(80,000)	(910,000)
- Other Partnership Contributions	(1,766,454)	(1,025,699)
- Section 28a and Other Contributions towards Client Care	(3,301,360)	(2,598,832)
- Community Support Service	0	(541,139)
- DAAT Partnership Funding	(2,884,978)	0
East Kent Coastal PCT Contributions towards Client Care	(384,723)	(443,772)
Kent and Medway Partnership Trust - Staff and Accommodation	(103,100)	(103,100)
Recoupment from Other Local Authorities		
- Children Placed in Care	(127,830)	(187,370)
- Education Placements	(1,230,275)	(1,305,254)
Provision of Support Services to Other Public Bodies	(151,123)	(308,430)
SEEDA Partnership Contributions	(108,403)	(93,074)
Other Local Authority Partner Contributions	(1,105,736)	(1,077,363)
Total Income from Other Public Bodies	<u>(19,942,643)</u>	<u>(17,648,491)</u>

5. Officers' Emoluments

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

Remuneration Band	Number of Employees	
	2009/2010	2008/2009
£50,000 to £54,999	122	113
£55,000 to £59,999	74	66
£60,000 to £64,999	78	68
£65,000 to £69,999	28	21
£70,000 to £74,999	12	8
£75,000 to £79,999	6	2
£80,000 to £84,999	3	3
£85,000 to £89,999	4	4
£90,000 to £95,999	3	4
£95,000 to £99,999	4	5
£100,000 to £104,999	2	2
£105,000 to £109,999	0	0
£110,000 to £114,999	2	0
£115,000 to £119,999	1	0

The Accounts and Audit (Amendment No. 2) (England) Regulations 2009 introduced a new requirement to disclose additional individual remuneration details for senior employees. Senior employees include the head of paid service, statutory chief officers and those having responsibility for the management of the Council. This is deemed to include Assistant Directors. Headteachers are not included in this category. The salaries of any new employees who have worked for only part of a year have been annualised for comparison purposes.

Remuneration details of senior employees for 2009/2010 is detailed as follows:

Post	Salary	Fees and Allowances	Expenses	Total Excluding Pension Contributions	Pension Contribution	Total
	£	£	£	£	£	£
Chief Executive	140,646	14,006	75	154,727	30,419	185,146
Director of Children's Services	114,807	13,130	0	127,937	25,068	153,005
Director of Regeneration, Community & Culture	109,915	13,130	119	123,164	24,055	147,219
Assistant Director Customer First, Leisure, Democracy & Governance	84,977	10,622	0	95,599	18,854	114,453
Assistant Director Lifelong Learning	83,702	15,871	209	99,782	19,676	119,458
Assistant Director Development, Economy & Transport	83,683	5,213	59	88,955	17,466	106,421
Assistant Director Front Line Services	83,587	5,213	0	88,800	17,447	106,247
Assistant Director Communications, Performance & Partnerships	82,207	8,431	0	90,638	17,923	108,561
Assistant Director Housing & Corporate Services	82,213	5,213	37	87,463	11,692	99,155
Chief Finance Officer	80,291	19,754	0	100,045	19,774	119,819
Head of Medway Renaissance	80,076	18,443	654	99,173	19,513	118,686
Assistant Director Organisational Services	80,052	8,463	0	88,515	17,442	105,957
Assistant Director Children's Care	77,963	5,213	0	83,176	16,282	99,458
Assistant Director Commissioning & Strategic Development	71,057	5,213	0	76,270	14,853	91,123
Assistant Director Inclusions	64,742	5,156	0	69,898	13,697	83,595
Assistant Director Social Care	64,149	5,213	0	69,362	13,422	82,784

Comparative figures for 2008/2009 are as follows:

Post	Salary	Fees and Allowances	Expenses	Total Excluding Pension Contributions	Pension Contribution	Total
	£	£	£	£	£	£
Chief Executive	132,145	8,465	31	140,641	26,597	167,238
Director of Children's Services	110,111	13,055	0	123,266	23,280	146,446
Director of Regeneration, Community & Culture	105,872	13,055	229	119,156	22,431	141,587
Assistant Director Customer First, Leisure, Democracy & Governance	80,895	10,424	0	91,319	17,369	108,688
Assistant Director Lifelong Learning	80,554	15,166	161	95,881	17,369	108,688
Assistant Director Development, Economy & Transport	80,535	5,161	11	85,707	16,245	101,952
Assistant Director Front Line Services	80,441	5,161	0	85,602	16,226	101,828
Assistant Director Housing & Corporate Services	79,085	8,235	0	87,321	16,570	103,891
Assistant Director Organisational Services	77,191	8,235	0	85,426	16,191	101,617
Chief Finance Officer	76,787	18,711	0	95,498	18,305	113,803
Head of Medway Renaissance	76,780	18,341	1,075	96,196	18,232	114,428
Assistant Director Communications, Performance & Partnerships	74,386	7,734	0	82,120	13,960	96,080
Assistant Director Social Care	71,683	5,161	173	77,017	15,143	92,160
Assistant Director Children's Care	69,822	5,039	0	74,861	14,433	89,294
Assistant Director Inclusions	62,607	5,087	0	67,694	12,657	80,351
Assistant Director Commissioning & Strategic Development	54,217	4,578	0	58,795	10,966	69,761

6. Members' Allowances

In 2009/2010 a total of £827,000 (2008/2009 £821,000) was paid to the Council's 55 members in respect of allowances.

7. Related Party Transactions

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

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

Members of Medway Council represent the Council on the boards of the following organisations:

Chatham Historic Dockyard Trust – Two members represent the Council on the trust which is set up to secure for the public benefit the preservation and use of the Historic Dockyard at Chatham in a manner appropriate to its archaeological, historical and architectural importance and promote and foster for the public benefit a wide knowledge and understanding of the significance of the dockyard.

Rochester Bridge Trust – Three members represent the Council on the trust, the main purpose of which is to maintain and improve the Medway Tunnel, bridges and associated riverbanks in order to facilitate passage over, under or across the River Medway. During the year the Council acquired the freehold of Medway Tunnel and is now responsible for maintenance work. Previously the Council undertook reimbursable maintenance work, (amounting to £374,000 in 2008/2009), on Medway Tunnel on behalf of Rochester Bridge Trust.

Thames Gateway Kent Partnership (TGKP) – The leader of the Council, in common with neighbouring authorities and Kent County Council, is a board member of TGKP. The aims and objectives of the partnership are to provide a strong and effective partnership to bring about a high-quality sustainable economic development and regeneration of the whole Thames Gateway Kent areas, to promote economic and social investment and equality of opportunity and to create employment, community and environmental benefits for local people, businesses and employees, reflecting their needs and aspirations. The Council contributed £25,000 to the Partnership in 2009/2010 (£25,000 in 2008/2009).

Central government provides the majority of funding for the Council in the form of grants and prescribes the terms of many transactions that the Council has with other parties eg Housing Benefits. Details of transactions with government departments are set out within the Cash Flow Statement.

Other than transactions disclosed elsewhere within these accounts, there are no other disclosures required in accordance with FRS 8 – Related Party Transactions.

8. Leasing contracts

Medway Council has made use of leases to acquire property, vehicles, and equipment. Lease rentals paid during the year in respect of current operating leases for Vehicles and Equipment amounted to £1.588m, and relating to Land and Buildings, £0.99m. A further £0.021m was paid in respect of finance leases.

The Council was committed at 31 March 2010 to making payments of £9.155m under operating leases, comprising the following elements:

	Land and Buildings	Vehicles, Plant & Equipment
	£000s	£000s
Leases expiring in 2010/2011	105	411
Leases expiring between 2011/2012 and 2015/2016	3,110	3,275
Leases expiring after 2015/2016	<u>2,254</u>	<u>0</u>
	5,469	3,686

The Authority as Lessor – the authority receives an amount of approximately £2.299m in rental income in relation to a number of properties. The gross value of assets held for use in property-related leases is £68.642m, with depreciation for the year being £1.3m. However, the gross value reported relates to the entire asset, whereas the rental stream in many cases only relates to a smaller element of that asset.

9. Euro Implementation Costs

The introduction of the Euro would have a significant impact on the Council's operations and systems. However, to date, no additional costs have been incurred in the ongoing process of examining and assessing the likely impacts, timescales and risk.

10. Audit and Inspection Fees

The following amounts were paid during the financial year:

	2009/2010 £
PKF – 2009/2010 Accounts	218,000
PKF – Use of Resources	117,000
Audit Commission – Managing Performance / Strategic Housing Re-inspection	59,732
Audit notice	230
Total	394,962

11. Movement on Fixed Assets

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra-structure £'000	Community Assets £'000	Investment Properties £'000	Assets under Construction £'000	Total £'000
Cost or Valuation								
At 1 April 2009	173,924	765,743	3,154	168,582	4,423	72,566	4,230	1,192,622
Additions	5,148	3,608	222	21,467	2,046	(885)	8,808	40,414
Disposals	(770)	(1,740)	0	0	0	(629)	0	(3,139)
Reclassifications	10	243	0	0	0	0	0	253
Revaluations	0	(17,912)	0	1,460	(192)	(180)	0	(16,824)
At 31 March 2010	178,312	749,942	3,376	191,509	6,277	70,872	13,038	1,213,326
Depreciation and Impairments								
At 1 April 2009	10	(46,252)	(1,843)	(39,167)	0	0	0	(87,252)
Charge for 2009/10	(1,711)	(24,353)	(182)	(14,380)	0	0	0	(40,626)
Disposals	0	0	0	0	0	0	0	0
Reclassifications	(10)	(241)	0	0	0	0	0	(251)
Revaluations	0	23,482	0	52	0	0	0	23,534
At 31 March 2010	(1,711)	(47,364)	(2,025)	(53,495)	0	0	0	(104,595)
Balance sheet amount at 31 March 2010	176,601	702,578	1,351	138,014	6,277	70,872	13,038	1,108,731
Balance sheet amount at 1 April 2009	173,934	719,491	1,311	129,415	4,423	72,566	4,230	1,105,370

Eight foundation schools with a value of £100.57 million are included within Other Land and Buildings as the Council accepts the risks and rewards of the utilisation of these assets.

In accordance with the Accounting Policy detailed in Section E and, as part of the system of capital accounting as set out in the revised Code of Practice produced by CIPFA, the Council undertook a revaluation of approximately 20 per cent of its non-housing property portfolio in 2009/2010. A valuation report has been prepared by Noel Filmer MRICS and Phillip Vipond MRICS, Asset and Property Management, Business Support Department, Medway Council, Gun Wharf, Dock Road, Chatham, Kent, ME4 4TR, with assistance from other qualified members of the valuation team. The

valuation date is 1 April 2009. The basis of valuation is Existing Use Value (EUV) for operational properties and Market Value (MV) for non-operational properties. *Community assets* have not been valued but historic acquisition costs have been provided. The review of the valuation of the housing stock was completed by Derek Gouldsworthy MRICS as part of last year's impairment review, and the valuation date was 31 March 2009. The basis of valuation is Existing Use Value for Social housing (EUV-SH). With the exception of council dwellings, details of all property assets are now held within a single database.

12. Capital Commitments

As at 31 March 2009 there were specific capital commitments to fund Rochester Riverside compensation (£3.617m); Strood Riverside compensation (£1.145m); various schemes relating to the regeneration of Chatham (£9.666m); A228 (£7.682m) and the Primary Strategy and Academies programmes (£5.543m).

13. Revenue Expenditure Funded from Capital Under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the balance sheet as an asset (formerly classified as deferred charges). This expenditure generally relates to grants and expenditure on property not owned by the Council and is charged to the Income and Expenditure Account with a corresponding reconciling item in the Statement of Movement on the General Fund Balance. This expenditure amounted to £22,989,000 in 2009/2010 (2008/2009 £20,150,000).

14. Financing of Capital

Capital Expenditure was financed as follows:

	£'000		£'000
Financing		Expenditure	
Borrowing	7,216	Fixed Assets	31,607
Capital receipts	3,214	Capital Works in Progress	8,808
Government Grants	23,751		
General and other Earmarked Reserves	543		
MRR & MRA	4,413		
Other Contributions	1,278		
	40,415		40,415

15. Investments

	31 March 2010 £'000	31 March 2009 £'000
Long Term Investments		
Administered by External Fund Managers	0	0
Loan to Association of District Councils Note 40	0	0
Other Investments	10,004	20,004
Total Long Term Investments	10,004	20,004
Short Term Investments		
Administered by External Fund Managers	22,236	21,989
Managed by Internal Fund Managers Note 40	56,819	92,758
Total Short Term Investment	79,055	114,747
Total Investments	89,059	134,751

Investments have been classified as either long term, with a maturity date of greater than one year, or short term.

The reduction in investments held between 31 March 2009 and 31 March 2010 is due to the council's current policy to repay existing and deferring taking out any new debt. This is reducing the level of funds invested.

16. Long Term Debtors

These include outstanding mortgages for sales of Council housing, loans to housing associations, and other long-term debtors:

	31 March 2010 £'000	31 March 2009 £'000
Loans Outstanding		
Mortgages for Sales of Council Housing	43	57
Loans to Other Organisations	135	168
Other Local Authority Loans in respect of services transferred on reorganisation	454	473
Loans to Employees and Members	155	184
Total	<u>787</u>	<u>882</u>

17. Stocks and work in progress

	31 March 2010 £'000	31 March 2009 £'000
Stocks	152	145
Total	<u>152</u>	<u>145</u>

At 31 March 2009, the credits held under the Landfill Allowances Trading Scheme, had no market value and this was reflected in the balance sheet. At the 31 March 2010, there were no credits held and, again, there is no asset value to reflect.

18. Debtors

	31 March 2010 £'000	31 March 2009 £'000
Collection Fund Debtors		
- Council Tax payers	8,660	7,932
- NNDR Pool Contribution	1,678	1,962
Less bad / doubtful debt provision	<u>(1,735)</u>	<u>(1,583)</u>
	8,603	8,311
Other Debtors		
Unrealised Investment Gain	0	0
Government Departments	25,080	3,333
Landfill Allowance Trading Scheme	0	0
Social Services 'Collect'	2,996	3,511
Housing rents	1,459	1,511
Sundry debtors	25,554	36,356
Less bad / doubtful debt provisions		
- Social Services 'Collect'	(720)	(566)
- Housing Rents	(585)	(597)
- Sundry Debtors	<u>(736)</u>	<u>(648)</u>
	53,048	42,900
Total	<u>61,651</u>	<u>51,211</u>

At the end of March 2010 £4,771,000 overpayment of housing benefit was unrecovered (March 2009 £3,689,000). It is the Council's policy to account for recovery of overspent benefit on a cash basis and therefore this balance of debtors is, in effect, negated by a 100% provision for bad debts. Income within the Income and Expenditure account has consistently been allocated on a cash receipt basis. This is regarded as the most prudent process regarding the outstanding debt.

19. Creditors

	31 March 2010	31 March 2009
	£'000	Restated £'000
Collection Fund		
- Council Tax Payments in Advance	1,305	909
- Precept Payments	152	55
	<u>1,457</u>	<u>964</u>
Sundry Creditors	56,624	53,836
Accumulated Absences	687	657
	<u>58,768</u>	<u>55,457</u>

20. Borrowing

		Total Outstanding 31 March 2010	Total Outstanding 31 March 2009
		£'000	£'000
Lending Options Borrowing Option		103,709	103,738
Long term from Public Works Loan Board (PWLB)		71,430	96,521
Total Long Term Borrowing	Note 40	<u>175,139</u>	<u>200,259</u>
PWLB maturing within 1 year	Note 40	25,981	20,641
Temporary borrowing from money markets		914	31,710
Total Short Term Borrowing		<u>26,895</u>	<u>52,351</u>
Total		<u>202,034</u>	<u>252,610</u>

Analysis of long term loans by maturity

	31 March 2010	31 March 2009
	£'000	£'000
Maturing within 1 to 2 years	10,037	25,022
Maturing within 2 to 5 years	20,013	30,119
Maturing within 5 to 10 years	2,000	0
Maturing after 10 years	143,089	145,118
Total	<u>175,139</u>	<u>200,259</u>

21. Deferred Liabilities

Deferred Liabilities are principally the capital payments still to be made following acquisition or transfer of assets as a consequence of Local Government Reorganisation and relates to a proportion of Kent County Council's long-term debt.

22. Pension Liability

In accordance with relevant government regulations, the pension costs that are charged to the Council's accounts are equal to the employers contribution paid to the funded pension scheme (as determined by the fund's actuary), rather than those required to meet the liabilities of the scheme in full.

From 2008/2009 onwards employees are required, by the Local Government Pension Scheme Regulations 1997, to make contributions to the fund by deductions from pay on an increasing scale between 5.5% and 7.5% for monthly paid staff, depending on annual earnings, and 5.25% for previously weekly paid staff.

The Council, as employer, is required to make sufficient contributions to the Pension Fund to meet future liabilities as determined by the fund actuary. These contributions are calculated to be sufficient to meet a target funding of 100% of the fund liabilities over a specified timeframe and current contributions were based on a formal actuarial valuation as at 31 March 2007. There was an increase of 1.9% in the employer's rate stemming from the 2007 valuation, which is being phased in over three years. This commenced with a 0.6% increase from 1 April 2008 and a further 0.7% increase in 2009/2010. These will be followed by a 0.6% increase in 2010/11.

Under Financial Reporting Standard 17, these employer contributions are removed from the cost of services and replaced by an actuarial assessment of the 'Current Service Cost' (£9.4million for 2009/2010) defined as the increase in the present value of scheme liabilities expected to arise in the financial year. *(NB adjustments made under FRS17 are for reporting purposes only and do not impact on the General Fund balance).*

FRS 17 Retirement Benefits requires recognition of pension assets and liabilities in the Balance Sheet and the operating costs of providing retirement benefits, together with changes in the value of assets and liabilities to be reflected in the Income and Expenditure Account. In order that these requirements do not result in higher council tax levels, the movement on the net assets and liabilities (net of the employer's contribution and actuarial gains and losses) is reversed out to the pensions reserve.

The actuary has assessed the total liability of the fund at £265.2m as at 31 March 2009 derived as follows:

	31 March 2010	31 March 2009
	£'000	£'000
Deficit 1 April	132,100	99,000
Net Return on Assets	9,991	6,400
Current Service Cost	9,395	10,600
Past Service and Settlements & Curtailments	94	4,200
Reversal of Payments to Pension Fund	(18,882)	(18,400)
Actuarial (Gains)/Losses	132,537	30,300
Deficit 31 March	<u>265,235</u>	<u>132,100</u>
Assets in scheme	(273,814)	(194,500)
Liabilities in scheme	<u>539,049</u>	<u>326,600</u>
	<u>265,235</u>	<u>132,100</u>

The liability is assessed using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. and the calculations have been carried out in accordance with Guidance Note 36: 'Accounting for Retirement Benefits under FRS 17', issued by the Institute and the Faculty of Actuaries.

The main assumptions used in the calculations by the actuary (Barnett Waddingham) are:

	31 March 2010	31 March 2009	31 March 2008	31 March 2007
	%	%	%	%
Rate of inflation	3.9	3.1	3.6	3.2
Rate of increase in salaries	5.4	4.6	5.1	4.7
Rate of increase in pensions	3.9	3.1	3.6	3.2
Rate for discounting scheme liabilities	5.5	6.9	6.9	5.4

Assets in the Superannuation Fund are valued at fair value, principally market value for investments, and at 31 March 2009 consist of the following categories by value together with expected rate of return (RofR).

	31 Mar 2010		31 Mar 2009		31 Mar 2008 (Restated)		31 Mar 2007	
	£m	RofR	£m	RofR	£m	RofR	£m	RofR
Equities	202.6	7.5%	128.3	7.0%	156.8	7.7%	161.1	7.8%
Gilts	2.7	4.5%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Bonds	38.3	5.5%	33.1	5.4%	31.7	5.7%	28.5	4.9%
Property	19.2	5.5%	17.5	4.9%	24.4	5.7%	23.5	5.8%
Cash	11.0	3.0%	15.6	4.0%	12.8	4.8%	16.6	4.9%
Expected Return	273.8	6.9%	194.5	6.3%	225.7	7.0%	229.7	7.0%

The actuarial gain is analysed as follows:

	31 March 2010 £'000	31 March 2009 £'000	31 March 2008 £'000
Actual returns less expected returns on assets	56,495	(62,000)	(32,300)
Experience gains and losses on scheme liabilities	2,059	(600)	(2,000)
Changes in assumptions underlying the present value of liabilities	(191,091)	32,300	58,700
Actuarial gain / (loss)	(132,537)	(30,300)	24,400

The difference between the expected and actual return on assets was an increase of £56.5m representing 20.6% of the scheme assets as at 31 March 2010.

The effect of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities amounted to a loss of £191.1m representing 35.4% of the scheme liabilities as at 31 March 2010.

The net liability of £265.2m is matched by a negative reserve to reflect the potential funding requirement.

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.

In 2009/2010 the Council paid £12,643,000 (2008/2009 £12,593,000) to the DCSF in respect of teachers' pension costs, the contributions rate being 14.1% (2008/2009 14.1%). In addition the Council is responsible for all pension payments relating to Added Years benefits it has awarded. These amounted to £478,400 (2008/2009 £428,000).

23. Deferred Capital Receipts

Deferred Capital Receipts are amounts derived from sales of assets and the repayment of capital grants which will be received in instalments over agreed periods of time. They may arise principally from mortgages on sales of council houses and granting of loans to other organisations.

	£'000
Balance 1 April 2009	58
Less: Principal repaid in respect of loans and mortgages	(14)
Balance 31 March 2010	<u>44</u>

24. Deferred Government Grants and Contributions

The balance on this account represents the value of capital grants and contributions which have been applied to finance the acquisition or enhancement of fixed assets. The balance is released to revenue over the life of the asset taking into account depreciation.

	Deferred Government Grants	Deferred Contributions
	£'000	£'000
Balance 1 April 2009	87,840	9,970
Grants and Contributions applied in year	16,045	340
Transfer to Income and Expenditure a/c	(4,824)	(834)
	<hr/>	<hr/>
Balance 31 March 2010	99,061	9,476
	<hr/>	<hr/>

25. Provisions

Insurance Provision

This provision represents the sum set aside for unsettled, known claims as at 31 March 2010 in line with FRS 12. The majority of the unsettled claims are for public liability.

	£'000
Balance of Provision as at 1 April 2009	1,735
Provided for in year	2,148
Utilised during year	(991)
Balance of Provision as at 31 March 2010	<hr/> 2,892 <hr/>

A further provision £48,000 was held in respect of the 'Homebond' scheme.

26. Revaluation Reserve

The Revaluation Reserve was created in the Balance Sheet on 1 April 2007 with a zero opening balance. The transactions on this account therefore only include revaluation gains accumulated since 1 April 2008. Gains are recorded against individual assets. Any revaluation losses in excess of the individual balances in this reserve are written off to the Capital Adjustment Account (see Note 28).

	£'000
Balance at 1 April 2009	71,386
Revaluation and Restatement of fixed assets	40,801
Disposal of fixed assets	(245)
Balance at 31 March 2010	<hr/> 111,942 <hr/>

27. Usable Capital Receipts Reserve

Capital receipts arise from the sale of assets and can be used to finance capital expenditure. In 2009/2010 £4,593,000 of capital receipts were used for this purpose (2008/2009 nil). The remaining balance on this reserve will be used to support future capital expenditure.

	£'000
Balance at 1 April 2009	4,719
Plus capital receipts received	3,861
Less allowable deductions	(6)
Less pooled receipts	(191)
Funding Used	(4,609)
Provision for the Repayment of Debt	(1,975)
Balance at 31 March 2010	<u>1,799</u>

28. Capital Adjustment Account

The Capital Adjustment Account was created upon implementation of the Revaluation Reserve with an opening balance incorporating the Fixed Asset Restatement Account and the Capital Financing Account adjusted by restating the balances of the Government Grant Deferred Account and the Capital Contributions Deferred Account.

The account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue, capital receipts, Government grants and other contributions.

This account also receives the annual loan repayment in respect of the write down of liabilities which arose from services transferred on reorganisation (see note 21 – Deferred Liabilities).

	£'000
Balance at 1 April 2009	705,719
Capital Financing from:	
Capital receipts - General Fund	4,149
- Housing	460
Revenue and Reserves	5,601
Government Grants and Contributions	47,261
Transfer from Deferred Grants and Contributions Accounts	(20,606)
Appropriation to Revenue Account	(24,427)
Revaluations and Disposals	(36,984)
Revenue Expenditure Funded from Capital Under Statute	(22,989)
Balance at 31 March 2009	<u>658,184</u>

29. Movement on Reserves

The Statement of Total Movements in Reserves brings together all the recognised gains and losses of the Council during the financial year. The statement shows the gains/losses unrealised in the Revenue Account and separates the movements between revenue and capital reserves.

	Balance at 1 April 2009	Contribution to Revenue	Contribution from Revenue	Revaluations and Disposals	Transfers & Other Movements	Financing of Fixed Assets	Balance at 31 March 2010
CAPITAL RESERVES	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revaluation Reserve	71,386	0	0	40,556	0	0	111,942
Capital Adjustment Account	705,719	(32,132)	5,657	(36,984)	(41,548)	57,472	658,184
Useable Capital Receipts Reserve	4,718	0	0	0	1,690	(4,609)	1,799
Housing Major Repairs Reserve	2,840	0	2,212	0	0	(4,413)	639
Other Earmarked Capital Reserves	7	0	36	0	0	0	43
Total Capital Reserves	784,670	(32,132)	7,905	3,572	(39,858)	48,450	772,607
REVENUE RESERVES							
General Reserve	3,263	(1,026)	4,356	0	1,706	(1,188)	7,111
Pensions Reserve	(132,100)	0	0	0	(133,135)	0	(265,235)
General Fund Balance	9,500	0	2,206	0	(1,706)	0	10,000
Housing Revenue A/C Balance	4,303	0	824	0	0	0	5,127
Financial Instrument Adjustment a/c	(873)	(115)	0	0	0	0	(988)
Schools Balances	5,850	(620)	0	0	0	0	5,230
Trading Account Balances	330	(330)	0	0	0	0	0
Earmarked Revenue Reserves	7,272	(688)	0	0	0	0	6,584
Total Revenue Reserves	(102,455)	(2,779)	7,386	0	(133,135)	(1,188)	(232,171)
TOTAL RESERVES	682,215	(34,911)	15,291	3,572	(172,993)	47,262	540,436

Revaluation Reserve – See note 26

Capital Adjustment Account – See note 28

Useable Capital Receipts Reserve – See note 27

Housing Major Repairs Reserve

Details of this account can be found Section G.

Other Earmarked Capital Reserves

These reserves are earmarked for specific purposes.

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.

Pension Reserve

This reserve recognises the difference between the assets and liabilities of the pension fund. It is a negative value as the liabilities of the fund exceed the assets as detailed in note 22.

General Fund Balance

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

Housing Revenue Account Balance

Details of this account can be found Section H.

Financial Instruments Adjustment Account – See note 38

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 total £5,230,000 as at 31 March 2010 and can only be used for purposes that benefit pupils under delegated powers.

Earmarked Revenue Reserves

These are reserves created to fund specific revenue expenditure

30. Post Balance Sheet Events

There are no known post balance sheet events.

31. Reconciliation from the Income and Expenditure Account surplus to the revenue activities net cash flow

	2009/2010 £'000	2008/2009 £'000
Deficit on Income & Expenditure Account	107,671	39,997
Net additional amount credited to General Fund Balance	(109,878)	(43,472)
General Fund Surplus	(2,207)	(3,475)
Schools Deficit	620	242
Total Deficit	(1,587)	(3,233)
Net movements in reserves	(4,526)	(2,846)
Minimum Revenue Provision	(8,495)	(7,155)
Increase/(Decrease) in revenue debtors	9,933	8,119
Decrease/(Increase) in revenue creditors	(2,465)	249
Decrease/(Increase) in provisions	(1,206)	1,217
Increase/(Decrease) in stock	8	7
Items classified elsewhere on the cash flow statement:		
Financing Net	(6,952)	(1,421)
Capital expenditure met from revenue	(1,188)	(2,209)
Payment to Capital Receipts Pool	191	543
Net Decrease in Collection Fund Liquid Resources	(7,361)	2,479
Revenue Activities Net Cash Outflow (Inflow)	(23,648)	(4,250)

32. Analysis of Liquid Resources and Financing

	Balance at 1 April 2009 £'000	Balance at 31 March 2010 £'000	Movement 2009/2010 £'000
Cash and Bank	16,814	22,427	5,613
Bank Overdraft	(16,466)	(23,719)	(7,253)
Total Cash	348	(1,292)	(1,640)
Short Term Investments	114,747	79,056	(35,691)
Movement in Collection Fund liquid resources	0	6,828	6,828
Notional Long Term Borrowing	(200,260)	(175,139)	25,121
Financial Instrument Adjustment Account	873	995	122
Actual Long Term Borrowing	(199,387)	(174,144)	25,243
Short Term Borrowing	(52,351)	(26,895)	25,456
Total Borrowing	(251,738)	(201,039)	50,699
Net Debt	(136,643)	(116,447)	20,196

33. Reconciliation between Cash and Net Debt

	£'000
Movement in Cash and Bank	(1,640)
Loans Repaid	50,700
New Loans Raised	0
Movement in Liquid Resources	(28,864)
Reduction in Net Debt	<u>20,196</u>

Liquid Resources – Comprise short-term investments that have a maturity date of less than one year and Collection Fund liquid resources.

34. Government Revenue and Capital Grants Received

Revenue Grants	2009/2010 £'000	2008/2009 £'000
Department for Children, Schools and Families		
- Dedicated Schools Grant	164,588	163,836
- School Standards Grant	8,426	8,638
- Standards Fund	14,451	13,478
- DCSF Other	7,078	5,465
Department of Health	715	425
Department for Communities and Local Government		
- Supporting People Grant	5,881	5,841
- DCLG Other	380	433
Department of Transport	664	947
Home Office	238	237
Learning and Skills Council	20,934	21,013
Tax Collection & Benefit Administration	2,372	2,140
Benefit Subsidy	102,825	86,909
DEFRA	59	9
Public Service Agreement	145	612
Other Miscellaneous Grants	1,342	582
Department for Culture, Media and Sport	229	0
Total Revenue Grants	330,327	310,565
Capital Grants and Contributions		
Sustainable Communities	13,086	12,562
Devolved Capital	5,464	5,008
Other Educational Capital Grants	15,662	3,976
Other Miscellaneous Grants and Contributions	21,766	11,402
Total Capital Grants and Contributions	55,978	32,948

35. Financial instruments balances

The borrowings and investments disclosed in the balance sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31 March 2010 £000s	31 March 2009 £000s	31 March 2010 £000s	31 March 2009 £000s
Financial liabilities at amortised cost	175,139	200,259	26,895	52,351
Financial liabilities at fair value through profit and loss	0	0	0	0
Total borrowings	175,139	200,259	26,895	52,351
Loans and receivables	10,000	20,000	56,820	92,758
Available for sale assets	4	4	0	0
Fair Value through Profit or Loss	0	0	22,235	21,989
Total investments	10,004	20,004	79,055	114,747

(i) 31 March 2009 Fair Value through Profit or Loss is "Bid Price Valuation" – funds invested with investment managers have been classified as held for trading.

(ii) 31 March 2010 Fair Value through Profit or Loss is "Bid Price Valuation" – funds invested with investment managers have been classified as held for trading.

36. Financial instruments gains/losses

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows:

2009/10 Financial instruments gains and losses

	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Fair Value through profit or loss	
	£000s	£000s	£000s	£000s	£000s
Interest expense	10,444	0	0	0	10,444
Losses on Derecognition	0	0	0	0	0
Impairment losses	0	0	0	0	0
Interest payable and similar charges	10,444	0	0	0	10,444
Interest income	0	(3,114)	(1)	(275)	(3,390)
Gains on Derecognition	0	0	0	0	0
Interest and Investment income	0	(3,114)	(1)	(275)	(3,390)
Gains on revaluation			0		
Losses on revaluation			0		
Amounts recycled to The I+E account after Impairment			0		
Surplus arising on revaluation of financial assets			0		
Net gain/ (loss) for the year	10,444	(3,114)	(1)	(275)	

Comparative 2008/2009 Financial instruments gains and losses

	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Fair Value through profit or loss	
	£000s	£000s	£000s	£000s	£000s
Interest expense	12,170	0	0	0	12,170
Losses on Derecognition	0	0	0	0	0
Impairment losses	0	0	0	0	0
Interest payable and similar charges	12,170	0	0	0	12,170
Interest income	0	(8,348)	(1)	(1,777)	(10,126)
Gains on Derecognition	0	0	0	0	0
Interest and Investment income	0	(8,348)	(1)	(1,777)	(10,126)
Gains on revaluation			0		
Losses on revaluation			0		
Amounts recycled to The I+E account after Impairment			0		
Surplus arising on revaluation of financial assets			0		
Net gain/ (loss) for the year	12,170	(8,348)	(1)	(1,777)	

37. Fair Value of assets and liabilities carried at amortised cost

Financial Liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- financial asset interest rates from comparable fixed term deposit rates as at the 31 March 2010.
- financial liabilities interest rates from PWLB new loan rates and LOBO market rates as at the 31 March 2010.
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2010		31 March 2009
	Carrying amount	Fair value	Carrying amount
	£000s	£000s	£000s
Financial liabilities	201,902	211,580	220,901
Loans and receivables	66,820	66,659	112,758

The fair value of the financial liabilities is higher than the carrying amount because the Council's portfolio of loans is made up of fixed rate loans some of which have a higher interest rate than prevailing market rates.

The fair value of the loans and receivables is lower than the carrying amount because the Council's portfolio of investments includes a number of deposit accounts where the principal has been redeemed but the interest earned has not been recalled. The interest held in the deposit accounts is included in the carrying amount.

38. The Financial Instrument Adjustment Account

The Financial Instruments Adjustment Account is a new reserve to hold the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulation to be charged to the General Fund Balance. The adjustments made in 2009/2010 were:

	£000s
Adjustments in relation to PWLB Discounts/Premiums	151
Adjustment to Restated Amortised Costs and Effective Interest Rate for Stepped LOBOs	(29)
Adjustments in relation to Soft Loans	(7)
	<hr/>
	115
	<hr/>

39. Nature and extent of risks arising from financial instruments

The Council'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 Council'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.

(i) Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. As a result of the current economic position the criteria to assess credit risk is regularly reviewed and enhanced. Within the Treasury Management Strategy 2010/2011 approved by Cabinet 16 February 2010 the new CIPFA Treasury Management in the Public Services Code of Practice was formally adopted. The strategy sets out the Council's investment priorities, which are the security of capital and the liquidity of its investments ahead of yield.

Counterparties continue to be monitored using the creditworthiness service provided by Sector Treasury Services, which combines credit ratings, credit watches, credit outlook and Credit Default Swap (CDS) spreads. Officers monitor all credit ratings, market data and other intelligence continuously. The maximum amount for investments per counterparty is £20 million for the in-house team and 20% of the managed portfolio with any counterparty for Investec (the current fund manager). The Council also considers country limits and will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings. The country limit is reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save for the United Kingdom with no limit.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollected debts over previous financial years.

	Amount at 31 March 2010	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£000s	%	£000s
Deposits with banks and financial institutions*	89,059	0.00	0
Customers	10,581	11.18	1,182
Council Tax	10,254	1.50	154
Total	109,894	1.22	1,336

* This is made up of the following:

	Amount at 31 March 2010
	£000s
Alliance & Leicester (Santander)	20,000
Bank of Scotland	15,000
Barclays Bank PLC	2,300
Natwest	19,300
Svenska Handelsbanken	10,000
Stocks	4
Fund managers	22,236
Total	88,840
Accrued interest	219
Total including accrued interest	89,059

The authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £6.965m of the £10.581 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000s
Less than three months	1,442
Three to six months	1,542
Six months to one year	2,295
More than one year	1,686
	6,965

Of the £10.254 million Council Tax outstanding at 31 March 2010 £4.946 million is over one year old.

(ii) Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The maturity structure of fixed rate borrowing as stated in the strategy:

	Lower Limit (%)	Upper Limit (%)	Actual %
Under 12 Months	0	50	13%
12 months and within 24 months	0	50	5%
24 months and within 5 years	0	50	10%
5 years and within 10 years	0	50	1%
10 years and above	25	100	71%

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

(iii) Market risk

Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in 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 liabilities borrowings will fall
- 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

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure account or STRGL. Loans and receivables are carried at amortised cost and therefore nominal gains and losses in fair value will not impact on the Income & Expenditure account or STRGL.

The Council has a number of strategies for managing interest rate risk. Council policy is to not exceed a maximum of 40% of borrowings in variable rate loans. The Council currently has no variable interest rate borrowing or investments. However, if it did then the risk of loss is reduced by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and therefore provide some compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, this strategy is then used to monitor against the budget throughout the year. This allows for any adverse changes to be accommodated.

(iv) Price Risk

The Council does not generally invest in equity shares but does have HM Treasury Stock to the value of £3,765. The Council has some exposure to losses arising from movements in the prices of the HM Treasury Stock.

(v) Foreign Exchange Risk

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

40. Collection Fund Adjustment Account

This new account, a requirement of the 2009 SORP, represents the difference between the Council Tax income credited to the Income and Expenditure Account on an accruals basis, and its reversal and replacement by the statutory demand on the Collection Fund the Statement of Movement on the General Fund Balance.

41. Accumulated Absences Adjustment Account

The value of employee benefits accrued e.g. holiday entitlement and time off in lieu, not taken at the year end must now be included in the income and expenditure account. To ensure that this does not result in a charge to the revenue account, the Government has introduced mitigation by the creation of a new account which incorporates the opening position as at 1 April 2009 adjusted for any increase or decrease in the value of benefit entitlement during the year.

42. Analysis of Net Assets Employed

	31 March 2010	31 March 2009
	£000s	£000s
General Fund	385,062	521,065
Housing Revenue Account	152,213	160,571
Total Net Assets	<u>537,275</u>	<u>681,636</u>

G SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Accounts

These Accounts represent the transactions of the Collection Fund and have been consolidated with the Council's Main Accounts.

There is a statutory duty, under the provision of the Local Government Finance Act 1988, to maintain a Collection Fund which separate from other accounts of the Council. Payments to and from the Collection Fund, which is operated on an accruals basis, are strictly defined in the Act. The Council, in common with Kent Police Authority and Kent Fire and Rescue Service has a precept on the Collection Fund. The Council's precept, excluding Parishes, for 2009/2010 was £88,955,000 (2008/2009 £94,048,000).

In it's 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 2009 SORP recognised this agency relationship and required the introduction of the Collection Fund Adjustment Account and the reclassification of debtor and creditor balances.

INCOME AND EXPENDITURE ACCOUNT	Notes	2009/2010 £'000	2008/2009 £'000
Income			
Council Tax Collectable from taxpayers	1	(95,587)	(91,836)
Transfers from General Fund: Council Tax Benefit		(17,811)	(15,214)
Income Collectable from Business ratepayers	2	(70,306)	(70,348)
Total Income for Year		(183,704)	(177,398)
Expenditure			
Precepts and Demands			
Medway Council		94,048	88,955
Kent Police Authority (KPA)		11,593	10,954
Kent Fire and Rescue Service (KFRS)		5,688	5,450
Parishes		279	259
		111,608	105,618
Business rates			
Payments to National Pool	3	69,374	68,586
Costs of collection allowance		288	289
Provision for bad and doubtful debts	4	1,805	2,763
Total Expenditure for year		183,075	177,256
(Surplus) / Deficit for the year		(629)	(142)
(Surplus) / Deficit at the beginning of the year		(132)	10
(Surplus) / Deficit at end of year	5	(761)	(132)

Notes to the Collection Fund Account

1. Council Tax

In 2009/2010 the Council, the Kent Police Authority and the Kent Fire and Rescue Service set equivalent Band D Council Tax levels of £1,092.33, £134.65 and £66.06 respectively resulting in a Council Tax Band D in the Council's area of £1,293.04 excluding Parishes.

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

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

Band	Value	Total (net of discounts)	Multiplier	Band D Equivalents
A	Not exceeding £40,000	8,667	6/9	5,778
B	£40,000 to £52,000	32,302	7/9	25,124
C	£52,000 to £65,000	29,098	8/9	25,865
D	£65,000 to £88,000	14,785	9/9	14,785
E	£88,000 to £120,000	7,371	11/9	9,008
F	£120,000 to £160,000	3,118	13/9	4,504
G	£160,000 to £320,000	1,136	15/9	1,893
H	Exceeding £320,000	41	18/9	82
Less adjustment for collection rates and MOD properties				(941)
Total Band D Equivalent 2009/2010				<u>86,098</u>
Total Band D Equivalent 2008/2009				85,412

The Tax Base multiplied by the Council Tax levied indicates an estimated gross yield of approximately £112,000,000 for Medway Council and the precepting authorities. Specific reductions are made, in accordance with Government regulations, for persons on low incomes (Council Tax benefits approaching £18,000,000) granting up to 100% rebate. This is reimbursed by Central Government. The actual net yield from council tax in 2009/2010 was £95,587,000.

2. Income from Business Rates

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

	2009/2010 £'000	2008/2009 £'000
Amount Collectable for the year	80,679	77,757
Less: Transitional and other Reliefs	(10,373)	(7,409)
Income Collectable from Non-Domestic Ratepayers	<u>70,306</u>	<u>70,348</u>

The total Non-Domestic Rateable Value at 31 March 2010 was £169,284,729 (31 March 2009 £166,239,999) and the Uniform Business Rate 48.1p (48.5p with supplement) (2008/2009 45.8p and 46.2p respectively) in the £.

3. Contribution to Non-Domestic Rate Pool

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

4. Provision for Bad and Doubtful Debts

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

	Council Tax £'000	NNDR £'000
Balance 1 April 2009	1,875	984
Add: Provisions made during year	1,161	644
Less amounts written off	(982)	(798)
Balance 31 March 2010	<u>2,054</u>	<u>830</u>

See also Note 18 to the Balance Sheet.

5. Surplus

The surpluses attributable to Medway Council, Kent Police Authority and Kent Fire and Rescue Service at the end of March 2009 were £609,000, £79,000 and £73,000 respectively. The surplus for the year was £629,000.

Housing Revenue Account

The Statutory Housing Revenue Account (Statutory HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. It includes the credit and debit items required to be taken into account in determining the surplus or deficit on the Statutory HRA for the year. The amounts included in the Statutory HRA differ from the amounts in respect of HRA services included in the Income and Expenditure Account for the authority as a whole, which includes income and expenditure in accordance with the SORP rather than in accordance with statute and non-statutory proper practices. For this reason the HRA statement has two parts:

1. HRA Income and Expenditure Account

2008/2009 £'000		Notes	2009/2010	
			£'000	£'000
	Income			
(10,305)	Dwelling Rents (Gross)	9	(10,446)	
(210)	Non-Dwelling Rents (Gross)		(210)	
(901)	Charges for Services & Facilities		(990)	
(11,416)	Total Income			(11,646)
	Expenditure			
2,094	Repairs & Maintenance		2,190	
3,383	Supervision & Management		3,689	
98	Rents, Rates, Taxes and Other Charges		124	
1,641	Negative Housing Revenue Account Subsidy/Rent Rebate Limitation Subsidy Payable	7	1,671	
2,078	Depreciation and impairment of fixed assets	3	1,711	
48	Debt Management Costs		49	
106	Increase/(Decrease) in Provision for Bad or Doubtful Debts	8	46	
9,448	Total Expenditure			9,479
(1,968)	Net Cost of Housing Revenue Account Services per authority Income and Expenditure Account			(2,167)
103	HRA services share of Corporate and Democratic Core			107
9	HRA share of the operating income and expenditure included in the whole authority Income and Expenditure Account			0
(1,856)	Net Cost of Housing Revenue Account Services			(2,060)
(321)	(Gain) or loss on sale of HRA fixed assets			50
843	Interest payable and similar charges			789
0	Amortisation of premiums and discounts			0
(346)	Interest and investment income			(164)
0	Pensions interest cost and expected return on pensions assets			122
(1,680)	Surplus for the year on Housing Revenue Account Services			(1,263)

1. Statement of Movement on the HRA Balance

2008/2009 £'000		2009/2010 £'000
(1,680)	Surplus or deficit for the year on HRA Income and Expenditure Account	(1,263)
481	Net additional amount required by statute to be debited or (credited) to the Housing Revenue Account balance for the year	439
(1,199)	Increase in Housing Revenue Account balance	(824)
(3,104)	Housing Revenue Account surplus brought forward	(4,303)
(4,303)	Housing Revenue Account surplus carried forward	(5,127)

Note to the Statement of Movement on the Housing Revenue Account Balance

2008/2009 £'000		2009/2010	
		£'000	£'000
	Items included in the HRA Income and Expenditure Account but excluded in the movement on the HRA balance for the year		
91	Net charges made for retirement benefits in accordance with FRS 17	240	
	Items not included in HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
321	Gains/(Losses) on disposal of assets	(50)	
(9)	Sums Directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with UK GAAP	0	
78	Transfer to/(from) Major Repairs Reserve	501	
	Transfer to/(from) Earmarked Reserves	7	
0	Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	233	
0	Difference between amounts charged to Income and Expenditure for amortisation or premiums and discounts and the charge for the year determined in accordance with statute	(12)	
0	Capital expenditure funded by the Housing Revenue Account	0	
481			439
481	Net additional amount required by statute to be debited or (credited) to the Housing Revenue Account Balance for the year		439

Notes to the Housing Revenue Account

1. Introduction

The Code requires the HRA to be consolidated in the Income & Expenditure Account but provides for a treatment that ensures that the statutory ring-fence is maintained. The HRA will continue to bear debits and credits for capital according to the Item 8 Determination loans fund charges applicable to the financial year.

2. Dwelling Stock

The Council managed 3,050 dwellings as at 31 March 2010. The movement in stock is analysed as follows:-

Stock Type	1 April 2009	Adjustments	Additions	Disposals	31 March 2010
Houses	1,320			(3)	1,317
Flats	1,273				1,273
Maisonettes	216				216
Bungalows	244				244
Total	3,053	0	0	(3)	3,050

3. HRA Fixed Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Balance Sheet. The market value at 1 April 2009 is estimated to be £290,901,300. The most recent desktop valuation of housing stock was carried out as at 31 March 2009 as part of the impairment review for the 2008/2009 financial statements; thus these values were used as the valuation as at 1 April 2009. The next full valuation is due as at April 2010.

	Dwellings £'000	Other Land and Buildings £'000	Total £'000
Balance Sheet Value 1 April 2009	167,318	6,616	173,934
Revaluation	0	0	0
Impairments	0	0	0
Restatements	0	0	0
Book Value 1 April 2009	167,318	6,616	173,934
Depreciation	(1,256)	(455)	(1,711)
Additions (see below)	5,148	0	5,148
Disposals	(244)	(527)	(771)
Balance Sheet Value 31 March 2010	170,966	5,634	176,600

4. Major Repair Reserve

The Major Repairs Reserve is an account that receives the Major Repairs Allowance in order to assist funding major Housing Revenue Account repairs. The Major Repairs Reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account. If the depreciation is of a different value to the Major Repairs Allowance, then a transfer from or to the Housing Revenue Account is required to adjust this amount back to the value of the Major Repairs Allowance. The net sum is then available to finance Housing Revenue Account capital expenditure. The analysis of movement on the Major Repairs Reserve for 2009/2010 is as follows:

Major Repairs Reserve	2008/2009 £'000	2009/2010 £'000
Opening Balance 1 April	788	2,840
HRA Depreciation from Capital Financing Account	2,078	1,711
Depreciation Adjusting Transfer from HRA	78	501
Financing of HRA Capital Expenditure	(104)	(4,413)
Balance Carried Forward 31 March	2,840	639

5. Analysis of HRA Capital Expenditure

Funding Source	2008/2009 £'000	2009/2010 £'000
Operational Assets		
Dwellings	839	5,148
Other Land and Buildings	1	0
Non-Operational Assets	0	0
Total	840	5,148
Funded by:		
Major Repairs Reserve	104	4,413
Borrowing	735	735
Housing Right To Buy Capital Receipts	1	0
Capital expenditure funded by the Housing Revenue Account	0	0
Total Funding	840	5,148

6. Summary of HRA Capital Receipts

	2008/2009 £'000	2009/2010 £'000
Receipts from the sale of land	22	4
Receipts from the sale of other property	119	354
Repayment of discount		26
Receipts from the sale of houses other than through the right to buy scheme		
Receipts from disposals of houses through the Right To Buy scheme	732	336
	873	720

7. Housing Subsidy

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

	2008/2009 £'000	2009/2010 £'000
Management Allowance	1,662	1,728
Maintenance Allowance	3,393	3,501
Major Repairs Allowance	2,156	2,212
Admissible Allowance	0	0
Rental Constraint Allowance	0	0
Charges for capital	1,077	999
Total Receivable Allowance	8,288	8,440
<u>Less</u>		
Guideline Rent Income	(9,762)	(9,951)
Interest on Receipts	0	0
Total Income Allowance to be netted against Receivable Allowance	(9,762)	(9,951)
Total Subsidy (Payable)/Receivable In-Year	(1,474)	(1,511)
Prior Year Adjustments	(13)	0
Total Subsidy (Payable)/Receivable Including Prior Year Adjustments	(1,487)	(1,511)
Rent Rebate Subsidy Limitation	(154)	(154)
Total Housing Subsidy/Rent Rebate Subsidy (Payable)/Receivable	(1,641)	(1,665)

Subsidy for 2009/2010 was based on an assumed number of dwellings of 3,058 compared with 3,088 for 2008/2009.

From 1 April 2004, the responsibility for the cost of rent rebates relating to Council Tenants was transferred from the Housing Revenue Account to the General Fund. In order to ensure a neutral effect, the Secretary of State determined under Item 10 of the Local Government and Housing Act 1989 that where authorities had set rents in excess of a specified preset limit, a transfer equal to the loss of rent rebate subsidy should be made from the Housing Revenue Account to the credit of the General Fund. In 2009/2010 this amounted to £153,811 (£153,913 in 2008/2009).

8. Tenants' Arrears

Tenants' Arrears at 31 March 2010 were analysed as follows:

Type of Debt	2008/2009 £'000	2009/2010 £'000
General Stock	324	330
Garages	4	10
Former Tenancies – General Stock	244	268
Former Tenancies - Garages	4	4
Housing Benefit Overpayments – General Stock	63	55
Court Costs – General Stock	42	41
Former Tenancy Arrears of Current Tenants – General	30	34
Rechargeable Repairs	33	31
Total Arrears	744	773
Percentage of Gross Rents (HRA)	6.60%	6.83%

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

	£'000
Balance 1 April 2009	597
Additional Provision made during year	46
Less amounts written off	(58)
Balance 31 March 2010	585

9. Gross Rent Debit

The rent income figure is net of voids. The level of voids in 2009/2010 was on average equal to 1.39% (1.23% in 2008/2009). The level of rebates provided was £7,257,627 (2008/2009 £6,864,196), which amounted to 65.18% of rent and HB related service charges collectable (2008/2009 61.77%).

H 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.

ASSET

An item having value measurable in monetary terms. Assets can be defined as fixed or current. A fixed asset has a value for more than one year (for example a building or a long term investment). A current asset can be readily converted into cash (for example stocks or a short term debtor).

AUDIT OF ACCOUNTS

An independent examination of the Council's financial affairs.

BUDGET

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

CAPITAL EXPENDITURE

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

CAPITAL FINANCING

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

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

CAPITAL PROGRAMME

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

CAPITAL RECEIPT

The proceeds from the disposal of land or other fixed assets.

CENTRAL SERVICES

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

Corporate and Democratic Core incorporating

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

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

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

COLLECTION FUND

A separate fund recording the expenditure and income relating to council tax, non-domestic rates and residual community charges.

COMMUNITY ASSETS

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

CONSISTENCY

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

CREDIT APPROVAL

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

CREDITOR

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

DEBTOR

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

DEFERRED CHARGES

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

DEPRECIATION

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

FINANCE LEASE

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

GOVERNMENT GRANTS

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

HOUSING ADVANCES

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

HOUSING BENEFITS

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

HOUSING REVENUE ACCOUNT

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

INCOME

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

INFRASTRUCTURE ASSETS

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

LIABILITY

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

LOBOS

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

MINIMUM REVENUE PROVISION (MRP)

The MRP is a statutory amount relating to the principal element of loans outstanding, which is a specific percentage of the Council's credit ceiling at the end of the previous year. This percentage is 2% for the Housing Revenue Account and 4% for other services.

NON-DOMESTIC RATE

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

NON-OPERATIONAL ASSETS

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

OPERATING LEASE

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

OPERATIONAL ASSETS

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

PRECEPT

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

PROVISION

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

PROVISION FOR CREDIT LIABILITIES

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

PUBLIC WORKS LOAN BOARD (PWLB)

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

RATEABLE VALUE

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

RELATED PARTY TRANSACTIONS

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

RESERVES

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

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE SUPPORT GRANT

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

STOCKS

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

TEMPORARY LOAN

Money borrowed for a period of less than one year.

TOTAL COST

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

The cost of that activity or service will then be consistently applied in reporting performance indicators, Best Value Performance Plans, statistics and returns and used as a benchmark against other organisations.