



Gun Wharf,  
Chatham

# Statement of Accounts

Medway Council | 2019/20



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The Statement of Accounts for Medway Council have been prepared in accordance with the Accounts and Audit Regulations 2015 and primarily, the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code") issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) as adopted for the UK public sector under the oversight of the Financial Reporting Advisory Body (FRAB).



## Section A

# Narrative Report

# Introduction



## Chief Finance Officer, Phil Watts

I'm proud to present Medway Council's annual Statement of Accounts for the year ending 31 March 2020. This Statement provides information so that members of the public, including electors and residents, Council Members, partners and other interested parties can:

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

The accompanying Narrative Report is designed to provide context and enable interested parties to understand Medway the place, how the Council operates and its strategic direction, how we are performing and how we ensure the economical, efficient and effective use of the resources available. It also provides explanations of the core financial statements, their purpose and the relationship between them.

The Statement has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2019/20.

The year proved to be a very challenging financial year throughout, ending with the Covid-19 pandemic impacting in March. However the full impact of Covid-19 on our economy, our services and therefore on our income and expenditure will not be felt until 2020/21 and beyond, and will therefore be reflected in our Statements next year.

We continue to operate in very challenging financial times, but our robust monitoring and management of resources during the last year enabled us to balance and deliver on our 2019/20 budget and deliver a balanced budget for 2020/21. As 2020/21 develops into a year wildly different from that planned, the scale of the financial challenge for local authorities is publicly well known. I am confident however that our strong financial governance arrangements will ensure the Council continues to deliver services to residents delivering value for money and maintains our robust financial standing.

## Introduction (continued)



### Chief Executive, Neil Davies

Medway Council is committed to giving every child the best possible start in life and the council's top priority is ensuring Medway's children and young people have the opportunity to thrive, remain healthy and learn well. Medway Council continues with its innovative approach to build a sustainable future and to maximise opportunities for both its residents and businesses.

The council's own housing company, Medway Development Company, is now in the early stages of development at sites across Medway.

This will provide much needed new homes for residents, including affordable accommodation and waterfront living. The housing developments also support the council's ongoing work to regenerate and revitalise town centres, including Gillingham. Two of the developments are in the heart of Chatham, a historic town which has seen vast improvements over the years. The site at Chatham Waterfront will also provide commercial space, such as restaurants and cafes, creating further job opportunities and offering visitors to the area more choice.

In the past year the council acquired the Pentagon Shopping Centre in Chatham as part of its plans to become more self-supporting. The acquisition is anticipated to provide the council with an income to support council finances and services for local residents. It also provides the council with an opportunity to contribute to the ongoing regeneration of Chatham.

The council also continues to push forward with plans for the development of Innovation Park Medway, opening up further economic and job opportunities. Medway has become the biggest regeneration zone within the Thames Gateway due to the significant transformation of the area and its ongoing 20-year regeneration programme.

Medway Council also continues to demonstrate its ability to successfully bid for funding for improvement projects across the area, including the Housing Infrastructure Fund – a £170million major infrastructure development on the Hoo Peninsula.

I feel confident that the council's priorities and strategic direction will allow us to continue to deliver and develop our services and provide new economic opportunities, whilst overcoming future financial challenges.



### Leader of the Council, Alan Jarrett

Medway offers excellent opportunities for its residents and businesses, due to the council's determined priorities and innovative ability.

The council's main focus is its commitment to support Medway's children and families. Providing Medway's young people with opportunities is at the heart of the council's work. Medway Council is committed to ensuring every child is given the support they need to thrive, be healthy and learn well throughout their childhood.

The council has invested heavily in providing more school places, and has also set out plans to offer more choice on school places for children with special educational needs and disabilities (SEND). Medway also benefits from excellent higher education opportunities and the council is supportive of work to boost Medway's skilled workforce.

Medway Council also provides an excellent service to its older residents and is one of the highest performing councils in the country for adult social care, according to research released by IMPOWER.

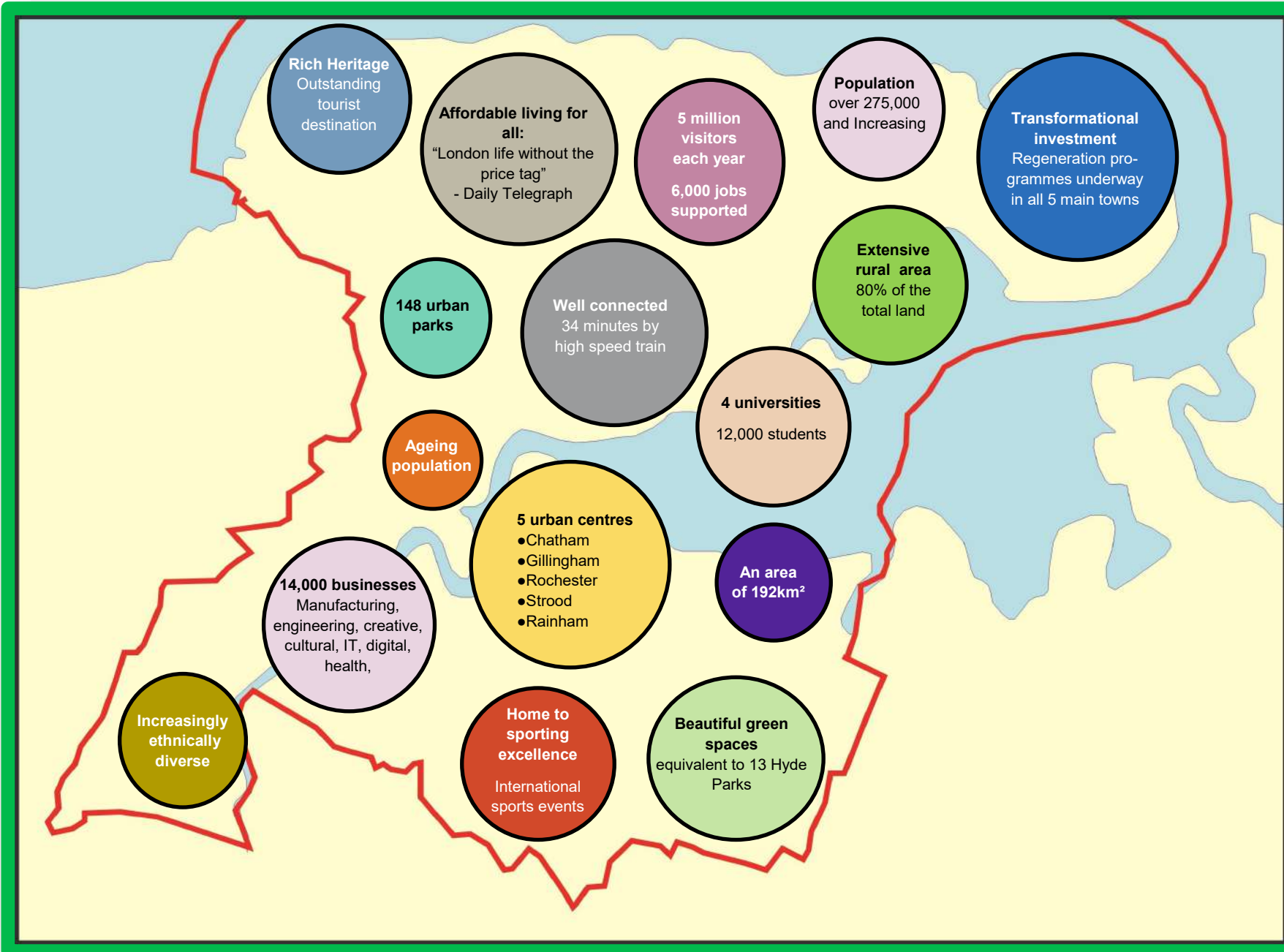
As a unitary authority, the council provides all services in Medway, and continues to invest in roads, including the maintenance of Medway Tunnel. As well as its extensive road network, including miles of on and off-road cycling paths, Medway is also filled with beautiful green spaces, which the council is committed to protecting. The council is also taking seriously its responsibility to help tackle concerns around climate change.

Medway is already a fantastic place to live, work, learn and visit, and with the council's innovative thinking it continues to demonstrate its commitment to shaping Medway's future to further boost the local economy and provide more opportunities for its residents.

Despite the ongoing financial challenges, Medway Council continues to provide residents with excellent value for money and high-quality services.

# Organisational Overview, External Environment and Governance

## About Medway



## About the Council

Medway Council is a unitary authority, providing all local government services for a quarter of a million people. We look after education, environment, social care, housing, planning, business and much more, everything from frontline services such as rubbish collection and events and festivals to work that goes on behind the scenes to ensure services in Medway run smoothly and are cost effective.

## Governance

The community is represented by 55 elected Members, working on behalf of the 22 wards throughout Medway. The leadership of the Council is provided by the Conservative Group with the political composition as follows:

- Conservative: 32
- Labour and Co-operative: 20
- Independent: 2
- Independent Conservative: 1

The Council appointed Councillor Alan Jarrett as Leader for a four-year term at the Annual Council meeting on 2 May 2019. The Council has adopted the Leader and Cabinet model as its political management structure. The Leader appointed Councillor Howard Doe as Deputy Leader and eight other Members to form a Cabinet.

## Decision Making

The Council's decision making arrangements are set out within the Constitution. The Cabinet is responsible for implementing the Council's budget and policies as well as forming partnerships with other key organisations. The Full Council is responsible for setting the budget, considering recommendations from the Cabinet and making some decisions such as changes to the constitution. Other decisions, such as those about planning applications, are made by Committees. The Leader and Cabinet are held to account by Overview and Scrutiny Committees which are made up of councillors from all the political groups on the Council. The Mayor chairs Full Council meetings and has a traditional ceremonial role.

## Chief Officer Structure

Councillors are supported by the Corporate Management Team (CMT), which is headed by the Council's Chief Executive, Neil Davies. CMT are responsible for setting and monitoring overall direction and ensuring high performance in the delivery of Council services. Including the Chief Executive, CMT is made up of nine members including the Director of Regeneration, Culture and Environment and Deputy Chief Executive, Director of People, Director of Public Health, Chief Finance Officer, Assistant Director - Adult Social Care, Chief Legal Officer (Monitoring Officer), Assistant Director - Physical & Cultural Regeneration and Assistant Director - Front Line Services. The Monitoring Officer is responsible for ensuring council decisions and activities comply with laws and regulatory frameworks, and reports on this through the Annual Governance Statement.

Codes of conduct are in place for Councillors and Officers that define the high ethical values and standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity.

## Our vision—Growth for All

Our leadership vision is simple. Over the next 20 years Medway will be the most successful area of economic regeneration in the south east, creating growth for all. A place which people love and are proud of - a great place to live, work, learn and visit. By 2035 Medway will be a leading waterfront university city of 330,000 people, celebrated for its revitalised urban centres, its riverfront developments, its stunning natural and historic assets, and countryside.

Medway's ambitious priorities and future plans are rooted in and take as their starting point a complete understanding of the many important local, regional and national factors including demographics, educational attainment, our local economy, and health statistics. They are also informed by consultation and engagement with our stakeholders

to ensure we understand local needs and priorities. The Council's vision and priorities are set out in our Council Strategy and Plan.

## Children and young people

Our ambition for Medway to become a great place to live, work, learn and visit will not be possible without our children and young people. We want Medway to be a child-friendly city, a place where children and young people have the best possible start, learn well and thrive in the community whilst having fun. Our vulnerable children and young people will be safeguarded and all of Medway's children and young people will be supported to realise their potential.

## Our Improvement Plan

In August 2019 Ofsted judged our Children's Services to be inadequate. Our response has been swift and comprehensive including additional investment of more than £7m in the 2020/21 budget. The appointed Commissioner has reported that the Council has succeeded in making progress during the past few months despite the considerable challenge of responding to the Covid-19 crisis. We continue to focus on the delivery of our improvement programme and while there remain real and significant challenges we have a collective ambition to address those.

## Working Age Adults and Older People

Medway is keen for its people to thrive in the place they live and work. We will make Medway the best place to for people with disabilities so they can reach their potential with the best opportunities and for older people to grow old safely, remain independent and age well. We want our residents to feel valued, respected and empowered to make healthier decisions. Medway's economy will be one that is compassionate and inclusive to those with disabilities and the appropriate skills mix to ensure that all residents are able to provide an appropriate lifestyle for their families thereby creating healthier communities.

# Organisational Overview, External Environment and Governance (continued)

## Regeneration

Medway is planning for its future, with growth that benefits our communities and values our area. We've secured £170 million from the Housing Infrastructure Fund to invest in improving transport and environmental infrastructure on the Hoo Peninsula in the next few years. Medway is the biggest regeneration zone in the Thames Gateway and Medway 2035 sets out our six priority areas:

- destination and placemaking - putting Medway on the map as a smart and sustainable city
- inward investment - increasing high value businesses and expanding high quality employment
- innovation - continuing to support the creation and growth of businesses
- business accommodation and digital connectivity - providing the right infrastructure for business success
- sector growth - enhancing a strong, mixed economy
- improving employability - matching business demand and supply of skills

## Smart Medway

The journey to a smart Medway will transform the council's processes to make it quicker and easier for customers to access our services online. This will allow the public to complete processes at a time it suits them, meets their expectations and delivers a value for money. Changes to the way services are delivered online help us to meet the needs of our customers, achieve our strategic priorities and make the best use of our resources.

## Culture

Medway has announced its aspiration to become City of Culture in 2025. Medway has a rich heritage and great future, with so much to offer including historic sites, award-winning country parks, excellent schools, a thriving economy and inspirational residents.

City of Culture will create a legacy for Medway, improve local pride within communities and promote the cultural offer not just across Medway, but across the country too. Medway's aspiration will further establish the area as a great place to live, work, learn and visit.

## Climate change

In April 2019, Medway Council declared a climate change emergency. We are committed to developing proposals to address the climate emergency and reduce greenhouse gas emissions. The proposals will inform the development of a five year action plan for Medway. Our declaration fits into our Council Strategy priority of making Medway a place to be proud of. The key outcome being a 'clean and green environment'.

## Our Covid-19 Response

The Covid-19 pandemic has put the spotlight on local government and we are immensely proud of how our teams and partners across the public, voluntary and private sector have worked to support our residents and businesses. The Covid-19 pandemic is profoundly impacting on our communities and the local economy, as well as the Council's direct income and expenditure. The pandemic and social distancing requirements pose significant risks to businesses and in our high streets, to residents' welfare, and their employment and training opportunities which may drive increasing demand for statutory public services. However there may be opportunities too for inward investment and as fewer people commuting (particularly to London) choose Medway as a place to live and work.

It is difficult to quantify the impact of Covid-19 at this stage with any certainty, but the financial pressure on the Council will be substantial – even after the Government's emergency Covid-19 funding and other support for local authorities is taken into account. The Council has had to put considerable resources

into ensuring that rough sleepers are safe during this period and that the most vulnerable in our community are cared for. This comes with additional cost pressures, and the Council is also experiencing substantial shortfalls across many of our key income streams. However the true scale of Covid-19's impact on the Council's finances will be felt during 2020/21.

## Covid-19 Recovery — Back to Better

Although we will, for some months still be in the response phase to the pandemic, we are also now actively planning and implementing our recovery. It is important that we reflect on what we have learned during this time, and the different ways we have been working, to radically look at what we can do differently in future and further improve the services we deliver for Medway residents and businesses. We play a leading role in supporting the economic recovery of Medway, working with partners across the public sector and industry representatives on a range of working groups.

Just as our response to the pandemic has been creative, selfless, and ambitious, so too should be our approach to recovery. So rather than everything back to normal, we are proposing that the next steps should be to discover our Back to Better. We remain as ambitious for Medway as we have ever been and moving forward, we will be reviewing our strategy base, including our Medium Term Financial and Capital Strategies to reflect the impact of the pandemic and our approach to continuing to deliver the Council's strategic objectives. We will use this as an opportunity to identify opportunities to improve pre-pandemic arrangements, with a view to increasing our resilience and considering innovative and transformational development models as we look to the future. We will also work to influence regional (and national) policy and strategy to support the shaping of the wider landscape of the new normal. Through 2020/21 the Council will adopt a proactive evidence-led approach to ensure that we respond to the emerging needs of residents and businesses.



## Organisational Overview, External Environment and Governance (continued)

### Our people

We currently employ 1,853 Full Time Equivalent (FTE) staff to deliver services for Medway and achieve the objectives in our Council Plan. We are committed to supporting, developing and engaging with our staff and offer a wide range of professional qualification and skills based training to ensure our specialist teams are adequately skilled to deliver high quality services. As a result our workforce is vibrant and dedicated to our objectives and journey, and our low turnover ensures we retain experience.

As our ongoing business change programme delivers realigned, more efficient services we are reviewing how they are delivered and structured to capture the efficiencies of digitalisation. We are committed to training and developing staff within Medway to enable them to adapt and successfully deliver services in the new design and structure. While already in progress, the Covid-19 pandemic dramatically accelerated arrangements to work more flexibly with home and remote working the norm for many. This is impacting on our property strategy, reducing demand on central officer space. We are committed to succession planning and investing in learning and development of the workforce for the future, including our award-winning Apprenticeship Academy, which maximises the use of the Apprenticeship Levy for Medway.

### Alternative Service Delivery Models

#### Shared Services

Medway Council launched its first shared service, delivering a Building Control Service for the areas of Medway, Gravesham and Swale in 2007, but has more recently followed this up with a number of other shared services with Gravesham Borough Council. Medway currently hosts shared service arrangements with Gravesham to provide Audit and Counter Fraud Services, Legal Services, Payroll and HR services and in 2019, a new shared management arrangement was established for the Revenues and Benefits Teams of both authorities. During 2018/19 Gravesham took the lead in hosting a shared Licencing Service for Medway. We will

continue to explore opportunities to share services where this benefits our residents, and opportunities are being explored with the other Greater North Kent Councils; Gravesham, Dartford, Maidstone and Swale.

#### Medway Development Company

Medway Council is making considerable investments into its urban spaces and the development of new housing is an integral part of this process. With Medway becoming increasingly attractive, the Council as a significant land holder can play an important role in helping to alleviate this pressure. New homes also reinforce economic growth for local businesses and good quality housing can revitalise areas. Subsequently Medway Council has created Medway Development Company Ltd to bring forward housing sites. Having a directly owned company gives Medway Council the ability to control how new developments are delivered and relate to the regeneration initiatives that are being driven forward but also to maximise its financial returns by delivering the schemes directly.

#### Medway Commercial Group (MCG)

In November 2015, Cabinet agreed to the creation of a 100% Local Authority owned trading company, to commence trading from 1 April 2016 and deliver CCTV, telecare, community alarms and out-of-hours services, with a view to trading externally and growing the business such that it could eventually return an income back to the Council. Following early success in reducing the cost of those services to the Council, Schools Traded Services (Energy, Health and Safety Cleaning, Catering and Waste Management Compliance), and Temporary, Contract and Interim staffing were also transferred to the company. MCG recorded a loss in 2017/18 and following a review of the company and its trading, the governance and board structure of MCG were brought into line with the Council's Housing Company, MDC along with strengthened monitoring and reporting arrangements. The

company is making efficiencies, is projecting improved financial performance, and is now working closely with other organisations including MDC to explore the business cases for potential future work.

#### Medway Norse

In March 2013 Cabinet agreed for the joint venture company, Medway Norse, to be established for the provision of facilities management (FM) services from 1 June 2013. In 2014 the joint venture also took on responsibility for the grounds maintenance contract and for an initial phase of school transport for children with special educational needs attending three schools. From October 2019, Medway Norse took on responsibility for the Council's Waste Collection and Street Cleansing Contracts. The Medway Norse Joint Venture Company was established to:

- Provide services to the Council more efficiently to give better value for money,
- Grow the business through taking on external contracts, and
- Increase employment opportunities for local people.

Like all significant employers Medway Norse faces a number of challenges including inflationary pressures and increases in the national living wage, however the generation of additional business and delivery of cost saving measures means the JV continues to be profitable. Under the terms of the joint venture agreement, Medway Council receives 50% of any profit received.

#### Other Partnership Working

We cannot achieve our vision for Medway on our own. The Covid-19 pandemic shone a light on the strength of partnership working in Medway and beyond, and we continue to enjoy strong working relationships with a wide variety of partners across public, private and voluntary and community sector organisations.

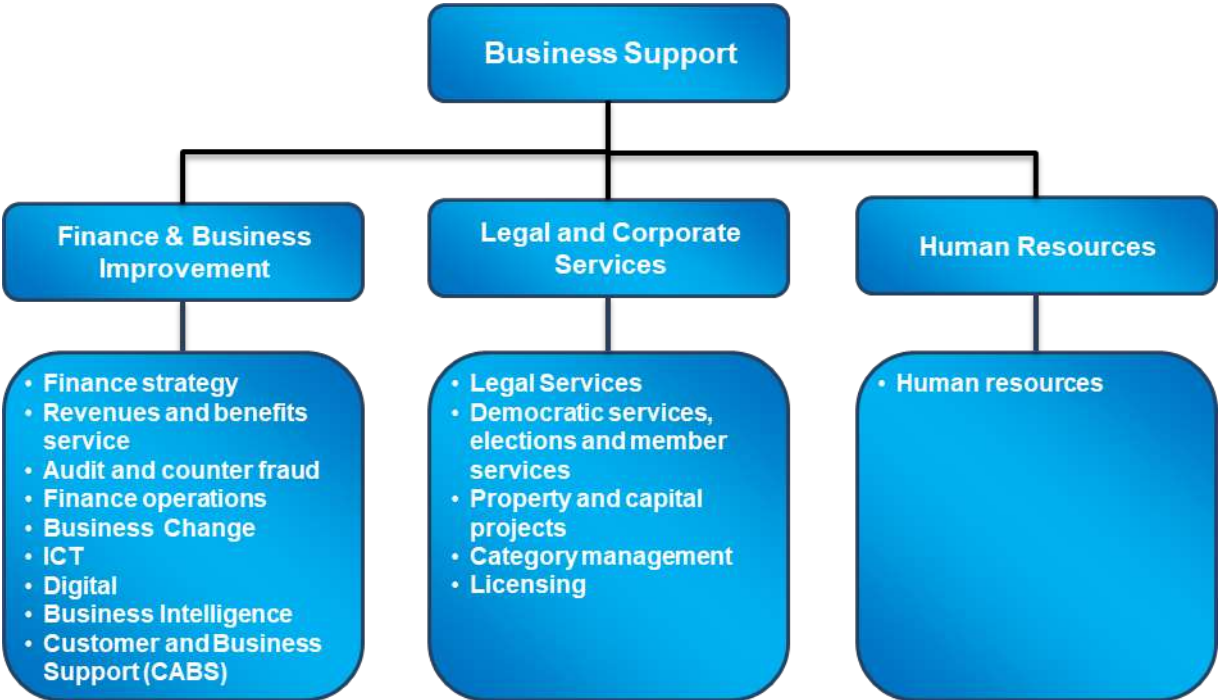
# Operational Model

## Our Directorates and the services they provide



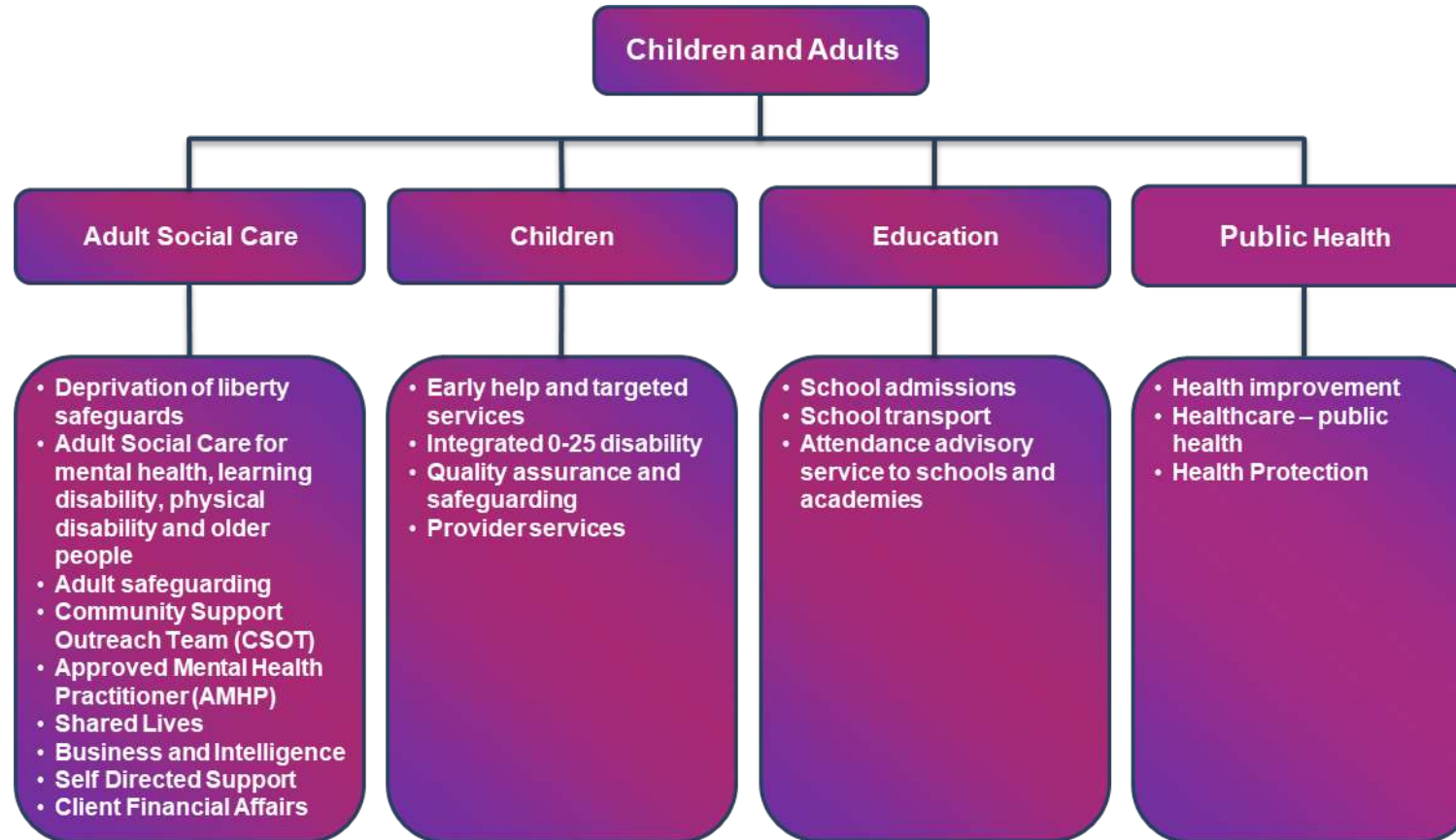
Operational Model (continued)

Business Support Department



## Operational Model (continued)

### Children and Adults Directorate



## Operational Model (continued)

### Regeneration, Culture and Environment Directorate



## Strategy and Resource Allocation

### Delivering value for money

We are committed to delivering efficient and effective services for Medway residents, businesses and visitors. We responded to years of successive reductions in government funding by delivering significant transformation programmes, reducing the cost of service delivery while increasing efficiency and improving services. We continue to deliver more than 70 services, providing support and opportunities to residents living across the five towns while our residents continue to pay the lowest council tax in Kent.

The Council has arrangements in place to monitor performance and the achievement of our strategies and plans, with Council Plan Performance Monitoring reported quarterly to Cabinet and Overview & Scrutiny Committees. Since 2019/20 we have incorporated our Strategic Risk reviews into that report, and from 2020/21 these will appear on the same meeting agendas as our financial performance reporting to support Member decision making and the broader assessment of the Council's performance. Details of our performance for 2019/20 are set out on page 16.

The Council's external auditors are required each year to deliver an opinion on the Value for Money arrangements in place for securing economy, efficiency and effectiveness in the use of resources. The Council's VFM conclusion has been unqualified (positive) for many years.

### Funding

The Council's net revenue budget is funded from four principal sources:

- Grant support from central government in the form of Revenue Support Grant and other specific grants, including Public Health Grant

2019/20 was the last of the four year government settlement agreed in 2015, but the budget also included additional funding for social care announced in the Chancellor's Autumn Budget in 2018. Kent and Medway were also unsuccessful in applying for a second year of the Business Rates Retention Pilots meaning the growth and benefit enjoyed in 2018/19 was not replicated in 2019/20. Moving forward, in September 2019, the Chancellor delivered a one year Spending Round, setting departmental spending plans for the 2020/21 financial year. This settlement would represent the biggest real terms increase in annual spending power for local government in a decade, incorporating both increased grant allocations and flexibility to generate additional income through local taxation.

At the beginning of the national response to the emerging Covid-19 pandemic in the UK, on 16 March the Communities Secretary assured Local Government Leaders that: "This government stands with local councils at this difficult time. Everyone needs to play their part to help the most vulnerable in society and support their local economy. The government will do whatever is necessary to support these efforts." The Government then announced a wide range of financial support packages for individuals, businesses and public sector bodies leading the Response, including emergency funding for councils.

The Treasury has launched the spending review which is due to conclude in the autumn, at which point the Chancellor is expected to set out spending totals for every government department for either the next three years, or as more recently indicated, for one year as the response to Covid-19 continues. Until the government settlement for each department, and specifically for local authorities is confirmed, funding remains the most significant risk to the Council as set out on the Strategic Risk Register.

### Our Financial Strategies

The Council's annual budget and council tax setting establishes the Council's budget framework and sets out the funding of services.

Refreshed each year, the Medium Term Financial Strategy (MTFS) identifies the key issues that need to be addressed as part of that budget preparation. The MTFS needs to be viewed in conjunction with the Council Strategy and Council Plan; the MTFS is built around the framework of priorities and outcomes set out in the Council Plan to integrate budget setting with service planning and ensure that priorities and funding are matched.

Our Capital Strategy provides a high level overview of how capital expenditure and the way it is financed contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance processes for approval and monitoring of capital expenditure.

# Risks and Opportunities

## Risk Management

The Council has a long-established process in place to identify the principal risks that may influence or impact on the delivery of services. The Council's Risk Management Strategy is reviewed annually to ensure it remains up to date, and sets out the process by which the Council identifies, analyses, evaluates and treats the risks and opportunities it faces both on a strategic and operational level. The process requires judgements to be made on the likelihood and impact of a potential risk and enables us to develop and implement appropriate controls to manage or mitigate these risks to reduce the impact.

For 2019/20 we increased the frequency of the arrangement to review and update the Strategic Risk Register from six monthly to quarterly. To better assist Members making informed decisions, we also amalgamated the review of the Strategic Risk Register into the Council Plan Monitoring Reports, providing information on progress with the Council's key objectives alongside action plans to manage the risk to the achievement of those objectives. These combined reports have been presented to the Cabinet and Overview and Scrutiny Committees throughout 2019/20 and for 2020/21 these will appear on the same agenda as the financial monitoring reports.

Risk is considered in all Council decisions with a risk assessment required in the standard CMT and Cabinet/Committee report template.

In March 2019 the Council implemented the Emergency Planning procedures in response to the Covid-19 Pandemic, with a risk assessment in line with the Council's Risk Management Strategy forming the basis of all decision making and governance arrangements throughout the Response. The impact of Covid-19 is reflected on each risk in the latest Strategic Risk Register.

## Strategic Risk Register—Current Risks

Full details of each risk on the current register, including scores and arrangements in place to manage them, is included in the latest full version reported to the [Cabinet in August 2020](#).

Finances—Demographic pressures in adult social care, children's care and SEND have been exacerbated by the impact of the Covid-19 pandemic, and additional funding to date relates only to 2020/21.

Medway's economic recovery from Covid-19—The impact of mandatory closures and social distancing requirements on residents and businesses increases demand for statutory services while reducing income from local taxation.

Changing demographics of older people and working age adults—Projected increases in demand for and complexity of need in adult social care has coincided with increased demand due to Covid-19.

Keeping vulnerable adolescents safe—Delivery of the Council's corporate parenting responsibilities is challenging in the face of factors including CSE, Gang Culture, Offending and Re-offending, growing up in the care system without proper transition to adulthood.

Non-delivery of Children's Services improvement—We are committed to deliver our improvement plan and achieve more positive outcomes for children and young people in Medway, but risk losing control of the service if this is not successful.

Data and information—Our increased reliance on digital technology both for customers and the Council brings with it an increased information risk particularly regarding personal and health data.

Alternative service delivery models—A lack of robust management of these delivery models can lead to underperformance.

Cyber security—There are no mitigations that are completely effective against malware infection, however we are working to improve resilience without disrupting the productivity of services.

Lack of resources to keep young people with SEND safe due to increasing demand and complexity of need pressures—Pressures from increasing demand and complexity of special educational need and disability place extreme pressure on High Needs Budget, impacting our ability to support children and young people.

Business continuity and emergency planning—As a local authority we are required to have robust emergency management and response arrangements while continuing to deliver core services throughout incidents.

Delivering regeneration—It is vital the benefits are felt by the population of Medway, however economic uncertainty could delay regeneration and growth, impacting on strategic decisions and inward investment.

Homelessness—Increasing demand for temporary accommodation and increased rough sleeping have combined with reductions in income due to Welfare Reform.

## Opportunities

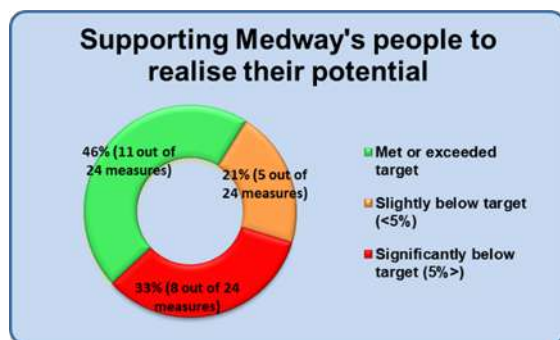
The Council has a strong track record of maximising opportunities alongside managing risk, most notably in delivering significant transformation programmes in response to risks around reduction in government grant and local income.

Following the Response to Covid-19, we are planning and implementing our recovery—'Back to Better' to realise the opportunities around increased digital interactions with customers, a shift to more remote/home working and increased resilience and efficiency in the delivery of our services.

# Performance Management

Medway Council Strategy is our overarching strategy and sets out our vision, priorities, ways of working and the outcomes we expect to achieve. The Medway Council Plan sets out how we'll achieve the outcomes outlined in our Strategy and the measures we'll use to track our performance. Quarterly Council Plan monitoring reports are published via Cabinet and Overview and Scrutiny Committee agendas with full commentary on all measures and outcomes provided.

## People



83% of people completing an adult weight management service have reduced their cardio vascular risk.

Annual Healthy Weight Summit.

100% of special schools judged to be good or better

64% of children reached the required standard in Reading, Writing and Math.

93.1% of maintained schools graded good or better

Improving average progress 8 score with Medway rising 5 places in Local Authority ranking.

## Place



7 green flags awarded; the national standard that recognises well managed green spaces.

Over 15,961 of volunteer hours spent working on Medway's greenspaces.

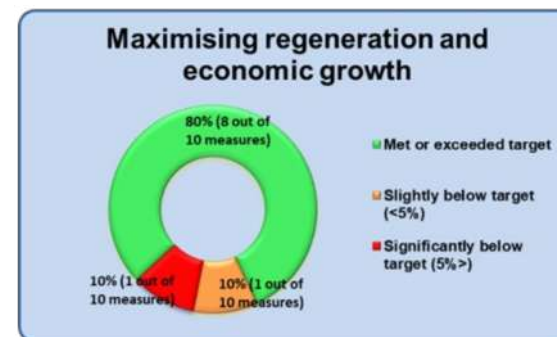
97% of streets free from litter when surveyed (Q4 19/20)

87% satisfaction with refuse collection (Q4 19/20)

Secured a grant of £1.6m from Historic England towards High Street Heritage Action Zone

Secured £2.5m (jointly with Kent County Council) of European Structural and Investment Funds (ESIF) to support inward investment.

## Growth



£170m awarded from the Housing Infrastructure Funds (HIF) to support the delivery of 10,600 new homes on the Hoo Peninsula

432 jobs created and 60 protected during 2019/20.

99.8% pass rate for Medway Adult Education learners

First Skills and Employability Summit held with over 130 people attending

£100,000 has been secured to run a Supported Employment pilot, helping people with learning disabilities into work.

First homes occupied at Rochester Riverside and new hotel now open

Where performance is below target, arrangements are in place for 'deep dive' reviews to be carried out to understand factors driving reduced performance, and to determine actions to for improvement. The results of these activities are reported through the Quarterly Council Plan monitoring reports to Cabinet.



## Financial Performance

### Financial Review of 2019/20

We are proud of how we have managed our finances over the past decade as resources available to local government were successively reduced. We continue to levy the lowest council tax in Kent and despite that have continued to deliver excellent services and, in some cases, protect services that other local authorities have been forced to stop providing. This has been achieved by taking a forward-looking approach to everything we do including effective financial planning across all our services, our transformation programme, alternative service delivery initiatives, partnership work with other councils, taking a more commercial approach to our operations and successfully securing external funding opportunities.

In response to the second round of revenue forecasts presented to Cabinet in November 2019, which indicated a pressure of £6.695million, the Council formulated a significant package of management action and implemented a strict moratorium on non-essential spend. Despite the disruption caused by Covid-19 late in the financial year, the continued work to manage expenditure, allied to the review of the Minimum Revenue Provision (MRP) and our share of the Government surplus on the business rates levy meant that the final outturn represented a net underspend on services of £2.8million, and a further £2million of collection fund surpluses which were transferred to the Council's usable general fund reserves.

### Treasury Management

The Council's Treasury Outturn was reported to Audit Committee in July 2020 confirmed that the Council complied with its legislative and regulatory requirements in the delivery of the treasury function in 2019/20. The report also confirmed that borrowing was only undertaken for a capital purpose and the statutory borrowing limit was not breached.

Total investments managed in-house as at 31 March 2020 stood at 40.5million (2018/19, £11.5m) and externally managed of £28.9m (£.29.6m in 2018/19). During 2019/20 the council operated a prudent investment strategy with investment priorities being security first, liquidity second and then return. Funds are invested in loans to other UK local authorities, Property Funds and bank deposits.

The Council also had £270,2m long-term borrowing as at 31 March 2020 (31 March 2019, £211.9m), primarily in the form of PWLB and market loans. In addition short term borrowing stood at £33.7m at 31 March 2020 (£41.7m at 31 March 2019).

The Council achieved an average return of 0.88% on its cash investments (1.22% in 2018/19). In addition property fund investments yielded an overall return of 0.95% based on original cost (5.88% in 2018/19). The return on property funds comprises dividends received and the change in the capital value of the investments.

### The Level of Working Balances and Reserves

The council's working balances stood at £15.144m as at 31 March 2020 (£10.114m at 31 March 2019). The increase of just over £5m relates to the strategy to increase these reserves to assist with the Councils financial resilience during difficult times.

The council also holds earmarked reserves, kept for specific types of expenditure in the future. The total amount of earmarked reserves held as at 31 March 2020 is £17.953m (£18.221m at 31st March 2019).

### Financial outlook

Commencing in Summer 2019, during formulation of the MTFs, and continuing throughout the overview and scrutiny process, officers worked closely with portfolio holders to identify savings, efficiencies and income generating measures to

achieve a balanced budget, without recourse to reserves and whilst attempting to minimise the impact on service delivery. On 20 February 2020 Council approved the balanced budget for 2020/21.

Following our initial response to Covid-19 we are now working on our recovery plans, aiming to go 'Back to Better' and realise the benefits of changed ways of working and interacting with our customers.

During 2020/21 we have received significant additional funding, including non-ringfenced emergency support for local authorities, to enable us to meet additional cost pressures and income shortfalls arising from Covid-19. The first round of revenue monitoring for 2020/21 forecasts full use of this funding and results in a pressure of £756,000, considerably lower than that forecast in recent years and achievable only through this additional funding.

The local government sector as a whole will need significant additional financial support from the government to offset continued expenditure and income pressures arising from the ongoing pandemic. We await the Chancellor's Autumn Statement and continue to lobby government to ensure local authorities are adequately supported to throughout 2021/22 and beyond.

Our Medium Term Financial Strategy is in development, will be presented to Cabinet in September 2020 and will set out our key assumptions and judgements around demographic growth, increasing demand for services, income from local taxation and fees and charges, and around anticipated government funding.

## Financial Performance (continued)

How the Authority's Budget has Changed		
	£'000	£'000
Budget requirement 2018/19	290,278	
Changes in function and funding	821	
<b>Adjusted Base Budget</b>		<b>291,099</b>
Inflation	3,332	
Other cost pressures	3,259	
Service pressures	11,983	
Efficiency and other savings	(12,228)	
		<b>6,346</b>
<b>Budget Requirement 2019/20</b>		<b>297,445</b>
Financed By:		
National Non-Domestic Rates (NNDR) Redistribution	53,966	
Revenue Support Grant (RSG)	6,053	
Other Specific Grant	117,625	
Council Tax	119,651	
Reserves	150	
<b>Total</b>		<b>297,445</b>

Summary of the Local Government Finance Settlement 2019/20				
	Final 2018/19	Final 2019/20	Change	
	£'000	£'000	£'000	%
NNDR Redistribution	60,094	53,966	(6,128)	(10.2%)
Revenue Support Grant/ Baseline Need Funding	0	6,053	6,053	100.0%
<b>Total</b>	<b>60,094</b>	<b>60,019</b>	<b>(75)</b>	<b>(0.1%)</b>

The tables above show that 2019/20 was a financially difficult year with an 0.1% cut in Local Government Finance Settlement against the comparable figure for 2018/19. Funding from the Local Government Finance Settlement has been increased by 1.8% in 2020/21 with the introduction of the Baseline Need Funding.

## Financial Performance (continued)

During the year, the Council regularly reviewed its performance against its Budget Requirement, with these reports available publicly from the [www.medway.gov.uk](http://www.medway.gov.uk). The final outturn position for the year is shown in the table below, together with how this expenditure was financed:

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	114,447	(105,074)	9,374	9,949	(575)
Children & Adult Services (inc. Public Health)	298,993	(67,951)	231,042	224,909	6,133
Regeneration, Culture, Environment and Transformation	128,624	(54,928)	73,696	76,028	(2,332)
<b>Sub-total Included in Cost of Services in Statutory Accounts</b>	<b>542,065</b>	<b>(227,954)</b>	<b>314,111</b>	<b>310,885</b>	<b>3,226</b>
<b>Amounts included within management accounts but excluded from services within statutory accounts:</b>					
Investment Properties (included in BSD in Management Accounts)	0	(834)	(834)	(413)	(421)
<b>Sub-total included within Business Support Department in Management Accounts but included within Other Operating Income and expenditure within the Statutory Accounts</b>	<b>0</b>	<b>(834)</b>	<b>(834)</b>	<b>(413)</b>	<b>(421)</b>
Medway Norse	0	(399)	(399)	(263)	(136)
Levies	1,483	0	1,483	1,455	28
Interest & Financing	6,872	0	6,872	12,220	(5,348)
<b>Sub-total Other Operating Income and Expenditure within the Statutory accounts</b>	<b>8,355</b>	<b>(1,233)</b>	<b>7,122</b>	<b>12,999</b>	<b>(5,877)</b>
Repayment of Debt	1,361	0	1,361	1,361	0
Depreciation Credit	0	(24,012)	(24,012)	(24,012)	(0)
<b>Amounts included within Interest &amp; Financing in Management Accounts but excluded from Surplus or Deficit on the Provision of Services within the Statutory Accounts</b>	<b>1,361</b>	<b>(24,012)</b>	<b>(22,651)</b>	<b>(22,651)</b>	<b>(0)</b>
<b>Total Management Accounts Variance against Budget Requirement</b>	<b>551,781</b>	<b>(253,199)</b>	<b>298,582</b>	<b>301,233</b>	<b>(2,651)</b>
<b>Funding:-</b>					
Contribution from Reserves	0	2,458	2,458	(355)	2,813
Revenue Support Grant	0	(6,053)	(6,053)	(6,053)	0
Covid-19 Emergency Grant	0	(6,628)	(6,628)	(6,628)	0
Non-Domestic Rates Retention	0	(54,129)	(54,129)	(53,966)	(162)
Council Tax	0	(119,651)	(119,651)	(119,651)	0
Dedicated Schools Grant	0	(83,195)	(83,195)	(83,195)	0
Other School Grants	0	(3,847)	(3,847)	(3,847)	0
Other Specific Grants	0	(8,797)	(8,797)	(8,797)	0
New Homes Bonus	0	(1,978)	(1,978)	(1,978)	0
Public Health Grant	0	(16,762)	(16,762)	(16,762)	0
<b>Total Funding</b>	<b>0</b>	<b>(298,582)</b>	<b>(298,582)</b>	<b>(301,233)</b>	<b>2,651</b>
<b>Total Funding and Expenditure Variance</b>			<b>0</b>	<b>0</b>	<b>0</b>

Amounts shown above for Council Tax and Non-Domestic rates are derived from the Collection Fund. These figures differ from the amounts shown in the Comprehensive Income and Expenditure Account due to timing differences in the recognition of surpluses and deficits.

Full details, including notes on individual variances within directorates can be found within the Outturn Report that was considered at Cabinet on 9 June 2020.

## Financial Performance (continued)

### Housing Revenue Account

The Housing Revenue Account (HRA) reflects the income and expenditure related to the provision of housing accommodation by the Council.

Budget Requirement:	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Housing Revenue Account	13,749	(14,408)	(658)	(216)	(442)
<b>Total Funding and Expenditure</b>	<b>13,749</b>	<b>(14,408)</b>	<b>(658)</b>	<b>(216)</b>	<b>(442)</b>

### Capital Expenditure

Capital Expenditure relates to expenditure to acquire, construct, enhance or replace tangible non-current assets such as land, buildings or major pieces of equipment that will be used to provide services over a number of years in the form of a capital programme to achieve the council's strategic objectives and priorities.

In 2019/20 the Council spent £77.651m on General Fund and £5.602m Housing Revenue Account capital schemes. Of this, £73.634m on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included the provision of new classrooms, improvements to school infrastructure, highways improvements, regeneration schemes, improvements to the Council's housing stock and building of new housing stock. The remainder of expenditure of £9.619m relates to "Revenue Expenditure Funded from Capital under Statute" (see Note 28 Accounting Policies page 106).

The final capital outturn position for the year is shown in the table (see right) together with how this expenditure was financed:

Capital Budget 2019/20	Approved 2019/20+ £'000	Forecast 2019/20 £'000	Outturn 2019/20 £'000	Variation to 2019/20 £'000	Slippage to 2020/21+ £'000
<b>Directorate/Service</b>					
Business Support	178,740	43,608	40,040	(3,568)	138,700
Children and Adults (inc. Public Health) Regeneration, Culture, Environment	33,109	7,750	7,903	153	25,206
	247,623	19,108	29,705	10,597	217,918
Member Priorities	366	326	3	(323)	363
Housing Revenue Account	15,670	5,795	5,602	(193)	10,068
<b>Total</b>	<b>475,508</b>	<b>76,587</b>	<b>83,253</b>	<b>6,666</b>	<b>392,255</b>

Funding source	£'000
Borrowing (supported capital expenditure and unsupported)	55,265
Government Grants and Other Contributions	17,192
Major Repairs and Other Contributions	3,823
Capital Receipts	326
Developer Contributions	3,898
Revenue and Reserves	2,749
<b>Total</b>	<b>83,253</b>

# Commentary on Financial Statements

## Statement of Accounts

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

## Statement of responsibilities

This Statement sets out the responsibilities of the Authority and the Chief Finance Officer in respect of the proper administration of the financial affairs of the Authority and for the preparation of the Statement of Accounts. The Chief Finance Officer has to certify that the accounts present a 'true and fair' view of the financial position of the Authority as at 31 March 2019 and its income and expenditure for the year.

## Annual Governance Statement

The Authority is required to carry out an annual review of the effectiveness of the system of internal control and to include a report accompanying the Statement of Accounts. This Statement explains how the Authority has complied with the 'CIPFA/ SOLACE Delivering Good Governance' Framework during the year and up to the date of the approval for publication of the Statement of Accounts. The Annual Governance Statement is set out on pages 23 to 33.

## Independent auditor's report

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

## Core Financial statements and notes

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

The core statements are set out on pages 37 to 43.

## Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

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

## Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt) and unusable reserves i.e. those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the 'adjustments between accounting basis and funding basis under regulations' line. The total comprehensive income and expenditure line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and Housing Revenue Account for Council Tax setting and dwelling rent setting purposes. The net increase / decrease

## Commentary on Financial Statements (continued)

before transfers to earmarked reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

### Balance Sheet

The Balance Sheet shows the value as at the end of the accounting period of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

### Cash Flow Statement

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

### Notes to the principal financial statements

The notes to the principal financial statements present information about the basis of preparation of the financial statements and the specific accounting policies used, disclose additional information required by the Code that is not presented elsewhere in the financial statements, and provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them. These notes are set out on pages 44 to 143.

The supplementary financial statements are set out on pages 144 to 157 and are presented as follows:

### Housing Revenue Account (HRA) Income and Expenditure Statement

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

### Movement on the Housing Revenue Account Statement

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

### Collection Fund

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

### Glossary

A glossary of terms has been included in this document to explain some of the technical accounting language used to assist the reader and is set out on pages 158 to 165.



## Section B

### Annual Governance Statement

# 1. Scope of Responsibility

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

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

In 2016, CIPFA and the Society of Local Authority Chief Executives (SOLACE) published a revised 'Delivering Good Governance' framework that "defines the principles that should underpin the governance of each local government organisation". The Council approved a local code of corporate governance based on the original guidance at its meeting on 13 November 2008. This Annual Governance Statement for 2018/19 has been prepared in line with the revised code of corporate governance and the 2016 framework.

Corporate governance is overseen by the Audit Committee each year when it reviews this statement, under delegation from the full Council. The operational elements of the Council's governance framework are the responsibility of the Chief Finance Officer and the Monitoring Officer within their statutory roles. Cabinet as the Executive also plays a significant role in ensuring that decision making and policy setting is undertaken appropriately.

This statement explains how the Council has complied with the code and also meets the requirements of Regulation 6 (1b) of the Accounts and Audit Regulations 2015 in relation to the publication of a governance statement.

Account has been taken of the 7 April 2020 CIPFA Better Governance Forum briefing paper, and references are made throughout to the impact of the Covid-19 pandemic on the Council, which started towards the end of the period, this statement relates to.

# 2. The purpose of the governance framework

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

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



### 3. Review of effectiveness of the governance framework

Medway Council has responsibility for conducting an annual review of the effectiveness of its governance framework, including the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the executive managers within the council who have responsibility for the development and maintenance of the governance environment, the Head of Audit & Counter Fraud's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

In maintaining and reviewing the effectiveness of the governance framework, the review has considered the following:

- The corporate and business planning processes of the council;
- The corporate performance management framework and the corporate performance reporting processes of the council;
- Reviews carried out by Internal Audit, External Audit and other review bodies which generate reports commenting on the effectiveness of the systems of internal control employed by the council;
- The consideration of External Audit reports by the Audit Committee;
- The opinion on the overall adequacy and effectiveness of the council's overall control environment from the Head of Audit & Counter Fraud.

The detailed results of the review have been considered by the Council's Corporate Management Team in advance of their endorsement of this Annual Governance Statement; assurances have been provided by members of the Corporate Management Team that key elements of the control framework were in place during the year in their divisions and control weaknesses were identified and addressed.

The following section of the statement summarises the results of this review; presenting the governance framework that has been in place at Medway Council for the year ended 31 March 2020 and up to the date of approval of this Statement.

Core Principle	How we have complied in 2019/20
<p>Principle A: “Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law”</p>	<p>The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council’s business are defined in the Constitution, Contract Standing Orders and Financial Regulations; the Monitoring Officer is responsible for reviewing and updating these as required.</p> <p>Codes of conduct are in place for, and define the high ethical values and standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity.</p> <p>The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. The Councillor Conduct Committee is regularly updated on compliance with the Code of Conduct.</p> <p>The outcome of complaints made under the whistle blowing policy are reported to the Audit Committee on an annual basis, in order that they can keep them under review.</p> <p>The Council seeks feedback from the public through its complaints and comments procedures and responds to the outcomes, as appropriate.</p>
<p>Principle B: “Ensuring openness and comprehensive stakeholder engagement”</p>	<p>Council meetings are held in public unless there are good reasons for not doing so on the grounds of considering “exempt” information within the meaning of the Local Government Act 1972, Schedule 12A.</p> <p>Unless confidential, decisions made by Council, the Cabinet or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.</p> <p>The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users.</p> <p>During the Covid-19 Pandemic, virtual meetings have been held to conduct Council business and where necessary urgent decisions allowed for in the Constitution have been taken by the Leader and/or Chief Executive, which have then been reported.</p>

Core Principle	How we have complied in 2019/20
<p>Principle C: “Defining outcomes in terms of sustainable economic, social and environmental benefits”</p>	<p>The Council works with its partners to set the vision and priorities for the area. The Council manages a process of bringing together performance data, demographic information and consultation findings to determine key shared priorities.</p> <p>In 2019 the Council reviewed the Council Plan 2016/17-2020/21, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2018 the council refreshed the Council Plan performance indicators. The Plan forms an essential part of the Council's governance framework, setting out the council's priorities and the measures against which success will be judged.</p> <p>All reports to the Council or Cabinet are checked by the Chief Finance Officer (the section 151 Officer) and the Chief Legal Officer (the Monitoring Officer) for financial and legal implications. The Council has been rigorous and transparent about how decisions are taken and recorded. Cabinet reports include a mandatory paragraph on risk to enable the Council to consider the implications of its decisions.</p> <p>Equalities are considered during the decision making process to promote fair access to services.</p> <p>All Cabinet and Council decisions are made on the basis of formal reports, which all follow a standard Council template. The template includes guidance on report writing which specifically refers to Diversity Impact Assessments (“DIA”) and provides a link to the Council's DIA guidance which sets out how and when these should be completed.</p> <p>During the Covid-19 pandemic lockdown to minimise risk and to follow Government Guidance, Council meetings which would normally be open to the public have been livestreamed, via Microsoft TEAMS.</p>
<p>Principle D: “Determining the interventions necessary to optimise the achievement of the intended outcomes”</p>	<p>Decision makers receive objective analysis on a variety of options indicating how intended outcomes would be achieved together with the risks associated with those options.</p> <p>In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. Community benefit is an important consideration in the procurement of goods and services.</p> <p>The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council Plan. For example, significant partner engagement in health and social care Strategic and Locality Plans.</p>

Core Principle	How we have complied in 2019/20
<p>Principle E: “Developing the entity’s capacity, including the capability of its leadership and the individuals within it”</p>	<p>The corporate management structure consists of the Chief Executive, three Directors (one of whom is the Deputy Chief Executive), a Deputy Director, five Assistant Directors and two Chief Officers.</p> <p>The roles of officers are defined in agreed job profiles. Staff performance is reviewed on an annual basis in accordance with the performance and development review (PDR) process.</p> <p>The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.</p> <p>The Member development programme has included a focus on scrutiny of Children’s Services to support the work to improve that area of the Council.</p>
<p>Principle F: “Managing risks and performance through robust internal control and strong public financial management”</p>	<p>The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The “executive committee” or Cabinet is the key decision-making and monitoring committee and the various scrutiny committees for reviewing policy decisions before and after implementation.</p> <p>The Council has a risk management strategy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council’s ability to meet its objectives to deliver services to the public.</p> <p>The Chief Financial Officer (the Section 151 officer) is responsible for the proper administration of all aspects of the Council’s financial affairs including ensuring appropriate advice is given to the Council on all financial matters.</p> <p>The Council’s system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.</p> <p>The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably.</p> <p>A Medium Term Financial Strategy and associated Risk Register, and plans for revenue and capital income and expenditure based on corporate priorities are developed, led by the Cabinet and Corporate Management Team, and presented for approval by Council in February each year.</p> <p>Revenue and Capital Budget Monitoring reports are presented to the Cabinet on a quarterly basis for monitoring and control purposes including the annual outturn.</p> <p>During the Covid-19 pandemic, the Council has mobilised an internal control structure of Gold, Silver and Bronze and supported the Kent Resilience Forum in providing a Medway and Kent multi-agency response to the situation. Although discretionary services were stopped on Government advice, key statutory services such as Children’s Services, Housing, Adults Services and Waste collection were maintained. Policy for the Council’s response was set at the Gold level with regular community assurance messages given by the Leader of the Council. Tactical decisions to keep services going were made at the Silver level with some concentrated work around key risks such as the re-opening of schools, high streets and buildings managed at a Bronze level. In line with best practice the Council prepared for recovery from the start of the pandemic, in March.</p>

Core Principle	How we have complied in 2019/20
<p>Principle G: “Implementing good practices in transparency, reporting, and audit to deliver effective accountability”</p>	<p>The Head of Audit &amp; Counter Fraud provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The opinion of the Head of Audit &amp; Counter Fraud over the Council’s overall control environment, delivered in the Audit &amp; Counter Fraud Annual Report 2019/20 is:</p> <p>The Accounts &amp; Audit Regulations 2015 require local authorities to ensure that they have: <i>a sound system of internal control which— (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the authority is effective; and (c) includes effective arrangements for the management of risk.</i> The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.</p> <p>The Audit &amp; Counter Fraud Team has carried out all internal audit work in line with the Public Sector Internal Audit Standards and in accordance with our Quality Assurance &amp; Improvement Programme.</p> <p>In my capacity as Chief Audit Executive, with responsibility for the provision of internal audit services to the council, I am required to provide the organisation, and the Chief Executive, with a statement as to my opinion of the adequacy and effectiveness of the organisation’s risk management, control and governance processes. This opinion is intended to support the council’s annual governance statement.</p> <p>In assessing the level of assurance to be given, the following have been taken into account;</p> <ul style="list-style-type: none"> <li>• the results of all work carried out by the Audit &amp; Counter Fraud Shared Service for Medway from the preparation of the Annual Internal Audit Report 2018-19 in June 2019 to 30 June 2020.</li> <li>• follow-up of recommendations linked to audits from previous periods,</li> <li>• Significant recommendations not accepted by management or acted upon and the consequent risks,</li> <li>• The effects of any significant changes in the organisation’s objectives or systems, including, the effects of changes to the control environment resulting from emergency decisions taken in response to the Covid 19 Pandemic,</li> <li>• Matters arising from previous reports to the organisation, and</li> <li>• The results of work performed by other assurance providers.</li> </ul> <p>While suspension of internal audit activity during emergency response has had some impact on the volume of planned assurance work being completed, I am satisfied that the;</p> <ul style="list-style-type: none"> <li>• approach to extend the period of completion for assurance reviews overrunning from 2019-20,</li> <li>• monitoring of changes to the control environment as emergency decisions were made, with responsive assurance applied as necessary, and</li> <li>• assurance related activities undertaken by redeployed staff in new areas of risk, such as business support grants,</li> </ul> <p>means that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation’s risk management, system of internal control and governance processes.</p>

Core Principle	How we have complied in 2019/20
Principle G: “Implementing good practices in transparency, reporting, and audit to deliver effective accountability”	<p>While it has been identified that the authority has mainly established adequate internal controls within the areas subject to review between 01 April 2019 and 30 June 2020, there are areas where compliance with existing controls should be enhanced or strengthened or where additional controls should be introduced to reduce the risk of loss to the authority. Where such findings have been made, recommendations have been made to management to improve the controls within the systems and processes they operate. Management have accepted responsibility for the implementation of these recommendations and follow up arrangements are in place to ensure that appropriate action is taken. The results of all work completed will be reported to the Finance &amp; Audit Committee in accordance with the Audit &amp; Counter Fraud Charter.</p> <p><b>It is therefore my opinion that Medway Council’s framework of governance, risk management and system of internal control is adequate and effective, and contributes to the proper, economic, efficient and effective use of resources in achieving the council’s objectives.</b></p>

## 4. Update on actions identified in the 2018/19 Annual Governance Statement

The Annual Governance Statement for 2018/19 identified three key areas of focus:

- (a) *After a Joint Targeted Area Inspection (JTAI) focussing on the “front door” of social care it is widely anticipated that a full Ofsted Inspection of Local Authority Children’s Service (ILACS) will take place this year.....* That ILACS inspection did take place and found the Council still to be inadequate in the provision of its Children’s Services. A Commissioner has been appointed by the Government and a series of improvement measures put in place. An Assistant Director for Children’s has been recently appointed. Whilst the early signs, including the official reporting from the Commissioner to the Secretary of State, indicate positive progress, improvement of outcomes for children, will involve a sustained whole organisation commitment.
- (b) *With a budget pressure identified in this year’s revenue budget, continued work will need to be done to identify additional income or cost reductions. The Leader and Cabinet will want to ensure there is strong Member oversight of this work, with Corporate Management Team responsible for identifying areas for consideration.* A balanced budget was achieved including some additions possible to reserves. That may not be sufficient to overcome the unprecedented budgetary impact of the Covid-19 pandemic.
- (c) *The Council has an ambitious set of regeneration projects many of which are either just starting or due to start this year. The Council will hear the outcome of its £170 million Housing Infrastructure Fund bid, will commence building homes in central Chatham and Gillingham, take ownership of the Pentagon Shopping Centre, learn the outcome of its £14 million Future High Street Fund bid and start works to develop the Innovation Park Medway. These and a range of other projects will need to be appropriately managed to ensure delivery but also to enable the Council to make the most of these significant opportunities.* The Council was successful in being awarded the £170 million HIF bid. The construction of homes through the Council’s company, Medway Development Annual Governance Statement 151 Company Ltd, has started. The Pentagon Centre was acquired in April 2019. The Future High Streets Fund bid has been lodged.

## 5. Proposed enhancements to the Council's governance arrangements

The review of the effectiveness of the Council's governance framework for 2019/20 did not highlight any specific areas of concern. Where internal audit work has indicated additional controls could be in place, officers are focussed on making the necessary changes to do so.

However the following areas have been identified where the Council will seek to enhance its arrangements in the coming year:

- a) The impact of the Covid-19 pandemic has been felt across the full range Council services, both essential and discretionary. This has been reflected in an unprecedented budgetary impact. Commitments made at the start of the pandemic by the Minister for Housing, Communities and Local Government, suggested that Council would be compensated for the financial impact of reductions in incomes and increased costs during the main "response" phase of the pandemic. It remains to be seen whether that compensation will be forthcoming. The Council has reported a possible £40 million gap in its finances. This will represent an insurmountable gap, without some central Government intervention. Significant effort will be required by Cabinet and Officers to identify budget efficiencies to offset pressures that are identified through the quarterly reporting of the revenue and capital budgets.
- b) The Children's Services improvement journey must be sustained and initiatives such as a Child Friendly Medway will have a role to play in showing that the Council means business in wanting better outcomes for all children. Concerted corporate effort from the Lead Member, Leader, Chief Executive, Director of Children and Adults, Corporate Management Team and colleagues both in Children's Services and other Council teams will be needed to effect better outcomes for the most vulnerable children in Medway. Additional training for Members to scrutinise risks and progress will have a role to play. Performance will need to be carefully monitored through the Children's Improvement Board. The role of the Corporate Parenting Board in ensuring the voice of the child is heard will also be important to demonstrating improvement.
- c) The delivery of key operational and regenerative projects remains a priority for the Council and none more so than the £170 million Housing Infrastructure Fund project. Appropriate project management including Member oversight will be needed to ensure progress against key milestones. Consideration will be needed to the consequences of delaying some of the current live projects, due to the impact of the Covid-19 pandemic and the cessation of some projects, where market change dictates. Judgements made will need to involve professional officer advice and where merited, specialist external advice.
- d) Climate change. The Council declared a climate change emergency in April 2019. Work is progressing to base line the carbon emissions within Medway to date and consider a range of measures to complement work already happening to respond to the climate change emergency. Concerted effort across a number of energy reduction and environmental schemes will be needed to deliver the strategic aims identified. Performance will be enhanced by community leadership by the Council through the Deputy Leader, supported by Officers and partners to deliver improved outcomes.
- e) Recovery from the Covid-19 pandemic could present a sustained risk to the Council and the local community. With work having started in March, as the pandemic was declared, the Council has taken a best practice approach to preparing for recovery. Appropriate strategic direction will be needed from the Leader and Cabinet to focus how the Council will contribute to and manage recovery. Officers will want to draw on the heightened levels of collaborative working that have been a key characteristic of the response to the pandemic to enhance the recovery phase.

An update on the implementation of these areas of review will be provided in the 2020/21 Annual Governance Statement.



## 6. Conclusion

Based on the results of the review, reasonable assurance can be placed upon the adequacy and effectiveness of Medway Council's systems of internal control and governance. Although areas for further enhancement have been identified the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in all significant respects.

### **Certification by the Leader of the Council**

I confirm that the 2019/20 Annual Governance Statement has been considered and approved by Medway Council at the meeting of the Audit Committee on xx September 2020:

.....  
Date:

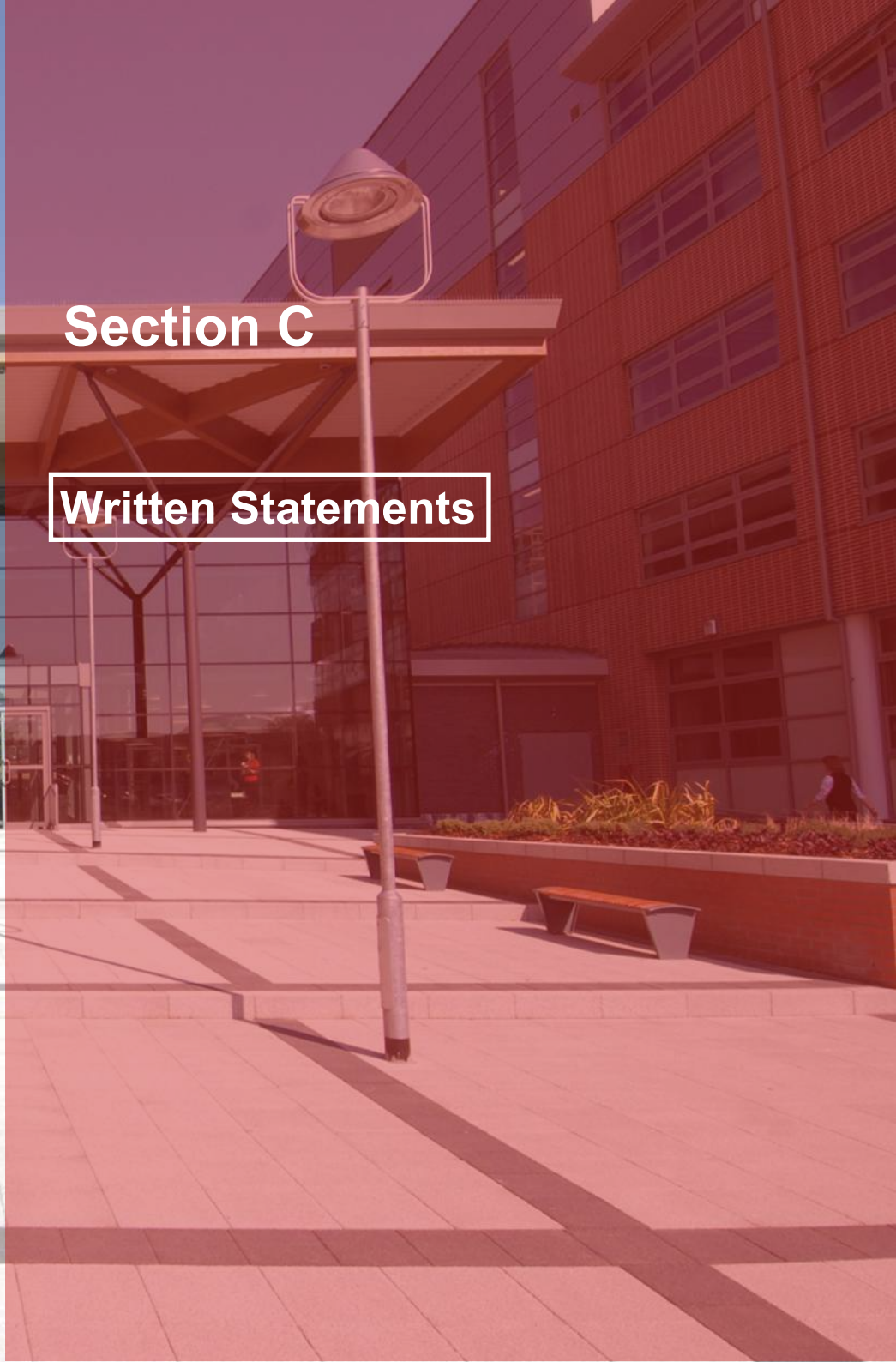
### **Certification by the Chief Executive**

I confirm that the 2019/20 Annual Governance Statement has been considered and endorsed by Medway Council's Corporate Management Team:

.....  
Date:



Mid Kent College, Brompton



Section C

Written Statements

# Statement of Responsibilities

## The Authority's Responsibilities

The Authority is required to:

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

## The Chief Finance Officer's Responsibilities

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

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

- selected suitable accounting policies and then applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the local authority Code.

The Chief Finance Officer has also:

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

## Certificate of the Chief Finance Officer

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its expenditure and income for the year ended 31 March 2020.

Signed:



**Phil Watts**

Chief Finance Officer, Section 151 Officer  
Dated: 28 July 2021

## Approval of the Statement of Accounts

In accordance with Accounts and Audit Regulations 2015 I certify that the Statement of Accounts for the period ending 31 March 2020 was approved at the meeting of Audit Committee held on 19 November 2020, subject to amendments agreed by the Chief Finance Officer with the Council's Auditor. Any material amendments required subsequently have been referred to myself to approve on behalf of the Committee

Signed:

**Councillor Gary Hackwell**

Chair of the Audit Committee  
Dated: 28 July 2021

# Independent Auditors Report to the Members of Medway Council

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## Independent Auditors Report to the Members of Medway Council (continued)

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## Independent Auditors Report to the Members of Medway Council (continued)

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A scenic view of Broomhill Park in Strood, Kent, featuring a large tree, a bench, and a view of the town and river. The image is split vertically, with the left side showing a close-up of a large tree and a bench, and the right side showing a wider view of the park and town.

Section D

# Core Financial Statements

# Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2018/19			Service	Notes	2019/20		
Gross Expenditure (Restated) £'000	Gross Income (Restated) £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
104,090	(95,206)	8,883	Business Support Department		95,699	(87,473)	8,226
278,074	(150,713)	127,361	Children's and Adults (inc. Public Health)		285,365	(155,077)	130,288
8,791	(14,358)	(5,567)	Local authority housing (HRA)		16,877	(14,365)	2,512
130,638	(48,906)	81,732	Regeneration, Culture, Environment and Transformation		127,959	(38,339)	89,620
<b>521,593</b>	<b>(309,184)</b>	<b>212,409</b>	<b>Cost of Services</b>		<b>525,900</b>	<b>(295,254)</b>	<b>230,646</b>
3,894	0	3,894	Other operating expenditure	9	11,881	0	11,881
16,000	(4,155)	11,845	Financing and investment income and expenditure	10	19,481	(4,908)	14,573
0	(211,642)	(211,642)	Taxation and non-specific grant income and expenditure	11	0	(215,476)	(215,476)
<b>541,487</b>	<b>(524,981)</b>	<b>16,506</b>	<b>(Surplus) or Deficit on Provision of Services</b>		<b>557,262</b>	<b>(515,638)</b>	<b>41,624</b>
<b>Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services</b>							
(58,128)			Surplus on revaluation of property, plant and equipment assets	35			(46,241)
14,027			Revaluation losses on non-current assets charged to the Revaluation Reserve	35			33,874
(34,558)			Re-measurement of net defined pension liability/ (asset)	36			(17,418)
<b>(78,658)</b>							<b>(29,785)</b>
<b>Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services</b>							
0			(Surplus)/deficit on revaluation of available for sale financial assets	35			0
<b>0</b>							<b>0</b>
<b>(78,658)</b>			<b>Other Comprehensive Income and Expenditure</b>				<b>(29,785)</b>
<b>(62,152)</b>			<b>Total Comprehensive Income and Expenditure</b>				<b>11,839</b>

Following a review of the accounting arrangements relating to the Better Care Fund Pooled Budgets, it was found that both income and expenditure relating to arrangements controlled by the Kent & Medway CCG were flowing through the authority's income and expenditure account in error. This has been corrected for the 2019/20 financial statements, and as a result the comparative adjustment has been made for 2018/19. This adjustment, which affects only the Children's and Adults Directorate, removes £9.258m from both gross expenditure and gross income. The net expenditure remains as previously reported.



## Movement in Reserves Statement

The Movement in Reserves Statement shows the movement during the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

A summary of the purpose of each reserve is as follows:

General Fund Balance	This contains the non-earmarked general fund reserves of the Authority which act as a contingency to fund unforeseen eventualities.
Housing Revenue Account	This contains any surplus or deficit arising from the provision of Authority housing by the Authority and earmarked Housing Revenue Account reserves. It can only be used for local authority housing provision.
Earmarked General Fund Reserves	These are reserves created to fund specific revenue or capital expenditure relating to the General Fund.
Dedicated Schools Grant Reserve	Significant increase in Special Educational Needs (SEN) expenditure in 2018/19 and 2019/20 was transferred here. The deficit on this reserve will be addressed through a three year recovery plan to be agreed by the School's forum. This reserve is disclosed on the face of this statement for transparency purposes.
Earmarked HRA reserve	These are reserves created to fund specific revenue or capital expenditure relating to the Housing Revenue Account.
Capital Receipts Reserve	Proceeds from the sale of Authority assets are paid into this reserve which can be used to finance capital expenditure or repay debt.
Major Repairs Reserve	This reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account and can only be used to fund major Housing Revenue Account repairs.
Capital Grants Unapplied	This reserve contains Government grants and other contributions which are held to finance future capital expenditure.
Unusable Reserves	The major reserves included in this category are the Revaluation Reserve, Pension Reserve and Capital Adjustment Account. Their purpose is of a technical accounting nature and cannot be used to support the services of the Authority. They are explained in more detail in note 35.

## Movement in Reserves Statement (continued)

2019/20	Notes	Revenue Reserves						Capital Reserves			Total Usable Reserves	Unusable Reserves	Total reserves	
		General Fund Balance	Earmarked General Fund Reserves	Dedicated Schools Grant Reserve	Total General Fund Balance	Housing Revenue Account	Earmarked Housing Revenue Account Reserves	Total Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve				Capital Grants Unapplied
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
Balance at 1 April 2019		(9,039)	(17,126)	4,139	(22,027)	(5,114)	(1,194)	(6,307.6)	(1,110)	(100)	(10,988)	(40,532)	(198,716)	(239,248)
<b>Movement in reserves</b>														
Total Comprehensive		37,554	0	0	37,554	4,070	0	4,070	0	0	0	41,624	(29,785)	11,839
Adjustments between accounting & funding	19	(41,638)	0	0	(41,638)	(4,508)	0	(4,508)	(4,354)	100	(7,776)	(58,175)	58,175	0
<b>Net (increase)/decrease before transfers to</b>		<b>(4,084)</b>	<b>0</b>	<b>0</b>	<b>(4,084)</b>	<b>(438)</b>	<b>0</b>	<b>(438)</b>	<b>(4,354)</b>	<b>100</b>	<b>(7,776)</b>	<b>(16,552)</b>	<b>28,390</b>	<b>11,839</b>
Movements in Earmarked	20	(801)	(4,406)	5,207	(0)	407	(407)	0	0	0	0	0	0	0
<b>Balance at 31 March 2020</b>		<b>(13,924)</b>	<b>(21,532)</b>	<b>9,346</b>	<b>(26,111)</b>	<b>(5,145)</b>	<b>(1,601)</b>	<b>(6,745.8)</b>	<b>(5,463)</b>	<b>0</b>	<b>(18,764)</b>	<b>(57,084)</b>	<b>(170,325)</b>	<b>(227,410)</b>

## Movement in Reserves Statement (continued)

2018/19 (Restated)	Notes	General Fund Balance	Earmarked General Fund Reserves	Dedicated Schools Grant Reserve	Total General Fund Balance	Housing Revenue Account	Earmarked Housing Revenue Account Reserves	Total Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1 April 2018		(5,088)	(13,623)	(452)	(19,163)	(4,910)	(6)	(4,916)	(331)	(8)	(8,250)	(32,668)	(144,427)	(177,096)
<b>Movement in reserves during</b>														
Total Comprehensive		20,449	0	0	20,449	(3,943)	0	(3,943)	0	0	0	16,506	(78,658)	(62,152)
Adjustments between accounting & funding basis under regulations	19	(23,312)	0	0	(23,312)	2,551	0	2,551	(779)	(92)	(2,739)	(24,370)	24,370	0
<b>Net (increase)/decrease before transfers to Earmarked</b>		<b>(2,864)</b>	<b>0</b>	<b>0</b>	<b>(2,864)</b>	<b>(1,391)</b>	<b>0</b>	<b>(1,391)</b>	<b>(779)</b>	<b>(92)</b>	<b>(2,739)</b>	<b>(7,864)</b>	<b>(54,288)</b>	<b>(62,152)</b>
Movements in Earmarked	20	(1,088)	(3,503)	4,591	0	1,188	(1,188)	0	0	0	0	0	0	0
<b>(Increase)/Decrease in 2018/19</b>		<b>(3,952)</b>	<b>(3,503)</b>	<b>4,591</b>	<b>(2,864)</b>	<b>(203)</b>	<b>(1,188)</b>	<b>(1,391)</b>	<b>(779)</b>	<b>(92)</b>	<b>(2,739)</b>	<b>(7,864)</b>	<b>(54,288)</b>	<b>(62,152)</b>
Balance at 31 March 2019		(9,039)	(17,126)	4,139	(22,027)	(5,113)	(1,194)	(6,307)	(1,110)	(100)	(10,988)	(40,532)	(198,716)	(239,248)

The restatement relates to the separation of the Dedicated Schools Grant Reserve, which was previously held within Earmarked General Fund Reserves but has been shown separately to enable a greater understanding of the financial position of this reserve for the reader. There has also been a movement of the General Reserve from Earmarked General Fund reserves to the General Fund balance to reflect that reserve not being earmarked for any specific purpose.

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations.

The unaudited accounts were issued on 25 August 2020 and the audited accounts were authorised for issue on 28 July 2021.

31 March 2019 £'000	Balance Sheet Summary	Notes	31 March 2020 £'000
689,148	Property Plant & Equipment	21	690,087
17,436	Heritage Assets	22	17,859
16,967	Investment Property	24	16,769
1,842	Intangible Assets		1,082
22,724	Long Term Investments	26	21,979
1,033	Long Term Debtors	30	2,406
<b>749,150</b>	<b>Long Term Assets</b>		<b>750,182</b>
0	Assets Held for Sale <1 Year	25	32,779
83	Inventories		88
17,076	Short Term Investments	26	6,969
75,546	Short Term Debtors	30	70,997
3,764	Cash and Cash Equivalents	31	40,534
<b>96,469</b>	<b>Current Assets</b>		<b>151,367</b>
0	Cash and Cash Equivalents	31	(1,852)
0	Grants Receipts in Advance - Revenue	17	(5,762)
(41,656)	Short Term Borrowing	26	(33,730)
(41,363)	Short Term Creditors	32	(56,983)
(21)	Finance Leases < 1 Year	29	(17)
(5,393)	Provisions (Short Term)	33	(2,722)
<b>(88,434)</b>	<b>Current Liabilities</b>		<b>(101,066)</b>
(33,244)	Long Term Creditors	32	(31,852)
(10,509)	Provisions (Long Term)	33	(6,777)
(211,861)	Long Term Borrowing	26	(265,192)
(261,345)	Other Long Term Liabilities	29,36	(267,045)
(978)	Grants Receipts in Advance - Capital	17	(2,207)
<b>(517,937)</b>	<b>Long Term Liabilities</b>		<b>(573,074)</b>
<b>239,248</b>	<b>Net Assets</b>		<b>227,409</b>
(40,532)	Usable Reserves	MiRS,20	(57,084)
(198,716)	Unusable Reserves	35	(170,325)
<b>(239,248)</b>	<b>Total Reserves</b>		<b>(227,409)</b>

## Cash Flow Statement

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

2018/19 £'000		Notes	2019/20 £'000
16,506	Net (Surplus) or deficit on the provision of services		41,624
(33,323)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements		(94,665)
2,254	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities		33,768
<b>(14,563)</b>	<b>Net cash flows from Operating Activities</b>	37	<b>(19,273)</b>
36,323	Investing Activities	38	29,760
(13,289)	Financing Activities	39	(45,405)
<b>8,471</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>(34,918)</b>
<b>12,235</b>	<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>3,764</b>
<b>3,764</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	31	<b>38,682</b>



## Section E

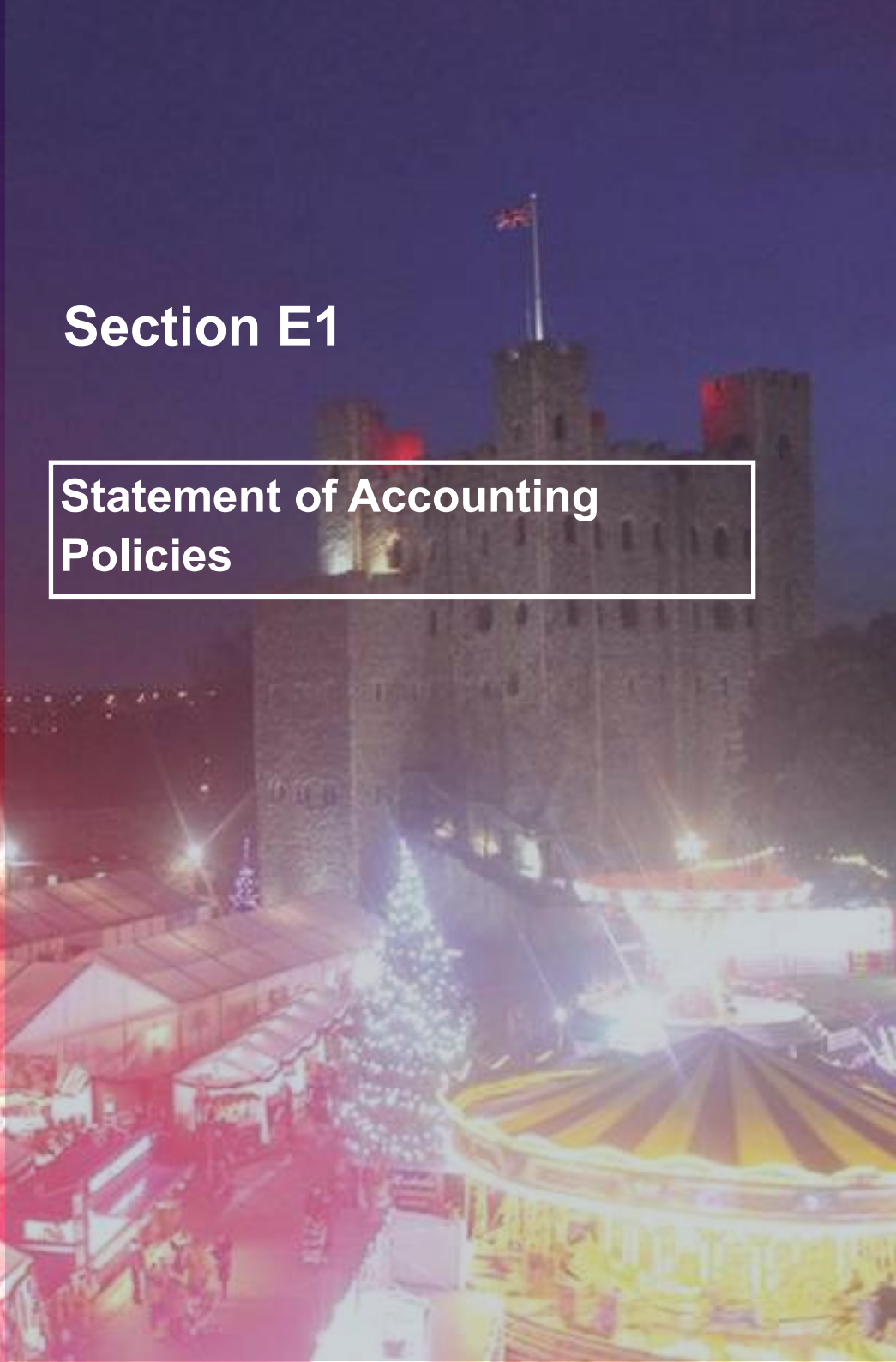
### Notes to the Core Financial Statements



Christmas Market,  
Rochester

## Section E1

### Statement of Accounting Policies



# Note 1. Accounting Policies

## General Principles

The financial statements summarise the Authority's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS).

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

This note contains overarching accounting policies applicable to the statements. Those that apply to specific areas, are detailed within the note to which they relate and are highlighted as accounting policies to that particular note.

## Qualitative Characteristics of Financial Statements

### Relevance

The accounts have been prepared with the objective of providing information about the Council's financial performance and position that is useful for assessing the stewardship of public funds and for making financial decisions.

### Materiality

The concept of materiality has been utilised in preparing the accounts so that insignificant items and fluctuations under an acceptable level of tolerance are permitted provided that in aggregate they would not affect the interpretation of the accounts.

## Faithful Representation

The financial information in the accounts is a faithful representation of the economic performance of the Council as they have been prepared to reflect the reality or substance of the transaction, are free from deliberate or systematic bias, are free from material error and contain all the information necessary to aid understanding.

## Comparability

The accounts must comply with the Code which establishes proper practice in relation to consistent financial reporting.

## Verifiability

Different knowledgeable and independent observers will be able to reach the same conclusion from the information presented in the accounts.

## Timeliness

The information provided in the accounts is available to decision makers in time to be capable of influencing their decisions.

## Understandability

These accounts are based on accounting concepts and terminology which require reasonable knowledge of accounting and local Government. Every effort has been made to use plain language and where technical terms are unavoidable they have been explained in the glossary contained within the accounts.

## Underlying Assumptions

### Accruals Basis

The financial statements, other than the cash flow, are prepared on an accruals basis. Income and expenditure is recognised in the accounts in the period in which it is earned or incurred not as the cash is received or paid.

## Going Concern

The accounts have been prepared on the assumption that the Council will continue in existence for the foreseeable future.

## Primacy of Legislation Requirements

In accordance with the Code, where an accounting treatment is prescribed by law then it has been applied, even if it contradicts accounting standards. The following are examples of legislative accounting requirements have been applied when compiling these accounts:

- Capital receipts from the disposal of property, plant and equipment are treated in accordance with the provisions of the Local Government Act 2003.
- The Local Government Act 2003 requires the Council to set aside a minimum revenue provision.
- The Housing Revenue Account is compiled following proper practice as defined by the Local Government and Housing Act 1989 and section 21 of the 2003 Act.

## Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. However, it is the Authority's policy not to accrue for amounts less than £500 unless it is considered significant to the service. There are particular areas where accruals are considered:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.



## Note 1. Accounting Policies (continued)

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments for them are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Exceptions to this are payments of:

- Regular quarterly accounts (e.g. telephones, electricity, ICT contracts for software and hardware)
- Employee expenses and overtime allowances.

These have been consistently applied each year and therefore do not have a material effect on the year's accounts.

### Charges to Revenue for Non-Current Assets

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

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

- amortisation of intangible assets attributable to the service.

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

### Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Authority's General Fund. Therefore, the difference

between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

### Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and financial performance.

### Value Added Tax

VAT payable is included in the accounts as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## Note 2. Accounting standards issued but not yet adopted

Standards that have been issued but not yet adopted, which may require disclosure in 2020/21 accounts, are listed in Appendix C of the 2020/21 Code include:

- **IFRS 16 Leases** will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2022. It is not possible to quantify the potential effect this will have on the Statements until further works are carried out during 2021/22.

- **Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement** will require the remeasurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.

## Note 3. Critical Judgement in Applying Accounting Policies

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

- **Future funding for Local Government:** There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- **Interests in Companies and Other Entities:** The Council has interests in other entities that fall within the group boundary of the Council on the grounds of control and significant influence in line with the Code. The Council's interests in both Medway Commercial Group Ltd and Medway Development Company Ltd are not currently considered material to the Council's overall financial position and therefore have not been consolidated within group accounts for 2019/20 but this position will remain under review for future financial years.
- **Leaving the European Union:** The result of the EU referendum was a vote to leave the European Union. This decision could have an impact on the Council's future financial position but at this stage it is not possible to assess what that impact might be, however it is not considered necessary to require any change to the financial position reported.
- **Property, Plant & Equipment:** The Authority recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Authority recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Authority, school or school Governing Body then it is not included on the Authority's Balance Sheet. The Authority has completed a school by school assessment across the different types of schools it controls within Medway. Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. Voluntary aided schools the legal ownership of the land and buildings rests with the relevant Dioceses. The Diocese has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Authority's Balance Sheet. Academies are not considered to be maintained schools in the Authority's control. Thus the land and building assets are not owned by the Authority and not included on the Authority's Balance Sheet.

## Note 4. Assumptions made about the future and other major sources of estimation uncertainties

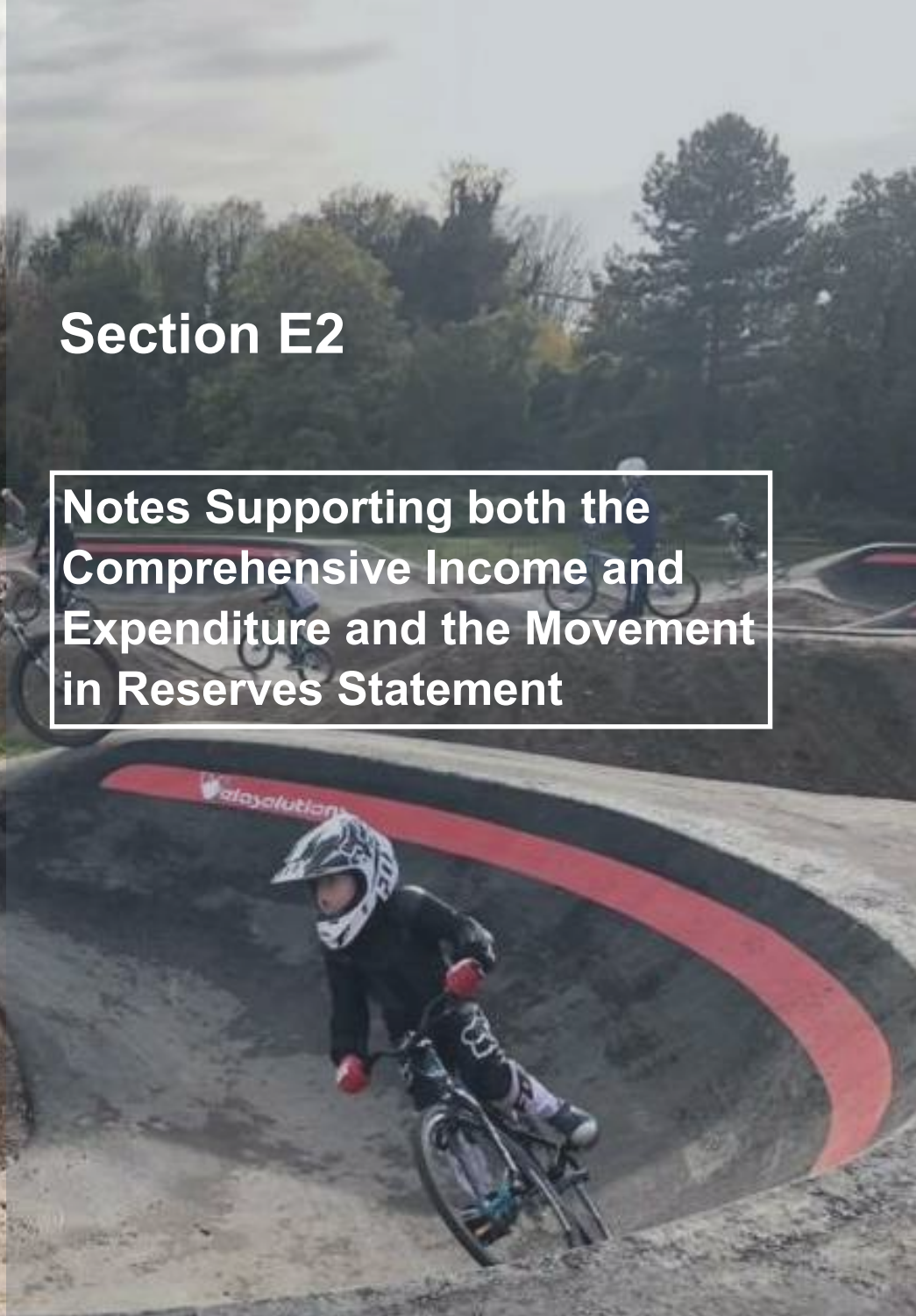
The financial statements contain estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined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

The items in the Authority's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Pension Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>We are aware that the Kent Pension Fund intends to disclose a 'material valuation uncertainty' in relation to the directly held property and pooled property funds within the assets of the pension fund. This is due to the level of uncertainty since the outbreak of Covid-19. The Authority's share of these assets is material and therefore the uncertainty has been disclosed.</p>	<p>The following sensitivity analysis relating to the present value of obligations of £758.356m as detailed within the sensitivity analysis table within Note 36 to the financial statements, are based upon complex judgements:</p> <p>A 0.1% decrease in the discount rate (the Merrill Lynch AA rated corporate bond curve) would result in an increase in the liability of £15.42m.</p> <p>A 1 year reduction in life expectancy assumptions would result in a £28.58m decrease in the pension liability.</p> <p>The following sensitivity analysis relates to the material valuation uncertainty for property pooled funds within the pension assets, shown as £67.554m for 2019/20.</p> <p>Were these to be undervalued by 5%, this would cause an increased liability of £3.56m, whereas, were they overvalued by 5%, this would cause a reduced liability of £3.22m</p>
Britain's Departure from the European Union: asset values and pension liability	<p>There is still uncertainty about the implications of Britain's departure from the European Union. At the current time it is not possible to predict the agreement that will be reached at the end of the transition period. The assumption has been made that this will not significantly impair the value of the Council's assets or change the discount rate. However, this assumption needs to be revisited and reviewed regularly.</p>	<p>Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.</p>

## Note 4. Assumptions made about the future and other major sources of estimation uncertainties (continued)

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant & Equipment, Investment Properties & Assets Held for Sale	<p>The outbreak of the Novel Coronavirus (COVID-19), has impacted on activity in many sectors. As at the valuation date, it is considered that less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. The current response to COVID-19 means that valuers have been faced with an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty'. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, it is incumbent upon the Council to keep the valuation of the General Fund properties under frequent review.</p> <p>The Council's internal valuers provided valuations as at March 2020 for all of the Council's investment portfolio and approximately 20% of its operational portfolio, all council dwellings and investment properties.</p> <p>The net book value of the assets subject to revaluation during 2019/20 were as follows:</p> <ul style="list-style-type: none"> <li>• Council Dwellings £161.401m</li> <li>• Other land &amp; buildings £354.141m</li> <li>• Surplus Assets £ 7.006m</li> <li>• Investment Assets £ 16.769m</li> <li>• Assets Held for Sale £ 32.779m</li> </ul>	<p>We are not currently able to quantify the possible effects that Covid-19 could have upon the valuation of the Councils non-current assets, but needless to say, these valuations will be kept under constant review.</p> <p>Were there to be a 5% negative impact on the value of the assets valued in 2019/20, this would mean a reduction in the non-current assets in the balance sheet of £22.6m together with the associated unusable reserves.</p>



## Section E2

Notes Supporting both the Comprehensive Income and Expenditure and the Movement in Reserves Statement

## Note 5. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/19					Directorate	2019/20				
Management Accounts £'000	Amounts Not Reported to Management/ Corporate Amounts £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Adjustments between the Basis (See Note 6) £'000	Net Expenditure Chargeable to the General Fund and HRA Balances £'000		Management Accounts £'000	Amounts Not Reported to Management/ Corporate Amounts £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Adjustments between the Basis (See Note 6) £'000	Net Expenditure Chargeable to the General Fund and HRA Balances £'000
7,386	1,719	9,104	(2,397)	6,708	Business Support Department	9,374	(1,227)	8,146	(6,500)	1,646
224,653	(97,292)	127,361	(14,885)	112,476	Children's and Adults (Inc. Public Health)	231,042	(100,378)	130,664	(12,265)	118,398
73,518	8,214	81,732	(31,734)	49,998	Regeneration, Community, Environment and Transformation	73,696	15,479	89,175	(32,118)	57,057
(361)	(5,206)	(5,567)	2,551	(3,016)	Housing Revenue Account	(658)	3,319	2,661	(4,508)	(1,847)
<b>305,196</b>	<b>(92,566)</b>	<b>212,630</b>	<b>(46,464)</b>	<b>166,166</b>	<b>Net Cost of Services</b>	<b>313,453</b>	<b>(82,806)</b>	<b>230,647</b>	<b>(55,392)</b>	<b>175,255</b>
6,359	(202,483)	(196,124)	25,703	(170,421)	Other operating income and expenditure	7,122	(196,145)	(189,023)	9,246	(179,777)
<b>311,555</b>	<b>(295,049)</b>	<b>16,506</b>	<b>(20,761)</b>	<b>(4,255)</b>	<b>(Surplus) or Deficit</b>	<b>320,575</b>	<b>(278,951)</b>	<b>41,624</b>	<b>(46,145)</b>	<b>(4,522)</b>
				(24,079)	Opening General Fund and HRA Balance					(28,334)
				(4,255)	Less Deficit on General Fund and HRA Balance in Year					(4,522)
				<b>(28,334)</b>	<b>Closing General Fund and HRA Balance *</b>					<b>(32,856)</b>

\*for a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

## Note 5. Expenditure and Funding Analysis (continued)

### Management Accounts

These relate to the direct net costs of providing services and these figures are communicated directly to Council as through the quarterly revenue monitoring reporting cycle.

### Amounts Not Reported to Management/Corporate Amounts

These figures show accounting movements through the Comprehensive Income and Expenditure Statement (CIES) that do not form part of the Management Accounts. This includes:

#### Directorate Specific:

- Appropriations relating transfers to/from reserves from/to management accounts
- Service related funding e.g. Dedicated Schools Grant etc.
- Recognition of capital grants used to fund Revenue Expenditure Funded by Capital Under Statute
- Impairment of non-current assets charged to the CIES
- Revenue Expenditure Funded by Capital Under Statute charged through the CIES
- IAS 19 adjustments
- Accumulated absences adjustments

#### Other Operating Income & Expenditure:

- Parish council precepts
- Non service specific funding e.g Council Tax/NDR/ Government Grants
- Pooling of capital receipts costs
- Profit/loss on the disposal of non-current assets
- Interest income & expenditure
- Gain/loss on the revaluation of financial assets
- Pension interest costs and return on assets charged to the CIES



## Note 6. Note to Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Adjustments between Funding and Accounting Basis							2019/20
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Statutory Differences (Note c)	Total Statutory Differences	Other (Non-statutory) Adjustments (Note d)	Total Adjustments	
	£'000	£'000	£'000	£'000	£'000	£'000	
Business Support Department	(1,737)	(4,769)	0	(6,506)	6	(6,500)	
Children's and Adults (Inc. Public Health)	(6,199)	(6,295)	0	(12,494)	229	(12,265)	
Regeneration, Community, Environment and Transformation	(28,150)	(3,942)	0	(32,092)	(26)	(32,118)	
Housing Revenue Account	(4,176)	(331)	0	(4,508)	(0)	(4,508)	
<b>Net Cost of Services</b>	<b>(40,262)</b>	<b>(15,338)</b>	<b>0</b>	<b>(55,600)</b>	<b>209</b>	<b>(55,392)</b>	
Other income and expenditure from the Expenditure and Funding Analysis	14,794	(6,114)	(677)	8,002	1,244	9,246	
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure</b>	<b>(25,469)</b>	<b>(21,452)</b>	<b>(677)</b>	<b>(47,598)</b>	<b>1,453</b>	<b>(46,145)</b>	
Adjustments between Funding and Accounting Basis							2018/19
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Statutory Differences (Note c)	Total Statutory Differences	Other (Non-statutory) Adjustments (Note d)	Total Adjustments	
	£'000	£'000	£'000	£'000	£'000	£'000	
Business Support Department	(1,264)	(1,163)	0	(2,427)	30	(2,397)	
Children's and Adults (Inc. Public Health)	(8,982)	(5,952)	0	(14,934)	49	(14,885)	
Regeneration, Community, Environment and Transformation	(27,941)	(3,821)	0	(31,762)	28	(31,734)	
Housing Revenue Account	2,855	(293)	(10)	2,552	(1)	2,551	
<b>Net Cost of Services</b>	<b>(35,332)</b>	<b>(11,229)</b>	<b>(10)</b>	<b>(46,571)</b>	<b>107</b>	<b>(46,464)</b>	
Other income and expenditure from the Expenditure and Funding Analysis	26,350	(6,934)	533	19,950	5,753	25,703	
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure</b>	<b>(8,982)</b>	<b>(18,163)</b>	<b>524</b>	<b>(26,621)</b>	<b>5,860</b>	<b>(20,761)</b>	

## Note 6. Note to Expenditure and Funding Analysis (continued)

### Adjustments for Capital Purposes

a) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

■ **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

■ **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

■ **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### Net Change for the Pensions Adjustments

b) Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

■ **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

■ **For Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

### Other Statutory Adjustments

c) Other statutory adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

■ For Services this represents Amount by which officer remuneration charged to the Comprehensive I&E account on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.

■ **For Financing and investment income and expenditure** this recognises adjustments to the General Fund for the timing differences for premiums and discounts and adjustments to service segments eg for interest income and expenditure and changes in the fair values of investment properties..

■ The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund. This also contains adjustments to service segments e.g. for unringfenced government grants.

### Other Non-statutory Adjustments

d) Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

■ For Financing and investment income and expenditure the other non-statutory adjustments column recognises adjustments to service segments, e.g. for interest income and expenditure and changes in the fair values of investment properties.

■ For Taxation and Non-Specific Grant Income and Expenditure the other non-statutory adjustments column recognises adjustments to service segments, e.g. for unringfenced government grants

## Note 7. Segmental Income

Income received on a segmental basis is analysed below:

	2018/19		2019/20	
	Income from Services	Revenues from Transactions with Other Operating Segments of the Council	Income from Services	Revenues from Transactions with Other Operating Segments of the Council
	£'000	£'000	£'000	£'000
Business Support Department	(3,911)	(14,566)	(8,687)	(17,887)
Children's and Adults (inc. Public Health)	(17,613)	(11,294)	(16,534)	(20,470)
Regeneration, Community, Environment and Transformation	(31,525)	(18,376)	(29,581)	(18,589)
Housing Revenue Account	(14,320)	(38)	(14,266)	(74)
<b>Total income analysed on a segmental basis</b>	<b>(67,369)</b>	<b>(44,274)</b>	<b>(69,068)</b>	<b>(57,020)</b>

## Note 8. Expenditure and income Analysed by Nature

The authority's expenditure and income is analysed as follows:

	2019/20											
	2018/19	Management Accounts						Amounts Not Reported to Management	Allocation of Recharges	Net Cost of Services	Corporate Amounts	2019/20
		Business Support	Children's and Adults (Inc. Public Health)	Transformation and	Regeneration, Community, Environment	Total General Fund	Housing Revenue Account					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Expenditure/Income</b>												
<b>Expenditure</b>												
Employee benefits expenses	132,892	10,597	75,537	31,137	117,271	1,372	118,643	14,813	(2,798)	130,479	6,114	136,593
Other services expenses	366,928	98,666	198,830	69,327	366,824	7,981	374,805	(11,206)	(11,332)	352,267	1,028	353,295
Support service recharges	0	4,405	9,037	10,588	24,031	673	24,704	0	(24,727)	(23)	0	(23)
Depreciation, amortisation and impairment	28,771	779	5,662	17,572	24,012	3,724	27,736	15,002	0	42,738	148	42,886
Interest payments	11,046	0	0	0	0	0	0	0	0	0	12,191	12,191
Precepts and levies	1,907	0	0	0	0	0	0	0	0	0	1,995	1,995
Payments to Housing Capital Receipts Pool	264	0	0	0	0	0	0	0	0	0	264	264
Gain on the disposal of assets	1,723	0	0	0	0	0	0	0	0	0	9,622	9,622
Pension Adjustments	256	0	0	0	0	0	0	316	0	316	0	316
<b>Total expenditure</b>	<b>543,788</b>	<b>114,447</b>	<b>289,067</b>	<b>128,624</b>	<b>532,138</b>	<b>13,749</b>	<b>545,888</b>	<b>18,925</b>	<b>(39,036)</b>	<b>525,776</b>	<b>31,362</b>	<b>557,138</b>
<b>Income</b>												
Fees, charges and other service income	(74,326)	(26,095)	(37,021)	(48,170)	(111,285)	(14,340)	(125,625)	18,992	39,036	(67,596)	(834)	(68,430)
Interest and investment income	(4,158)	0	(25)	(571)	(596)	(68)	(664)	68	0	(596)	(3,794)	(4,390)
Income from council tax and non-domestic rates	(185,560)	0	0	0	0	0	0	0	0	0	(178,018)	(178,018)
Government grants and contributions	(263,237)	(78,979)	(20,979)	(6,188)	(106,145)	0	(106,145)	(120,792)	0	(226,937)	(37,739)	(264,676)
<b>Total income</b>	<b>(527,282)</b>	<b>(105,074)</b>	<b>(58,025)</b>	<b>(54,928)</b>	<b>(218,027)</b>	<b>(14,408)</b>	<b>(232,435)</b>	<b>(101,731)</b>	<b>39,036</b>	<b>(295,130)</b>	<b>(220,385)</b>	<b>(515,514)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>16,506</b>	<b>9,374</b>	<b>231,042</b>	<b>73,696</b>	<b>314,111</b>	<b>(658)</b>	<b>313,453</b>	<b>(82,806)</b>	<b>0</b>	<b>230,647</b>	<b>(189,023)</b>	<b>41,624</b>

Following a review of the accounting arrangements relating to the Better Care Fund Pooled Budgets, it was found that both income and expenditure relating to arrangements controlled by the Kent & Medway CCG were flowing through the authority's income and expenditure account in error. This has been corrected for the 2019/20 financial statements, and as a result the comparative adjustment has been made for 2018/19. This adjustment, which affects only the Children's and Adults Directorate, removes £9.258m from both other service expenses and government grants and contributions. The net expenditure remains as previously reported.



## Section E3

### Notes Supporting the Comprehensive Income and Expenditure Statement

## Note 9. Other Operating Expenditure

	2018/19 £'000	2019/20 £'000
Parish council precepts	455	479
Levies	1,452	1,516
Payments to the government housing capital receipts pool	264	264
Gains/losses on disposal of non-current assets	1,723	9,622
<b>Total</b>	<b>3,894</b>	<b>11,881</b>

## Note 10. Financing & Investment Income and Expenditure

	2018/19 £'000	2019/20 £'000
Interest payable and similar charges	11,053	12,117
Net interest on the net defined benefit liability (asset)	6,934	6,114
Gain/(Loss) on Financial Assets at Fair Value through Profit and Loss	(416)	745
Interest receivable and similar income	(3,659)	(3,717)
Income and expenditure in relation to investment properties and changes in their fair value	(2,067)	(686)
<b>Total</b>	<b>11,845</b>	<b>14,573</b>

## Note 11. Taxation & Non-Specific Grant Income and Expenditure

	2018/19 £000s	2019/20 £000s
Council tax income	(117,391)	(122,778)
Non-domestic rates income and expenditure	(68,169)	(55,240)
Non-ringfenced government grants	(2,255)	(14,692)
Capital grants and contributions	(23,827)	(22,767)
<b>Total</b>	<b>(211,642)</b>	<b>(215,476)</b>

## Note 12. Pooled Budgets

### Better Care Fund (BCF)

The Council operated a Better Care Fund of £27.571m with Kent & Medway Clinical Commissioning Group under a s75 arrangement throughout 2019/20. For 2019/20 the s75 arrangement included the Council's allocation in respect of the Improved Better Care Fund and Winter Pressures Grant. The arrangements for each scheme within the Better Care Fund have been reviewed to determine the appropriate accounting treatment by both the Council and the Kent & Medway CCG. Control of the commissioning arrangements has been key to determining the nature of each scheme within the fund.

This substance of the arrangement, however, is not one of a pooled budget, individual members continue to contract with individual providers without reference to other members and continue to use their own resources of funding. In substance these are neither joint operations nor lead commissioner transactions and not a vehicle for joint commissioning. The conclusion has been reached as both parties have retained the financial risks associated with each of the schemes as existed before the fund was set up.

The amounts that there is deemed to be joint control are split 50/50 between Medway Council and Kent & Medway CCG, where the CCG is deemed to have control these amounts are shown as Kent & Medway CCG. The amounts where the CCG is deemed to have control (including the 50% share where there is joint control) are not shown in our Income and Expenditure accounts.

The Council and the Kent & Medway CCG will continue to work towards greater integration and joint commissioning of services in future years and the accounting of the Better Care Fund will be reviewed each year.

Better Care Fund (BCF)	2018/19 (Restated)		2019/20	
	£'000	£'000	£'000	£'000
<b>Funding provided by each partner:</b>				
Medway Council	(7,169)		(9,270)	
Kent & Medway CCG (Medway Council share of minimum CCG	(7,923)		(8,374)	
Kent & Medway CCG (CCG share of minimum CCG contribution	(9,258)		(9,927)	
		(24,350)		(27,571)
<b>Expenditure paid as part of the agreement:</b>				
Medway Council	7,169		9,270	
Kent & Medway CCG (Medway Council share of minimum CCG	7,923		8,374	
Kent & Medway CCG (CCG share of minimum CCG contribution	9,258		9,927	
		24,350		27,571
<b>Net surplus/(deficit) arising on the pooled budget during the</b>		<b>0</b>		<b>0</b>
<b>Authority share of 50% of the net surplus arising on the</b>		<b>0</b>		<b>0</b>

\* not shown in the authority's comprehensive income and expenditure statement.

Following a review of the accounting arrangements relating to the Better Care Fund Pooled Budgets, it was found that both income and expenditure relating to arrangements controlled by the Kent & Medway CCG were flowing through the authority's income and expenditure account in error. This has been corrected for the 2019/20 financial statements, and as a result the comparative adjustment has been made for 2018/19. This adjustment removes £9.258m from Kent and Medway CCG and adds it to a new Kent & Medway CCG line which relates to the CCG share of both the contribution and associated expenditure. The remaining monies are shown in a new line for Kent & Medway CCG detailing Medway's share of those arrangements that are controlled by Medway but funded from the minimum CCG contribution to the BCF.

## Note 13. Members Allowances

Medway Council is comprised of 55 Members. In 2019/20, 71 Members were entitled to claim allowances. This includes 16 Councillors whose term of office ended during 2019/20 due to not being re-elected during May 2019 election and 55 current Councillors.

The Authority paid the following amounts to members of the Authority during the year:

	2018/19 £000	2019/20 £000
Basic Allowance	505	564
Special Responsibility Allowance	267	305
Expenses	4	5
<b>Total</b>	<b>776</b>	<b>874</b>

There were outstanding amounts of £330.90 relating to travel claims for 9 members for 2019/20, but not paid until 2020/21.



## Note 14. Officers Remuneration

### Senior Officers Remuneration by Job Title

The remuneration paid to the Authority's senior employees during 2019/20 was as follows:

Post	Salary £	Fees and Allowances £	Salaries, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	161,160	8,781	169,941	0	0	169,941	29,625	199,566
Director of People - Children & Adults	119,594	7,876	127,470	77	0	127,547	22,019	149,566
Director of Regeneration, Culture and Environment & Deputy Chief Executive	119,594	7,876	127,470	0	0	127,470	22,019	149,489
Director of Public Health	113,377	7,876	121,253	49	0	121,302	20,881	142,183
Assistant Director - Transformation (left 18/02/2020)	73,940	4,825	78,766	0	0	78,766	12,637	91,403
Chief Finance Officer	99,828	5,452	105,280	158	0	105,438	16,699	122,137
Deputy Director - Children & Adult Services	38,533	3,170	41,702	211	0	41,913	7,290	49,203
Assistant Director - Adult Social Care	77,397	5,452	82,849	0	0	82,849	13,733	96,582
Chief Legal Officer (Monitoring Officer)	92,041	5,452	97,493	0	0	97,493	16,977	114,470
Assistant Director - Physical and Cultural Regeneration	74,552	5,452	80,004	83	0	80,087	13,776	93,863
Assistant Director - Front Line Services	75,195	7,452	82,647	0	0	82,647	14,809	97,456

During 2019/20 the Assistant Director – Transformation and the Deputy Director - Children's and Adults posts were deleted. Business Change, Digital, RCET Business Intelligence, Customer and Business Support (CABS), ICT and HR transferred to Business Support. Communications & Marketing remained in Regeneration, Culture and Environment.

## Note 14. Officers Remuneration (continued)

Comparative figures for 2018/19 are as follows:

Post	Salary £	Fees and Allowances £	Salaries, Fees and Allowances £	Expenses £	Compensatio n for Loss of Office £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	150,937	8,642	159,579	54	0	159,633	27,752	187,385
Director of Children & Adult Services	117,665	7,751	125,416	0	0	125,416	21,664	147,080
Director of Regeneration, Community, Environment & Transformation	114,957	7,751	122,708	0	0	122,708	21,168	143,876
Director of Public Health	108,236	7,751	115,987	141	0	116,128	19,938	136,066
Assistant Director - Transformation	81,904	5,365	87,269	0	0	87,269	14,023	101,292
Chief Finance Officer	97,870	5,365	103,235	41	0	103,276	16,495	119,771
Deputy Director - Children & Adult Services	95,975	7,934	103,909	0	0	103,909	18,164	122,073
Assistant Director - Commissioning, Business & Intelligence (Left 13/05/2018)	10,079	634	10,713	0	0	10,713	1,623	12,336
Assistant Director - Adult Social Care	73,428	5,365	78,793	0	0	78,793	12,939	91,732
Chief Legal Officer (Monitoring Officer)	87,980	5,365	93,345	0	0	93,345	16,231	109,576
Assistant Director - Physical and Cultural Regeneration (Left 12/08/2018)	31,978	3,597	35,575	0	0	35,575	5,810	41,385
Assistant Director - Physical and Cultural Regeneration (Appointed 03/12/2018)	23,986	1,760	25,746	0	0	25,746	4,432	30,178
Assistant Director - Front Line Services	73,720	7,365	81,085	0	0	81,085	13,988	95,073

## Note 14. Officers Remuneration (continued)

### Officers Remuneration > £50,000

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

Remuneration Band	Number of Employees			
	Schools		Non-Schools	
	2018/19	2019/20	2018/19	2019/20
£50,000 to £54,999	15	10	38	39
£55,000 to £59,999	15	13	13	25
£60,000 to £64,999	11	7	19	13
£65,000 to £69,999	9	4	12	15
£70,000 to £74,999	3	7	4	5
£75,000 to £79,999	4	3	0	2
£80,000 to £84,999	0	1	2	1
£85,000 to £89,999	1	1	0	0
£90,000 to £95,999	1	0	0	0
£95,000 to £99,999	0	0	0	0
£100,000 to £104,999	1	0	0	0
£105,000 to £109,999	1	0	0	0
£110,000 to £114,999	0	0	0	0
£115,000 to £119,999	1	0	0	0
£120,000 to £124,999	0	0	0	0
£125,000 to £129,999	1	0	0	0
£130,000 to £149,999	0	1	0	0
£150,000 to £154,999	0	0	0	0
<b>Total</b>	<b>63</b>	<b>47</b>	<b>88</b>	<b>100</b>

## Note 14. Officers Remuneration (continued)

### Number of Exit Packages

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

Exit package cost band (including special payments)	Number of compulsory redundancies 2019/20			Number of other departures agreed 2019/20			Total number of exit packages by cost band 2019/20			Total cost of exit packages in each band 2019/20		
	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools £	Non-School £	Total £
£0 - £20,000	5	14	19	1	12	13	6	26	32	10,488	211,692	222,180
£20,001 - £40,000	0	8	8	0	3	3	0	11	11	0	370,994	370,994
£40,001 - £60,000	0	0	0	0	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0	0	0	0	0
£150,001 - £200,000	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>5</b>	<b>22</b>	<b>27</b>	<b>1</b>	<b>15</b>	<b>16</b>	<b>6</b>	<b>37</b>	<b>43</b>	<b>10,488</b>	<b>582,686</b>	<b>593,174</b>

The total cost of £0.593m detailed in the table above for exit packages agreed during 2019/20. An amount of £0.574m has been charged to the Authority's Comprehensive Income and Expenditure Statement in that financial year.

Exit package cost band (including special payments)	Number of compulsory redundancies 2018/19			Number of other departures agreed 2018/19			Total number of exit packages by cost band 2018/19			Total cost of exit packages in each band 2018/19		
	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools £	Non-School £	Total £
£0 - £20,000	7	29	36	6	31	37	13	60	73	73,451	236,534	309,985
£20,001 - £40,000	0	0	0	1	3	4	1	3	4	31,205	86,678	117,883
£40,001 - £60,000	0	0	0	0	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0	0	0	0	0
£150,001 - £200,000	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>7</b>	<b>29</b>	<b>36</b>	<b>7</b>	<b>34</b>	<b>41</b>	<b>14</b>	<b>63</b>	<b>77</b>	<b>104,656</b>	<b>323,212</b>	<b>427,868</b>

The total cost of £0.428m detailed in the table above for exit packages agreed during 2018/19. An amount of £0.368m has been charged to the Authority's Comprehensive Income and Expenditure Statement in that financial year.

## Note 15. External Audit Costs

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

	2018/19 £'000	2019/20 £'000
Scale fees payable to GT with regard to external audit services carried out by the appointed auditor for the year	110	110
Fees payable to GT with regard to additional external audit services carried out by the appointed auditor for the year	11	TBC
Fees payable to GT for the certification of Grant Claims and other services provided by GT	37	28
<b>Total</b>	<b>158</b>	<b>138</b>

The 2019/20 audit plan presented to the Councils Audit Committee in March 2020 detailed the need for an additional fee of £21k due to additional requirements placed upon audit firms by the Financial Reporting Council and additional International Financial Reporting Standards. However, to date, these additional fees have yet to be agreed by both the Public Sector Audit Appointments Limited (PSAA) and the Council and therefore have not been included in the table above.

## Note 16. Dedicated Schools Grant

### Accounting Policy — Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

Schools maintained by the Council are recognised on the Balance Sheet as the balance of control lies with the Council.

The Council has the following types of maintained schools:

Community  
Voluntary Aided  
Voluntary Controlled  
Foundation

### Recognition of Schools' Non-current Assets

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

If a school obtains academy status, then all responsibilities transfer to the Academy. The only exception to this will be where the school was previously a maintained school where the Authority had a form of control over the future ability to provide a school, whereby the responsibility for the non-current assets will be transferred to the Academy by way of a long-term lease, and therefore, the present value of that lease relating to the freehold will be all that remains within the Authority's Balance Sheet.

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, 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 and Early Years (England) Regulations 2019. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

During 2019/20 the Council incurred an over of £5.207m on DSG funded services. After taking account of the deficit of £4.139m brought forward from 2018/19, £9.346m was carried forward to 2020/21.

Over the past few years the LA has experienced a significant growth in the number of new education health care plans issued and when combined with the extended support up to the age of 25, has created a demand on the high needs block of the DSG which outstrips the funding available.

These pressures first arose in 2018/19, when the LA overspent its high needs budget by £4.139m;

with the then schools finance and early years regulations at the time allowed prior year overspends to have the first call on the following years allocation to repay the overspend. In 2019/20 the LA once again overspent spent its high needs budget by £5.207m excluding the repayments of any prior year overspend, and combined with the balances on the other two block of the DSG, the total overspend on the DSG reserve as at 31 March 2020 was £9.346m. During 2019/20 the DfE changed its reporting regulations required all LA's with DSG deficits greater than 1% to submit a DSG recovery plan by June 2020. This plan has been discussed with its Schools Forum, Schools and the ESFA and shows the LA aims to recover this overspend over the medium term across 4 main themes:

- Commissioning of resourced places and units in mainstream schools.
- Changes to the high needs banding for top up funding rates.
- Value for money in the independent sector
- Criteria and expectations for Non-Education, Health & Care Plan (EHCP) and EHCP funding.

Details of the deployment of DSG receivable for 2019/20 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total 2019/20 £'000	Total 2018/19 £'000
Final DSG for 2019/20 before Academy recoupment			235,717	229,641
Less: Academy figure recouped for 2019/20			(152,522)	(145,975)
Total DSG after Academy recoupment for 2019/20			83,195	83,666
Plus: Brought forward from 2018/19			(4,139)	452
Less: Carry forward to 2020/21 agreed in advance			0	(113)
Final budget distribution in 2019/20	3,864	75,191	79,055	84,005
Less: Actual central expenditure	(3,893)		(3,893)	(5,222)
Less: Actual Individual Schools Budget deployed to schools		(84,508)	(84,508)	(83,035)
<b>Carried forward to 2020/21</b>	<b>(29)</b>	<b>(9,317)</b>	<b>(9,346)</b>	<b>(4,252)</b>
Add: Carry forward to 2020/21 agreed in advance			0	113
<b>Total carried forward to 2020/21</b>			<b>(9,346)</b>	<b>(4,139)</b>

## Note 17. Grant Income

### Accounting Policy - Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution has been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant Directorate line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

The Authority credited the following grants, contributions and donations to taxation & non-specific grant income & expenditure within the Comprehensive Income and Expenditure Statement in 2019/20:

	2018/19 £'000	2019/20 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<u>Ministry of Housing, Communities &amp; Local Government</u>		
- Covid-19 Response Monies	0	(6,628)
- Formula Grant / Revenue Support Grant	0	(6,053)
- Inshore Fisheries Conservation Authorities Grant	(32)	(32)
- New Homes Bonus	(2,222)	(1,978)
- MHCLG Other	(105)	(280)
Recognition of Capital Grants and Contributions	(23,827)	(22,767)
<b>Total</b>	<b>(26,187)</b>	<b>(37,739)</b>

## Note 17. Grant Income (continued)

The Authority credited the following grants, contributions and donations to services within the Comprehensive Income and Expenditure Statement in 2019/20:

Following a review of the accounting arrangements relating to the Better Care Fund Pooled Budgets, it was found that both income and expenditure relating to arrangements controlled by the Kent & Medway CCG were flowing through the authority's income and expenditure account in error. This has been corrected for the 2019/20 financial statements, and as a result the comparative adjustment has been made for 2018/19. This adjustment, which affects only the contributions from NHS Partners within grants and contributions credited to services, removes £9.258m from that previously reported.

	2018/19 £'000	2019/20 £'000
<b>Credited to Services</b>		
<u>Cabinet Office</u>		
- Cabinet	(63)	(1,180)
<u>Department for Digital, Culture, Media &amp; Sport</u>		
- DCMS Other	(119)	(246)
<u>Department for Education</u>		
- Dedicated Schools Grant	(83,666)	(83,195)
- Pupil Premium Grant	(3,421)	(3,236)
- Education Funding Agency	(298)	(198)
- Sixth Form Grant	(686)	(611)
- Student Loan Company	(45)	(21)
- DFE Other	(5,147)	(3,536)
<u>Department of Health &amp; Social Care</u>		
- Public Health Grant	(17,217)	(16,762)
- DoH Other	(246)	(259)
<u>Ministry of Housing, Communities &amp; Local Government</u>		
- Tax Collection & Benefit Administration	(269)	(267)
- Housing Benefit Administration	(871)	(773)
- Benefit Subsidy	(86,852)	(74,176)
- DCLG Other	(10,333)	(13,075)
<u>Department for Environment, Food and Rural Affairs</u>		
- DEFRA Other	(10)	0
<u>Department for Transport</u>		
- DoT Other	(220)	(215)
<u>Department for Work &amp; Pensions</u>		
- DWP Other	(391)	(440)
<u>Home Office</u>		
- HO Other	(120)	(369)
<u>Ministry of Justice</u>		
- Contributions from the Youth Justice Board	(782)	(699)
- MoJ Other	(109)	(116)
<u>Department for Business, Energy &amp; Industrial Strategy</u>		
- Skills Funding Agency	(1,766)	(1,854)
Other Miscellaneous Grants	(740)	(556)
Contributions from NHS Partners	(11,266)	(12,316)
Contributions from Other Local Authorities	(2,648)	(4,297)
Miscellaneous Contributions	(5,829)	(2,440)
Recognition of Capital Grants and Contributions	(4,040)	(6,099)
<b>Total</b>	<b>(237,155)</b>	<b>(226,937)</b>



## Note 17. Grant Income (continued)

The following revenue grants were received in the indicated financial year, but relate to the subsequent reporting period, and therefore have been treated as grants received in advance within current liabilities in the balance sheet:

<b>Grants Receipts In Advance - Revenue</b>	<b>31 March 2019 £'000</b>	<b>31 March 2020 £'000</b>
Ministry of Housing, Communities & Local Government - Section 31 Grant	0	(5,712)
Ministry of Housing, Communities & Local Government - Neighbourhood Plans	0	(15)
Department for Work and Pensions - Reducing Parental Conflict Grant	0	(20)
Department for Education - TP Funding for SW Student Laptops		(9)
Arts council of England - Picture Medway Grant	0	(6)
<b>Total</b>	<b>0</b>	<b>(5,762)</b>

The Authority has received a number of grants, contributions or donations that have yet to be recognised as income as they have conditions attached to them that, should they not be met, would require the monies to be returned to the grantor. The balances at the year end are as follows:

<b>Long-Term Liabilities</b>	<b>31 March 2019 £'000</b>	<b>31 March 2020 £'000</b>
<b>Capital Grants Receipts in Advance (Capital Grants)</b>		
Applicable Section Agreements	(978)	(2,207)
<b>Total</b>	<b>(978)</b>	<b>(2,207)</b>

## Note 18. Interests in Companies and Other Entities

### Accounting Policy

#### Interests in Companies and Other Entities

The Authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures that require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

#### Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Authority has two joint ventures; Medway Norse Limited and Medway Norse Transport (see Note 18). The Authority's share of net assets in these entities is immaterial to the financial statements and consequently no group accounts have been prepared.

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

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

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

#### Medway Norse Limited

Medway Norse Limited provides a package of services including Corporate Cleaning, Building Maintenance, Security Services, Window Cleaning, Printing Services and Catering.

The Board of Medway Norse Limited consists of five directors. Two directors are appointed by Medway Council. Under a Service agreement Medway Council receives a discount on the cost of services supplied to the Authority equivalent to 50% of the operating profit of the Company.

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

#### Medway Norse Transport

Medway Norse Transport, provides transport services to the Council. The Authority's relationship with Medway Norse Transport is identical to that with Medway Norse Limited

The Authority owns 20% of the share capital of Medway Transport. Under a Service Agreement Medway Council receives a discount on the cost of services supplied to the Authority equal to 50% of the operating profit of the Company.

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

#### Medway Commercial Group (MCG)

Medway Commercial Group Limited is a company wholly owned by Medway Council. Group accounts have not been prepared because MCG is not material to the accounts of Medway Council.

MCG is responsible for the delivery of CCTV, Telecare, out-of-hours, lone worker solutions, other personal alarm services and via Ocelot People Services, trading via MCG, a new staffing agency.

#### Medway Development Company (MDC)

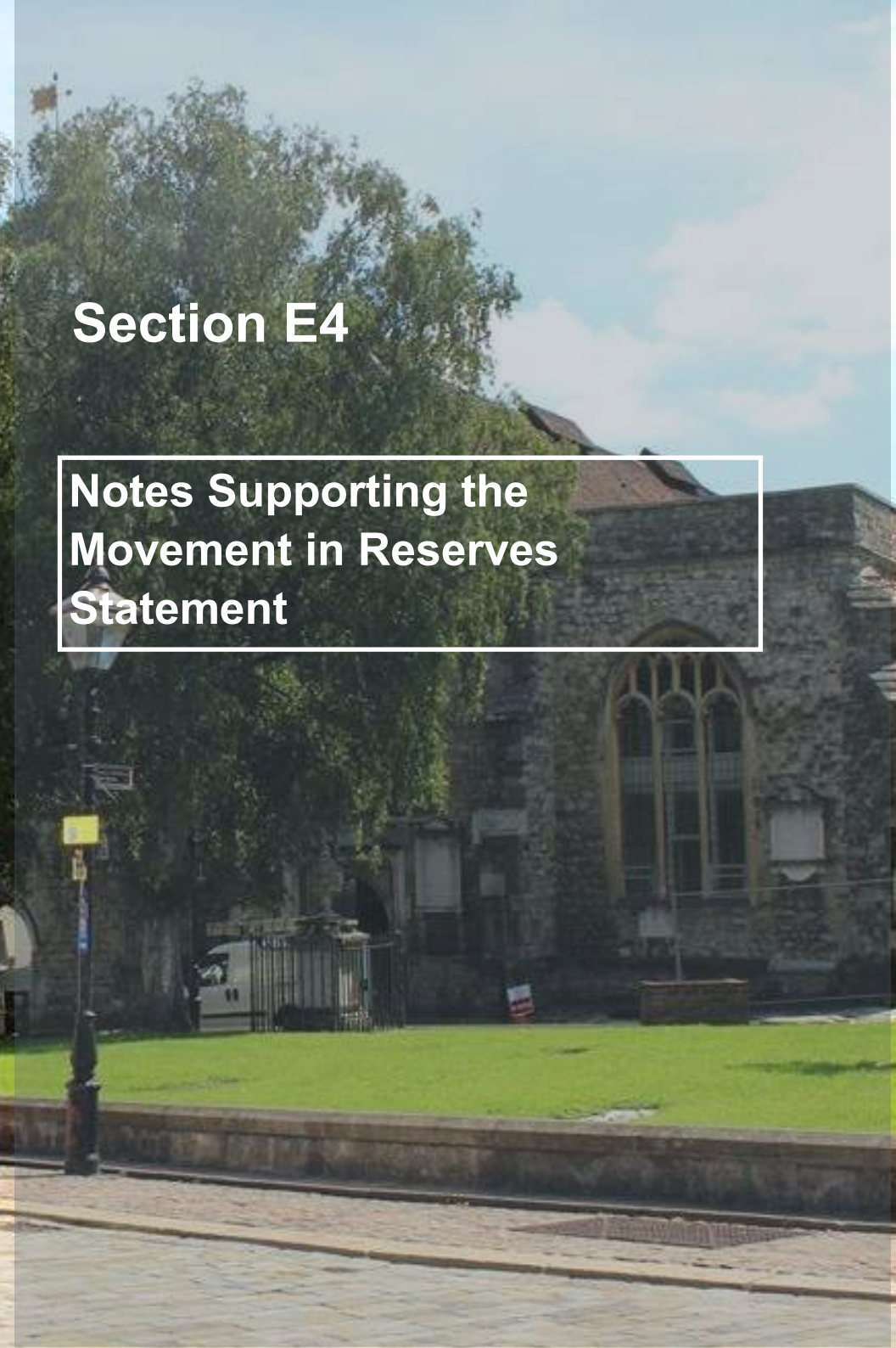
Medway Development Company Limited is a company wholly owned by Medway Council. Group accounts have not been prepared because MDC is not material to the accounts of Medway Council due to the fact that it only recently began trading.

MDC has been set up to to maximise the opportunities to invest in or develop property within and outside Medway and in the first instance to enable the development of a number of Council-owned sites. This will enable the generation of new and alternative revenue income streams for the Council and to deliver housing units principally in Medway.



## Section E4

### Notes Supporting the Movement in Reserves Statement



## Note 19. Adjustments between accounting basis and funding basis

This note details the adjustments made to the comprehensive income and expenditure recognised by the Authority in accordance with proper accounting practice to the resources that are specified by statute as being available to the Authority to meet future revenue and capital expenditure. The following sets out a description of the reserves that the adjustments are made against.

### General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. [For housing authorities – however, the balance is not available to be applied to funding HRA services.]

### Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

### Major Repairs Reserve

The Authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

### Capital receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

### Capital Grants Unapplied

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

**Note 19. Adjustments between accounting basis and funding basis under regulations (continued)**

Adjustments for 2019/20	Usable Reserves					Unusable Reserves
	General Fund Balance	Housing Revenue Account Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000s	£000s	£000s	£000s	£000s	£000s
<b>ADJUSTMENTS TO THE REVENUE RESEOURCES</b>						
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</b>						
Pensions costs (transferred to (or from) the Pensions Reserve)	21,121	331	0	0	0	(21,452)
Financial instruments (transferred to the Financial Instruments Adjustments Account/Financial Instruments Revaluation Reserve)	677	0	0	0	0	(677)
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(1,392)	0	0	0	0	1,392
Holiday pay (transferred to the Accumulated Absences Account)	(209)	0	0	0	0	209
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	24,055	11,178	0	0	14,133	(49,366)
<b>Total Adjustments To Revenue Resources</b>	<b>44,252</b>	<b>11,510</b>	<b>0</b>	<b>0</b>	<b>14,133</b>	<b>(69,895)</b>
<b>ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES:</b>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(220)	(1,785)	2,005	0	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	264	0	(264)	0	0	0
Posting of HRA resources from revenue to the Major Repairs Reserve	0	(3,724)	0	3,724	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(1,361)	0	0	0	0	1,361
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(1,297)	(1,493)	0	0	0	2,790
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(2,614)</b>	<b>(7,002)</b>	<b>1,741</b>	<b>3,724</b>	<b>0</b>	<b>4,151</b>
<b>ADJUSTMENTS TO CAPITAL RESOURCES</b>						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(285)	0	0	285
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(3,824)	0	3,824
Application of capital grants to finance capital expenditure	0	0	0	0	(6,357)	6,357
Cash payments in relation to deferred capital receipts	0	0	2,897	0	0	(2,897)
<b>Total Adjustments To Capital Resources</b>	<b>0</b>	<b>0</b>	<b>2,612</b>	<b>(3,824)</b>	<b>(6,357)</b>	<b>7,568</b>
<b>Total Adjustments 2019/20</b>	<b>41,638</b>	<b>4,508</b>	<b>4,354</b>	<b>(100)</b>	<b>7,776</b>	<b>(58,175)</b>

**Note 19. Adjustments between accounting basis and funding basis under regulations (continued)**

2018/19 Comparative Figures	Usable Reserves					Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000s	£000s	£000s	£000s	£000s	£000s
<b>ADJUSTMENTS TO THE REVENUE RESEOURCES</b>						
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</b>						
Pensions costs (transferred to (or from) the Pensions Reserve)	17,870	293	0	0	0	(18,163)
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(533)	10	0	0	0	524
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(4,031)	0	0	0	0	4,031
Holiday pay (transferred to the Accumulated Absences Account)	(108)	1	0	0	0	107
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	20,017	2,186	0	0	7,526	(29,730)
<b>Total Adjustments To Revenue Resources</b>	<b>33,215</b>	<b>2,490</b>	<b>0</b>	<b>0</b>	<b>7,526</b>	<b>(43,232)</b>
<b>ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES:</b>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,254)	(1,204)	3,458	0	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	264	0	(264)	0	0	0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement (Transfer to the Deferred Capital Receipts Reserve)	(2,897)	0	0	0	0	2,897
Posting of HRA resources from revenue to the Major Repairs Reserve	0	(3,680)	0	3,680	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(4,609)	0	0	0	0	4,609
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(406)	(158)	0	0	0	564
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(9,903)</b>	<b>(5,041)</b>	<b>3,194</b>	<b>3,680</b>	<b>0</b>	<b>8,070</b>
<b>ADJUSTMENTS TO CAPITAL RESEOURCES</b>						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(2,415)	0	0	2,415
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(3,589)	0	3,589
Application of capital grants to finance capital expenditure	0	0	0	0	(4,788)	4,788
<b>Total Adjustments To Capital Resources</b>	<b>0</b>	<b>0</b>	<b>(2,415)</b>	<b>(3,589)</b>	<b>(4,788)</b>	<b>10,791</b>
<b>Total Adjustments 2018/19</b>	<b>23,312</b>	<b>(2,551)</b>	<b>779</b>	<b>92</b>	<b>2,739</b>	<b>(24,370)</b>

## Note 20. Movements in Earmarked Reserves

This note sets out the amounts set aside from the General fund and Housing Revenue Account balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2019/20.

	Balance 31 March 2018 £'000	Transfers in 2018/19 £'000	Transfers out 2018/19 £'000	Balance 31 March 2019 £'000	Transfers in 2019/20 £'000	Transfers out 2019/20 £'000	Balance 31 March 2020 £'000
<b>General Fund</b>							
Balances held by schools under a scheme of delegation	(1,181)	(1,128)	305	(2,004)	(760)	1,408	(1,356)
School Rev Contributions To Capital	(365)	(280)	239	(406)	(166)	507	(65)
Revenue Contributions To Capital BSD	0	0	0	0	(800)	707	(93)
Revenue Contributions To Capital C&A	(4)	(62)	66	0	0	17	17
Revenue Contributions To Capital RCET	(6)	(19)	17	(8)	(34)	0	(42)
Development Plan Reserve	(364)	(80)	331	(113)	(82)	195	0
Provision For Local Election	(242)	(138)	96	(284)	(138)	414	(7)
Bereavement Services Reserves	(25)	0	0	(25)	(1)	0	(26)
Community Hubs Reserve	(75)	0	35	(40)	0	11	(29)
BRMF - Annual Programme	0	(250)	250	0	(250)	38	(212)
Developer Contributions Revenue Reserves	0	(5,508)	1,282	(4,226)	(2,134)	1,859	(4,501)
Economic Development Loans Fund	(141)	0	7	(134)	0	54	(80)
Directorate Carry Forwards	(2,913)	(3,417)	3,030	(3,301)	(1,629)	1,156	(3,774)
Homelessness Reduction	(169)	0	0	(169)	0	0	(169)
BirdWatch/Samms Inv Funds	0	(300)	0	(300)	(300)	0	(600)
Collection Fund Holding Account	(2,290)	0	2,290	(0)	0	0	(0)
Severance Payments Reserve	0	(1,000)	545	(455)	(351)	806	0
South Medway Development Res	(3,935)	(84)	18	(4,001)	0	0	(4,001)
Salix Repayments	(19)	(86)	56	(49)	(61)	96	(14)
HEE Public Health Grant	(238)	0	62	(176)	0	0	(176)
Other Earmarked Reserves	(287)	(62)	128	(221)	(59)	107	(173)
Covid-19 Reserve Funding	0	0	0	0	(6,628)	1,356	(5,272)
Insurance Reserve	(1,368)	0	152	(1,216)	0	256	(960)
<b>Total Earmarked General Fund Reserves</b>	<b>(13,623)</b>	<b>(12,415)</b>	<b>8,910</b>	<b>(17,128)</b>	<b>(13,393)</b>	<b>8,987</b>	<b>(21,534)</b>
DSG Reserve	(452)	0	4,591	4,139	(5,600)	10,807	9,346
<b>DSG Reserve</b>	<b>(452)</b>	<b>0</b>	<b>4,591</b>	<b>4,139</b>	<b>(5,600)</b>	<b>10,807</b>	<b>9,346</b>
<b>Housing Revenue Account</b>							
HRA Earmarked Reserves	(6)	(1,188)	0	(1,194)	(1,273)	866	(1,601)
<b>Total Earmarked Housing Revenue Account Reserves</b>	<b>(6)</b>	<b>(1,188)</b>	<b>0</b>	<b>(1,194)</b>	<b>(1,273)</b>	<b>866</b>	<b>(1,601)</b>
<b>Total Earmarked Reserves</b>	<b>(14,081)</b>	<b>(13,603)</b>	<b>13,501</b>	<b>(14,183)</b>	<b>(20,266)</b>	<b>20,660</b>	<b>(13,789)</b>

The BRMF - Annual Programme reserve was omitted from this note in the 2018/19 Statement of Accounts and therefore the inclusion of this reserve for the 2018/19 comparator, means that effectively, this part of the note is restated. As both the opening and closing balances were zero, this omission did not cause any misstatement.

## 20. Movements in Earmarked Reserves (continued)

### Balances held by schools under a scheme of delegation

School Revenue Reserves. School funding is ring fenced to the individual school and can't be used to fund any other Medway Council department budget or school.

### School Revenue Contributions To Capital

School in year revenue contributions to capital reserves. Any funding not used to fund the capital programme will be transferred into the main school capital reserve.

### Revenue Contributions To Capital BSD

General fund revenue contributions towards capital used to fund the business support capital programme.

### Revenue Contributions To Capital C&A

General fund revenue contributions towards capital used to fund the children and adults capital programme.

### Revenue Contributions To Capital RCET

General fund revenue contributions towards capital used to fund the regeneration, culture, environment and transformation capital programme.

### Development Plan Reserve

Annual Contributions from the General Fund to cover the Costs in respect of the Local Plan.

### Provision For Local Election

Provision for cyclical cost of Local Elections. Local Elections are held once every 4 years so a contribution is made to a provision each year to fund the expenditure in year 4.

### Bereavement Services Reserves

Reserve Fund for essential Crematorium Repairs/Improvements and gifts to the Crematorium.

### Community Hubs Reserve

To finance development of community hubs in our libraries.

### BRMF (Building Repairs and Maintenance Fund) - Annual Programme

Reserve fund for buildings repairs and maintenance funded by way of contributions from services.

### Developer Contributions Revenue Reserves

These reserves hold contributions received from developers from e.g. section 106 agreements which will be used to fund future revenue expenditure as a result of residential developments.

### Economic Development Loans Fund

A Fund to give Start up Grants to individuals living in Medway for Companies to be located in Medway.

### Directorate Carry Forwards

Revenue carry forwards relating to the general fund.

### Homelessness Reduction

Homelessness Reduction new burdens funding issued by the CLG for the first 3 years of the implementation of New Homelessness Reduction Act 2017 which requires authorities to have additional resources to deal with the increased duties to improve advice and information for the prevention of homelessness under this new legislation.

### BirdWatch/Samms Inv Funds

A reserve to hold funds to invest in the future operation of the Strategic Access Management and Monitoring Strategy (SAMMS) scheme for many years, which is funded from developer contributions less administration costs. This scheme mitigates bird disturbance from new developments in protected areas and conservation sites.

### Collection Fund Holding Account

Reserve holding differences between budgeted collection fund income and actual income.

### Severance Payments Reserve

Provided to support staffing cost implications of service transformation programmes.

### South Medway Development Reserve

Regeneration and development reserve created to fund Rochester Airport Regeneration and similar regeneration and development schemes.

### Salix Repayments

Salix provided £150k, matched by Medway, to create a fund for energy saving projects. The fund pays for a scheme and then the loan is repaid over a number of years by the service benefitting from the saving.

### HEE Public Health Grant

Grant received from Health Education England and is used to fund activity on 4E840 which is a joint venture with Kent, Surrey and Sussex.

### Other Earmarked Reserves

Represent non-material balances.

### Covid-19 Reserve

Reserve to hold the available funding relating to the COVID-19 Pandemic.

### Insurance Reserve

To finance costs (e.g. claims and premium payments) associated with insurable risk. The reserve meets expenditure relating to various types of future claims which are not covered by the Insurance Fund.

### DSG Reserve

Dedicated School Grant reserves. Significant increase in Special Educational Needs (SEN) expenditure in 2019/20 was transferred here. The deficit on this reserve will be addressed over the medium term through a recovery plan to be agreed by the School's forum.

### HRA Earmarked Reserves

Monies held in an Earmarked Reserve for the HRA.



The image shows a large indoor swimming pool. The pool is filled with clear blue water. On the right side, there is a blue diving board structure with a metal staircase leading up to it. The wall behind the pool is made of horizontal slats. Large windows are visible in the background, showing trees and buildings outside. The ceiling has recessed lighting. A white box with text is overlaid on the right side of the image.

## Section E5

### Notes Supporting the Balance Sheet

# Note 21. Property, Plant & Equipment

## Accounting Policies

### Property, Plant and Equipment

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

### Recognition

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

### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a Directorate.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant Directorate line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Componentisation

Componentisation was introduced under the IFRS-based Code of Practice to allow significant parts of an asset with different values and useful lives to be accounted for separately (recognition, depreciation and derecognition), therefore providing the most accurate way of accounting for the overall asset. All assets (including Council Dwellings and Non-Dwellings relating to the Housing Revenue Account), other than investment properties, have a land and building/depreciable split where appropriate. After assessing the materiality of the various items of Property, Plant and Equipment, it was decided that assets with a Gross Book Value in excess of £2.5m and the following asset types would be further componentised upon the date of their next scheduled revaluation:

- Schools – rolling programme starting from 2011/12
- Leisure centres with swimming pools – rolling programme starting from 2012/13
- Medway Park – componentised from 2010/11
- Crematorium – componentised from 2011/12
- Other assets with a GBV in excess of £2.5m – componentised from 2016/17

Housing Revenue Account Buildings are further componentised to include major components with different lives to the main structure e.g. kitchens, bathrooms, heating systems etc. to allow the most accurate depreciation charges.

## Note 21. Property, Plant & Equipment (continued)

### Impairment

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

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

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is charged in the year of disposal and not in the year of acquisition. Depreciation is calculated on the following basis:

council dwellings and other buildings – straight-line allocation over the outstanding life of the property as estimated by the valuer

- vehicles, plant, furniture and equipment – straight-line allocation over the projected life of the asset
- infrastructure – straight-line allocation over the outstanding life of the asset.

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

The following useful economic lives have been used in the computation of depreciation:

- council dwellings – 15 to 70 years
- other land and buildings – 5 to 99 years
- vehicles, plant, furniture & equipment – 5 to 30 years
- infrastructure – 10 to 35 years
- surplus assets – 20 to 60 years

### Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement)].

Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## Note 21. Property, Plant & Equipment (continued)

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

Movements on Balances 2019/20	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2019	167,074	375,555	15,945	338,748	8,431	10,763	1,917	918,433
Additions	4,446	44,354	2,142	13,783	11	3,818	6,777	75,330
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(713)	(5,849)	0	(265)	183	22	0	(6,623)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(9,343)	(10,960)	0	0	105	(113)	0	(20,311)
Derecognition – disposals	(1,061)	(12,671)	(1,685)	0	0	(1)	0	(15,419)
Derecognition - other	0	(100)	0	0	0	0	0	(100)
Assets reclassified (to)/from Held for Sale	0	(32,779)	0	0	0	0	0	(32,779)
Assets reclassified (to)/from Surplus Assets	0	(7,082)	0	0	0	7,082	0	0
Assets reclassified (to)/from Assets Under Construction	1,000	569	0	0	0	191	(1,760)	0
Other Reclassifications	0	708	0	0	(708)	0	0	0
<b>As at 31 March 2020</b>	<b>161,402</b>	<b>351,745</b>	<b>16,402</b>	<b>352,265</b>	<b>8,021</b>	<b>21,762</b>	<b>6,934</b>	<b>918,532</b>
<b>Accumulated Depreciation and Impairment</b>								
As at 1 April 2019	0	(12,748)	(10,546)	(205,979)	(11)	(1)	0	(229,286)
Depreciation Charge	(3,449)	(13,637)	(1,530)	(8,360)	0	(1)	0	(26,977)
Depreciation written out to the Revaluation Reserve	437	18,128	0	0	0	1	0	18,566
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,991	2,319	0	0	0	0	0	5,310
Derecognition – disposals	21	2,227	1,672	0	0	0	0	3,920
Derecognition - other	0	21	0	0	0	0	0	21
Assets reclassified to/(from) Surplus Assets	0	89	0	0	0	(89)	0	0
<b>As at 31 March 2020</b>	<b>0</b>	<b>(3,600)</b>	<b>(10,405)</b>	<b>(214,339)</b>	<b>(11)</b>	<b>(89)</b>	<b>0</b>	<b>(228,445)</b>
<b>Net Book Value</b>								
<b>At 31 March 2020</b>	<b>161,402</b>	<b>348,145</b>	<b>5,996</b>	<b>137,926</b>	<b>8,010</b>	<b>21,673</b>	<b>6,934</b>	<b>690,087</b>
<b>At 31 March 2019</b>	<b>167,074</b>	<b>362,807</b>	<b>5,399</b>	<b>132,769</b>	<b>8,420</b>	<b>10,762</b>	<b>1,917</b>	<b>689,147</b>

## Note 21. Property, Plant & Equipment (continued)

Movements on Balances 2018/19	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2018	164,877	368,986	15,239	327,623	8,436	636	62	885,859
Additions	3,403	12,287	910	11,126	0	0	1,855	29,581
Revaluation increases/(decreases) recognised in the Revaluation Reserve	250	16,324	0	0	0	4,512	0	21,086
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(745)	(8,719)	0	0	0	(22)	0	(9,486)
Derecognition – disposals	(713)	(3,940)	0	0	(4)	(32)	0	(4,689)
Derecognition - other	0	(3,518)	(205)	0	0	0	0	(3,723)
Assets reclassified (to)/from Surplus Assets	0	(5,670)	0	0	0	5,670	0	0
Other movements in cost or valuation	2	(195)	1	(1)	(1)	(1)	0	(195)
<b>As at 31 March 2019</b>	<b>167,074</b>	<b>375,555</b>	<b>15,945</b>	<b>338,748</b>	<b>8,431</b>	<b>10,763</b>	<b>1,917</b>	<b>918,433</b>
<b>Accumulated Depreciation and Impairment</b>								
As at 1 April 2018	1	(27,783)	(9,281)	(195,146)	(11)	(1)	0	(232,221)
Depreciation Charge	(3,405)	(11,493)	(1,471)	(10,834)	0	(1)	0	(27,204)
Depreciation written out to the Revaluation Reserve	296	22,387	0	0	0	0	0	22,683
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,095	3,834	0	0	0	0	0	6,929
Derecognition – disposals	14	36	0	0	0	0	0	50
Derecognition - other	0	79	205	0	0	0	0	284
Other movements in depreciation and impairment	(1)	192	1	1	0	1	0	194
<b>As at 31 March 2019</b>	<b>0</b>	<b>(12,748)</b>	<b>(10,546)</b>	<b>(205,979)</b>	<b>(11)</b>	<b>(1)</b>	<b>0</b>	<b>(229,285)</b>
<b>Net Book Value</b>								
At 31 March 2019	167,074	362,807	5,399	132,769	8,420	10,762	1,917	689,147
At 31 March 2018	164,878	341,203	5,958	132,477	8,425	635	62	653,637

## Note 21. Property, Plant & Equipment (continued)

### Effects of Changes in Estimates

In 2019/20 the Council made no material changes to its accounting estimates for Property, Plant and Equipment.

### Revaluations

The Authority carries out a rolling programme which ensures that all relevant Property, Plant and Equipment required to be measured at current value is revalued at least every five years. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the Professional Standards of the Royal Institution of Chartered Surveyors by RICS Registered Valuers.

Jonathan Rogers, MRICS and Registered Valuer of Harrisons Chartered Surveyors was commissioned to undertake the valuation of the Pentagon Shopping Centre. All other property and land revaluations were undertaken by RICS qualified valuers employed by the Authority.

If the revaluation of a specific asset results in a material change in value, an exercise is undertaken to establish whether the change is specific to that asset or could affect the whole asset class. If the material change cannot be identified as specific to that asset, then a review of the whole of that class, e.g. "Car Parks", will be undertaken to ensure that the current value of that asset class held within the balance sheet at the end of the reporting period is not materially misstated. During the revaluation exercise it was noted that valuations of carparks were materially lower than in previous years (due to lower construction costs) and so all carparks were revalued in 2019/20.

The significant assumptions applied in estimating the current values of property, plant and equipment are:

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

- Significant plant and machinery included in each EUV valuation is componentised, where necessary in accordance with the Authority's accounting policies.
- That the property is connected and has a right to use mains services and that sewers, main services and roads giving access to it have been adopted;
- That there are no deleterious or hazardous materials or existing or potential environmental factors that would affect the valuation.
- No contaminative or potentially contaminative uses, underground mining, or other engineering works have ever been carried out that would adversely affect the valuation.
- No allowances have been made for taxation which may arise on disposal or for disposal costs.
- All valuations assume each property would be disposed of separately.

The following table shows the progress of the Authority's rolling programme for the revaluation of property, plant and equipment:

Rolling Programme for the Revaluation of Property, Plant & Equipment

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Valued at historical cost	0	4,972	0	0	0	0	6,934	11,906
Capital expenditure on assets not revalued since the capital expenditure was incurred	0	244	16,402	352,258	8,021	0	0	376,925
Carried at historic cost	0	5,216	16,402	352,258	8,021	0	6,934	388,831
Valued at current value (fair value for surplus assets) during the year ending:								
31 March 2020	161,402	267,023	0	1	0	7,006	0	435,432
31 March 2019	0	35,211	0	0	0	11,013	0	46,224
31 March 2018	0	40,727	0	3	0	3,697	0	44,427
31 March 2017	0	2,722	0	0	0	46	0	2,768
31 March 2016	0	161	0	3	0	0	0	164
31 March 2015	0	54	0	0	0	0	0	54
31 March 2014	0	0	0	0	0	0	0	0
31 March 2013	0	580	0	0	0	0	0	580
31 March 2012	0	0	0	0	0	0	0	0
31 March 2011	0	51	0	0	0	0	0	51
<b>Total</b>	<b>161,402</b>	<b>351,745</b>	<b>16,402</b>	<b>352,265</b>	<b>8,021</b>	<b>21,762</b>	<b>6,934</b>	<b>918,531</b>

## Note 21. Property, Plant & Equipment (continued)

At the end of the reporting period, a thorough review is undertaken by the Head of Service to assess the risk that any valuations in respect of properties which have not been revalued in the current year could be inaccurate and that this could have an impact on the overall value of the Portfolio.

If it is determined that there is a risk of this then these properties are revalued, as a result the majority of the council's portfolio by value has been revalued within the last 2 years.

### Capital Commitments

As at 31 March 2020 the following capital commitments were in place (18/19: £24.775m):

As at 31 March 2020 there were several large capital projects which had been approved by the Council but the main contracts had not been awarded. These include the £170m Housing Infrastructure Fund award, the construction of new Council dwellings and general property development.

### Transferring to Academies

2 schools achieved academy status between 1 April 2019 and 31 March 2020 with a balance sheet value of £10.4m. In 2018/19 no schools converted to academies. There is 1 school which is likely to achieve academy status between 1 April 2020 and 31 March 2021 with a balance sheet value of £5.4m.

Directorate	2018/19 £'000	2019/20 £'000
Business Support Department	16	11,972
Children's and Adults (Inc. Public Health)	4,354	517
Regeneration, Community, Environment and Transformation	19,151	5,266
Housing Revenue Account	1,254	463
<b>Total</b>	<b>24,775</b>	<b>18,218</b>

## Note 22. Heritage Assets

### Accounting Policy

#### Heritage Assets

Heritage Assets are held purely for increasing the knowledge, understanding and appreciation of the Authority's history and local area and are recognised by using the latest insurance valuation, which shall be subject to an annual review. Formal revaluations should provide value for money for taxpayers with regards to the information provided within the financial statements versus the cost of obtaining the data. Due to the high cost and minimal change in values when compared to insurance reviews, it has been decided that formal valuations will not be undertaken.

By their nature, the useful life cannot be measured and therefore they will not be subject to annual depreciation charges. Where assets are being recognised for the first time, the initial valuation shall be recognised as a gain in the balance sheet and an increase in the Authority's revaluation reserve.

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

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

#### Buildings

The buildings included are Rochester Castle, Temple Manor, Eastgate House, Brook Pumping Station and various clocks and war memorials. They are not used to provide services and therefore are considered non-operational. With the exception of Rochester Castle, they were revalued during 2012/13. Unfortunately despite an extensive search, the Authority was unable to engage a valuer with relevant knowledge to provide a valuation for Rochester Castle, so the valuation remains that of an historic insurance valuation at the present time.

#### Furniture

The Authority holds many items of furniture ranging from clocks, chairs, chaise lounges, and various types of chests and writing cabinets dating from the 17th, 18th and 19th centuries. Some of these items are on display whilst others are held in storage. Some of these items have previously valued by industry experts to provide an updated insurance valuation.

#### Silver/Gold Collections

There are currently various different pieces held within this collection including items of civic regalia, iron age coins and other miscellaneous items from the 17th, 18th and 19th centuries and are held within the Balance Sheet. These items were revalued by industry experts during 2013/14 to provide an updated insurance valuation.

#### Art Collection

The collection consists of items including various paintings, marble busts and engravings dating from the 17th, 18th and 19th centuries. Part of this category was revalued during both 2014/15 and 2016/17 by industry experts to provide an updated insurance valuation.

#### Other

The Authority holds many items within this category including collections of medals, various coins and trading tokens, pianos, cameras, costumes and jewellery dating from the Bronze Age to the 20th century. Many can be found on display whilst a few are held in storage.

#### Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity.

Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see policy relating to Property, Plant and Equipment in this summary of significant accounting policies.

The Authority will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.



## Note 22. Heritage Assets (continued)

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

	Buildings £'000	Furniture £'000	Silver / Gold Collections £'000	Art Collection £'000	Other £'000	Total Assets £'000
<b>Cost or Valuation</b>						
1 April 2018	11,320	238	1,331	1,559	2,534	16,983
Additions	122	0	0	0	0	122
Revaluations	331	0	0	0	0	331
<b>31 March 2019</b>	<b>11,773</b>	<b>238</b>	<b>1,331</b>	<b>1,559</b>	<b>2,534</b>	<b>17,436</b>
<b>Cost or Valuation</b>						
1 April 2019	11,773	238	1,331	1,559	2,534	17,436
Revaluations	353	0	0	0	70	423
<b>31 March 2020</b>	<b>12,126</b>	<b>238</b>	<b>1,331</b>	<b>1,559</b>	<b>2,604</b>	<b>17,859</b>

### Heritage Buildings

Those buildings which have been classified as Heritage are:

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

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

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

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

### Furniture, Silver/Gold Collection, Art Collection and Other

Valuations of tangible heritage assets may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. There has been an annual programme of selective valuations in prior years which have resulted in minor changes to the values held in the balance sheet. However, in line with the Authority's accounting policies for heritage assets, there needs to be assurance that the costs of providing valuations give value for money for taxpayers with regards to the information provided within the financial statements verses the cost of obtaining the data. Due to the disproportionate costs of providing valuations from industry experts against the changes in valuation held in the balance sheet, it has been decided that there will be no valuations carried out during 2019/20. A decision as to whether revaluations will be carried out in future years will be taken in due course.

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

Art Collections include a collection of Roman-British pottery and a water-colour by Charles Spencelayh 'Polly, not forgotten'.

Other historical interest items include:

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

# Note 23. Heritage Assets: Further Information on the Buildings and Collections

## Policy on acquiring Heritage Assets for its Museum Service

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

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

It is estimated that approximately 35% of the total collections are on permanent display. This is a much higher percentage than for most museums. The 'reserve' collection comprises a number of important themed collections that are already, and will in future, be actively used to underpin the temporary exhibitions programme and educational work, as well as collections that are primarily of research interest to the public and the academic community. Some of these specialised academic collections are by their very nature not appropriate for public display but help to enhance the museum's reputation as a valuable resource for individuals and academic institutions conducting high-level research in the disciplines of geology, archaeology and natural history. Reserve archaeological collections are particularly well used by the academic community.

## Preservation of Heritage Assets

Medway Council is committed to securing higher grade storage facilities for its heritage assets. The upgraded storage facilities were made available for use during the latter part of 2013 which meant that the Authority has been in a position to house its existing medium-size archaeological excavation archives in environmental conditions that meet the national standard. However, Medway Council recognises that the long-term storage of future archaeological site archives is a County-wide problem on a massive scale that may require a County-wide solution (including the possible creation of a centralised staffed storage facility to house archaeological site archives from the historic county of Kent).

## Management of Heritage Assets

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

## Disposals of Heritage Assets

Medway Council will ensure that the disposal process is carried out openly and with transparency. By definition, heritage assets have a long-term purpose and the Authority holds collections in trust for society in relation to its stated objectives. Medway Council therefore accepts the principle that sound curatorial reasons for disposal must be established before consideration is given to the disposal of any items in the museum's collection. No museum objects are to be disposed of for any of the following:

- Primarily for financial reasons, except in exceptional circumstances
- On an ad-hoc basis
- Without considering expert advice
- If doing so would adversely affect the reputation of museums
- If doing so would not be in the long-term interest
- If doing so would remove the item from the public domain, unless in exceptional circumstances.

The Guildhall museum service is a fully accredited service and abides by strict regulations of the policies held with the museums association body

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

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

## Note 24. Investment Properties

### Accounting Policy

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

### Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets, non-current assets held for sale and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the

measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

### Revenue Income & Expenditure relating to investment properties

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

Investment properties	2018/19 £'000	2019/20 £'000
Rental income from investment property	345	834
<b>Net gain/(loss)</b>	<b>345</b>	<b>834</b>

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

## Note 24. Investment Properties (continued)

### Movement in fair value

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

Investment Properties	31 March 2019 £'000	31 March 2020 £'000
Balance at start of year	8,443	16,967
Additions		
• Purchases	6,801	0
Disposals	0	(50)
Net gains/(loss) from fair value adjustments	1,722	(148)
<b>Balance at end of year</b>	<b>16,967</b>	<b>16,769</b>

#### Fair Value Hierarchy

All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes (See "Fair Value Measurement" in the Statement of Accounting Policies for an explanation of the fair value levels).

#### Valuation Techniques Used to Determine Level 2 Fair Values for Investment Property

The fair value of investment property has been measured using a market approach, which takes into account prices for similar assets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants and data and market knowledge gained in managing the Council's Investment Asset portfolio has also been used. As a result properties have been categorised as level 2 on the fair value hierarchy.

There has been no change in the valuation techniques used during the year for investment properties.

#### Highest and Best Use

In estimating the fair value of the Council's investment properties, the highest and best use is their current use.

#### Valuation Process for Investment Properties

The fair value of the Authority's investment property is measured annually at each reporting date. Jonathan Rogers, MRICS and Registered Valuer of Harrisons Chartered Surveyors was commissioned to undertake the valuations of ten distribution depots held by Medway Council as investment properties and let to Bobby's foods. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The other investment properties are as follows:

- Industrial Estate, Railway Street, Gillingham
- Rainham District Shopping Centre
- Gillingham Business Park
- Retail Unit, Doust Way, Rochester

The Authority's valuation experts work closely with finance officers reporting directly to the chief finance officer on a regular basis regarding all valuation matters.

## Note 25. Assets Held for Sale

### Accounting Policy

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

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

During 2019/20 several pieces of land within Strood, Rochester and Chatham have become available for sale for property development. These include the Rochester Riverside development, the site of the former Civic Centre and Chatham Waterfront.

	Current		Non-Current	
	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000
<b>Balance Outstanding at start of year</b>	0	0	0	0
Assets newly classified as held for sale:				
▪ Property, plant and equipment	0	32,779	0	0
<b>Balance Outstanding at year end</b>	0	32,779	0	0

### Fair Value Hierarchy

All the Council's assets held for sale have been value assessed as Level 2 on the fair value hierarchy for valuation purposes (See Note 24 to the Financial Statements for the accounting policy that gives an explanation of the fair value levels).

### Valuation Techniques Used to Determine Level 2 Fair Values for Assets held for Sale

The fair value of assets held for sale has been measured using a market approach, which takes into account prices for similar assets, research into market evidence including market rentals and yields. As a result properties have been categorised as level 2 on the fair value hierarchy.

### Highest and Best Use

In estimating the fair value of the Council's assets held for sale, the highest and best use has regard to alternative uses.

## Note 26. Financial Instruments

### Accounting Policy

#### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI) - Medway currently has no assets classed as FVOCI.

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

#### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

#### Financial Assets at Fair Value Through Profit and Loss

The Authority holds a number of property funds which are classified as fair value through profit and loss. These assets are recognised on the balance sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Fair values are based on the following techniques:

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

The inputs to the measurement techniques are categorised in accordance with the levels detailed on page 88 to these statements.:

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

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

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

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

## Note 26. Financial Instruments (continued)

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## Note 26. Financial Instruments (continued)

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

Financial Assets	Non-Current				Current				Total	
	Investments		Debtors		Investments		Debtors			
	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fair value through profit or loss	22,724	21,979	0	0	6,922	6,969	0	0	29,647	28,948
Amortised cost - other	0	0	1,032	977	10,154	0	45,336	42,250	56,522	43,227
Cash & cash equivalents at amortised cost	0	0	0	0	3,764	38,924	0	0	3,764	38,924
<b>Total financial assets</b>	<b>22,724</b>	<b>21,979</b>	<b>1,032</b>	<b>977</b>	<b>20,840</b>	<b>45,893</b>	<b>45,336</b>	<b>42,250</b>	<b>86,168</b>	<b>72,175</b>
Non-financial assets	0	0	1	1,429	0	0	30,210	28,747	30,211	30,176
<b>Total</b>	<b>22,724</b>	<b>21,979</b>	<b>1,033</b>	<b>2,406</b>	<b>20,840</b>	<b>45,893</b>	<b>75,546</b>	<b>70,997</b>	<b>116,379</b>	<b>102,351</b>

Financial Liabilities	Non-Current				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amortised cost	(211,861)	(262,672)	(33,235)	(31,840)	(41,656)	(36,250)	(31,034)	(41,343)	(317,786)	(372,105)
<b>Total financial liabilities</b>	<b>(211,861)</b>	<b>(262,672)</b>	<b>(33,235)</b>	<b>(31,840)</b>	<b>(41,656)</b>	<b>(36,250)</b>	<b>(31,034)</b>	<b>(41,343)</b>	<b>(317,786)</b>	<b>(372,105)</b>
Non-financial liabilities	0	0	(9)	(13)	0	0	(10,329)	(15,640)	(10,338)	(15,653)
<b>Total</b>	<b>(211,861)</b>	<b>(262,672)</b>	<b>(33,244)</b>	<b>(31,853)</b>	<b>(41,656)</b>	<b>(36,250)</b>	<b>(41,363)</b>	<b>(56,983)</b>	<b>(328,124)</b>	<b>(387,758)</b>



## Note 26. Financial Instruments (continued)

### Income, Expense, Gains & Losses

	2018/19		2019/20	
	Surplus or deficit on the provision of services £'000	Other comprehensive income and expenditure £'000	Surplus or deficit on the provision of services £'000	Other comprehensive income and expenditure £'000
Net gains/losses on:				
• Financial assets measured at fair value through profit or loss	416	0	745	0
• Financial liabilities measured at fair value through profit or loss	(11,079)	0	0	0
<b>Total net gains/losses</b>	<b>(10,663)</b>	<b>0</b>	<b>745</b>	<b>0</b>
Interest revenue:				
• Other financial assets measured at fair value through other comprehensive income	4,454	0	3,717	0
<b>Total interest revenue</b>	<b>4,454</b>	<b>0</b>	<b>3,717</b>	<b>0</b>
Interest expense:	11,079	0	12,392	0
<b>Total fee income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Note 26. Financial Instruments (continued)

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

The fair values calculated are as follows:

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

Financial Assets	31 March 2019		31 March 2020	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and receivables - Investments	17,076	17,405	6,969	6,969
Cash and Cash Equivalents	3,764	3,764	38,924	38,924
Investments at Fair Value through Profit & Loss	22,724	22,724	21,979	21,979
Debtors	46,368	46,368	36,947	36,947

Financial Liabilities	31 March 2019		31 March 2020	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Borrowing	210,280	277,892	298,922	325,446
Creditors	64,269	64,269	71,763	71,763

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

Short-term debtors and creditors are carried at cost as this is a fair approximation of their fair value.

The fair value of the property fund investments (classified as available for sale) has been measured using Level 1 inputs i.e. unadjusted quoted prices in active markets for identical shares.

The fair value of other financial assets and liabilities disclosed above are measured using Level 2 inputs i.e. inputs other than quoted prices that are observable for the financial asset or liability.

The fair values can be 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:

### Market rates for investments

- Not applicable - no fixed term investments

### Discount rates for borrowing

- LOBO 2.28% to 2.657%
- Market Debt 1.63038% to 1.93%
- PWLB maturity 1.9% to 2.52%

### Other assumptions

- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount approximates fair value
- the fair value of trade and other receivables is the invoiced amount net of and bad debt provision

There has been no change in valuation technique and no transfers between levels of the fair value hierarchy in the year.

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

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

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

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

### Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch, Moody's and Standard and Poors Credit Rating Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

Counterparties continue to be monitored using the creditworthiness service provided by Link Asset Services.

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

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

The full investment strategy for 2019/20 was approved by full Council on 21/02/19 and the 2020/21 strategy was approved on 20/02/20. Both are available on the Authority's website.

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

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £40.535m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise.

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

## 27. Nature and Extent of Risks Arising from Financial Instruments (continued)

	Amount at 31 March 2020	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£'000	%	£'000
Deposits with banks, financial institutions and other local authorities*	47,492	0.00	0
Customers	25,196	9.55	2,406
<b>Total</b>	<b>72,688</b>		<b>2,406</b>

\* This is made up of the following:

	Amount at 31 March 2020
	£'000
NatWest	25,000
Svenska Handelsbanken	15,500
Lloyds	35
CCLA	6,953
Barclays	4
<b>Total</b>	<b>47,492</b>

	Amount at 31 March 2019	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£'000	%	£'000
Deposits with banks, financial institutions and other local authorities*	18,382	0.00	0
Customers	15,084	15.77	2,379
<b>Total</b>	<b>33,466</b>		<b>2,379</b>

\* This is made up of the following:

	Amount at 31 March 2019
	£'000
Other Local Authorities	10,154
Lloyds	1,302
CCLA	6,922
Barclays	4
<b>Total</b>	<b>18,382</b>

## 27. Nature and Extent of Risks Arising from Financial Instruments (continued)

The Authority does not generally allow credit for customers, such that £18,354m of the £25,196m balance is past its due date for payment as at 31/03/2020. The past amount can be analysed by age as follows:

The Authority provision for bad debts stood at £2,406m at 31 March 2020 (£2.804m at 31 March 2019). The provision is calculated by applying the aged debt analysis and applying percentages to agreed categories of debt.

### Collateral

During the reporting period the Authority held no collateral as security.

### Liquidity Risk

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

	31 March 2019 £'000	31 March 2020 £'000
Less than three months	3,365	2,298
Three to six months	4,878	2,032
Six months to one year	3,421	2,691
More than one year	7,777	11,333
	<b>19,441</b>	<b>18,354</b>

	Lower Limit %	Upper Limit %	Actual 31 March 2019 %	Actual 31 March 2020 %
Less than one year	0	50	1.04	3.89
Between one and two years	0	50	2.60	0.00
Between two and five years	0	50	6.50	13.62
Between five and ten years	0	50	13.00	19.45
More than ten years	0	100	76.86	63.04

Included within liabilities with maturity in over 10 years are £101.8m of LOBOs (Lender Option Borrower Option) loans. The LOBOs have maturity dates between 2033 and 2068.

In addition to the fixed rate borrowing the authority has £27m (31 March 2019 £40m) of loans from other authorities repayable within 12 months. These loans are classified as variable rate due to the short time before repayment.

## 27. Nature and Extent of Risks Arising from Financial Instruments (continued)

The maturity analysis of financial liabilities is as follows:

	31 March 2019 £'000	31 March 2020 £'000
Less than one year	53,362	41,614
Between one and two years	31,612	53,127
Between two and five years	40,669	42,891
More than five years	420,181	340,632
<b>Total Principal and Interest</b>	<b>545,824</b>	<b>478,264</b>

The amounts shown as principal and interest (above right) includes interest that will be payable in the relevant future years. The carrying amount of financial liabilities shown in Note 26 on page 93 relates to principal sums only.

The previous year has been restated to include short term borrowing which was excluded from this note in error.

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

	Lower Limit %	Upper Limit %	Actual 31 March 2020 %
Less than one year	0	75	12.87
Between one and two years	0	50	0.00
Between two and five years	0	50	7.24
Between five and ten years	0	50	21.08
More than ten years	0	100	58.81

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

### Market Risk

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

## 27. Nature and Extent of Risks Arising from Financial Instruments (continued)

### Interest Rate Risk

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

- borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise
- borrowings at fixed rates – the fair value of the borrowings will fall (no impact on revenue balances)
- investments at variable rates – the interest income credited to the surplus or deficit on the provision of services will rise
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

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

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. Current Authority policy is to not exceed a maximum of 40% of borrowings in variable rate loans.

The Authority has a mixture of standard fixed rate borrowings and LOBO (lender option borrower option) loans. The LOBO loans were taken out between 2003 and 2008 with maturity periods of between 35 and 60 years. The interest rates payable on these loans could be changed at specified dates during the life of the loan at the lender's option. The specified dates vary from loan to loan but occur at intervals of between six months and five years from the initial advance according to the individual loan contract. If a lender chose to vary the interest payable then the Authority would have the option to repay the loan without penalty. In practice the lender would only exercise their option if market rates were to increase above the current rate.

The Authority's long-term and current borrowing can be analysed as follows:

Borrowing Analysis	Fixed or Variable Rate	Borrowing as at 31 March 2020 £'000
Long-Term Borrowing:		
PWLB Loans (Principal)	Fixed	123,524
LOBO Loans (Principal)	Variable	101,800
Other Loans and Accounting Adjustments	Fixed	39,868
<b>Total Long-Term Borrowing</b>		<b>262,672</b>
Short-Term Borrowing:		
PWLB Loans (Principal)	Fixed	5,000
Other Local Authorities	Fixed	27,000
Other Short-Term Borrowing and Accrued Interest	Fixed	1,730
<b>Total Short-Term Borrowing</b>		<b>33,730</b>

## 27. Nature and Extent of Risks Arising from Financial Instruments (continued)

Other loans and accounting adjustments (£39.868m) includes an accounting adjustment of £1.53m in respect of LOBO loans. This technical accounting adjustment represents the cash benefit obtained by paying lower interest payments over a specified initial period on some of the LOBO loans. The adjustment is shown in the balance sheet as an addition to the value borrowed but is reduced by way of a credit to the income and expenditure account each year over the full term of the relevant loans. The adjustment has been included above as being at fixed rates because the value will not be affected even if the LOBO lenders exercise their option to change the rates of interest on the underlying loans.

During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

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

According to this assessment strategy, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	31 March 2019	31 March 2020
Increase in interest payable on variable rate borrowing	477	280
Increase in interest receivable on variable rate investments	297	188
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>774</b>	<b>468</b>
Decrease in fair value of fixed rate investment assets	12	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	12,192	44,536

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

### Price Risk

The Authority does not generally invest in equity shares or marketable bonds. It does however hold stock in the form of investments in property funds at a value of £21.979m (2018/19 £22.724m).

The funds are classified as "financial assets at fair value through profit and loss" meaning that movement in price will impact on gains and losses in the surplus or deficit on the provision of services within the Comprehensive Income and Expenditure Statement for 2019/20.

### Foreign Exchange Risk

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



## 28. Capital Expenditure & Capital Financing

### Accounting Policy - Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of recognisable non-current assets has been charged as expenditure to the relevant Directorate in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the table below:

	2018/19 £'000	2019/20 £'000
<b>Opening Capital Financing Requirement</b>	255,968	269,540
<b>Capital Investment</b>		
Property Plant and Equipment	29,581	73,529
Heritage Assets	122	0
Investment Properties	6,801	0
Intangible Assets	152	0
Assets Held for Sale	0	106
Revenue Expenditure Funded from Capital under Statute	13,222	9,619
<b>Sources of Finance</b>		
Capital receipts	(2,415)	(285)
Government grants and other contributions	(25,128)	(21,090)
<b>Sums set aside from revenue</b>		
Direct revenue contributions	(564)	(2,790)
Major Repairs Reserve	(3,589)	(3,824)
Minimum Revenue Provision	(4,609)	(1,361)
<b>Closing Capital Financing Requirement</b>	<b>269,540</b>	<b>323,444</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing (unsupported by government	13,572	53,904
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>13,571</b>	<b>53,904</b>

## 29. Leases

### Accounting Policy - Leases

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

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

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

### Authority as Lessee (Finance Leases)

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

Lease payments are apportioned between:

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

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

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

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

	31 March 2019 £'000	31 March 2020 £'000
Other Land & Buildings	674	662

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

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

During 2019/20 the Authority entered into a waste collection and disposal contract, which has resulted in the need to account for embedded leases for various vehicles used by the contractor to deliver the service. These are shown as Property, Plant and Equipment in the Balance Sheet at the net amounts detailed in the following table:

## 29. Leases (Continued)

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

	31 March 2019 £'000	31 March 2020 £'000
Vehicles, Plant & Equipment	63	1,725

	31 March 2019 £'000	31 March 2020 £'000
Finance lease liabilities (net present value of minimum lease payments):		
• current	21	17
• non-current	42	1,708
Finance costs payable in future years	4	101
<b>Minimum Lease Payments</b>	<b>67</b>	<b>1,826</b>

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

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000
Not later than one year	38	296	2	0
Later than one year and not later than five years	25	1,141	2	0
Later than five years	0	389	0	0
	<b>63</b>	<b>1,826</b>	<b>4</b>	<b>0</b>

## 29. Leases (Continued)

### Accounting Policy - Authority as Lessee (Operating Leases)

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

The 2018/19 lease figure included an erroneous figure which has been restated in these accounts.

The Authority has made use of leases to acquire property, vehicles, and equipment. The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2019 Restated £'000	31 March 2020 £'000
Not later than one year	949	758
Later than one year and not later than five years	2,398	1,440
Later than five years	869	172
<b>Total</b>	<b>4,216</b>	<b>2,370</b>

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

	2018/19 £'000	2019/20 £'000
Minimum Lease Payments	887	949
Sublease Payments Receivable	(37)	(37)
	<b>850</b>	<b>912</b>

## 29. Leases (Continued)

### Accounting Policy - The Authority as Lessor (Operating Leases)

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

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

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

The future minimum lease payments receivable are:

	31 March 2019 £'000	31 March 2020 £'000
Not later than one year	1,359	1,948
Later than one year and not later than five years	3,050	4,414
Later than five years	12,721	13,962
<b>Total</b>	<b>17,130</b>	<b>20,324</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20; £0.370m contingent rents were receivable by the Authority (2018/19 £0.370m).

## Note 30. Debtors

The Council's debtors (net of the provision for bad and doubtful debts) are as follows:

31 March 2019				31 March 2020		
Long-Term £'000	Short-Term £'000	Total £'000		Long-Term £'000	Short-Term £'000	Total £'000
1,011	47,278	48,289	Trade receivables	973	44,819	45,792
0	(3,070)	(3,070)	Less impairment allowance	0	(3,444)	(3,444)
<b>1,011</b>	<b>44,208</b>	<b>45,219</b>	<b>Net trade receivables</b>	<b>973</b>	<b>41,375</b>	<b>42,348</b>
<b>0</b>	<b>2,019</b>	<b>2,019</b>	<b>Prepayments</b>	<b>0</b>	<b>2,770</b>	<b>2,770</b>
			<b>Other receivables:</b>			
0	31	31	Client Financial Affairs Debtors	0	31	31
22	0	22	Education Related Debtors	1,420	0	1,420
0	0	0	Elections Debtors	0	6	6
0	11,952	11,952	Housing Benefit Debtors	0	11,280	11,280
0	(9,014)	(9,014)	Less impairment allowance	0	(8,567)	(8,567)
0	2,938	2,938	Net Housing Benefit Debtors	0	2,713	2,713
0	1,351	1,351	HRA Rent/Service Charge Debtors	0	1,025	1,025
0	(473)	(473)	Less impairment allowance	0	(447)	(447)
0	878	878	Net HRA Rent/Service Charge Debtors	0	578	578
0	27,095	27,095	Local Taxation Debtors	0	22,377	22,377
0	(5,091)	(5,091)	Less impairment allowance	0	(3,433)	(3,433)
0	22,004	22,004	Net Local Taxation Debtors	0	18,944	18,944
0	401	401	Rechargeable Works Debtors	0	386	386
0	36	36	Schools Debtors	0	30	30
0	5	5	SOCH Mortgage Debtors	0	5	5
0	28	28	Employee Related Debtors	13	15	28
0	2,998	2,998	VAT Debtors	0	4,144	4,144
<b>22</b>	<b>29,319</b>	<b>29,341</b>	<b>Other receivables</b>	<b>1,433</b>	<b>26,852</b>	<b>28,285</b>
<b>1,033</b>	<b>75,546</b>	<b>76,580</b>	<b>Total Debtors</b>	<b>2,406</b>	<b>70,997</b>	<b>73,403</b>

## Note 31. Cash and Cash Equivalents

### Accounting Policy - Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

All other investments which are not held for the purpose of meeting short-term cash needs and are not readily convertible into known amounts of cash are classified as investments.

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

	31 March 2019 £'000	31 March 2020 £'000
Cash held by the Authority	24	24
Bank current accounts	11,993	5,731
Bank overdraft	(9,559)	(7,613)
Short-term deposits with financial institutions	1,306	40,540
<b>Total Cash &amp; Cash Equivalents</b>	<b>3,764</b>	<b>38,682</b>

## Note 32. Creditors

31 March 2019				31 March 2020		
Long-Term £'000	Short-Term £'000	Total £'000		Long-Term £'000	Short-Term £'000	Total £'000
(497)	(30,527)	(31,024)	Trade payables	(486)	(41,440)	(41,927)
			Other payables			
(73)	0	(73)	Education Related Creditors	0	0	0
0	(1,795)	(1,795)	Employee Related Creditors	(6)	(1,694)	(1,700)
0	(852)	(852)	HRA Rent/Service Charge Creditors	0	(549)	(549)
(32,666)	(1,361)	(34,027)	Local Government Reorganisation Creditors	(31,360)	(1,307)	(32,667)
0	(6,826)	(6,826)	Local Taxation Creditors	0	(11,991)	(11,991)
0	(2)	(2)	Rechargeable Works Creditors	0	(2)	(2)
(8)	0	(8)	SOCH Mortgage Creditors	0	0	0
<b>(33,244)</b>	<b>(41,363)</b>	<b>(74,607)</b>	<b>Total Creditors</b>	<b>(31,852)</b>	<b>(56,983)</b>	<b>(88,836)</b>



## Note 33. Provisions

### Accounting Policy - Provisions

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

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

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

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

### Non Domestic Rate (NDR) Appeals Provision

Local Authorities retain an element of all NDR collected and in Medway's case we typically retain 49% of collected NDR, However in 2018/19 Medway participated in the 100% Business Rate Retention Pilot Scheme. We also suffer the loss of income from successful appeals against the rateable value of

non-domestic property which include appeals submitted to the Valuation Office (VOA). In order to mitigate against future losses of income from appeals the Authority has created a provision to offset the cost of back-dated refunds as the appeals are settled. The provision has been calculated as an estimate of potential cost against each individual appeal case and the cost is adjusted to take account of the probability of success.

A new rating list came into effect on 1 April 2017 and appeals filed after that date are based on the new list and cannot be backdated. The provision in respect of new appeals will be based on the likelihood of success and the resultant increase or decrease in the provision charged or credited to the Income and Expenditure Account.

## Note 34. Provisions (continued)

The other short term provisions relate to the Carbon Reduction Commitment scheme.

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

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2020 in line with IAS 37. The majority of the unsettled claims are for public liability.

	Short Term			
	Insurance Provision £000s	NDR Appeals Provision £000s	Other Provisions £000s	Total £000s
Balance as at 31 March 2019	0	(5,234)	(160)	(5,393)
Additional provisions made in 2019/20	0	(7,926)	0	(7,926)
Amounts used in 2019/20	0	7,329	21	7,350
Unused amounts reversed in 2019/20	0	0	0	0
Unwinding of discounting in 2019/20	0	0	0	0
Transfer (from)/to Long Term in 2019/20	0	3,428	0	3,428
<b>Balance as at 31 March 2020</b>	<b>0</b>	<b>(2,403)</b>	<b>(138)</b>	<b>(2,542)</b>

	Long Term			
	Insurance Provision £000s	NDR Appeals Provision £000s	Other Provisions £000s	Total £000s
Balance as at 31 March 2019	(2,039)	(7,795)	(675)	(10,509)
Additional provisions made in 2019/20	(2,906)	0	(88)	(2,994)
Amounts used in 2019/20	2,179	0	0	2,179
Unused amounts reversed in 2019/20	0	0	0	0
Unwinding of discounting in 2019/20	0	7,794	0	7,794
Transfer (from)/to Short Term in 2019/20	0	(3,428)	0	(3,428)
<b>Balance as at 31 March 2020</b>	<b>(2,765)</b>	<b>(3,429)</b>	<b>(763)</b>	<b>(6,957)</b>

## Note 34. Pension Schemes Accounted for as Defined Contribution Schemes

### Accounting policy - Post-employment benefits (defined contribution schemes)

Some employees of the Authority are members of :

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

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

The arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The Children and Adults

Directorate line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Public Health Directorate line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The accounting policy with regards to discretionary benefits can be found with Note 36 to these financial statements.

The Teachers Pension Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

In 2019/20, the Authority paid £3.659m to Teachers Pensions in respect of teachers retirement benefits, representing 16.48% of pensionable pay. The figures for 2018/19 were £3.395m representing 16.48% of pensionable pay for the period 01/04/19 to 31/08/19 when it increased to 23.68%. There were no contributions remaining payable at year end. The contributions due to be paid in the next financial year are estimated to be £4.056m. The projected increase is due to the uplift in employer contribution rates to 23.68% of pensionable pay from September 2019. This increase will, however, be covered by an additional grant from the Department for Education.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 36.

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

## Note 35. Unusable Reserves

### Accounting Policy—Unusable Reserves

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Authority.

	31 March 2019	31 March 2020
Revaluation Reserve	(166,368)	(166,189)
Pooled Investment Adjustment Account	275	1,020
Capital Adjustment Account	(289,442)	(267,239)
Financial Instruments Adjustment Account	(1,183)	(1,251)
Deferred Capital Receipts Reserve	(2,897)	0
Pensions Reserve	261,303	265,337
Collection Fund Adjustment Account	(2,170)	(3,562)
Accumulated Absences Account	1,766	1,557
<b>Total Unusable Reserves</b>	<b>(198,716)</b>	<b>(170,326)</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

During the year Summit House was amalgamated with the Will Adams PRU to form one larger asset. As a result the new asset was showing both a Revaluation Reserve balance and CIES loss. The Revaluation Reserve balance of £98k was netted off against the CIES loss.

	2018/19	2019/20	
	£'000	£'000	£'000
<b>Balance as at 1 April</b>	<b>(129,361)</b>		<b>(166,368)</b>
Upward revaluation of assets	(58,128)	(46,241)	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	14,027	33,874	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	(44,100)		(12,367)
Difference between current value depreciation and historical cost depreciation	4,094	7,951	
Transfer on assets amalgamated during the year	0	98	
Accumulated gains on assets sold or scrapped	3,000	4,497	
Amount written off to the Capital Adjustment Account	7,094		12,546
<b>Balance as at 31 March</b>	<b>(166,368)</b>		<b>(166,189)</b>

## Note 35. Unusable Reserves (continued)

### Pooled Investment Adjustment Account

The Pooled Investment Adjustment Account contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- disposed of and the gains are realised.

	2018/19	2019/20
<b>Balance as at 1 April</b>	<b>0</b>	<b>275</b>
Transfer from Available for Sale Financial Instruments Reserve	691	0
Financial Instruments held under Fair Value through Profit & Loss Subject to MHCLG Statutory Over-Ride	(416)	745
<b>Balance as at 31 March</b>	<b>275</b>	<b>1,020</b>

## Note 35. Unusable Reserves (continued)

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and subsequent costs.

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

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

Note 19 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
<b>Balance as at 1 April</b>		(296,114)		(289,442)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
• Charges for depreciation and impairment of non-current assets	26,467		54,444	
• Revaluation gains on Property, Plant and Equipment	3,295		(12,500)	
• Amortisation of Intangible Assets	731		760	
• Revenue Expenditure funded from Capital Under Statute	13,222		9,619	
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	8,078		11,628	
		51,793		63,951
Adjusting amounts written out of the Revaluation Reserve	(7,094)		(12,546)	
Other adjustments	0		0	
Net written out amount of the cost of non-current assets consumed in the year		(7,094)		(12,546)
Capital financing applied in the year:				
• Use of Capital Receipts Reserve to finance new capital expenditure	(2,415)		(285)	
• Use of the Major Repairs Reserve to finance new capital expenditure	(3,589)		(3,824)	
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(20,341)		(14,733)	
• Application of grants to capital financing from the Capital Grants Unapplied Account	(4,788)		(6,357)	
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(4,609)		(1,361)	
• Capital expenditure charged against the General Fund and HRA balances	(564)		(2,790)	
		(36,305)		(29,350)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(1,722)		148
<b>Balance as at 31 March</b>		<b>(289,442)</b>		<b>(267,239)</b>

## Note 35. Unusable Reserves (continued)

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2020 will be charged to the General Fund over the next 31 years.

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2018/19	2019/20	
	£'000	£'000	£'000
<b>Balance as at 1 April</b>	<b>(1,076)</b>		<b>(1,183)</b>
Premiums incurred in the year and charged to the	(107)	(68)	
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	0	0	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(107)		(68)
<b>Balance as at 31 March</b>	<b>(1,183)</b>		<b>(1,251)</b>

	2018/19	2019/20
	£'000	£'000
<b>Balance as at 1 April</b>	<b>0</b>	<b>(2,897)</b>
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,897)	0
Transfer to the Capital Receipts Reserve upon receipt of cash	0	2,897
<b>Balance as at 31 March</b>	<b>(2,897)</b>	<b>0</b>

## Note 35. Unusable Reserves (continued)

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

The balance shown above consists of the following component parts:

	2018/19	2019/20
<b>Balance as at 1 April</b>	<b>277,698</b>	<b>261,303</b>
Remeasurements of the net defined benefit liability/(asset)	(34,558)	(17,418)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income	30,317	33,578
Employer's pensions contributions and direct payments to pensioners payable in	(12,154)	(12,126)
<b>Balance as at 31 March</b>	<b>261,303</b>	<b>265,337</b>

	2018/19 £'000	2019/20 £'000
<b>Balance as at 1 April</b>	<b>1,861</b>	<b>(2,170)</b>
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(4,031)	(1,392)
<b>Balance as at 31 March</b>	<b>(2,170)</b>	<b>(3,562)</b>

	2018/19 £'000	2019/20 £'000
Medway Council Tax Surplus	(3,130)	(4,232)
Medway Renewable Energy Disregard	0	(238)
Medway Non-Domestic Rate Deficit	960	908
<b>Balance as at 31 March</b>	<b>(2,170)</b>	<b>(3,562)</b>



## Note 35. Unusable Reserves (continued)

### Accumulated Absences Account

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

	2018/19	2019/20	
	£'000	£'000	£'000
<b>Balance as at 1 April</b>	<b>1,873</b>		<b>1,766</b>
Settlement or cancellation of accrual made at the end of the preceding year	(1,873)	(1,766)	
Amounts accrued at the end of the current year	1,766	1,557	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(107)		(209)
<b>Balance as at 31 March</b>	<b>1,766</b>		<b>1,557</b>

## Note 36. Defined Benefit Pension Schemes

### Accounting Policy - Post-employment benefits

The majority of employees of the Authority are members of the Local Government Pensions Scheme, administered by Kent County Council. (See note 34 for details of other pensions schemes)

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

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

- The liabilities of the Kent pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.35%
- The change in the net pension liability is analysed into the following components:
  - Service cost comprising:
    - ◆ current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
    - ◆ past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the Business Support Department.

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

Remeasurements comprising:

- ◆ the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- ◆ actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- ◆ contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners

and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### Discretionary Benefits

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

## Note 36. Defined Benefit Pension Schemes (continued)

### Participation in Pension Schemes

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

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued salary and length of service at retirement.

The Administering Authority for the Fund is Kent County Council. The Pension Fund Committee oversees the management of the Fund whilst the

day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As Administering Authority to the Fund, Kent County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These should be amended when appropriate based on the Fund's performance and funding.

- Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

On the Employer's withdrawal from the plan, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

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

- **Investment risk.** The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- **Interest rate risk.** The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- **Inflation risk.** All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- **Longevity risk.** In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

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

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

## Note 36. Defined Benefit Pension Schemes (continued)

### Transactions relating to post Employment Benefits

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

	2018/19 £'000	2019/20 £'000
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services</b>		
<b>Service cost comprising:</b>		
• Current service costs	22,536	23,098
• Past service costs	669	4,924
• (gain)/loss from settlements	(78)	(874)
<b>Financing and Investment Income and Expenditure</b>		
Net Interest expense	6,934	6,114
<b>Administration expenses</b>	256	316
<b>Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services</b>	<b>30,317</b>	<b>33,578</b>
<b>Remeasurement of the net defined benefit liability comprising:</b>		
• Return on plan assets in excess of interest	(26,728)	53,304
• Actuarial gains and losses arising on changes in demographic assumptions	(45,720)	(13,962)
• Actuarial gains and losses arising on changes in financial assumptions	37,890	(68,643)
• Experience (gain) / loss on defined benefit obligation	0	7,330
• Other actuarial (gains)/losses	0	4,553
<b>Total Remeasurements Recognised in Other Comprehensive Income</b>	<b>(34,558)</b>	<b>(17,418)</b>
<b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(4,241)</b>	<b>16,160</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	30,317	33,578
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
Employers' contributions payable to scheme	12,154	12,126

## Note 36. Defined Benefit Pension Schemes (continued)

### Pensions Assets and Liabilities Recognised in the balance sheet

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

	Local Government Pension Scheme	
	31 March 2019	31 March 2020
	£'000	£'000
Present value of the defined benefit obligation	(801,956)	(753,328)
Fair value of plan assets	546,522	493,019
Sub-total	(255,434)	(260,309)
Present value of unfunded obligation	(5,869)	(5,028)
<b>Net liability arising from defined benefit obligation</b>	<b>(261,303)</b>	<b>(265,337)</b>

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

	Local Government Pension Scheme	
	31 March 2019	31 March 2020
	£'000	£'000
Opening fair value of scheme assets	512,072	546,522
Interest income	12,995	13,011
<b>Remeasurement gain/(loss):</b>		
• The return on plan assets, excluding the amount included in the net interest expense	26,728	(53,304)
• Other actuarial gains/(losses)	0	(4,553)
Administration expenses	(256)	(316)
Contributions from employer including unfunded	12,154	12,126
Contributions from employees into the scheme	3,914	4,036
Benefits paid	(20,980)	(23,605)
Settlement prices received/(paid)	(105)	(898)
<b>Closing fair value of scheme assets</b>	<b>546,522</b>	<b>493,019</b>

Note 36. Defined Benefit Pension Schemes (continued)

Reconciliation of Present Value Scheme Liabilities (Defined Benefit Obligation)

	Funded Liabilities: Local Government Pension Scheme	
	2018/19 £'000	2019/20 £'000
<b>Opening balance at 1 April</b>	<b>789,770</b>	<b>807,825</b>
Current service cost	22,536	23,098
Interest cost	19,929	19,125
Contributions from scheme participants	3,914	4,036
<b>Remeasurement (gains)/losses:</b>		
• Actuarial gains and losses arising on changes in demographic assumptions	(45,720)	(13,962)
• Actuarial gains and losses arising on changes in financial assumptions	37,890	(68,643)
• Experience loss/(gain) on defined benefit obligation	0	7,330
• Other	0	0
Past service cost	0	0
Losses/(gains) on curtailment (where relevant)	0	0
Liabilities extinguished on settlements	(183)	(1,772)
Estimated benefits paid net of transfers in	(20,504)	(23,146)
Past service cost, including curtailments	669	4,924
Unfunded pension payments	(476)	(459)
<b>Closing balance at 31 March</b>	<b>807,825</b>	<b>758,356</b>

## Note 36. Defined Benefit Pension Schemes (continued)

### Local Government Pension Scheme assets comprised:

	Period Ended 31 March 2019				Period Ended 31 March 2020			
	Quoted prices in active markets	Quoted prices not in active markets	Total	Percentage of total asset	Quoted prices in active markets	Quoted prices not in active markets	Total	Percentage of total asset
	£'000	£'000	£'000	%	£'000	£'000	£'000	%
Equities	361,033	0	361,033	66.06%	285,458	0	285,458	57.90%
Fixed Interest Government Securities	3,607	0	3,607	0.66%	3,944	0	3,944	0.80%
Corporate Bonds	49,788	0	49,788	9.11%	64,092	0	64,092	13.00%
Property	0	65,638	65,638	12.01%	0	67,544	67,544	13.70%
Others:								
Cash	0	9,509	9,509	1.74%	0	14,298	14,298	2.90%
Private Equity	0	4,099	4,099	0.75%	0	12,325	12,325	2.50%
Infrastructure	0	(547)	(547)	(0.10%)	0	5,423	5,423	1.10%
Absolute Return Portfolio	43,230	0	43,230	7.91%	41,414	0	41,414	8.40%
Derivatives	0	10,165	10,165	1.86%	0	(1,479)	(1,479)	(0.30%)
<b>Total assets</b>	<b>457,658</b>	<b>88,864</b>	<b>546,522</b>	<b>100.00%</b>	<b>394,908</b>	<b>98,111</b>	<b>493,019</b>	<b>100.00%</b>

The funds Actuaries have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2020 is likely to be different from that shown due to estimation techniques.

### Basis for estimating Assets, liabilities and Assumptions

The principal assumptions used by the actuary have been:

To assess the value of the Employer's liabilities at 31 March 2020, the actuary has rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2019 using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2020 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2020 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumption, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

To calculate the asset share the actuary has rolled forward the assets allocated to the Employer at 31 March 2019 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and our Employees.

Medway Council participates in a pool with other employers in order to share experience of risks they are exposed to in the Fund. At the 2019 valuation, the deficit for the whole pool was calculated and allocated to each employer in proportion to their value of liabilities. The next reallocation will be carried out at the 2022 valuation, should the Employer remain in the pool. Each employer within the pool pays a contribution rate based on the cost of benefits of combined membership of the pool.

As a result of allowing for actual experience, which may be different from that assumed previously, an experience item may be observed in the reconciliation to 31 March 2020.

## Note 36. Defined Benefit Pension Schemes (continued)

### Impact of McCloud/Sargeant judgement

The analysis provided by the Government Actuary Department (GAD) has been used to estimate the possible impact of the McCloud/Sargeant judgement for Medway. The key assumption is the assumed rate of future salary increases which is set out in the Financial assumptions section of this disclosure. The average age of the Employer's membership can be found in the following table:

Member Data Summary	Members	Salaries/ Pensions £'000	Average Age
Actives	3,257	60,531	46
Deferred pensioners	6,699	8,416	46
Pensioners	3,628	16,637	70
Unfunded Pensioners	163	460	81

The Actuary has allowed for the estimated impact of the recent McCloud judgement as a past service cost. They have estimated the impact on the total liabilities as at 31 March 2020 to be £4,566,000 (or 0.6% as a percent of total liabilities).

A summary of the impact assessment is shown below:

GAD estimated the impact on <b>past service liabilities</b> to be 3.2% of active liabilities based on a salary increase assumption of CPI plus 1.5% p.a.	
➔	Adjusting this to reflect the Employer's own salary increase assumption (which is that salaries will increase at 1.0% p.a. above CPI), gives an estimated impact of 2.1% of active liabilities.
➔	Adjusting this to allow for the additional accrual of liabilities since 31 March 2019 and an approximate adjustment to strip out members who joined the Scheme who are unlikely to be affected by the outcome of the judgement gives an estimated impact of 2.0% of active liabilities.
➔	<b>This is equivalent to 0.6% of the Employer's total liabilities at the accounting date</b> (i.e. active liabilities are estimated to be 29% of the Employer's total liabilities at the accounting date).

GAD estimated the impact on the <b>service cost</b> to be 3.0% of payroll based on a salary increase assumption of CPI plus 1.5% p.a.	
➔	Adjusting this to reflect the Employer's own salary increase assumption (as set out above), gives an estimated impact of 2.0% of payroll.
➔	Making an approximate adjustment to strip out members who are unlikely to be affected by the outcome of the judgement gives an estimated impact of 1.0% of payroll.
➔	<b>This is equivalent to 3.1% of the projected service cost.</b>



## Note 36. Defined Benefit Pension Schemes (continued)

### Demographic, Statistical and Financial Assumptions

The actuary has adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2019. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 95% for males and 95% for females. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.5% p.a.

Further assumptions are:

- Members will exchange half of their commutable pension for cash at retirement
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

These assumptions are set with the reference to market conditions at 31 March 2020.

The actuary's estimate of the duration of the Employer's liabilities is 21 years.

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date.

The assumed life expectations from age 65:

Life Expectancy from age 65 (years)	Local Government Pension Scheme	
	31 March 2019	31 March 2020
<b>Mortality assumptions:</b>		
<b>Longevity at 65 for current pensioners</b>		
• Men	22.0	21.8
• Women	24.0	23.7
<b>Longevity at 65 for future pensioners</b>		
• Men	23.7	23.2
• Women	25.8	25.2

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

	Local Government Pension Scheme	
	31 March 2019	31 March 2020
Rate of increase in salaries	3.90%	2.95%
Rate of increase in pensions	2.40%	1.95%
Rate for discounting scheme liabilities	2.40%	2.35%

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% p.a. below RPI i.e. 1.95% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts and the duration of the Employer's liabilities. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue.

## Note 36. Defined Benefit Pension Schemes (continued)

Salaries are assumed to increase at 1% p.a. above CPI in addition to a promotional scale.

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table below. The sensitivity analysis in the following table shows how the present value and projected service cost would change if the values ascribes to various assumptions used in the actuary's calculations were there to be changes upwards or downwards by 0.1% based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

<b>Sensitivity Analysis</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Adjustment to discount rate</b>	<b>0.10%</b>	<b>0.00%</b>	<b>(0.10%)</b>
Present Value of Total obligation	743,252	758,356	773,782
Projected Service Cost	21,205	21,774	22,359
<b>Adjustment to long term salary increase</b>	<b>0.10%</b>	<b>0.00%</b>	<b>(0.10%)</b>
Present Value of Total obligation	759,471	758,356	757,251
Projected Service Cost	21,785	21,774	21,763
<b>Adjustment to pension increases and deferred revaluation</b>	<b>0.10%</b>	<b>0.00%</b>	<b>(0.10%)</b>
Present Value of Total obligation	772,713	758,356	744,284
Projected Service Cost	22,350	21,774	21,213
<b>Adjustment to life expectation assumption</b>	<b>+ 1 Year</b>	<b>None</b>	<b>-1 Year</b>
Present Value of Total obligation	788,122	758,356	729,778
Projected Service Cost	22,443	21,774	21,124

The Authority anticipates that it will pay £11.482m expected contributions to the scheme in 2020/21.

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.

A photograph of a dirt path leading through a dense forest. The path is covered in fallen leaves and leads towards a wooden bench and a signpost. The trees are lush green, and the scene is brightly lit. The text 'Section E6' is overlaid on the right side of the image.

## Section E6

### Notes Supporting the Cash Flow Statement

## 37. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2018/19 £'000	2019/20 £'000
Interest received	(167)	(258)
Interest paid	8,832	9,319
Dividends received	(1,190)	(1,243)

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

	2018/19 £'000	2019/20 £'000
Depreciation	(21,007)	(27,736)
Impairment and downward revaluations	(9,486)	(14,968)
Increase in valuation of investments	2,139	(745)
(Increase) / decrease in creditors	13,720	9,743
Increase / (decrease) in debtors/Impairment for Bad Debts	13,438	(34,140)
Increase / (decrease) in inventories	(39)	5
Movement in pension liability	(18,163)	(21,452)
Contributions (to)/from Provisions	(5,847)	6,404
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(8,078)	(11,628)
Other non-cash items charged to the net surplus or deficit on the provision of services	0	(148)
	<b>(33,323)</b>	<b>(94,665)</b>

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

	2018/19 £'000	2019/20 £'000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,254	4,903
Any other items for which the cash effects are investing or financing cash flows	0	28,866
	<b>2,254</b>	<b>33,768</b>

## 38. Cash Flow Statement - Investing Activities

	2018/19 £'000	2019/20 £'000
Purchase of property, plant and equipment, investment property and intangible	36,655	73,635
Purchase of short-term and long-term investments	6,922	37,894
Proceeds from the sale of Property, Plant and Equipment, Investment Property	(2,254)	(4,903)
Proceeds from short-term and long-term investments	(5,000)	(48,000)
Other receipts from investing activities	0	(28,866)
<b>Net cash flows from investing activities</b>	<b>36,323</b>	<b>29,760</b>

## 39. Cash Flow Statement - Financing Activities

	2018/19 £'000	2019/20 £'000
Cash receipts of short- and long-term borrowing	(40,573)	(108,123)
Other receipts from financing activities	0	0
Cash payments for the reduction of outstanding liabilities relating to finance leases	0	0
Repayments of short- and long-term borrowing	27,284	62,719
Other payments for financing activities	0	0
<b>Net cash flows from financing activities</b>	<b>(13,289)</b>	<b>(45,405)</b>

## 40. Record of Liabilities from Financing Activities

	01 April 2019 £'000	Financing cash flows £'000	Non-cash changes		31 March 2020 £'000
			Acquisition £'000	Other non-cash changes £'000	
Long-term borrowings	211,861	58,331			270,192
Short-term borrowings	41,656	(12,927)			28,729
• Lease liabilities	63	0	0	(34)	29
<b>Total liabilities from financing activities</b>	<b>253,580</b>	<b>45,405</b>	<b>0</b>	<b>(34)</b>	<b>298,951</b>

The lease liabilities value was shown £'s rather than £'000s in line with the remainder of the statements, and therefore this has been restated for comparison with the 2019/20 figures (right):

Restated	01 April 2018 £'000	Financing cash flows £'000	Non-cash changes		31 March 2019 £'000
			Acquisition £'000	Other non-cash changes £'000	
Long-term borrowings	171,288	40,573			211,861
Short-term borrowings	68,941	(27,285)			41,656
• Lease liabilities	63	0	0	0	63
<b>Total liabilities from financing activities</b>	<b>240,292</b>	<b>13,288</b>	<b>0</b>	<b>0</b>	<b>253,580</b>



**Section E7**

**Other Notes**

## Note 41. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

### Central Government

Central government has significant influence over the general operations of the Authority—it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 11.

### Members

Members of the council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2019/20 is shown in Note 13.

The Authority holds a statutory register of members' declarations covering employment, sponsorship, property and land holdings, contracts with the Authority etc. Members and senior officers declare any pecuniary interest in committee items prior to their debate. The Authority 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 Authority has introduced a Code of Conduct agreeing guidelines for good working practice between members and officers.

Sunlight Development Trust is a community owned organisation that works with partners across all Sectors. Its overriding aim is to improve health, inequality and well-being. One member is Chair of the Trustees. The Authority made payments to the Trust amounting to £100k during 2019/20 (2018/19 £62k).

A family member of a newly appointed Councillor runs a business with which the Council had transactions of £57k in 2019/20 of which £6k was outstanding as at 31 March 2020.

A Councillor is the CEO of Medway District CAB. During 2019/20 the Council made payments of £219k with Medway District CAB (18/19 £0k).

### Officers

The Chief Executive is a Council member of The University of Kent Governing Body. Transactions of £24k were made by the University to the Council in 2019/20 (£16k in 2018/19) of which £13k was outstanding at 31 March 2020 (£0 18/19). Payments to the University from the Council totalled £31k in 2019/20 (£47k in 2018/19. At 31 March 2020 the University was owed nothing by the Council (31 March 2019 £27k).

The Chief Executive is also a Governor of Mid Kent College. Payments were made to Mid Kent College of £231k during 2019/20 (£165k in 2018/19). Mid Kent College made payments to the Council of £3k in 2019/20 (£7k in 2018/19) of which £3k was outstanding at 31 March 2020 (£0k as at 31 March 2019).

### Other Public Bodies [subject to common control by central government]

The Authority operate a number of joint funding initiatives with Medway Clinical Commissioning Group as detailed in Note 12.

The Authority receives grant income from various government departments as detailed in Note 17.

### Entities controlled or significantly influenced by the Authority

The Council has a 20% equity share in the Medway Norse Ltd, a joint venture with Norse Commercial Services Ltd. The company provides catering, cleaning and facilities management services, grounds and greenspaces management and waste management services, and also manages the three household waste recycling centres. From October 2019 the company has provided waste collection and street cleansing activities. The company's accounts are consolidated into the statements of Norse Commercial Services Limited, which is consolidated into the statements of Norfolk County Council.

The Council also has a 20% equity share in Medway Norse Transport Ltd, a joint venture with Norse Commercial Services Ltd. The company provides Special Educational Needs Transport services, community transport and vehicle maintenance services to the Authority. The company's accounts are consolidated into the statements of Norse Commercial Services Limited, which is consolidated into the statements of Norfolk County Council.

Services supplied to the Medway Council through the Medway Norse Ltd and Medway Norse Transport Ltd companies are included in the Medway Council's cost of services within the statements.

## Note 41. Related Parties (continued)

Medway Council appoints 2 directors to the Boards of Medway Norse and Medway Norse Transport. The Council made payments of £20.553m to Medway Norse/Medway Norse Transport in 2019/20 (£13.362m 2018/19) and owed them £3.877m as at 31 March 2020 (£1.697m as at 31 March 2019). The total value of transactions to the Council from these companies was £0.335m in 2019/20 (£0.297m in 2018/19) and owed £0.009m as at 31 March 2020 (31 March 2019: £0).

Medway Council currently has two subsidiary companies; Medway Commercial Group Limited (MCG) and Medway Development Company Limited (MDC). As at 31 March 2020, two of the four Directors on the Board of MCG were appointed by Medway Council; both elected Cabinet Members. Medway Council's Chief Legal Officer is also a member of the MCG board as the Council's Corporate Client. As at the same date, two of the four Directors on the Board of MDC were elected Cabinet Members of Medway Council.

MCG has two subsidiary companies; Medway Commercial Services (MCS) established to trade with the private sector and Medway Public Services (MPS) to trade with the public sector.

The group provides: CCTV; Telecare; Out of Hours and lone worker solutions; Education Traded Services with schools including cleaning and catering, energy and ICT services and Recruitment Services to provide temporary, contract and interim staffing for Medway Council. The balance on loans given to MCG as at 31 March 2020 amount to £350k (£350k in 2018/19).

The Council made payments of £10.520m to MCG in relation to MPS in 2019/20 (£11.977m in 2018/19) and owed them £516k as at 31 March 2020 (£230k as at 31 March 2019). The total value of transactions to the Council from MCG was £0.925m in 2019/20 (£1.237m in 2018/19) and they owed £4.115m as at 31 March 2020 (£3.801m as at 31 March 2019).

MDC was established to provide consultancy, predominantly to the Council, to turn land assets into viable residential schemes delivering regeneration and investment returns. The Council has agreed £120million of investment over the first five years of the company with fourteen sites identified. The balance on loans given to MDC as at 31 March 2020 amount to £27k (£27k in 2018/19).

The Council made payments of £193k to MDC in 2019/20 (£44k in 2018/19). MDC made purchases from the Council of £35k during 2019/20 (£6k in 2018/19) of which (£31k was owing as at 31 March 2020 (£3k as at 31 March 2019).



## Note 42. Contingent Liabilities

### Accounting Policy - Contingent Liabilities

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

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

During 2019/20 (June 2019) Judicial Review against the Council re a SEN case was successful and the Authority is in the process of settling the legal costs. This has been referred to a costs draftsman for settlement.

NHS Stroke case – Appeal to the Court of Appeal. If the Authority lose the appeal, and the Authority will be ordered to pay costs.

Gillingham Football Club have issued a High Court claim against the Council.

Medway Council was successful in acquiring provisional approval for four new free schools including the Maritime Academy operated by The Thinking Schools Academy Trust (TSAT). The DFE fund the land purchase as well as the capital investment in the school for new free schools. A suitable site was identified and a purchase price negotiated, however the site title has an 'overage' provision which would be triggered by an onward sale of the land for residential use at any point until 2043 when the condition falls away. Upon the transfer of the land for residential purposes during that time the overage is triggered with the sum payable equal to 10% of the intended unit sales.

In March 2019 the Cabinet approved the underwriting of the overage held against the land to enable the purchase, and the delivery of the free school to go ahead. As such, should the land be sold for residential purposes by the DFE up until 2033, the local authority would be liable to cover the overage determined by land values at that time. This level of liability could increase or reduce dependent upon the land values at the time. However, this is a very small risk as the school is required to meet known and expected future demand beyond 2033. The new school will enjoy a 125 year lease on the land, showing the commitment of the DFE to the school, and it is not the intention of the Secretary of State to dispose of the property, especially within the next 14 years.

## Note 43. Contingent Assets

### Accounting Policy - Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

The Authority has a potential dispute over a contract retention re fire doors installed in HRA properties which the Authority consider do not pass the required fire safety tests but this has not yet progressed to litigation, however negotiations are ongoing.

## Note 44. Events after Reporting Period

### Accounting Policy - Events after the Reporting Period

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

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

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

Medway Commercial Group Limited, a subsidiary of the Council changed its name to Kyndi Limited with effect from 28 February 2021.

The Council provided Kyndi Limited with a loan in March 2021 of £2.5m to be repaid within 10 years. The purpose of this loan was to enable Kyndi Limited to restructure its finances and repay outstanding debtors.

Kyndi Limited has now repaid Medway Council for services owed of £4.1m in March 2021

## Note 45. Prior Period Adjustments

### Accounting Policy - Prior Period Adjustments, Changes in Accounting Policy and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates will be accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior year period as if the new policy had always been applied.

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

There are no material prior period adjustments affecting the period ending 31 March 2020.



## Section F

### Supplementary Financial Statements

# Housing Revenue Account

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

Paralleling the treatment for the Council's wider operations, the transactions relating to the HRA have been separated into two statements:

- the HRA Income and Expenditure Statement
- the Movement on the HRA Statement

As the Movement on the HRA Statement incorporates the surplus or deficit on the HRA Income and Expenditure Statement, it effectively meets the statutory requirement to include the HRA as a single statement in the Statement of Accounts. The net movement will reconcile to the statutory outturn for the HRA, even though some of the gross transactions posted to the two statements will not have been specified in the statutory arrangements.

## Income and Expenditure Statement

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

2018/19 £'000		HRA Notes	2019/20 £'000
	<b>Expenditure</b>		
3,163	Repairs & maintenance		2,892
3,736	Supervision and management		3,403
158	Rents, rates, taxes and other charges		167
1,319	Depreciation, impairment and revaluation movements of non-current assets	3	10,066
169	Revenue Expenditure Funded from Capital Under Statute	4	73
73	Debt management costs		63
57	Movement in the allowance for bad debts	6	88
<b>8,675</b>	<b>Total Expenditure</b>		<b>16,752</b>
	<b>Income</b>		
(12,739)	Dwelling rents		(12,775)
(193)	Non-dwelling rents		(215)
(1,359)	Charges for services and facilities		(1,248)
(14)	Contributions towards expenditure		(29)
(37)	Reimbursement of Costs		(72)
<b>(14,342)</b>	<b>Total Income</b>		<b>(14,339)</b>
<b>(5,666)</b>	<b>Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>		<b>2,413</b>
99	HRA services share of Corporate and Democratic Core		99
10	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services		0
<b>(5,558)</b>	<b>Net Expenditure/(Income) for Housing Revenue Account Services</b>		<b>2,512</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</b>		
(505)	(Gain) or loss on sale of HRA non-current assets		(745)
2,063	Interest payable and similar charges		2,063
(57)	Interest and investment income		(68)
113	Net interest on the net defined benefit liability (asset)		159
<b>(3,943)</b>	<b>Deficit/(Surplus) for the year on Housing Revenue Account Services</b>		<b>3,921</b>

## Housing Revenue Account (continued)

### Movement on the Housing Revenue Account Statement

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

2018/19 £'000		2019/20 £'000
(4,911)	<b>Balance on the HRA at the end of the previous reporting period</b>	(5,114)
(3,943)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	3,921
2,551	Adjustments between accounting basis and funding basis under statute (HRA Note 1)	(4,508)
<b>(1,392)</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>	<b>(587)</b>
1,188	Transfers to or (from) Earmarked HRA reserves	(220)
0	Transfers to or (from) GF reserves	0
<b>(204)</b>	<b>(Increase) or decrease in year on the HRA</b>	<b>(807)</b>
0	Contribution towards Capital from Reserves	627
<b>(5,115)</b>	<b>Balance on the HRA at the end of the current reporting period</b>	<b>(5,294)</b>

# Notes to the Housing Revenue Account

## 1 Adjustments between Accounting Basis and Funding Basis under Statute

2018/19 £'000		2019/20 £'000
<b>Adjustments primarily affecting the Capital Adjustment Account:</b>		
(3,680)	Charges for depreciation and impairment of non-current assets	(3,724)
2,362	Revaluation movements on Property, Plant and Equipment	(6,342)
(169)	Revenue Expenditure Funded from Capital Under Statute	(73)
(699)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,040)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
158	Capital Expenditure charged Against HRA Balances	1,493
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>		
1,204	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,785
<b>Adjustments primarily involving the Major Repairs Reserve:</b>		
3,680	Transfer from HRA to the Major Repairs Reserve	3,724
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>		
(10)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0
<b>Adjustments primarily involving the Pensions Reserve:</b>		
(492)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(521)
199	Employer's pension contributions and direct payments to pensioners payable in the year	190
<b>Adjustments primarily involving the Accumulated Absences Account:</b>		
(1)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0
<b>2,551</b>	<b>Total Adjustments</b>	<b>(4,508)</b>



## Notes to the Housing Revenue Account (continued)

### 2 Stock

#### Rentable Dwelling Stock

The Council managed 2,292 rentable dwellings as at 31 March 2020. The movement in stock is analysed as follows:

Stock Type	1 April 2019	Adjustments	Additions	Disposals	31 March 2020
Houses	1,259	0	0	(10)	1,249
Flats	1,250	(3)	1	(7)	1,241
Maisonettes	213	0	0	0	213
Bungalows	283	0	6	0	289
<b>Total</b>	<b>3,005</b>	<b>(3)</b>	<b>7</b>	<b>(17)</b>	<b>2,992</b>

#### Non-Rentable Dwelling Stock

The Council owned one non-rentable dwelling as at 31 March 2020.

Stock Type	1 April 2019	Adjustments	Additions	Disposals	31 March 2020
Flats	1	0	0	0	1
<b>Total</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

#### Non-Dwelling Stock

The Council owned 864 non dwellings as at 31 March 2020. The movement in stock is analysed as follows:

Stock Type	1 April	Adjustments	Additions	Disposals	31 March
Garages	381	0	0	0	381
Garages with water	184	0	1	0	185
Carports	78	0	0	0	78
Carspaces	194	0	0	0	194
Underground carspaces	26	0	0	0	26
Commercial Property	0	0	0	0	0
<b>Total</b>	<b>863</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>864</b>

## Notes to the Housing Revenue Account (continued)

### 3 Non-Current Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Balance Sheet. The vacant possession value at 1 April 2019 was £506.3m. The 'discounted' existing use value reflects the economic cost to government of providing council housing at less than market rents.

	Dwellings £'000	Other Land and Buildings £'000	Assets Under Construction £'000	Total £'000
<b>Movements on Balances 2019/20</b>				
Cost or valuation 1 April 2019	167,074	3,934	169	171,176
Assets Under Construction brought into use	1,000	0	(1,000)	0
Additions	4,446	17	1,067	5,529
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(713)	(15)	0	(728)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(9,343)	(1)	0	(9,344)
Derecognition – disposals	(1,061)	0	0	(1,061)
Other movements in cost or valuation	0	(2)	0	(2)
<b>Cost or valuation as at 31 March 2020</b>	<b>161,402</b>	<b>3,931</b>	<b>236</b>	<b>165,570</b>
Depreciation as at 1 April 2019	0	(3)	0	(3)
Depreciation charge	(3,449)	(275)	0	(3,724)
Depreciation written out to the Revaluation Reserve	437	263	0	700
Depreciation written out to the Surplus//Deficit on the Provision of Services	2,991	11	0	3,002
Derecognition – disposals	21	0	0	21
<b>Depreciation as at 31 March 2020</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4)</b>
<b>Net Book Value</b>				
As at 31 March 2019	167,074	3,931	169	171,173
As at 31 March 2020	161,402	3,931	236	165,570

## Notes to the Housing Revenue Account (continued)

	Dwellings £'000	Other Land and Buildings £'000	Assets Under Construction £'000	Total £'000
<b>Movements on Balances 2018/19</b>				
Cost or Valuation 1 April 2018	164,877	3,933	0	168,810
Additions	3,403	30	169	3,602
Revaluation increases/(decreases) recognised in the Revaluation Reserve	250	(29)	0	221
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(745)	0	0	(745)
Derecognition – disposals	(713)	0	0	(713)
Other movements in cost or valuation	2	0	0	2
<b>Cost or valuation as at 31 March 2019</b>	<b>167,074</b>	<b>3,934</b>	<b>169</b>	<b>171,177</b>
Depreciation as at 1 April 2018	1	(2)	0	(1)
Depreciation charge	(3,405)	(275)	0	(3,680)
Depreciation written out to the Revaluation Reserve	296	264	0	560
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,095	12	0	3,107
Derecognition – disposals	14	0	0	14
Other movements in depreciation and impairment	(1)	(2)	0	(3)
<b>Depreciation as at 31 March 2019</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>(3)</b>
<b>Net Book Value</b>				
As at 31 March 2018	164,878	3,931	0	168,809
As at 31 March 2019	167,074	3,931	169	171,174

## Notes to the Housing Revenue Account (continued)

### 4 Analysis of Capital Expenditure and Funding

	2018/19 £'000	2019/20 £'000
<b>Capital Expenditure</b>		
Dwellings	3,404	5,280
Other Land and Buildings	29	12
Assets under Construction	169	236
Revenue Expenditure Funded from Capital under Statute	169	73
<b>Total</b>	<b>3,771</b>	<b>5,602</b>
<b>Funded by:</b>		
Major Repairs Reserve	3,589	3,824
Transfer from 1-4-1 Capital Receipts Reserves	25	244
Buy Back Allowance	0	41
Revenue contributions from the HRA	158	1,493
<b>Total Funding</b>	<b>3,771</b>	<b>5,602</b>

The Revenue Expenditure Funded from Capital under Statute relates to:

	2018/19 £'000	2019/20 £'000
<b>Expenditure type:</b>		
Non HRA Properties/Leaseholders Expenditure	169	73
<b>Total</b>	<b>169</b>	<b>73</b>

## Notes to the Housing Revenue Account (continued)

### 5 Summary of HRA Capital Receipts

	2018/19 £'000	2019/20 £'000
Receipts from the sale of land	(20)	(12)
Repayment of discount	(21)	0
Receipts from disposals of houses through the Right To Buy scheme	(1,199)	(1,835)
<b>Total Capital Receipts</b>	<b>(1,240)</b>	<b>(1,847)</b>

### 6 Tenant's Arrears

Tenants' Arrears at 27 March 2020 (28 March 2019 for 2018/19) were analysed as follows:

Type of Debt	2018/19 £'000	2019/20 £'000
General Stock	165	184
Garages	0	1
Former Tenancies – General Stock	269	232
Former Tenancies - Garages	0	0
Court Costs – General Stock	51	48
Former Tenancy Arrears of Current Tenants – General	40	33
Rechargeable Repairs	62	53
<b>Total Arrears</b>	<b>587</b>	<b>551</b>
<b>Percentage of Gross Rents (HRA)</b>	<b>4.17%</b>	<b>4.09%</b>

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

	2018/19 £'000	2019/20 £'000
<b>Opening Balance</b>	<b>522</b>	<b>473</b>
Additional Provision made during year	57	88
Add Credit write-offs	2	4
Less amounts written off	(108)	(118)
<b>Closing Balance</b>	<b>473</b>	<b>447</b>

# The Collection Fund Statement

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

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

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

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

Year Ended 31 March 2019				Collection Fund Notes	Year Ended 31 March 2020		
Business Rates £'000	Council Tax £'000	Total £'000			Business Rates £'000	Council Tax £'000	Total £'000
			<b>Amounts required by statute to be credited to the Collection Fund</b>				
	(138,161)	(138,161)	Council Tax	<u>1</u>		(146,186)	(146,186)
(89,808)		(89,808)	Non-Domestic Rates	<u>2</u>	(95,621)		(95,621)
<b>(89,808)</b>	<b>(138,161)</b>	<b>(227,969)</b>	<b>Total Amount required by statute to be credited to the Collection Fund</b>		<b>(95,621)</b>	<b>(146,186)</b>	<b>(241,807)</b>
			<b>Amounts required by statute to be debited to the Collection Fund</b>				
			<u>Precepts and demands from major preceptors and the Authority</u>				
85,722	115,118	200,840	- Medway Council		44,015	120,130	164,145
	14,113	14,113	- Police and Crime Commissioner for Kent (PCKK)			16,328	16,328
866	6,300	7,166	- Kent Fire and Rescue Service (KFRS)		898	6,573	7,471
			Payment with respect to central share (including allowable deductions) of the non-domestic rating income to be paid to central government by billing authorities				
			<u>Business rates:</u>				
0		0	- payment to Central Government		44,914		44,914
269		269	- costs of collection		267		267
23			Enterprise zone growth disregard				
0		0	Renewable energy		238		238
1,621		1,621	- transitional protection		5,314		5,314
			<u>Impairment of debts/appeals</u>	<u>3</u>			
0	0	0	- write-offs of uncollectable amounts		0	25	25
610	(61)	549	- allowance for impairment		915		915
(1,207)		(1,207)	- increase/decrease in provision for appeals		(1,260)		(1,260)
(2,228)	1,416	(812)	Transfer of Collection Fund surplus/(deficit)		(2,873)	1,838	(1,035)
<b>85,676</b>	<b>136,886</b>	<b>222,539</b>	<b>Total Amount required by statute to be debited to the Collection Fund</b>		<b>92,428</b>	<b>144,894</b>	<b>237,322</b>
			-				
8,081	(2,472)	5,609	Opening fund balance		3,949	(3,747)	202
3,949	(3,747)	179	Closing Fund Balance		756	(5,039)	(4,283)
(4,132)	(1,275)	(5,430)	Movement on fund balance		(3,193)	(1,292)	(4,485)
			<b>Allocation of Closing Deficit/(Surplus)</b>				
983	(3,130)	(2,147)	Medway Council		908	(4,232)	(3,324)
	(446)	(446)	Police and Crime Commissioner for Kent			(577)	(577)
40	(171)	(131)	Kent Fire and Rescue Service		7	(230)	(223)
2,926		2,926	Central Government		(159)		(159)
<b>3,949</b>	<b>(3,747)</b>	<b>202</b>			<b>756</b>	<b>(5,039)</b>	<b>(4,283)</b>

# Notes to the Collection Fund Account

## 1 Council Tax

Council Tax derives from charges raised according to the value of residual properties, which have been classified in 8 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and major preceptors for the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of band D dwellings).

The Council Tax Base for 2019/20 was £84,533.23 (£83,435.21 in 2018/19). The tax base for 2019/20 was approved by the Portfolio Holder for Finance on 14 January 2019 and was calculated as follows:

Band	Chargeable Dwellings	Ratio 9ths	Band D Equivalent Gross	Exemptions & Discounts	Band D Equivalent Net
A	11,229	6	7,486	1,356	6,120.93
B	38,262	7	29,759	3,179	26,580.34
C	33,774	8	30,021	2,623	27,397.87
D	17,558	9	17,558	1,147	16,411.10
E	9,016	11	11,020	734	10,285.89
F	3,915	13	5,655	273	5,382.36
G	1,409	15	2,348	105	2,243.67
H	65	18	130	54	75.80
<b>Total</b>	<b>115,228</b>		<b>103,977</b>	<b>9,471</b>	<b>94,497.96</b>
Council Tax Support					(8,186.46)
Sub Total					86,311.50
Allowance for Non Collection (2.4%)					(2,071.49)
Sub Total					84,240.01
Crown Contribution					293.22
<b>Tax Base for the Calculation of Council Tax 2019/20</b>					<b>84,533.23</b>
<b>Tax Base for the Calculation of Council Tax 2018/19</b>					<b>83,435.21</b>



### 2 Income from Business Rates

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

Business rate income is shared between the Council, Central Government and Kent Fire and Rescue Service. In the case of Medway the local share is 49%, Central Government 50% and Kent Fire and Rescue service 1%.

In 2018/19 Medway was part of a 100% business rate pilot and part of a pooling arrangement with other councils in Kent. Medway's share of business rates increased to 99%, with 1% being due to Kent Fire and rescue Service. The arrangement terminated on 31 March 2019.

The total income from business rate payers collected in 2019/20 was £95.6m (£89.8m 2018/19)

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and hence business rates outstanding as at 31 March 2020. As such, authorities are required to make provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. The reduction in provision charged to the collection fund for 2019/20 was £1.26m (£1.2m 2018/19).

For 2019/20, the total non-domestic rateable value at the year-end is £230.4m (£231.8m in 2018/19). The national multipliers for 2019/20 were 49.1p for qualifying Small Business, and the standard multiplier being 50.4p for all other businesses (48.0p and 49.3p respectively in 2018/19).

## Notes to the Collection Fund Account (continued)

### 3 Impairment of Debts/Appeals

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

2018/19 £000s			2019/20 £000s	
Collection	Medway Share		Collection	Medway Share
3,978	3,378	Balance at 1 April	3,211	2,697
(706)	(627)	Write-offs during year	(695)	(585)
(61)	(54)	Contributions to provisions during year	24	20
<b>(767)</b>	<b>(681)</b>	<b>Net Increase/(decrease) in Provisions</b>	<b>(671)</b>	<b>(565)</b>
<b>3,211</b>	<b>2,697</b>	<b>Balance at 31 March</b>	<b>2,540</b>	<b>2,132</b>

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

2018/19 £000s			2019/20 £000s	
Collection Fund	Medway Share		Collection Fund	Medway Share
3,937	1,930	Balance at 1 April	2,418	2,394
0	1,968	Amendment due to Pooling	0	(1,199)
(2,128)	(2,107)	Write-offs during year	(679)	(342)
609	603	Contributions to provisions during year	915	448
<b>(1,519)</b>	<b>464</b>	<b>Net Increase/decrease in Provisions</b>	<b>236</b>	<b>(1,093)</b>
<b>2,418</b>	<b>2,394</b>	<b>Balance at 31 March</b>	<b>2,654</b>	<b>1,301</b>

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2020. This is the seventh year of the provision.

2018/19 £000s			2019/20 £000s	
Collection	Medway Share		Collection	Medway Share
14,367	7,040	Balance at 1 April	13,160	13,028
0	7,182	Amendment due to Pooling	0	(6,580)
4,248	4,206	Contributions to provisions during year	264	129
(5,455)	(5,400)	Provisions utilised during the year	(1,524)	(746)
<b>(1,207)</b>	<b>5,988</b>	<b>Net Increase/(decrease) in Provisions</b>	<b>(1,260)</b>	<b>(7,197)</b>
<b>13,160</b>	<b>13,028</b>	<b>Balance at 31 March</b>	<b>11,900</b>	<b>5,831</b>

A nighttime photograph of Gillingham, Kent, showing the city lights and the prominent Gillingham War Memorial in the foreground. The memorial is a tall, white, columnar structure with a decorative top. The city lights are visible in the background, and the sky is dark.

## Section G

# Glossary

## GLOSSARY OF TERMS

### ACCRUAL

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

### ACTUARIAL GAINS & LOSSES

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

### AGENCY

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

### AMORTISATION

The process of recognising the consumption of intangible assets in the Cost of Services on a systematic basis. Typically, this is done by dividing the gross cost of the asset over its useful life on a straight-line basis.

### APPOINTED AUDITORS

Grant Thornton is Medway Council's appointed Auditor.

### ASSET

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

### ASSETS UNDER CONSTRUCTION

A class of property, plant and equipment asset held at historical cost and typically representing the cost of works to date on incomplete capital projects.

### AUDIT OF ACCOUNTS

An independent examination of the Authority's financial affairs.

### AUTHORISED LIMIT

The maximum amount of external debt the Authority can owe to external lenders under the Local Government Act 2003.

### BUDGET

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

### CAPITAL ADJUSTMENT ACCOUNT

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

### CAPITAL EXPENDITURE

Expenditure to acquire or enhance long-term assets.

### CAPITAL FINANCING

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

### CAPITAL PROGRAMME

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

### CAPITAL RECEIPT

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

### CHARTERED INSTITUTE OF PUBLIC FINANCE & ACCOUNTANCY (CIPFA)

The professional accountancy body specialising in the public sector.

### CHURCHES, CHARITIES AND LOCAL AUTHORITIES (CCLA)

The Authority holds units in a property fund, managed by this organisation.

### COLLECTION FUND

A separate fund for the collection and distribution of amounts due in respect of Council Tax and Non-Domestic Rates (NDR).

## Glossary of Terms (continued)

### COMMUNITY ASSETS

Assets that the Authority 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.

### COMPONENTISATION

The process of analysing an asset into significant component parts where those components have different useful lives. This is required whenever the resultant depreciation charges and their impact on asset carrying amounts would make a material difference to the accounts.

### 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.

### CONSTRUCTION CONTRACT

A construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Construction contracts include contracts for the rendering of services which are directly related to the construction of an asset (for example those for the services of project managers and architects), contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

### CONTINGENT ASSET

A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority.

### CONTINGENT LIABILITY

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

### CREDITOR

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

### CURRENT SERVICE COST

A system of measurement to reflect the increase in the present value of a defined benefit obligation resulting from employee service in the current period.

### CURRENT VALUE

Measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date. In this section of the Code, the current value measurement bases include:

- existing use value
- existing use value – social housing (EUV–SH)
- depreciated replacement cost
- fair value

### DEBTOR

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

### DEFINED BENEFIT SCHEME

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

### DEFINED CONTRIBUTION SCHEME

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

### DEPRECIABLE AMOUNT

Depreciable amount is the cost of an asset, or other amount substituted for cost, less residual value.

### DEPRECIATED REPLACEMENT COST (DRC)

A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology, authorities should use the 'instant build' approach at the valuation date and the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.

### DEPRECIATION

Is the systematic allocation of the depreciable amount of an asset over its useful life.

### DERECOGNITION

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

### DISCOUNTS

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

### EARMARKED RESERVES

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

### EMPLOYEE EXPENDITURE

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

### EXCEPTIONAL ITEMS

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

### EXISTING USE VALUE (EUV)

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

### EXISTING USE VALUE – SOCIAL HOUSING (EUV – SH)

The estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arm's-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following further assumptions that:

- the property will continue to be let by a body and used for social housing

- at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements
- properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession
- any subsequent sale would be subject to all of the above assumptions.

### EXTERNAL AUDIT

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

### EXPENDITURE

This is amounts paid by the Authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if payment has not been made. (in which case the payee is a creditor to the Authority).

### FAIR VALUE

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

## Glossary of Terms (continued)

### FINANCIAL INSTRUMENTS

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

### FINANCE LEASE

Is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

### GENERAL FUND

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

### GOVERNMENT GRANTS

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

### GROUP ACCOUNTS

Group Accounts consolidate the financial results of the Authority, any of its subsidiaries and/or associates. The Authority is not required to produce these or group accounts for the 2019/20 Statement of Accounts, due to materiality

### HERITAGE ASSET

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

### HISTORICAL COST (HC)

is defined as:

- **Assets:** the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid plus transaction costs.
- **Liabilities:** the value of the consideration received to incur or take on the liability minus transaction costs.

The historical cost of an asset may be updated over time to reflect depreciation or amortisation, payments received that settle an obligation owed to the authority, impairment and accrual of interest. The historical cost of a liability may be updated over time to reflect settlement of an obligation owed to a third party, the accrual of interest, or events that have the effect of making the liability onerous.

### HOUSING BENEFITS

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

### HOUSING REVENUE ACCOUNT (HRA)

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

### IMPAIRMENT OF NON CURRENT ASSETS

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

### INCOME

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

### INFRASTRUCTURE ASSETS

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

### INTANGIBLE ASSETS

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

### INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

## Glossary of Terms (continued)

### INVESTMENT PROPERTIES

Properties (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for either the use in the production or supply of goods/services/administrative purposes, or sale in the ordinary course of operations.

### JOINT VENTURE

Arrangements under which two or more parties have contractually agreed to share control, such that decisions about activities that significantly affect returns require the unanimous consent of the parties sharing control, and joint venturers have rights to the net assets of the arrangement.

### LEASE

An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

- Finance leases, and
- Operating leases

### LEASING COSTS

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

### LENDER OPTION BORROWER OPTION (LOBO)

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

### LIABILITIES

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

### LONG TERM CREDITORS

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

### LONG TERM DEBTORS

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

### MATERIALITY

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

### MEDIUM TERM FINANCIAL STRATEGY (MTFS)

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

### MINIMUM REVENUE PROVISION (MRP)

MRP is the minimum amount which must be charged to an Authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government Act 2003.

### NON-CURRENT ASSETS

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

### NON-DOMESTIC RATE (NDR or BUSINESS RATES)

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

### NET BOOK VALUE (NBV)

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

### NET DEBT

Net debt is the Authority's borrowings less cash and treasury investments.

### NET OPERATING EXPENDITURE

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

### NON-OPERATIONAL ASSETS

Non-current assets held by the Authority, but not directly occupied or used in the delivery of services. Examples are investment properties, or assets that are surplus to requirements, pending sale or redevelopment.



## Glossary of Terms (continued)

### NET REALISABLE VALUE (NRV)

NRV is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

### OPERATING LEASE

Is a lease other than a finance lease.

### OPERATIONAL ASSETS

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

### PAST SERVICE COST

The change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the Authority in the number of employees covered by a plan), and any gain or loss on settlement.

### PRECEPT

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

### PREMIUMS

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

### PRIOR PERIOD ADJUSTMENTS

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

### PROPERTY, PLANT AND EQUIPMENT

Tangible non-current assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

### 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.

### PRUDENTIAL BORROWING

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

### PUBLIC WORKS LOAN BOARD (PWL B)

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

### RATEABLE VALUE

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

### RELATED PARTIES

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

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

### RELATED PARTY TRANSACTIONS

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

### REPORTING STANDARDS

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

## Glossary of Terms (continued)

### RESERVES

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

### REVALUATION RESERVE

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

### REVENUE EXPENDITURE

The day-to-day expenses of providing services.

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

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

### REVENUE SUPPORT GRANT (RSG)

The main non-ringfenced grant from Central Government to the Authority to support revenue budgets.

### SUBSIDIARIES

Entities that the authority controls if and only if it has all three of the following:

- power over the entity
- exposure, or rights, to variable returns from its involvement with entity, and
- the ability to use its power over the entity to affect the amount of the authority's returns

### SURPLUS ASSET

A class of property, plant and equipment assets which are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or assets held for sale. Surplus assets are valued at existing use value in their previous use and are subject to depreciation.

### THE CODE (CIPFA ACCOUNTING CODE OF PRACTICE)

The Code incorporates guidance based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code constitutes a 'proper accounting practice' under the terms of Section 21(2) of the Local Government Act 2003.

*NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.*

### TREASURY MANAGEMENT

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

### TREASURY MANAGEMENT STRATEGY

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