Medway Council
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AUDIT COMMITTEE

5 JULY 2011

STATEMENT OF ACCOUNTS 2010/2011

Report from: Mick Hayward, Chief Finance Officer

Author: Peter Bown, Accounting Manager

Summary

This report presents the 2010/2011 Statement of Accounts for approval. The Cabinet is considering this report prior to this meeting and update will be made at the meeting.

1. Budget and Policy Framework

1.1 The terms of reference of this committee include approval of the Statement of Accounts. In the first instance they are presented to Cabinet, as the body charged with the executive management of the council's budget, to make comment and recommend approval by the Audit Committee.

1.2 The Statement of Accounts needs to be certified by the Chief Finance Officer by 30 June each year. Over the weekend Barnett Waddingham, the Council's pension fund actuaries, submitted a revised valuation of the pension fund resulting in a favourable movement of some £4 million. The principal financial statements and accompanying notes have been updated to reflect this change. This report needs to be considered as a matter of urgency to ensure Members are advised of the latest position, ahead of the submission of the audited accounts in September 2011.

2. Background

2.1 Local authorities are required under the Accounts and Audit Regulations 2003 (as amended) (the Regulations) to produce an annual statement of accounts that is subject to scrutiny by the external auditors. The auditor will give an opinion on the accounts and additionally interested persons have the right to inspect the accounts and make representations to the auditor. PKF are the auditors responsible for the audit of accounts that must be published by 30 September 2011. The Regulations now give authority to the 'responsible finance officer' to certify these by 30 June, however, good practice suggests that they are formally presented to the authority as soon as practicable after completion.

3. Statement of accounts

3.1 These documents are subject to detailed requirements as to content and style mainly prescribed by the Code of Practice on Local Authority Accounting (the Code) and the Best Value Accounting Code of Practice (BVACOP).

3.2 The 2010 Code and subsequent regulations have introduced a number of changes to the accounts following the introduction of International Financial Reporting Standards (IFRS). The major implications of the changes have previously been reported to Members and, subject to review by the external auditors, it is considered that the 2010/2011 accounts are IFRS compliant.

3.3 In accordance with proper accounting practice, the statement of accounts includes the following elements which are subject to scrutiny by the appointed auditor:

- An explanatory introduction and statement by the Chief Financial Officer;
- A statement of responsibilities which outlines responsibility for efficiently managing the affairs of the Council;
- The auditor's opinion which is given at the completion of the audit and must occur by 30 September 2011 (following audit);
- A statement of accounting policies which highlights practices adopted by the authority;
- The principal financial statements which comprise:
    - The movement in reserves statement which shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce council tax) and other reserves;
    - The comprehensive income and expenditure statement which shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. This statement combines the income and expenditure relating to all the Council's functions including the General Fund and the Housing Revenue Account;
    - The balance sheet which shows the value as at the year-end of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council;
    - The cash flow statement which summarises the inflows and outflows of cash, arising from transactions between the Council and third parties, for revenue and capital;
- notes to the core financial statements which give further explanation and analysis of some of the movement in the comprehensive income and expenditure statement and balance sheet together with a number of disclosures required by the Code.

3.4 Further supplementary financial statements are required to expand on the information included within the statements above;

- The housing revenue account (HRA) which summarises the major items of expenditure and income relevant to the account with supplementary notes where required and
- The collection fund which records council tax and business rate income and disbursements to precepting authorities (the council's own requirement, Kent Police Authority, Kent Fire and Rescue Service and parish councils) and payments to central government in respect of the contribution to the business rates pool.

3.5 The draft statement of accounts is attached as Appendix 1 to this report and members are most familiar with the formats set out in the explanatory foreword on page 2. The elements of the financial statements that may be of most interest to

Members are the comprehensive income and expenditure statement, movement in reserves statement and the balance sheet, which can be found on pages 17 to 18.

3.6 The presentation of the comprehensive income and expenditure statement requires expenditure and income to be allocated to service headings. This shows a ‘deficit on the provision of services’ of £27.8 million (General Fund surplus of £43.3 million and HRA deficit of £71.1 million). This deficit is subsequently netted out through the Movement in Reserves Statement or other ‘below the line’ adjustments.

3.7 The more familiar management accounting format is shown in the table on page 2. The revenue budget for 2010/2011 was developed on the planned use of reserves of some £4 million and a £983,000 contribution from the anticipated Collection Fund surplus. It can be seen from the table that there was an underspend on the General Fund of some £3.6 million. This underspend is reduced by an overspend on Interest and Financing of £411,000, albeit that this in turn was mitigated by increasing the contribution from the rate equalisation reserve from the planned level of £908,000 to £1,049,696 which has exhausted the reserve. The forecast Collection Fund surplus did not materialise and the actual position for the year was a deficit of £354,525, which also reduced the bought forward surplus. After shares of surpluses and deficits to the other precepting bodies (KPA and KFRS) the balance available was only £310,546, of which £310,000 was used. The net effect of the above is a drawdown of £1.8 million from reserves and the collection fund rather than the £5.0 million included in the budget proposals.

3.8 Paragraph 2.1 refers to the audit of the statements being completed by the 30 September 2011. The actual audit of the statements is scheduled to commence on 11 July and clearly the statement of accounts that is presented for approval does not reflect any changes that this audit may require. If there are significant amendments to the statement of accounts these will need to be reported back to Members prior to formal publication.

4. Summary financial position for 2010/2011 (General Fund)

4.1 Throughout the year, regular monitoring reports have identified the major variations from approved budgets. An initial forecast overspend of over £1 million has progressively reduced and the last report to Cabinet, based on January spend, had indicated a potential underspend of £1.6 million. The final accounts now show a revenue surplus of £3.2 million (summary on page 2 of Appendix 1) and a reduced requirement from General Reserves of some £2.5 million.

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

Summary Outturn

Directorate	Budget £000s	Outturn £000s	Variation £000s
Children and Adult Services	288,492	286,016	(2,476)
Regeneration, Community and Culture	73,537	72,860	(677)
Business Support	17,540	17,067	(473)
Public Health	403	401	(2)
Interest & Financing	15,358	15,769	411
Levies	900	906	6
Total Revenue	**396,230**	**393,019**	**(3,211)**
Planned Use of Reserves	(4,047)	(1,509)	2,538
Collection Fund Surplus	(983)	(310)	673
Asset Rentals	(33,943)	(33,943)	0
DSG	(158,345)	(158,345)	0
Total	**198,912**	**198,912**	**0**

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

4.3.1 Children and Adult Services

The net underspend for the directorate was £2.476 million, although the Adult Social Care division posted a £2.793 million underspend. The major variances within this service were as follows:

- Towards the end of the financial year, the PCT agreed a Section 256 contract for the transfer of £640,000 of ‘winter pressures’ funding to the Council, to meet costs which had already been incurred and reflected in the division’s financial forecasts;
- Services for older people underspent by £988,000 of which £756,000 represents the impact of holding vacancies and delays in recruiting to care management posts. The balance represents higher than anticipated client contributions towards residential and nursing care budgets;
- Physical disability services overspent by £158,000, with pressures against direct payments and residential budgets being partially offset by underspends against staffing budgets and increased income from service users;
- An £893,000 underspend against learning disability services across a number of areas. The day service hubs have carried vacancies for some time, and together with other vacancies saved almost £400,000. Higher than anticipated client contributions has yielded over £300,000, although this has been offset by pressure from residential and nursing placements. Robust gatekeeping and management of expectations has kept down the cost of direct payments saving £274,000. Finally, fewer than anticipated ‘shared lives’ placements have resulted in a £179,000 underspend. There was a £275,000 underspend on the linked service centres, of which £108,000 reflects higher than anticipated client contributions, whilst the balance was primarily the result of vacancies in the rehab services. The onus is, where possible, on reablement at home.

Children's Care reported a £974,000 underspend, the principal reasons for which are outlined below:

- The integrated area teams overspent by around £164,000 which was primarily a result of reliance on agency cover, however a small proportion was due to client costs for transport etc;
- The extent of the divisional underspend was essentially attributable to specialist services for looked after children. Vacancies in the fostering team and at Parklands accounted for almost £300,000, whilst the balance of the underspend resulted from the success of preventative measure, such as family group conferencing and the outreach service in mitigating the financial impact of escalating demand;

In Learning and Achievement, the £590,000 underspend against free nursery provision and the unfunded cost of picking up the impact of school closures at £516,000 broadly offset each other and are both DSG funded items anyway, so do not impact on the general fund.

The Inclusion division posted a £691,000 underspend against DSG funded budgets, essentially the result of success in controlling expenditure on expensive independent sector SEN provision. Unfortunately, expenditure on SEN transport has increased by around 12% against the 2009/2010 outturn, contributing towards a £790,000 overspend against the general fund. Youth services delivered a £434,000 underspend through rigid control of expenditure across all services and headings.

The Commissioning division also includes the directorate management team, which overspent significantly as a result of covering the long-term absence of an Assistant Director. In addition to this the directorate covered £770,000 of redundancy and early retirement costs from the underspends elsewhere in the directorate, rather than drawing down funds from general reserves, as agreed by Members. Finally the division also realised a £371,000 underspend, principally through management of vacancies.

4.3.2 Regeneration, Community and Culture

The Directorate underspent by £677,000 against its revenue budget of £73.537 million. The major variances within the directorate were as follows:

- Waste Services £313,000 underspend generated by a delay in awarding the new contract and reduced tonnage of waste collected;
- Safer Communities £669,000 underspend, principally due to staff vacancies and additional income generation;
- Concessionary Fares, cost of countrywide scheme £402,000 under budget;
- Medway Renaissance, £236,000 overspend due to redundancy and other residual costs and
- Leisure & Sports, £388,000 overspend due to non-achievement of income targets.

4.3.3 Business Support

The Department's outturn for 2010/2011 was £17.067m, an underspend of £473,000 against its revenue budget of £17.540m. The main areas of cost saving were achieved within the following services:

- Accommodation & Central Services, £585,000 underspend across various cost centres particularly Gun Wharf, Civic Centre and Reprographics;
- Benefit Administration, £300,000 underspend principally from saving against staffing budgets;
- Corporate Provisions, £264,000 underspend due to NNDR refunds and lower than anticipated costs in relation to planned maintenance agreements and
- Benefit Payments, £873,000 overspend due to ongoing unsubsidised benefit.

4.3.4 Interest and Financing

The budget was predicated on investments earning 2% for 2010/2011 however, with the continuance of the historically low bank rate of 0.5% throughout the financial year, this resulted in the budget target not being achieved for 2010/2011.

4.4 Planned Use of reserves

The 2010/2011 revenue budget anticipated that £4.047 million would be required from general and specific reserves to support expenditure. In the event only the £1.509 million was drawn upon. This requirement, offset by some small contributions to reserves has resulted in the General reserve falling by only £982,000. It now stands at just over £6 million.

4.5 In accordance with the recommendations of Council in February of this year, £3 million of the General Reserve was earmarked as a contingency for severance and associated costs as part of the 2010/2011 accounts closure. In addition, Members agreed to use almost £1.5 million of the General Reserve to fund revenue and capital expenditure in 2011/2012. The General Fund Balance remains at £10 million and schools reserves have increased to almost £2 million to £7.2 million. The former represents just over 5.0% of the 2011/2012 non-schools budget for the council of £190 million.

4.6 The 2010/2011 revenue budget anticipated the use of the Collection Fund surplus amounting to £983,000. This level of surplus was not achieved in 2010/2011 and only £310,000 became available.

5. Summary financial position for 2010/2011 (HRA)

5.1 The Housing Revenue Account (HRA) is a ring-fenced account to record the 'landlord' costs and income associated with the maintenance of our housing stock. It includes costs of management and maintenance for the property portfolio, housing benefit costs in the form of rent rebates and capital financing costs, offset by housing rents and government grant. The summary of that account is set out at pages 60 to 61 of Appendix 1 and reveals a surplus for the year of £1.029 million. This is then incorporated into the usable reserves balance shown at the foot of the Balance Sheet (page 20) as the Housing Revenue Account balance that now stands at just over £6.126 million. This is only available for housing purposes and cannot be used to support General Fund (council tax) costs.

6. Summary financial position for 2010/2011 (Delegated Schools Budget)

6.1 A significant proportion of the overall budget of the council is delegated to schools and is then ring-fenced for that purpose. The total funding provided to schools includes the sum delegated by the council from the Dedicated Schools Grant, plus sixth form grants provided by the Young People's Learning Agency and Standards Fund grants from the Department for Education. In 2010/2011 schools received funding totalling £172 million. Expenditure incurred by schools is included in the figure for Children and Adult Services shown in section 4, above. Any surplus or deficit relating to schools is 'rolled-forward' as part of the schools' reserves balances shown in the balance sheet. This has the effect of showing schools budget as balanced.

6.2 However the reality of the schools' spending position is reflected in the movement in the schools' balances figure incorporated in usable reserves shown at the foot of the Balance Sheet (page 20). This shows that schools' balances have increased from £5.230 million as at 31 March 2010 to £7.202 million as at 31 March 2011. In addition:

- Net revenue reserves have increased, as a percentage of the total resources available, from 3.2% to 4.2%;
- There has been an increase of £0.939 million in the level of reserves held by schools with positive balances;
- There has been a reduction of £1.033 million in the level of deficits held by schools and
- The number of schools in deficit has reduced from seven to four.

7. Summary financial position for 2010/2011 (Capital)

7.1 The total approved capital programme for 2010/2011 and future years was some £133 million. Capital forecasts for individual years are continually monitored and expenditure reprofiled as appropriate. The final capital expenditure for 2010/2011 was £79.9 million compared to the 2009/2010 outturn of £63.40 million. The Regeneration, Community and Culture capital programme has slipped by almost £2.5 million however this has been more than offset by an acceleration in the Children and Adults programme of £3.5 million arising from a reprofile of the devolved schools' capital spend.

7.2 In order to accurately reflect the budgets available for the first round of monitoring in 2011/2012 it has been necessary to make the following adjustments to the rollover of some of the Children and Adults capital schemes:

- Bring forward £1,120,000 from the 2011/2012 basic needs programme, funded from developer contributions, to meet the approved gateway 3 costs of the Sir Joseph Williamson Maths School DT block and the Robert Napier sixth form block;.
- Various virements to smooth the compensating over and underspends against the completed early years projects;
- Transfer £133,393 of targeted capital grant from the Brompton SEN scheme to the fund the overspend against the academies project management and technical advice budget;
- Transfer £55,983 of the forecast underspend against the Riverside SEN project to cover the overspend against the Abbey Court (Strood) scheme and

- Virement of £37,623 to net off the overspend on the BORA environmental works against the underspend on the Brompton Academy environmental works.

7.3 The following table analyses spend across directorates and the funding streams and section 7.5 highlights the major achievements during 2010/2011.

Summary capital outturn position

Directorate	**Approved programme 2010/2011 and beyond £000**	**Forecast Spend 2010/2011 £000**	**Outturn 2010/2011 £000**	**Variance £000**
Children and Adults	51,726	23,607	27,115	3,508
Regeneration, Community & Culture	64,645	47,519	45,064	(2,455)
Business Support	16,826	7,968	7,769	(199)
Total	**133,197**	**79,094**	**79,948**	**854**

Funding Source	**Funding of expenditure £000's**
Borrowing (supported and unsupported)	13,895
Government Grants and Other Contributions	53,554
Major Repairs Allowance/Reserve	1,862
Capital Receipts	5,751
Developer Contributions	4,675
Revenue and Reserves	211
Total	**79,948**

7.4 Borrowing represents supported capital expenditure (revenue), (SCE(R)) together with unsupported (invest to save) borrowing, predominantly for the highways investment programme. Government grants represents the proportion of the supported capital expenditure (grant), (SCE(C)), used in financing spend in the year. The balance of government grants that have not been spent during 2010/2011 will roll forward to support spend in later years.

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

7.5.1 Children and Adult Services

- Completion of Surestart Children's Centres Programme including work at St Mary's RCP, New Road Primary, Cuxton Community Infants, Skinner Street Primary and Hilltop Primary;
- Full utilisation of the extended schools funding supporting eight schools;
- The primary capital programme is making progress, with the Walderslade scheme well underway and a further five schemes having progressed to gateway 3 stage;

- The final business case for Strood Academy has now been agreed by Partnerships for Schools and the first instalment of over £4million received by the Council;
- Additional provision for secondary age pupils has been completed at Abbey Court, Strood, albeit a little over budget;
- This has been more than offset by the anticipated underspend against the Riverside Primary SEN project, which is nearing completion;
- Completion of the sixth form block at Robert Napier and;
- Resurfacing work and improved security to the car park at Woodlands Place.

7.5.2 Regeneration, Community and Culture

- Improvements to Chatham road network;
- Construction of Waterfront bus station;
- Continued additional funding for highway maintenance;
- Development of urban traffic management system;
- Bus priority schemes;
- Contribution to redevelopment of Gillingham train station and
- Investment in play areas.

7.5.3 Business Support

- Acquisition of new mobile library;
- Development of new website;
- Continuation of ICT projects to ensure Medway has the infrastructure in place to deliver services efficiently and effectively;
- Improvements to housing stock together with disabled adaptations to properties;
- Improvements to private sector housing through renovation loans, Coldbusters initiative, Empty Homes programme and Crisis Grants and
- Property adaptations for disabled persons

7.5.4 Member's Priorities

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

- Watts Meadow and other Priestfields Allotment improvements
- Woodside Community Centre Improvements;
- Installation of a community notice board Hempstead Green;
- Additional signage works at Medway Park;
- Installation of CCTV at Weedswood, Henly Close and Cliffe Woods;
- Adult playground at Rainham recreation ground;
- Replacement of Trees and planters Gillingham High Street;
- Equipment at Meresborough Playspace scheme;
- Improvements to various play areas;
- New signage Riverside Country Park;
- New cemetery footpath at Gillingham Green;
- St Nicholas School mosaic and
- New allotment in Hempstead.

8. Reserves

8.1 Recent years have seen the Council's reserves diminish, largely as a result of financing capital investment but also in supporting revenue expenditure in the earlier years of Medway Council. The budget setting process for 2011/2012 forecast available reserves (General Reserve plus General Fund Balance) at 31 March 2011 at approximately £14.5 million after support for the revenue budget in 2010/2011. As reported earlier the revenue outturn for 2010/2011 produced an underspend of some £3.2 million and, together with the full reserve funding not required for that year, results in available reserves of approximately £16.1 million.

8.2 As indicated in paragraph 4.5, The Revenue Balance (contingency) remains at £10 million, representing 5% of the 2011/2012 net budget excluding DSG, and the General Reserve stands at £6.1 million as at March 2011. From the General Reserve £3 million has been earmarked for future severance costs, £587,000 for the 2011/2012 revenue budget, £875,000 new capital approvals and £203,000 for the existing capital programme. This leaves an anticipated balance of £1.435 million as at 31 March 2012.

9. Risk Management

9.1 The more significant financial risks faced by the Council in providing services were considered by Members in July 2010 during the first monitoring cycle for 2010/2011. Directorate management teams continually review expenditure and income and take corrective action where appropriate. The success of this continual review is clearly borne out by the outturn result.

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

10. Financial and legal implications

10.1 The financial implications are contained within the body of the report.

10.2 The Accounts and Audit (England) Regulations 2011 has relaxed the requirement for Councils or a designated committee to approve the unaudited statement of accounts by 30 June although best practice would indicate that the draft accounts are presented to the relevant committee as soon after this date as practicable.

10.3 The Regulations do still place a duty on the Council or a designated committee to approve the audited statement of accounts by 30 September and it is a function that cannot be delegated to Cabinet.

11 Recommendation

11.1 That the Audit Committee approves the draft Statement of Accounts for 2010/2011.

Lead officer contact

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Background papers

Revenue and Capital budget monitoring reports to Cabinet during 2010/2011. These are available on the Council's website www.medway.gov.uk

MEDWAY

COUNCIL

STATEMENT OF ACCOUNTS

2010/2011

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A EXPLANATORY FOREWORD

Introduction

The Statement of Accounts summarises the Council's income and expenditure for the year and its financial position as at the year end. The accounts have been prepared in accordance with the Accounts and Audit Regulations 2003. The format of the accounts reflects the new requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011: Based on International Financial Reporting Standards, published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Code introduces further changes to the format of the Statement of Accounts following the partial introduction of International Financial Reporting Standards (IFRS) in 2009/2010. Major changes from the 2009/2010 accounts, produced under UK GAAP principles, are explained where appropriate and comparative figures for that year have been restated in accordance with IFRS. The impact of the adoption of IFRS on the comparative figures for 2009/2010 is summarised in Section I of the Statement of Accounts.

Statement of Accounts

The statements which follow summarise the Council's accounts for the financial year ended 31 March 2011. Further explanation of the purpose of each statement is included within the relevant section and notes explaining transactions follow the statements where appropriate. The main statements are:

- **Statement of Responsibilities** – outlines the responsibilities of the Council and the Chief Financial Officer in preparing the accounts. The Chief Financial Officer has to certify that the accounts present a 'true and fair view' of the financial position of the Council as at 31 March 2011 and its expenditure and income for the year.
- **Statement of Accounting Policies** – these are the specific principles, bases, conventions, rules and practices adopted by the Council in preparing and presenting financial statements.
- **Movement in Reserves Statement** – this summarises the movement in the year on the various reserves held by the Council.
- **Comprehensive Income and Expenditure Statement** – this shows the costs of the various services the Council provides.
- **Balance Sheet** – this summarises the Council's financial position at the year end. It provides details of the assets and liabilities held by the Council and the usable and unusable reserves held at the balance sheet date.
- **Cash Flow Statement** – this shows the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Housing Revenue Account** – this is the separate statutory account for income and expenditure relating to council housing.
- **Collection Fund** – this reflects the statutory requirement for the Council to maintain a separate account providing details of receipts of Council Tax and Business Rates and the associated payments to precepting authorities and to the National Non Domestic Rate (NNDR) Pool.

Review of Finance 2010/2011

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

Revenue

To achieve breakeven against budget, the required contribution from reserves was £1.509m, compared to the planned contribution of £4.047m. a reduction of £2.538m.

The table below summarises the income and expenditure for each directorate of the Council for 2010/2011.

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	173,795	(156,728)	17,067	17,540	(473)
Children & Adult Services	406,341	(120,325)	286,016	288,492	(2,476)
Regeneration, Community & Cultural Services	109,003	(36,143)	72,860	73,537	(677)
Public Health	1,328	(927)	401	403	(2)
Sub-total Services	690,467	(314,123)	376,344	379,972	(3,628)
Levies	906	0	906	900	6
Depreciation Credit	0	(33,943)	(33,943)	(33,943)	0
Interest & Financing	19,899	(4,130)	15,769	15,358	411
Planned Use of Reserves	0	(1,509)	(1,509)	(4,047)	2,538
Dedicated Schools Grant	0	(158,345)	(158,345)	(158,345)	0
Use of Collection Fund Surplus	0	(310)	(310)	(983)	673
	711,272	**(512,360)**	**198,912**	**198,912**	**0**
Funded:-					
Area Based Grant				16,199	
RSG				10,794	
NNDR Redistribution				74,336	
Council Tax				97,583	
				198,912	

The outturn on the Housing Revenue Account (HRA) was a surplus £1,240,912 (2009/2010 surplus £824,000), compared to a budget of £1,243,000 (2009/2010 budget £206,000). Reorganisation costs of £211,825 were charged direct to the HRA reserve which, having taken account of the 2010/11 surplus, stands at £6,155,894 as at 31 March 2011 (£5,126,807 as at 31 March 2010).

Capital

The Council's capital investment in 2010/2011 was £79,949,000 (2009/2010 £63,404,000). The expenditure was within the definition of the Local Government and Housing Act 1989.

Capital Expenditure has been financed from the following sources: -

- Supported Capital Expenditure (Revenue) and Prudential borrowing (£13,895,000);
- Grants or contributions from Government bodies or other agencies and organisations (£60,092,000);
- Part proceeds from the sale of capital assets or the repayment of advances, the usable part, following pooling of HRA capital receipts (£5,751,000);
- Contributions from the Revenue Account and specific reserves (£211,000).

The Council spent £48,780,000 on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included a number of integrated transport measures, a programme of improvements to the Council's housing stock, the provision of new classrooms and improvements to school infrastructure. The remainder of capital expenditure is split between capital works in progress £3,763,000 and £27,406,000 relating to "Revenue Expenditure Funded from Capital under Statute" (formerly deferred charges). (see Statement of Accounting Policies 25).

Capital expenditure incurred by the Council in 2010/2011 is summarised below:

Directorate	**Total Programme £'000**	**2010/2011 Forecast £'000**	**Outturn £'000**	**Variation £'000**
Expenditure				
Business Support	16,826	**7,968**	**7,769**	**(199)**
Children and Adult Services	51,726	**23,607**	**27,115**	**3,508**
Regeneration, Community and Culture	64,645	**47,519**	**45,064**	**(2,455)**
Total	**133,197**	**79,094**	**79,948**	**854**

The capital programme for 2011/2012 and beyond reflects the major investment priorities of the Council which are as follows:

Regeneration of Chatham including the Dynamic Bus Facility, the Local Transport Plan including improvements to the A228, Quality Bus Corridor; investment in the Council's housing stock and investment in schools, especially primary and academies, to support delivery of high standards of education.

- **Borrowing/Investments**

During 2010/2011 the level of debt, i.e. money that the Council owes decreased by £50,576,000 from £252,610,000 to £202,034,000. This is due to the current strategy of financing capital from investment balances rather than new debt. Additionally as debt falls due for repayment it is not being replaced, whilst interest rates are low.

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

- **Fixed Assets**

The total value of the Authority's fixed assets has decreased in 2010/2011 by approximately £68 million. Although there was capital investment of some £48m, there was a greater decrease in the value of all classes of assets as a result of revaluation, impairment, depreciation and disposals.

B STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

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

The Chief Finance Officer's Responsibilities

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

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

- selected suitable accounting policies and applied then consistently;
- made judgements and decisions that were reasonable and prudent; and
- complied with the Code of Practice.

The Chief Finance Officer has also:

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

Certificate of the Chief Finance Officer

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Mick Hayward
Chief Finance Officer 28 June 2011

D STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011. The Code is based on approved accounting standards, comprising International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS's) approved by the International Accounting Standards Board. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

The Council is required to disclose information relating to the impact of any accounting policy change that will be required by a new standard that has been issued but not yet adopted. The 2011/2012 Code introduces new requirements relating to FRS 30 Heritage Assets. The financial statements should set out the Council's policy for the acquisition, preservation, management and disposal of heritage assets. This should include a description of the records maintained by the Council of its collection of heritage assets and information on the extent to which access to the assets is permitted. The accounting policies relating to heritage assets should be stated, including details of the measurement bases used. For heritage assets that are not reported in the balance sheet, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets that are not reported in the balance sheet.

2. Qualitative Characteristics of Financial Statements

- **Understandability** - although a reasonable knowledge of accounting and local government is assumed, all reasonable steps have been taken to ensure that the financial statements are as comprehensible as possible.

- **Relevance** - the objective of the financial statements is to provide information on the Council's financial position, performance and cash flow that is useful for assessing the stewardship of public funds and for making economic decisions.

- **Materiality** – omissions or misstatemens of items are only material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.

- **Reliability** - financial information can be depended upon to represent faithfully the substance of the transactions and other events that have taken place. The information is free from bias, free from material error, is complete within the bounds of materiality and cost and has been prepared in a prudent manner.

- **Comparability** - the Statement of Accounts contains prior year information to enable comparisons to be made.

3. Accounting Concepts

The following underlying assumptions are made in the preparation of the Council's accounts:

- **Accrual basis** - the financial statements, except the Cash Flow Statement, have been prepared on an accrual basis. The accrual basis requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

- **Going Concern** – the financial statements have been prepared on a going concern basis. It is assumed that the functions of the Council will continue in operation for the foreseeable future.

4. Accruals of Income and Expenditure

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. Exceptions to this are payments of regular quarterly accounts (e.g., telephones, electricity) and Penalty Charge Notice income. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

5. Assets Held for Sale

These are assets that have been declared surplus to the Council's operational requirements and are being actively marketed and have an estimated sale date within twelve months of the balance sheet date. They will be reported on the balance sheet date at the lower of the carrying amount or the fair value (market value) of the asset less the costs to sell the asset. Assets available for sale are not subject to depreciation.

6. Capital Grants Received in Advance

The Council receives funds from property developers to provide education, highway and other community assets as part of their development. These funds are held for periods of time as specified within the planning consent and used to provide and or maintain those assets.

7. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. IAS 7 indicates that an investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition. Monies held by the Council's investment managers are classified as investments.

8. Charges to Revenue for Non-Current Assets

Service revenue accounts, central support services and trading accounts are charged with depreciation attributable to the asset used by the relevant service and revaluation and impairment losses on assets where there are no accumulated gains in the Revaluation Reserve against which losses can be written off.

Depreciation and impairment losses have no effect on council tax levels as compensating adjustments are made between the General Fund and the Capital Adjustment Account. However, the Council is required to make annual contributions from revenue towards the repayment of debt. Notional interest is not charged to services but actual interest payable on outstanding borrowings, including interest payable under finance leases is charged directly to the Comprehensive Income and Expenditure Statement.

9. Customer and Client Receipts

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

10. Depreciation

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

Depreciation is calculated upon the following basis:

Council Dwellings – properties in this asset category are valued using the Beacon valuation method. This means properties are grouped on the basis of size, type and location and an average value is given to each property in the group. Depreciation is charged on a straight-line basis dependant on the age of the property.
Other Land and Buildings – all the Council buildings although regularly repaired and maintained, are depreciated over their useful economic lives;
Vehicles, Plant and Equipment – depreciation is applied on a straight-line basis over the useful economic lives of the assets. The majority of these range between three and ten years;
Infrastructure Assets – are depreciated on a straight-line basis over a thirty year period;
Community Assets – are not depreciated;
Surplus Assets – are depreciated in accordance with their original asset category.

11. Employee Cost

Three categories of employee benefits exist under the 2011/2012 Code:

Benefits payable during employment – covers short-term employee benefits, such as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as expenses in the year in which the employee renders service to the council. Accruals are made for holiday entitlements etc. but these sums are reversed out through the Movement in Reserves Statement. This category of benefits also includes those earned by current employees but payable twelve months or more after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.
Termination benefits – covers amounts that are payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. These are often lump-sum payments but also include salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the Council. Redundancy and other termination costs are accrued to the year that the notice is served.
Post-employment benefits – in common with all local authorities the Council is required to participate in a pension scheme to provide specific deferred benefits to its employees by way of retirement pensions, widows' pensions, lump sum retirement payments and death grants. Benefits are paid from the Pension Fund, which receives contributions from both employees and employers. The Council participates in the scheme administered by Kent County Council. Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Kent County Council Pension Fund for funding purposes was at 31 March 2010 and changes to contribution rates as a result of that valuation will take effect from 1 April 2011. Pension costs are recognised in full in the year the benefits are agreed. In the Income and Expenditure Account the liability is debited to the net cost of services. However, the charge required to be made against the Council Tax is based on the amount payable for the year, so the FRS 17 costs are reversed out in the Statement of Movements on the General Fund Balance as a transfer to the negative pension reserve. In the Balance Sheet the negative pension reserve is matched by a pension liability.

Teaching staff are entitled to be members of the Teachers Pension Scheme administered by Capita Teachers Pensions on behalf of the Department for Education (DfE).

12. Estimation Techniques

Significant estimates are involved in the calculation of some parts of the Council's accounts. These include the calculation of the pension assets and liabilities by the fund's actuary, the valuation of non-current assets, the provision for bad and doubtful debts and the calculation of embedded leases. Details of each of these are shown in the relevant notes to the principal financial statements.

13. Events After the Balance Sheet Date

These are events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Statement of Accounts is authorised for issue. Events arising between the Balance Sheet date and final approval of the Statement of Accounts will be reflected in the statements if they provide additional evidence of conditions that existed at the Balance Sheet date and materially affect the amounts reported. Where conditions arose after the Balance Sheet date the Statement of Accounts is not adjusted to reflect such events but, where material, disclose is made by way of a note to the accounts.

Those that provide evidence of conditions that existed at the end of the financial year – the Statement of Accounts is adjusted to reflect such events;

14. Exceptional Items

Where material, items of income and expenditure are disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts.

15. Financial Instruments

Financial Assets

The Council's financial assets (investments) are classified into Loans and Receivables - assets that have fixed or determinable payments but which are not quoted in an active market and Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments. Financial assets are maintained in the Balance Sheet at fair value.

Loans and receivables – are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

The Council has made a small number of loans to eligible employees, for the purchase of motor vehicles for example and charitable organisations at less than market rates (soft loans). The value of these loans has been considered to be immaterial and the calculation of the present value of interest foregone, required by the Code, has not been undertaken.

Available-for-Sale Assets – these have a quoted active market price and do not have fixed or determinable payments. These are measured and carried on the balance sheet at fair value using determinations from independent experts.

Financial Liabilities

These comprise borrowing and are initially measured at fair value and carried at their amortised cost. Annual charges to 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. For the borrowing the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

16. Foreign Currency Transactions

When foreign currency transactions occur the Council will convert the amount received or paid to the prevailing sterling amount as at the date of the transaction.

17. Government Grants and Contributions

Specific revenue grants received are accrued and credited to the Comprehensive Income and Expenditure Statement in the same period as the related expenditure is incurred and shown against the relative service income line. General grant in the form of Revenue Support Grant and the contribution from the National Non-Domestic Rate Pool are credited and disclosed separately in the Comprehensive Income and Expenditure Statement under 'Taxation and Non-Specific Grant Income'.

Capital grants received where no conditions exist will be credited to the Comprehensive Income and Expenditure statement in the year of receipt. This income will subsequently be transferred to the Capital Adjustment Account through the Movement in Reserves Statement when applied to finance capital expenditure or to the capital Grant Unapplied Account.

Capital grants, where conditions exist, and capital contributions (such as Section 106 Developer Contributions) received will be credited to the Comprehensive Income and Expenditure Account in the year that the capital expenditure is incurred. This income will subsequently be transferred to the Capital Adjustment Account through the Movement in Reserves Statement.

18. Investment Property

Investment property (land and/or buildings) are used solely to earn rental income or for capital appreciation or both. The Council's major investment property is Gillingham Business Park which is let on a long lease. Investment properties are not depreciated but are revalued annually according to market conditions at the year end.

19. 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. A right to use an asset in return for payment may be subject to this lease policy even though a formal lease agreement may not exist.

Finance Leases

As lessee, the Council records finance leases as assets and liabilities at amounts equal to the fair value of the property plant or equipment or, if lower, the present value of the minimum lease payments. Lease payments shall be apportioned between the finance charge (interest) and the reduction of the outstanding liability. The Council will recognise assets under finance leases in the balance sheet at an amount equal to the net investment of the lease.
Assets recognised under a finance lease shall be depreciated. The depreciation policy for leased assets shall be consistent with the policy for owned assets. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful economic life. After initial recognition, assets recognised under a finance lease are subject to revaluation in the same way as any other asset.

Operating Leases

Lease payments under an operating lease are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from the use of the asset. Charges are recorded on a straight-line basis over the lease term unless another basis is more representative of the benefits received by the Council.

Embedded Leases

These are assets that although not owned by the Council are used primarily by the authority for service provision. Examples are vehicles used by the Council's highways maintenance and waste contractors. In these cases estimated values for the vehicles have been used along with a leased term in line with the contract period. Assets are recognised in the balance sheet at the net book value and offset by a deferred liability. The lease charge forms part of the contract payment on behalf of these vehicles on a straight line basis over the life of the asset.

20. Overheads and Support Services

In accordance with the CIPFA Best Value Accounting Code of Practice 2010/2011 (BVACOP), all overheads not defined as Non Distributed Costs are fully recharged to service expenditure. Unapportionable Central Overheads, which are clearly defined in the Code, together with Democratic Representation and Management and Corporate Management Costs, are service expenditure headings in their own right, to which overheads have been allocated, and are not apportioned further.

21. 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 in the current and future years accounts.
Changes in accounting policies are usually only made when required by proper accounting practices, such as the introduction of IFRS. Where changes are made, they are applied retrospectively 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.

22. Property Plant and Equipment

These are tangible fixed assets (now known as non-current assets) that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. Property, plant and equipment is further analysed into the following categories in accordance with the Code:

Council Dwellings
Other Land and Buildings
Vehicles, Plant and Equipment
Infrastructure Assets
Community Assets
Assets Held for Sale
Assets Under Construction

Investment property is now classed as a long term asset and not included within the Property, Plant and Equipment category.

Recognition – expenditure, generally above the de minimis level of £25,000, on the acquisition, creation or enhancement of property, plant or equipment is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged to revenue as it is Incurred.

Measurement – assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then valued on the basis recommended by CIPFA in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. Fixed assets are classified into the groups required by the Code and are included in the accounts on the following bases:

a. Council dwellings and other land and buildings are valued on the basis of the fair value in existing use or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost;
b. Infrastructure Assets, Community Assets and Vehicles, Plant and Equipment are included in the balance sheet at historical cost less depreciation where applicable. These assets are not shown at market value and so are not subject to a revaluation review;
c. All other assets are included in the balance sheet at fair value determined as the amount that would be paid for the asset in its existing use. In instances where it is lower, depreciated replacement cost has been used;
d. Assets under Construction covers assets currently not yet ready for operational purposes, and should be in operation within one year of the balance sheet date, accordingly the Council does not depreciate or revalue assets under construction.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, 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 Consolidated Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account. 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.

*Impairmen*t – the values of assets are reviewed at the end of each financial year for evidence of reductions in value. Where impairment losses are identified they are accounted for by:

- Where there is a balance of revaluation gains for the affected asset in the Revaluation Reserve, the value of the asset in the Balance Sheet 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 value of the asset in the Balance Sheet is written down against the relevant service line in the Consolidated Income and Expenditure Statement with a corresponding transfer from the Capital Adjustment Account.

Depreciation – is provided for on all assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Disposals – when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the 'Other Operating Expenditure' line in the Consolidated Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to 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 relevant asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement).

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

23. Provisions, Contingent Liabilities and Contingent Assets

Provisions – are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made, but where the timing of the transfer is uncertain. For instance, the Council may be involved in an insurance claim that could eventually result in the making of a settlement or the payment of compensation. The specific purposes of the Council's provisions are explained in a note to the principal financial statements.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Contingent Liabilities – arise when an event occurs that gives the Council a possible financial obligation that may or may not be incurred depending on the outcome of a future event such as a court case. Contingent liabilities also arise in circumstances where a provision would ordinarily be made but either it is unlikely that expenditure will be required or the amount of the obligation cannot be reliably measured.

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

Contingent Assets – arise when an event has taken place that gives the Council a possible asset that may or may not be confirmed depending on the outcome of a future event not wholly within the control of the Council.

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

24. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus or Deficit on the Provision of Service in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the notes to the principal financial statements.

25. Revenue Expenditure Funded from Capital Under Statute

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

26. VAT

VAT payable (for both revenue and capital) is included in the accounts as an expense only to the extent that it is not recoverable from the Government. The Council is able to recover VAT on nearly all its expenditure. VAT receivable is excluded from income as it is all payable to HM Revenue and Customs.

E PRINCIPAL FINANCIAL STATEMENTS

Figures for 2009/2010 have been restated, where appropriate, to reflect the requirements of the new International Financial Reporting Standards. Explanations of major changes accompany each statement.

Movement in Reserves Statement

This statement shows the movement in the tear on the different reserves held by the Council, analysed into ‘usable reserves’ (i.e. those that van be used to fund expenditure or reduce council tax) and other reserves. The surplus/(deficit) on the Provision of Services line shows the true economic cost of providing council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax and rent setting purposes, respectively. The net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

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

General Fund Balance – This is the ‘working balance’ of the Council and acts as a contingency to fund unforeseen eventualities.

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

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

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

Housing Revenue Account – This reserve contains any surplus or deficit arising from the provision of council housing by the Council. It can only be used for local authority housing provision.

Capital Receipts Reserve – Proceeds from the sale of Council assets are paid into this reserve which can be used to finance capital expenditure or repay debt.

Major Repairs Reserve –This reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account and can only be used to fund major Housing Revenue Account repairs.

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

Capital Grants Receipts in Advance – 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 Council. They are explained in more detail in note 15.

Movement in Reserves Statement for the years Ending 31 March 2010 and 31 March 2011

	Notes	General Fund Balance	General Reserve	Schools Balances	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Insurance Fund	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Restated Balance as at 1 April 2009		**9,500**	**3,263**	**5,850**	**5,457**	**4,303**	**4,719**	**2,840**	**2,152**	**12,132**	**50,216**	**613,700**	**663,916**
Movement in Reserves 2009/2010													
Surplus/(Deficit) on provision of services		(30,888)	0	0	0	1,262	0	0	0	0	(29,626)	0	(29,626)
Other Comprehensive Income and Expenditure	1	0	0	0	0		0	0	0	0	0	(106,670)	(106,670)
Total Comprehensive Income and Expenditure		**(30,888)**	**0**	**0**	**0**	**1,262**	**0**	**0**	**0**	**0**	**(29,626)**	**(106,670)**	**(136,296)**
Adjustments between accounting & funding bases under regulations	2	34,456	0	0	0	74	(4,077)	(2,702)	0	11,892	39,643	(39,643)	0
Net Increase/decrease before transfer to Earmarked Reserves		**3,568**	**0**	**0**	**0**	**1,336**	**(4,077)**	**(2,702)**	**0**	**11,892**	**10,017**	**(146,313)**	**(136,296)**
Transfers to/(from) Earmarked Reserves	3	(3,068)	3,848	(620)	(518)	(512)	1,157	501	(464)	0	324	0	324
Increase/(Decrease) in Year		**500**	**3,848**	**(620)**	**(518)**	**824**	**(2,920)**	**(2,201)**	**(464)**	**11,892**	**10,341**	**(146,313)**	**(135,972)**
Balance at 31 March 2010		**10,000**	**7,111**	**5,230**	**4,939**	**5,127**	**1,799**	**639**	**1,688**	**24,024**	**60,557**	**467,387**	**527,944**
Movement in Reserves 2010/2011													
Surplus/(Deficit) on provision of services		43,339	0	0	0	(71,140)	0	0	0	0	(27,801)	0	(27,801)
Other Comprehensive Income and Expenditure	1	0	0	0	0	0	0	0	0	0	0	67,280	67,280
Total Comprehensive Income and Expenditure		**43,339**	**0**	**0**	**0**	**(71,140)**	**0**	**0**	**0**	**0**	**(27,801)**	**67,280**	**39,479**
Adjustments between accounting & funding bases under regulations	2	19,564	0	0	0	72,174	(11,795)	378	0	(61,158)	19,163	(19,163)	0
Net Increase/decrease before transfer to Earmarked Reserves		**62,903**	**0**	**0**	**0**	**1,034**	**(11,795)**	**378**	**0**	**(61,158)**	**(8,638)**	**48,117**	**39,479**
Transfers to/(from) Earmarked Reserves	3	(62,903)	(982)	1,972	(1,432)	(5)	10,074	0	407	68,327	15,458	0	15,458
Increase/(Decrease) in Year		**0**	**(982)**	**1,972**	**(1,431)**	**1,029**	**(1,721)**	**378**	**407**	**7,169**	**6,820**	**48,117**	**54,937**
Balance at 31 March 2011		**10,000**	**6,129**	**7,202**	**3,507**	**6,156**	**78**	**1,017**	**2,095**	**31,193**	**67,377**	**515,504**	**582,881**

Comprehensive Income and Expenditure Statement

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

Restated 2009/2010					2010/2011		
Gross Exp £000s	**Gross Inc £000s**	**Net Exp £000s**	**Service**	**Notes**	**Gross Exp £000s**	**Gross Inc £000s**	**Net Exp £000s**
3,616	(1,530)	2,086	Central services to the public		3,912	(1,766)	2,146
75,544	(27,540)	48,004	Cultural, environmental, regulatory and planning services		78,833	(27,977)	50,856
319,797	(236,869)	82,928	Education and children's services		332,167	(254,868)	77,299
36,376	(12,068)	24,308	Highways and transport services		42,801	(12,973)	29,829
10,578	(11,840)	(1,262)	Local authority housing (HRA)		83,134	(11,994)	71,140
122,918	(114,787)	8,131	Other housing services		128,737	(114,091)	14,647
116,654	(28,614)	88,040	Adult social care		91,997	(27,171)	64,825
13,395	(3,322)	10,073	Corporate and Democratic core		9,125	(1,674)	7,450
24,580	(23,906)	674	Non-distributed costs		32,715	(85,039)	(52,324)
723,458	**(460,476)**	**262,982**	**Net Cost of Services**		**803,421**	**(537,553)**	**265,868**
1,391	(779)	612	Other operating expenditure	4	7,192	0	7,192
20,340	(3,679)	16,661	Financing and investment income and expenditure	5	22,811	(4,516)	18,295
0	(250,629)	(250,629)	Taxation and non-specific grant income	6	0	(263,554)	(263,554)
		29,626	**(Surplus)/Deficit on Provision of Services**				**27,801**
		(26,566)	(Surplus)/Deficit on revaluation of Property, Plant and Equipment				18,123
		0	(Surplus)/Deficit on Revaluation of Available for Sale Financial assets				0
		132,537	Actuarial (gains)/losses on pension assets/liabilities				(85,464)
		699	Movement in accumulated Absences Reserve				40
		106,670	**Other Comprehensive Income and Expenditure**				**(67,301)**
		136,296	**Total Comprehensive Income and Expenditure**				**(39,500)**

Balance Sheet

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

	Notes	**31 March 2011 £'000**	**31 March 2010 Restated £'000**	**31 March 2009 Restated £'000**
Property Plant and Equipment	7	890,479	958,446	973,009
Investment Property	8	5,735	5,916	5,926
Long Term Investments	9	4	10,004	20,004
Long Term Debtors	9	762	788	882
Long Term Assets		**896,980**	**975,154**	**999,821**
Short Term Investments	9	52,599	22,237	112,340
Inventories		131	152	144
Short Term Debtors	10	50,966	61,579	51,211
Cash and Cash Equivalents	12	21,423	56,757	3,677
Assets Held for Sale		1,845	3,770	2,668
Current Assets		**126,964**	**144,495**	**170,040**
Cash and Cash Equivalents	12	0	0	0
Short Term Borrowing	9	(11,659)	(26,895)	(52,351)
Short Term Creditors	11	(62,424)	(62,477)	(58,569)
Current Liabilities		**(74,083)**	**(89,372)**	**(110,920)**
Long Term Creditors	9	(47,746)	(49,709)	(52,006)
Provisions	13	(3,014)	(2,941)	(1,735)
Long Term Borrowing	9	(165,072)	(175,139)	(200,260)
Other Long Term Liabilities	9	(140,818)	(265,830)	(132,881)
Capital Grants Receipts in Advance		(10,330)	(8,713)	(8,143)
Long Term Liabilities		**(366,980)**	**(502,332)**	**(395,025)**
Net Assets		**582,881**	**527,945**	**663,916**
Usable Reserves	14	67,377	60,558	50,216
Unusable Reserves and Statutory Adjustment Accounts	15	515,504	467,387	613,700
Total Reserves		**582,881**	**527,945**	**663,916**

Cash Flow Statement

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

	2010/2011 £'000	2009/2010 £'000
OPERATING ACTIVITIES		
Cash Inflows		
Taxation	(77,182)	(76,906)
Grants	(464,561)	(426,944)
Sales of Goods and Rendering of Services	(35,206)	(37,158)
Interest Received	(1,106)	(3,528)
Other receipts from Operating Activities	(112,861)	(106,751)
	(690,916)	(651,287)
Cash Outflows		
Cash Paid to and on Behalf of Employees	256,289	261,958
Housing and Council Tax Benefits Paid	92,605	86,129
Parish Precepts Paid	317	279
Cash Paid to Suppliers of Goods and Services	72,662	68,767
Interest Paid	7,788	10,480
Other Payments for Operating Activities	277,006	206,478
	706,667	634,091
Net Cash (Inflow)/Outflow from Operating Activities	**15,751**	**(17,196)**
INVESTING ACTIVITIES		
Cash Inflows		
Proceeds from the Sale of Property, Plant and Equipment	(5,022)	(3,861)
Proceeds from Short-Term and Long-Term Investments	(601,227)	(65,100)
Capital Grants Received	(57,577)	(55,978)
	(663,826)	(124,939)
Cash Outflows		
Purchase of Property, Plant and Equipment	52,022	40,267
Purchase of Short-Term and Long-Term Investments	581,230	0
Other Payments for Investing Activities	31,745	26,263
	664,997	66,530
Net Cash (Inflow)/Outflow from Investing Activities	**1,171**	**(58,409)**
FINANCING ACTIVITIES		
Cash Inflows		
Cash Receipts of Short-Term and Long-Term Borrowing	(10,000)	(34,785)
Other Receipts from Investing Activities	(7,003)	0
	(17,003)	(34,785)
Cash Outflows		
Repayments of Short-Term and Long-Term Borrowing	35,197	50,698
Other Payments for Financing Activities	0	6,829
	35,197	57,527
Net Cash (Inflow)/Outflow from Financing Activities	**18,194**	**22,742**
Net (Increase)/Decrease in Cash and Cash Equivalents	**35,116**	**(52,863)**
Cash & cash Equivalents at beginning of year	56,539	3,676
Cash & cash Equivalents at end of year	21,423	56,539
Net (Increase)/Decrease in Cash and Cash Equivalents	**35,116**	**(52,863)**

F NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

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1. Other Comprehensive Income and Expenditure

	Unusable Reserves				
	Revaluation Reserve	Pensions Reserve	Capital Adjustment Account	Short Term Compensated Absences	Total
Adjustments 2009/2010	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Revaluation Gains	41,706		(1,144)		40,562
Revaluation Losses and Impairments	(4,934)		4,873		(61)
Asset Disposals & Other Adjustments			(13,935)		(13,935)
Movement in Pensions Reserve		(132,537)			(132,537)
Movement in Accumulated Absences				(699)	(699)
Total	**36,772**	**(132,537)**	**(10,206)**	**(699)**	**(106,670)**
Adjustments 2010/2011					
Revaluation Gains	12,406				12,406
Revaluation Losses and Impairments	(20,376)		2,465		(17,911)
Asset Disposals & Other Adjustments			(12,618)		(12,618)
Movement in Pensions Reserve		85,464			85,464
Movement in Accumulated Absences				(40)	(40)
Total	**(7,970)**	**85,464**	**(10,153)**	**(40)**	**67,301**

2. Adjustments between Accounting Basis and Funding Basis under Regulations

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

Adjustments for 2010/2011	Usable Reserves					
	General Fund Balance	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Adjustments primarily affecting the Capital Adjustment Account						
Depreciation and Impairment	(33,942)	(2,239)				36,181
Revaluation Losses	(1,651)	(72,517)				74,169
Capital Grants & Contributions Applied				1,862	61,159	(63,021)
Revenue Expenditure Funded from Capital Under Statute	(28,631)					28,631
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	7,838					(7,838)
Voluntary provision above MRP						
Revenue contribution to finance capital	917					(917)
Adjustments primarily involving the Capital Receipts Reserve						
Profit/Loss on disposal of assets	(5,789)	(65)	5,854			0
Contribution to disposal costs		(10)	10			0
Financing of capital expenditure			5,751			(5,751)
Payments to Capital Receipts Pool	(180)		180			0
Adjustments primarily involving the Major Repairs Reserve						
Reversal of MRA credited to HRA		2,239		(2,239)		0
Adjustments primarily involving the Pensions Reserve						
Reversal of retirement benefits	23,032	233				(23,265)
Employer's pension contributions	19,555	198				(19,753)
Adjustments primarily involving the Financial Instruments Adjustment Account						
Difference between statutory amounts and amounts recognised as income and expenditure	(104)	(12)				116
Adjustments primarily involving the Collection Fund Adjustment Account						
Difference between statutory amounts and amounts recognised as income and expenditure	(609)					609
Total Adjustments 2010/2011	**(19,564)**	**(72,174)**	**11,795**	**(377)**	**61,159**	**19,161**

Adjustments for 2009/2010 Comparative Figures	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments primarily affecting the Capital Adjustment Account						
Depreciation and Impairment	20,278	1,711				(21,989)
Revaluation Losses	62,498					(62,498)
Capital Grants & Contributions Applied	(59,153)			(4,413)	11,892	51,674
Revenue Expenditure Funded from Capital Under Statute	22,989					(22,989)
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	(8,568)					8,568
Voluntary provision above MRP	(1,975)					1,975
Revenue contribution to finance capital	(1,188)					1,188
Adjustments primarily involving the Capital Receipts Reserve		5	(5)			0
Profit/Loss on disposal of assets	(779)	50	729			0
Contribution to disposal costs						
Financing of capital expenditure			(4,609)			4,609
Payments to NNDR Pool	191		(191)			0
Adjustments primarily involving the Major Repairs Reserve						
Reversal of MRA credited to HRA		(1,711)		1,711		0
Adjustments primarily involving the Pensions Reserve						
Reversal of retirement benefits	19,240	240				(19,480)
Employer's pension contributions	(18,649)	(233)				18,882
Adjustments primarily involving the Financial Instruments Adjustment Account						
Difference between statutory amounts and amounts recognised as income and expenditure	103	12				(115)
Adjustments primarily involving the Collection Fund Adjustment Account						
Difference between statutory amounts and amounts recognised as income and expenditure	(531)					531
Total Adjustments 2009/2010	**34,456**	**74**	**(4,077)**	**(2,702)**	**11,892**	**39,643**

3. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/2011.

	Balance 1 April 2009	Transfers Out 2009/2010	Transfers in 2009/2010	Balance 31 March 2010	Transfers in 2010/2011	Transfers out 2010/2011	Balance 31 March 2011
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
General Fund							
General Reserve	3,263	0	3,848	7,111	799	(1,781)	6,129
Schools Balances	5,850	(620)	0	5,230	1,972	0	7,202
Other Earmarked Reserves	5,457	(518)	0	4,939	3,815	(5,247)	3,507
Total	**14,570**	**(1,138)**	**3,848**	**17,280**	**6,586**	**(7,028)**	**16,838**

4. Other Operating Expenditure

2009/2010 £000s		2010/2011 £000s
279	Parish Council Precepts	317
921	Levies	906
191	Payment to the Government Housing Capital receipts Pool	180
(779)	Gains/losses on disposal of non-current assets	5,789
612	**Total**	**7,192**

5. Financing and Investment Income and Expenditure

2009/2010 £000s		2010/2011 £000s
10,444	Interest payable and similar charges	9,903
39	Interest element of finance leases (lessee)	181
9,868	Pension interest costs and expected return on pensions assets	9,037
(3,390)	Interest receivable and similar income	(559)
(300)	Income and expenditure in relation to investment properties and changes in fair value	(267)
16,661	**Total**	**18,295**

6. Taxation and Non-Specific Grant income

2009/2010 £000s		2010/2011 £000s
(94,859)	Council tax income	(97,601)
(66,805)	Non domestic rates	(74,336)
(29,812)	Non-ring fenced Government Grants	(26,993)
(59,153)	Capital grants and contributions	(64,624)
(250,629)	**Total**	**(263,554**

7. Property, Plant and Equipment

Movement on Balances 2010/2011	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Tangible Assets
Cost or Valuation	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
As at 1 April 2010	177,724	660,015	3,376	191,509	6,246	3,770	13,039	1,055,679
Additions	2,597	16,710	360	36,936	2,366	0	3,763	62,732
Revaluation increases/decreases recognised in the Revaluation Reserve	0	(7,062)	0	0	1,557	0	0	(5,505)
Revaluation increases/decreases recognised in the Surplus/Deficit on the Provision of Services	115	(1,385)	0	0	(139)	0	0	(1,409)
Derecognition – disposals	(1,049)	(9,005)	0	0	(22)	0	0	(10,076)
Assets reclassified (to)/from Held for Sale	587	1,308	0	0	30	(1,925)	0	0
Other movements in cost or valuation	0	1,029	(8)	0	10	0	(11,414)	(10,383)
As at 31 March 2011	**179,974**	**661,610**	**3,728**	**228,445**	**10,048**	**1,845**	**5,388**	**1,091,038**
Accumulated Depreciation/ Impairments								
As at 1 April 2010	1,711	37,840	2,025	53,495	0	0	0	95,071
Depreciation charge	2,239	17,556	373	16,013	0	0	0	36,181
Depreciation written out to the Revaluation Reserve	0	(215)	0	0	0	0	0	(215)
Depreciation written out to the Surplus//Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised recognised in the Revaluation Reserve	0	(7)	0	0	0	0	0	(7)
Impairment losses/(reversals) recognised recognised in the Surplus/Deficit on the Provision of Services	72,517	0	0	0	0	0	0	72,517
Derecognition – disposals	0	(791)	0	0	0	0	0	(791)
Other movements in depreciation and impairment	0	0	0	0	0	0	0	0
At 31 March 2011	**76,467**	**54,383**	**2,398**	**69,508**	**0**	**0**	**0**	**202,756**
Net Book Value								
At 31 March 2010	**176,013**	**623,187**	**1,351**	**138,014**	**6,246**	**3,770**	**13,039**	**961,620**
At 31 March 2011	**103,507**	**607,227**	**1,330**	**158,937**	**10,048**	**1,845**	**5,388**	**888,282**

Comparative Movements 2009/2010

Movement on Balances 2009/2010	**Council Dwellings**	**Other Land and Buildings**	**Vehicles, Plant and Equipment**	**Infrastructure Assets**	**Community assets**	**Surplus Assets**	**Assets Under Construction**	**Total Tangible Assets**
Cost or Valuation	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
As at 1 April 2009	172,914	823,429	3,154	168,582	4,423	2,668	4,231	1,179,401
Additions	5,147	3,593	222	21,467	2,046	0	8,808	41,283
Revaluation increases/decreases recognised in the Revaluation Reserve	0	42,965	0	1,460	1,164	0	0	45,589
Revaluation increases/decreases recognised in the Surplus/Deficit on the Provision of Services	0	(60,877)	0	0	(1,357)	0	0	(62,234)
Derecognition – disposals	(770)	(1,740)	0	0	0	0	0	(2,510)
Assets reclassified (to)/from Held for Sale	433	(1,505)	0	0	(30)	1,102	0	0
Other movements in cost or valuation	0	(145,850)	0	0	0	0	0	(145,850)
As at 31 March 2010	**177,724**	**660,015**	**3,376**	**191,509**	**6,246**	**3,770**	**13,039**	**1,055,679**
Accumulated Depreciation/ Impairments								
As at 1 April 2009	0	38,944	1,842	39,167	0	0	0	79,953
Depreciation charge	1,711	24,354	183	14,380	0	0	0	40,628
Depreciation written out to the Revaluation Reserve	0	(26,470)	0	(52)	0	0	0	(26,522)
Depreciation written out to the Surplus//Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition – disposals	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	541	0	0	0	0	0	0
At 31 March 2010	**1,711**	**36,828**	**2,025**	**53,495**	**0**	**0**	**0**	**94,059**
Net Book Value								
At 31 March 2009	**172,914**	**784,628**	**1,311**	**129,415**	**4,423**	**2,668**	**4,231**	**1,099,590**
At 31 March 2010	**176,013**	**623,187**	**1,351**	**138,014**	**6,246**	**3,770**	**13,039**	**961,620**

Capital Commitments

At 31 March 2011 the Council has entered into a number of major contracts for the construction and enhancement of Property, Plant and equipment in 2011/2012 and future years budgeted to cost £21.140 million. Similar commitments as at 31 March 2010 were £27.653 million. The major commitments are in respect of Walderslade Primary School, Sir Joseph Williamsons Mathematical School, academies programme, improvements to the A228 and the regeneration of Chatham Town Centre.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. With the exception of the housing stock that was valued by external valuers DTZ, all other valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

Inspections
In accordance with the relaxations agreed between the RICS and CIPFA, not all properties were inspected in their entirety. This was neither practical nor considered necessary for the purpose of this revaluation. However, external visual Inspections were carried out on all these properties.

Information from other parts of the Council
For the purposes of this Certificate, we have in some instances had to rely upon information regarding the properties provided to us by other Departments within Medway Council and our valuations are dependent on the accuracy of the information supplied and/or the assumptions made. If these prove to be incorrect or inadequate then they could affect the accuracy of the valuations.

Title
We have not undertaken any local searches or inspected Title Deeds, Planning Consents, Statutory Notices, Licences or other documents relating to the properties (except where indicated). We cannot therefore comment as to whether the construction or condition, use or intended use of the property was, is or will become unlawful or is in breach any covenant.

Unless stated otherwise, we have assumed that good title can be shown with no unusual or onerous restrictions, encumbrances or outgoings.

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

Unless stated in the individual valuations, we have assumed there are no planning proposals that are likely to have an effect on the value of a property.

Construction and state of repair
We have not undertaken a structural survey nor tested the service installations.

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

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

We have assumed all properties comply with the Disability Discrimination Act 1995.

Unless we are aware that a building has a limited economic life, or this is clear from inspection, we have assumed a reasonable standard of repair and that all reasonable internal and external repairs and maintenance have been carried out. We have further assumed that such repairs do not constitute improvement to the building and do not have a material effect on asset value.

Deleterious or hazardous substances
We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and we are therefore unable to report that the properties are free from risk in this respect.

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

Environmental Assessment
Unless stated on the appropriate Valuations, we are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on these properties and which may draw attention to any contamination or possibility of any such contamination.

We have not carried out any investigation into past or present uses of the properties or of any neighbouring land to establish whether there is any potential for contamination and therefore we have assumed, unless stated otherwise, that no contaminative or potentially contaminative uses, underground mining, or other engineering works have ever been carried out on or adversely affect these properties.

We have assumed, unless stated otherwise, that there has been no recent flooding affecting these properties and that inclusion on any map identifying possible flood occurrences will have no affect on value.

Plant and machinery
Plant and machinery installed to provide services normally expected with that type or quality of building or land holding has been valued as an integral part of the asset unless the plant and machinery element has been identified as forming a significant proportion of the overall value of the asset. In such limited cases a separate value and assessment of economic life have been provided for that plant and machinery.

Plant and machinery primarily serving a commercial or industrial process has been excluded.

Vat, taxation and costs of realisation
No allowance has been made for liability for taxation, which may arise on disposal, whether actual or notional. VAT and Capital Gains Tax are specifically excluded and no deductions have been made for any potential realisation costs.

Lotting (if applicable)
Where applicable, properties have been lotted. No allowance or discount has been made for any flooding of the market which might, in practice, happen if a number of properties were offered for sale simultaneously. The figure reported is the aggregate of the values on separate properties.

Valuation Commentary

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

a) No specific allowance has been made for any under or over capacity arising from the use and occupation of individual operational properties. Where appropriate, this is reflected in the assessment of remaining useful life and depreciation for age and obsolescence.

b) Depreciation of replacement build costs has been calculated according to age bands rather than a straight-line approach. No deduction is made for properties up to 10 years old and thereafter the factor increases with age up to a maximum 50%. The cap assumes that basic health & safety/legal requirements have been complied with and that basic service provision is able to continue on the site.

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

8. Investment Properties

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

Investment properties	**2010/2011 £000s**	**2009/2010 £000s**
Rental income from investment property	387	294
Direct operating expenses arising from investment property	0	0
Net gain/(loss)	**387**	**294**

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

Investment Properties	**31 March 2011 £000s**	**31 March 2010 £000s**
Balance at start of year	5,916	5,926
Net gains/(loss) from fair value adjustments	(120)	(10)
Transfers (to)/from Property, Plant and Equipment	(62)	0
Balance at end of year	**5,734**	**5,916**

9. Financial Instruments

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

Financial Instruments	Long-term		Current	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
	£000s	£000s	£000s	£000s
Investments				
Loans and Receivables	0	10,000	30,139	1
Available for sale financial assets	4	4	0	0
Fair value through profit or loss	0	0	22,460	22,236
Total Investments	**4**	**10,004**	**52,599**	**22,237**
Debtors				
Loans and Receivables	762	788	0	0
Total Debtors	**762**	**788**	**0**	**0**
Borrowings				
Financial liabilities at amortised cost	(165,072)	(175,139)	(11,659)	(26,895)
Financial liabilities at fair value through profit and loss	0	0	0	0
Total Borrowings	**(165,072)**	**(175,139)**	**(11,659)**	**(26,895)**
Other Long –Term Liabilities				
FRS 17 pensions liability	(136,776)	(265,235)	0	0
Finance lease liability	(4,042)	(595)	0	0
Total Other Long-Term Liabilities	**(140,818)**	**(265,830)**	**0**	**0**
Long-Term Creditors				
Financial liabilities at amortised cost	(47,746)	(49,709)		
Financial liabilities carried at contract amount	0	0	0	0
Total Long-Term Creditors	**(47,746)**	**(49,709)**	**0**	**0**

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

Income, Expenses, gains and Losses

	2010/11					2009/10				
	Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and receivables £000s	Financial Assets: Available for sale £000s	Assets and Liabilities at Fair Value through Profit and Loss £000s	Total £000s	Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and receivables £000s	Financial Assets: Available for sale £000s	Assets and Liabilities at Fair Value through Profit and Loss £000s	Total £000s
Interest expense	(10,084)				(10,084)	(10,444)				(10,444)
Total expense in Surplus or Deficit on the Provision of Services	**(10,084)**				(10,084)	**(10,444)**				**(10,444)**
Interest income		297	1	261	559		3,114	1	275	3,390
Total income in Surplus or Deficit on the Provision of Services	**0**	**297**	**1**	**261**	559		**3,114**	**1**	**275**	**3,390**
Net gain/(loss) for the year	**(10,084)**	**297**	**1**	**261**	**(9,525)**	**(10,444)**	**3,114**	**1**	**275**	**(7,054)**

Fair Value of Assets and Liabilities carried at Amortised Cost

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

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

The fair values calculated are as follows:

	31 March 2011		31 March 2010	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
PWLB debt	72,138	68,804	97,410	98,933
Non-PWLB debt	104,457	109,610	104,492	112,647
Total debt	176,595	179,414	201,902	211,580
Long-term creditors	47,746	47,746	49,709	49,709
Total liabilities	**224,341**	**227,160**	**251,611**	**261,289**

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

	31 March 2011		31 March 2010	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
Loans and receivables	47,062	46,975	66,820	66,659
Long-term debtors	762	762	788	788
Total liabilities	**47,824**	**47,737**	**67,608**	**67,447**

The fair value of the assets is lower than the carrying amount because the Authority's portfolio of investments includes some fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the balance sheet date.

The fair values for loans and receivables have been determined by reference to similar practices, as above, which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

10. Debtors

	31 March 2011 £000s	31 March 2010 £000s
Central government bodies	25,037	22,751
Other Local Authorities	1,927	3,093
NHS bodies	974	777
Public corporations and trading funds	2,017	1,109
Other entities and individuals	21,011	33,849
Total Debtors	**50,966**	**61,579**

11. Creditors

	31 March 2011 £000s	31 March 2010 £000s
Central government bodies	5,975	5,361
Other Local Authorities	6,134	6,228
NHS bodies	3,148	3,561
Public corporations and trading funds	8,910	7,975
Other entities and individuals	38,257	39,352
Total Creditors	**62,424**	**62,477**

12. Cash and Cash Equivalents

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

Cash and Cash Equivalents	31 March 2011 £000s	31 March 2010 £000s
Cash held by the Council	24	23
Bank current accounts	4,476	(84)
Short-term deposits with financial institutions	16,923	56,818
Total Debtors	**21,423**	**56,757**

13. Provisions

	Insurance Provision £000s	Homebond Scheme £000s	Total £000s
Balance as at 1 April 2010	2,893	48	2,941
Additional provision made in 2010/2011	1,237	159	1,396
Amounts used in 2010/2011	(1,323)	0	(1,323)
Unused amounts reversed in 2010/2011	0	0	0
Unwinding of discounting in 2010/2011	0	0	0
Balance as at 31 March 2011	**2,807**	**207**	**3,014**

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2011 in line with FRS 12. The majority of the unsettled claims are for public liability.

14. Usable Reserves

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

15. Unusable Reserves

	31 March 2011	31 March 2010
	£000s	£000s
Revaluation Reserve	91,317	99,596
Capital Adjustment Account	566,575	637,874
Pensions Reserve	(136,776)	(265,235)
Financial Instruments Adjustment Account	(1,103)	(988)
Collection Fund Adjustment Account	0	609
Accumulated Absences Account	(4,509)	(4,469)
Total Unusable Reserves	**515,504**	**467,387**

Revaluation Reserve

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

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

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

Revaluation Reserve	2010/2011		2009/2010
	£000s	£000s	£000s
Balance as at 1 April		99,595	62,974
Upward revaluation of assets	12,406		41,707
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(20,376)		(4,934)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		(7,970)	36,773
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost	1,936		0
Accumulated gains on assets sold or scrapped	(2,244)		(151)
Amount written off to the Capital Adjustment Account		(308)	(151)
Balance as at 31 March		**91,317**	**99,595**

Capital Adjustment Account

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

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

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

Note 2 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Capital Adjustment Account	**2010/2011**		**2009/2010**
	£000s	**£000s**	**£000s**
Balance as at 1 April		637,874	687,391
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	(112,566)		(21,989)
Revaluation gains/(losses) on Property, Plant and Equipment	0		(62,498)
Revenue Expenditure funded from Capital Under Statute	(28,631)		(22,989)
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	(7,717)		(9,848)
		(148,914)	(117,324)
Adjusting amounts written out of the Revaluation Reserve	2,464		3,880
Other adjustments	(2,657)	(193)	(4,087)
Net written out amount of the cost of non-current assets consumed in the year		(149,107)	(117,531)
Capital financing applied in the year:			
Use of Capital Receipts Reserve to finance new capital expenditure	5,751		4,609
Use of the Major Repairs Reserve to finance new capital expenditure	1,862		4,413
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	57,255		0
Application of grants to capital financing from the Capital Grants Unapplied Account	4,675		47,261
Provision for the financing of capital investment charged against the General Fund and HRA balances	7,838		10,543
Capital expenditure charged against the General Fund and HRA balances	147		1,188
		77,528	68,014
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	280	280	0
Balance as at 31 March		**566,575**	**637,874**

Pensions Reserve

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

Pensions Reserve	**2010/2011**	**2009/2010**
	£000s	**£000s**
Balance as at 1 April	**(265,235)**	**(132,100)**
Actuarial gains or losses on pension assets and liabilities	85,464	(132,537)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	23,242	(19,480)
Employer's pensions contributions and direct payments to pensioners payable in the year	19,753	18,882
Balance as at 31 March	**(136,776)**	**(265,235)**

Financial Instruments Adjustment Account

This 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.

Financial Instruments Adjustment Account	**2010/2011**	**2009/2010**
	£000s	**£000s**
Balance as at 1 April	**(988)**	**(873)**
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	(115)	(115)
Balance as at 31 March	**(1,103)**	**(988)**

Collection Fund Adjustment Account

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

Collection Fund Adjustment Account	2010/2011	2009/2010
	£000s	£000s
Balance as at 1 April	**609**	**77**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(609)	532
Balance as at 31 March	**0**	**609**

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.

Accumulated Absences Account	2010/2011	2009/2010
	£000s	£000s
Balance as at 1 April	**(4,468)**	**(3,769)**
Settlement or cancellation of accrual made at the end of the preceding year	(40)	(699)
Balance as at 31 March	**(4509)**	**(4,468)**

16. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are made by the Council on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve, amortisations and revenue expenditure funded from capital under statute (REFCUS) are charged to services in the Comprehensive Income and Expenditure Statement)

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Council's directorates recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure 2010/2011	**Children and Adult Services**	**Regeneration, Community and Culture**	**Business Support**	**Public Health**	**Total**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Fees, charges & other service income	(48,377)	(32,943)	(41,304)	(744)	**(123,368)**
Government Grants	(64,584)	(3,201)	(115,424)	(183)	**(183,392)**
Total Income	**(112,961)**	**(36,144)**	**(156,728)**	**(927)**	**(306,761)**
Employee Expenses	195,953	22,636	32,974	431	**251,994**
Other service expenses	182,946	60,606	129,970	585	**374,379**
Support service recharge	6,986	5,696	10,067	40	**22,789**
Depreciation	13,092	20,066	784	0	**33,942**
Total Expenditure	**398,977**	**109,004**	**173,795**	**1,328**	**683,104**
Net Expenditure	**286,016**	**72,860**	**17,067**	**401**	**376,344**

Directorate Income and Expenditure 2009/2010 Comparative Figures					
Fees, charges & other service income	(51,368)	(30,840)	(36,843)	(905)	**(119,956)**
Government Grants	(55,202)	(2,706)	(112,020)	(89)	**(170,017)**
Total Income	**(106,570)**	**(33,546)**	**(148,863)**	**(994)**	**(289,973)**
Employee Expenses	205,947	24,941	22,989	516	**254,393**
Other service expenses	161,081	56,638	132,773	888	**351,380**
Support service recharge	6,631	6,044	8,331	35	**21,041**
Depreciation	18,529	18,081	663	0	**37,273**
Total Expenditure	**392,188**	**105,704**	**164,756**	**1,439**	**664,084**
Net Expenditure	**285,618**	**72,158**	**15,893**	**445**	**374,114**

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

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

	2010/2011	2009/2010
	£000s	£000s
Net expenditure in Directorate analysis	376,344	374,114
Net expenditure of services and support services not included in the Analysis	(1,241)	(824)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(212,046)	(110,303)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(213,287)	(111,127)
Cost of Services in Comprehensive Income and Expenditure Statement	**163,057**	**262,987**

Reconciliation to Subjective Analysis

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

2010/2011	**Directorate Analysis**	**Services not in Analysis-HRA**	**Amounts not Reported to Management**	**Net Cost of Services**	**Corporate Amounts**	**Total**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Fees, charges & other service income	(123,368)	(11,990)	(1,647)	(137,005)	(2,036)	(139,041)
Interest and investment income	0	0	0	0	(2,341)	(2,341)
Income from Council tax	0	0	0	0	(97,601)	(97,601)
Government grants and contributions	(183,392)	(4)	(158,345)	(341,741)	(165,953)	(507,694)
Pension Adjustment	0	0	(52,055)	(52,055)	0	(52,055)
Total Income	**(306,761)**	**(11,994)**	**(212,046)**	**(530,800)**	**(267,932)**	**(798,732)**
Employee Expenses	251,994	1,455	177	253,626	0	253,626
Other service expenses	374,379	6,382	29,762	410,523	13,516	424,039
Support service recharge	22,789	677	0	23,466	0	23,466
Depreciation, amortisation and impairment	33,942	2,239	1,580	37,761	399	38,161
Precepts and levies	0	0	0	0	1,223	1,223
Payments to Housing Capital Receipts Pool	0	0	0	0	180	180
Gain or loss on disposal of fixed assets	0	0	71,293	71,293	5,510	76,802
Pension Adjustments	0	0	0	0	9,037	9,037
Total Expenditure	**683,104**	**10,753**	**102,812**	**796,668**	**29,865**	**826,534**
(Surplus)/Deficit on the provision of services	**376,344**	**(1,241)**	**(109,234)**	**265,868**	**(238,067)**	**27,801**

2009/2010 Comparative Figures	Directorate Analysis	Services not in Analysis - HRA	Amounts not Reported to Management	Net Cost of Services	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Fees, charges & other service income	(119,956)	(11,676)	(3,750)	**(135,382)**	(2,168)	(137,639)
Interest and investment income	0	(164)	3,528	**3,364**	(3,390)	(26)
Income from Council tax	0	0	0	**0**	(94,859)	(94,859)
Government grants and contributions	(170,017)	0	(164,588)	**(334,605)**	(153,602)	(488,207)
Total Income	**(289,973)**	**(11,840)**	**(164,810)**	**(466,623)**	**(254,020)**	**(720,643)**
Employee Expenses	254,393	1,766	0	**256,159**	0	256,159
Other service expenses	351,380	6,378	9,478	**367,237**	20,057	387,294
Support service recharge	21,041	660	0	**21,701**	0	21,701
Depreciation, amortisation and impairment	37,273	2,212	45,028	**84,513**	(10)	84,503
Precepts and levies	0	0	0	**0**	1,201	1,201
Payments to Housing Capital Receipts Pool	0	0	0	**0**	191	191
Gain or loss on disposal of fixed assets	0	0	0	**0**	(779)	(779)
Total Expenditure	**664,084**	**11,016**	**54,506**	**729,610**	**20,660**	**750,270**
(Surplus)/Deficit on the provision of services	**374,114**	**(824)**	**(110,304)**	**262,987**	**(233,361)**	**29,626**

17. Pooled Budgets

From 1 April 2009, commissioning responsibility for all learning disabled clients requiring social care transferred to local authorities. This meant that the Section 31 agreement, which Medway PCT entered into with Medway Council, was no longer necessary and the transfer of PCT funding to the Council was dictated by the Department of Health. The sum of the transfers made by Medway, Eastern and Coastal Kent and West Kent for 2010/2011 was £8,893,663.

During 2008/2009, the Council also entered into an agreement with Medway PCT for the delivery of joint service priorities within the Local Area Agreement, via the establishment of an LAA Innovation Fund, under Section 75 of the National Health Services Act 2006. This funding was committed, over a three year period, to various projects which met LAA health targets. The PCT made a contribution of £1,200,000. Expenditure during 2008/2009 amounted to £89,452 and a further £388,426 was spent during 2009/2010. In this, the final year of the agreement, the Council has incurred expenditure of £372,122 and the unspent balance of £350,000 has been returned to Medway PCT.

18. Members' Allowances

In 2010/2011 a total of £812,000 (2009/2010 £827,000) was paid to the Council's 55 members in respect of allowances. Full details can be found on the Council's website from the following link: http://www.medway.gov.uk/councilanddemocracy/councillors/membersallowances.aspx

19. Officers' Remuneration

The remuneration paid to the Authority's senior employees is as follows:

Post	Salary	Fees and Allowances	Expenses	Total Excluding Pension Contribution	Pension Contribution	Total
	£	£	£	£	£	£
Chief Executive	146,640	8,397	168	155,205	31,382	186,587
Director of Children's Services	118,406	13,130	0	131,536	26,561	158,097
Director of Regeneration, Community & Culture	114,726	13,130	75	127,931	25,777	153,708
Assistant Director Customer First, Leisure, Democracy & Governance	84,977	10,479	0	95,456	19,370	114,826
Assistant Director Lifelong Learning	74,691	13,667	51	88,409	17,858	106,267
Assistant Director Development, Economy & Transport	84,977	5,213	56	90,246	18,248	108,494
Assistant Director Front Line Services	84,977	5,213	0	90,190	18,248	108,438
Assistant Director Communications, Performance & Partnerships	84,977	8,403	0	93,380	18,928	112,308
Assistant Director Housing & Corporate Services	84,560	18,503	0	103,063	20,990	124,053
Chief Finance Officer	82,629	19,379	0	102,008	20,765	122,773
Head of Medway Renaissance	82,629	18,457	273	101,359	20,577	121,936
Assistant Director Organisational Services	82,629	8,403	0	91,032	18,427	109,459
Assistant Director Children's Care	78,836	5,213	35	84,084	16,940	101,024
Assistant Director Commissioning & Strategic Development	72,400	5,213	0	77,613	15,569	93,182
Assistant Director Inclusions	67,774	5,213	25	73,012	14,584	87,596
Assistant Director Social Care	64,968	11,213	0	76,181	13,986	90,167

Comparative figures for 2009/2010 are as follows:

Post	Salary	Fees and Allowances	Expenses	Total Excluding Pension Contribution	Pension Contribution	Total
	£	£	£	£	£	£
Chief Executive	140,646	14,006	75	154,727	30,419	185,146
Director of Children's Services	114,807	13,130	0	127,937	25,068	153,005
Director of Regeneration, Community & Culture	109,915	13,130	119	123,164	24,055	147,219
Assistant Director Customer First, Leisure, Democracy & Governance	84,977	10,622	0	95,599	18,854	114,453
Assistant Director Lifelong Learning	83,702	15,871	209	99,782	19,676	119,458
Assistant Director Development, Economy & Transport	83,683	5,213	59	88,955	17,466	106,421
Assistant Director Front Line Services	83,587	5,213	0	88,800	17,447	106,247
Assistant Director Communications, Performance & Partnerships	82,207	8,431	0	90,638	17,923	108,561
Assistant Director Housing & Corporate Services	82,213	16,905	37	99,155	19,582	118,737
Chief Finance Officer	80,291	19,754	0	100,045	19,774	119,819
Head of Medway Renaissance	80,076	18,443	654	99,173	19,513	118,686
Assistant Director Organisational Services	80,052	8,463	0	88,515	17,442	105,957
Assistant Director Children's Care	77,963	5,213	0	83,176	16,282	99,458
Assistant Director Commissioning & Strategic Development	71,057	5,213	0	76,270	14,853	91,123
Assistant Director Inclusions	64,742	5,156	0	69,898	13,697	83,595
Assistant Director Social Care	64,149	5,213	0	69,362	13,422	82,784

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

	Number of Employees			
	Schools		Non-Schools	
Remuneration Band	**2010/2011**	**2009/2010**	**2010/2011**	**2009/2010**
£50,000 to £54,999	111	95	29	27
£55,000 to £59,999	43	55	14	19
£60,000 to £64,999	36	38	42	40
£65,000 to £69,999	33	20	10	8
£70,000 to £74,999	18	12	2	0
£75,000 to £79,999	4	6	1	0
£80,000 to £84,999	1	3	1	0
£85,000 to £89,999	6	4	0	0
£90,000 to £95,999	1	3	0	0
£95,000 to £99,999	4	4	0	0
£100,000 to £104,999	0	2	0	0
£105,000 to £109,999	1	0	0	0
£110,000 to £114,999	1	2	0	0
£115,000 to £119,999	1	1	0	0
£120,000 to £124,999	2	0	0	0
£125,000 to £129,999	1	0	0	0
Total	**263**	**245**	**99**	**94**

20. External Audit Costs

The following amounts were paid in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections:

	2010/2011 £000	2009/2010 £000
PKF - Statement of Accounts	239	216
PKF - Use of Resources	90	93
PKF - Risk Based Use of Resources	20	20
PKF - Grants (Including grants report)	85	84
Total	**434**	**413**
Audit Commission - Managing Performance / Strategic Housing Re-inspection	0	60

21. Dedicated Schools Grant

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

During 2010/2011 the Council incurred an underspend of £698,000 on DSG services. After taking account of the deficit of £68,000 brought forward from 2009/2010 a surplus of £630,000 was carried forward to 2011/2012.

An analysis of the DSG for 2010/2011 is provided in the table below.

	Central Expenditure	ISB	Total
	£'000	£'000	£'000
Budgeted DSG in 2010/11	22,407	150,545	172,952
Difference between budgeted and actual DSG	(33)	(14,574)	(14,607)
Final DSG for 2010/11	22,374	135,971	158,345
Brought forward from 2009/10	(68)	0	(68)
Carry forward to 2011/12 agreed in advance	0	0	0
DSG available in 2010/11	22,306	135,971	158,277
Actual central expenditure	21,216	0	21,216
Actual ISB deployed to schools	0	136,430	136,430
Local authority contribution for 2010/11	0	0	0
Carry forward to 2011/12	1,090	(459)	630

22. Related Parties

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

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 17 on reporting for resources allocation decisions.

Members

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

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

One Member of the Council is a non-executive director of NHS Medway. During the year the Council received £16.731 million from NHS Medway (see Note 4) and paid £821,000 in respect of various services.

One member of the Council has declared that a member of his household is the Chief Executive of Medway District CAB Ltd. The Council made payments to the organisation amounting to £270,600 during 2010/2011.

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

Chatham Historic Dockyard Trust (CHDT) – Two members represent the Council on the trust which is set up to secure for the public benefit the preservation and use of the Historic Dockyard at Chatham in a manner appropriate to its archaeological, historical and architectural importance and promote and foster for the public benefit a wide knowledge and understanding of the significance of the dockyard. The Council made payments to the Trust amounting to £143,000 during 2010/2011.

Fort Amherst Heritage Trust – One member represents the Council on the Trust, which manages the 18th century fort as a popular visitor attraction. The Council made payments to the Trust amounting to £30,700 during 2010/2011

Rochester Bridge Trust (RBT) – Three members represent the Council on the trust, the main purpose of which is to maintain and improve the Medway Tunnel, bridges and associated riverbanks in order to facilitate passage over, under or across the River Medway. There were no financial transactions between the Council and the Trust during 2010/2011. In 2009/2010 the Council acquired the freehold of Medway Tunnel at a peppercorn and received £3.274 million from RBT in that year as a contribution towards future maintenance costs.

Thames Gateway Kent Partnership (TGKP) – The leader of the Council, in common with neighbouring authorities and Kent County Council, is a board member of TGKP. The aims and objectives of the partnership are to provide a strong and effective partnership to bring about a high-quality sustainable economic development and regeneration of the whole Thames Gateway Kent areas, to promote economic and social investment and equality of opportunity and to create employment, community and environmental benefits for local people, businesses and employees, reflecting their needs and aspirations. The Council contributed £25,000 to the Partnership in 2010/2011.

Officers

One senior officer is a board member of Locate in Kent, a company funded and supported by Kent County Council, South East England Development Agency (SEEDA), East Kent Partnership, Medway Council, local councils and the Kent Developers Group which provide a free, comprehensive and confidential relocation service to help businesses benefit from the Kent's unique locational advantages. The Council contributed £31,500 to the company in 2010/2011.

Other Public Bodies

Other than transactions disclosed elsewhere within these accounts (e.g. note 17), there are no other disclosures required in accordance with FRS 8 – Related Party Transactions.

23. Capital Expenditure and Capital Financing

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

	2010/2011 £000	2009/2010 £000
Capital Investment		
Property Plant and Equipment	52,022	40,415
Investment Properties	0	0
Revenue Expenditure Funded from Capital under Statute	27,927	22,989
Total	**79,949**	**63,404**

	2010/2011 £000	2009/2010 £000
Sources of Finance		
Capital receipts	5,751	4,609
Government grants and other contributions	60,092	44,178
Sums set aside from revenue	211	5,601
Direct revenue contributions	0	0
Borrowing	13,895	9,016
	79,949	**63,404**

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

The CFR at 31 March 2011 was £236,125,254 (31 March 2010 £230,068,000).

24. Leases

Council as Lessee

Finance Leases

The Council has a small number of leases for the acquiring of Plant and Equipment, in total £0.156m was paid in respect of finance leases in 2010/2011 and £0.021m in 2009/10.

The minimum lease payments will be payable over the following periods

	2010/2011 £000s	2009/2010 £000s
Leases expiring within one year	30	2
Leases expiring between one and five years	303	36
Leases expiring later than five years	0	0
Total	**333**	**38**

Operating Leases

The Council has made use of leases to acquire property, vehicles, and equipment. Lease rentals paid during the year in respect of current operating leases for Vehicles and Equipment amounted to £1.263m, and relating to Land and Buildings, £1.08m. The Council was committed at 31 March 2011 to making payments of £9.22m (31 March 2010 £9.155 million) under operating leases, comprising the following elements:

	Minimum Lease Payments			
	Land and Buildings		Vehicles, Plant & Equipment	
	2010/2011 £000	2009/2010 £000	2010/2011 £000	2009/2010 £000
Leases expiring within one year	101	105	189	411
Leases expiring between one and five years	2,459	3,110	2,232	3,275
Leases expiring later than five years	4,238	2,254	0	0
Total	**6,798**	**5,469**	**2,421**	**3,686**

Council as Lessor

Operating Leases

The Council 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:

	2010/2011 £000s	2009/2010 £000s
Leases expiring within one year	168	45
Leases expiring between one and five years	1,062	1,183
Leases expiring later than five years	19,564	20,861
Total	**20,794**	**22,089**

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 2011/2012 £983,221 contingent rents are expected to be received by the Authority (2010/2011 £1,059,407).

25. Impairment Losses

During 2010/2011 the Council recognised an impairment loss of £74,448,000 in the Surplus or Deficit on the Provision of Services mainly relating to Housing Revenue Account dwellings. The breakdown by class of asset is detailed in the table below:

Class of Asset	**2010/2011 £000s**
Council Dwellings	72,517
Other Land and Buildings	1,385
Vehicles, Plant and Equipment	8
Infrastructure Assets	0
Community Assets	139
Surplus Assets	0
Investment Properties	399
Total	**74,448**

26. Termination Benefits

During the year the Council terminated the contracts of a number of employees across a number of services. The council incurred a cost of £1,707,000 (2009/2010 £1,185,000) in respect of redundancy, payment in lieu of notice and added years pension costs.

27. Defined Contribution Pension Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.
The Scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010/2011 the Council paid £11,748,790 (2009/20 £12,643,000) to the DfE in respect of teachers' pension costs, the contributions rate being 14.1% (2009/2010 14.1%). There were no contributions remaining payable at the year-end. In addition the Council is responsible for all pension payments relating to Added Years benefits it has awarded. These amounted to £549,993 (2009/2010 £478,400).

28. Defined Benefit Pension Schemes

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

The Council participates in the Local Government Pension Scheme, administered locally by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post Employment Benefits

The Council 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 required 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 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:

	2010/2011 £000	2009/2010 £000
Comprehensive Income and Expenditure Statement		
Cost of Services		
Current service costs	21,822	9,395
Past service costs and settlements and curtailments	(54,215)	94
Financing and Investment Income and Expenditure		
Interest cost	27,515	22,581
Expected return on scheme assets	(18,387)	(12,590)
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services	(23,265)	19,480
Other Post Employment benefit charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and losses	(85,464)	132,537
Total Post Employment benefit charged to the Comprehensive Income and Expenditure Statement	(85,464)	132,537
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	(23,265)	19,480
Amount charged against the General Fund Balance for pensions in the year	43,018	(598)
Employers' contributions payable to scheme	19,753	18,882

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a loss of £88,252.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities

	2010/2011 £000	2009/2010 £000
Opening balance 1 April	539,049	326,600
Current service cost	21,822	9,395
Interest cost	27,515	22,581
Contributions by scheme participants	5,727	5,626
Actuarial gains and losses	(93,761)	189,032
Benefits paid	(12,575)	(13,663)
Past service cost	(47,486)	0
Curtailments	357	183
Settlements	(10,561)	(705)
Closing balance 31 March	430,087	539,049

Reconciliation of fair value of the scheme assets

	2010/2011 £000	2009/2010 £000
Opening balance 1 April	273,814	194,500
Expected rate of return	18,387	12,590
Actuarial gains and losses	(8,297)	56,495
Employer contributions	19,753	18,882
Contributions by scheme participants	5,727	5,626
Benefits paid	(12,575)	(13,663)
Receipt of bulk transfer value	(3,498)	(616)
Closing balance 31 March	293,311	273,814

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual loss on scheme assets in the year was £8.297 million (2009/2010 £56.495 million)

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £19.520 million.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Kent County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

	2010/2011	**2009/2010**
Long-term expected rate of return on assets in the scheme		
Equities	7.4%	7.5%
Gilts	4.4%	4.5%
Bonds	5.5%	5.5%
Property	5.4%	5.5%
Cash	3.0%	3.0%
Life expectancy at 65 for current pensioners		
Men	19.8 years	21.5 years
Women	23.9 years	24.4 years
Life expectancy at 65 for future pensioners		
Men	21.9 years	22.6 years
Women	25.8 years	25.5 years
Inflation		
Price increases (RPI used in 2009/10, but CPI in 2010/11)	2.7%	3.9%
Salary increases	5.0%	5.4%
Pension increases	2.7%	3.9%
Rate for discounting scheme liabilities	5.5%	5.5%

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/2011 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31March 2010:

	2010/2011 %	**2009/2010 %**	**2008/2009 %**	**2007/2008 %**	**2006/2007 %**
Differences between the expected and actual return on assets	(4.3%)	20.6%	(31.9%)	(14.3%)	(0.6%)
Experience gains and losses on liabilities	7.6%	0.4%	(0.2%)	(0.6%)	(0.1%)

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.

29. Contingent Liabilities

Buglife have initiated a legal challenge to the Council's decision to allow the land owned by National Grid to be developed. Buglife is fighting to protect a wildlife haven on the Isle of Grain from a National Grid warehouse and lorry park development. If the organisation is successful the Council may lose a £5 million developer contribution currently earmarked to fund the A228 improvements.

30. Contingent Assets

There were no known material contingent assets as at 31 March 2011.

31. Nature and Extent of Risks Arising from Financial Instruments

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

- credit risk – the possibility that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- re-financing risk – the possibility that the authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. As a result of the current economic position the criteria to assess credit risk is regularly reviewed and enhanced. Within the Treasury Management Strategy 2010/2011 approved by Cabinet 16 February 2010 the new CIPFA Treasury Management in the Public Services Code of Practice was formally adopted. The strategy is approved annually and sets out the Council's investment priorities, which are the security of capital and the liquidity of its investments ahead of yield. Full Council approved the 2011/12 Strategy on the 24 February 2011.

Counterparties continue to be monitored using the creditworthiness service provided by Sector Treasury Services, which combines credit ratings, credit watches, credit outlook and Credit Default Swap (CDS) spreads. Officers monitor all credit ratings, market data and other intelligence continuously. The maximum amount for investments per counterparty is £25 million for the in-house team and 20% of the managed portfolio with any counterparty for Investec (the current fund manager). The Council also considers country limits and will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings. The country limit is reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save for the United Kingdom with no limit.

The following analysis summarises the Council's prudent provision for what we believe to be our maximum exposure to credit risk, based on experience of default and uncollected debts over previous financial years.

	Amount at 31 March 2011	**Historical experience of default**	**Estimated maximum exposure to default and uncollectability**
	£000s	**%**	**£000s**
Deposits with banks and financial institutions*	69,526	0.00	0
Customers	7,990	16.58	1,325
Council Tax	9,550	23.4	2,233
Total	87,066	4.09	3,558

* This is made up of the following:	**Amount at 31 March 2011 £000s**
Lloyds TSB	20,000
Natwest	16,600
Svenska Handelsbanken	10,000
Stocks	4
Fund managers	22,460
Total	**69,064**
Accrued interest	462
Total including accrued interest	**69,526**

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

The Council does not generally allow credit for customers, such that £7.072 million of the £7.990 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000s
Less than three months	2,963
Three to six months	685
Six months to one year	1,050
More than one year	2,374
	7,072

Of the £10.316 million Council Tax outstanding at 31 March 2011 £5.316 million is over one year old.

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

Liquidity risk

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

	Lower Limit (%)	**Upper Limit (%)**	**Actual %**
Under 12 Months	0	50	5.87%
12 months and within 24 months	0	50	5.78%
24 months and within 5 years	0	50	5.77%
5 years and within 10 years	0	50	4.04%
10 years and above	25	100	78.55%

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

Market risk

Interest rate risk

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

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

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

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

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

Price Risk

The Council does not generally invest in equity shares or marketable bonds but does have HM Treasury Stock to the value of £3,957. The Council has some exposure to losses arising from movements in the prices of the HM Treasury Stock.

Foreign Exchange Risk

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

G SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Accounts

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

There is a statutory duty, under the provision of the Local Government Finance Act 1988, to maintain a Collection Fund which separate from other accounts of the Council. Payments to and from the Collection Fund, which is operated on an accruals basis, are strictly defined in the Act. The Council, in common with Kent Police Authority and Kent Fire and Rescue Service has a precept on the Collection Fund. The Council's precept, excluding Parishes, for 2010/2011 was £94,048,000 (2009/2010 £94,048,000).

In it's capacity as billing authority Medway Council acts as an agent for the other major Precepting authorities (Police and Fire) and Central Government as it collects and distributes council tax and business rates on their behalf. The 2009 SORP recognised this agency relationship and required the introduction of the Collection Fund Adjustment Account and the reclassification of debtor and creditor balances.

INCOME AND EXPENDITURE ACCOUNT	**Notes**	**2010/2011 £'000**	**2009/2010 £'000**
Income			
Council Tax Collectable from taxpayers	1	(97,869)	(95,587)
Transfers from General Fund: Council Tax Benefit		(18,820)	(17,811)
Income Collectable from Business ratepayers	2	(71,530)	(70,306)
Total Income for Year		(188,219)	(183,704)
Expenditure			
Precepts and Demands			
Medway Council		97,893	94,048
Kent Police Authority (KPA)		12,152	11,593
Kent Fire and Rescue Service (KFRS)		5,985	5,688
Parishes		317	279
		116,347	111,608
Business rates			
Payments to National Pool	3	69,598	69,374
Costs of collection allowance		290	288
Provision for bad and doubtful debts	4	2,768	1,805
Total Expenditure for year		189,003	183,075
(Surplus) / Deficit for the year		784	(629)
(Surplus) / Deficit at the beginning of the year		(761)	(132)
(Surplus) / Deficit at end of year	5	23	(761)

Notes to the Collection Fund Account

1. Council Tax

In 2010/2011 the Council, the Kent Police Authority and the Kent Fire and Rescue Service set equivalent Band D Council Tax levels of £1,119.15, £138.68 and £67.95 respectively resulting in a Council Tax Band D in the Council's area of £1,325.78 excluding Parishes.

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

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

Band	Value	Total (net of discounts)	Multiplier	Band D Equivalents
A	Not exceeding £40,000	8,765	6/9	5,843
B	£40,000 to £52,000	32,560	7/9	25,324
C	£52,000 to £65,000	29,370	8/9	26,107
D	£65,000 to £88,000	15,202	9/9	15,202
E	£88,000 to £120,000	7,430	11/9	9,081
F	£120,000 to £160,000	3,186	13/9	4,602
G	£160,000 to £320,000	1,148	15/9	1,912
H	Exceeding £320,000	40	18/9	80
Less adjustment for collection rates and MOD properties				(957)
	Total Band D Equivalent 2010/2011			87,194
	Total Band D Equivalent 2009/2010			86,098

The Tax Base multiplied by the Council Tax levied indicates an estimated gross yield of approximately £115,000,000 for Medway Council and the precepting authorities. Specific reductions are made, in accordance with Government regulations, for persons on low incomes (Council Tax benefits approaching £19,000,000) granting up to 100% rebate. This is reimbursed by Central Government. The actual net yield from council tax in 2010/2011 was £97,869,000.

2. Income from Business Rates

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

	2010/2011 £'000	2009/2010 £'000
Amount Collectable for the year	82,668	80,679
Less: Transitional and other Reliefs	(11,138)	(10,373)
Income Collectable from Non-Domestic Ratepayers	71,530	70,306

The total Non-Domestic Rateable Value at 31 March 2011 was £169,284,729 (31 March 2010 £169,274,729) and the Uniform Business Rate 40.7p (41.4p with supplement) (2009/2010 48.1p and 48.5p respectively) in the £.

3. Contribution to Non-Domestic Rate Pool

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

4. Provision for Bad and Doubtful Debts

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

	Council Tax £'000	NNDR £'000
Balance 1 April 2010	2,054	810
Add: Provisions made during year	1,126	1,642
Less amounts written off	(947)	(1,002)
Balance 31 March 2011	2,233	1,450

5. Surplus/Deficit

The surplus attributable to Medway Council at the end of March 2011 was £500 and deficits due from Kent Police Authority and Kent Fire and Rescue Service were £18,400 and £4,7000 respectively. The deficit for the year was £761,000.

Housing Revenue Account

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

1. HRA Income and Expenditure Statement

This statement shows in more detail the income and expenditure on HRA services included in the whole authority Surplus or Deficit on the Provision of Services.

	Notes	2010/2011		2009/2010
		£'000		£'000
Income				
Dwelling Rents (Gross)	9	(10,690)		(10,446)
Non-Dwelling Rents (Gross)		(192)		(210)
Charges for Services & Facilities		(995)		(990)
Total Income		**(11,877)**		**(11,646)**
Expenditure				
Repairs & Maintenance		2,074		2,190
Supervision & Management		3,741		3,689
Rents, Rates, Taxes and Other Charges		154		124
Negative Housing Revenue Account Subsidy/Rent Rebate Limitation Subsidy Payable	7	1,608		1,671
Depreciation and impairment of fixed assets	3	74,757		1,711
Debt Management Costs		51		49
Increase/(Decrease) in Provision for Bad or Doubtful Debts	8	78		46
Total Expenditure		82,461		**9,479**
Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement			70,584	(2,167)
HRA services share of Corporate and Democratic Core			110	107
HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement			14	0
Net Cost of Housing Revenue Account Services			**70,708**	**(2,060)**
(Surplus)/Deficit on revaluation of Property, Plant and Equipment			65	50
Interest payable and similar charges			862	789
Interest and investment income			(65)	(164)
Actuarial (gains)/losses on pension assets/liabilities			(430)	122
Deficit/(Surplus) for the year on Housing Revenue Account Services			**71,140**	**(1,263)**

2. Movement on the Housing Revenue Account Statement

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

	2010/2011 £000	2009/2010 £'000
Surplus on HRA as at 1April	(5,127)	(4,303)
Surplus on the HRA Income and Expenditure Account	71,140	(1,263)
Adjustments between accounting basis and funding basis under regulations	(72,174)	(74)
Net increase before transfers to or from reserves	(1,034)	(1,337)
Transfers to or from reserves	5	513
Surplus on HRA at 31 March	(6,156)	(5,127)

3. Adjustments between accounting basis and funding basis under regulations

	2010/2011 £000	2009/2010 £'000
Revaluation Losses	(72,517)	0
Profit/(Loss) on sale of HRA non-current assets	(65)	(55)
Contribution of Disposal Costs	(10)	0
Reversal of Retirement Benefits	233	0
Employers Pension Costs	197	(7)
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	(12)	(12)
	(72,174)	(74)

4. Transfers to or from reserves

	2010/2011 £000	2009/2010 £'000
Transfer to/(From) Major Repairs Reserve	0	501
Transfer to/(From) Earmarked Reserves	5	12
	12	513

Notes to the Housing Revenue Account

1. Introduction

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

2. Dwelling Stock

The Council managed 3,046 dwellings as at 31 March 2011. The movement in stock is analysed as follows:

Stock Type	1 April 2010	Adjustments	Additions	Disposals	31 March 2011
Houses	1,317	(1)		(2)	1,314
Flats	1,273	1		(2)	1,272
Maisonettes	216				216
Bungalows	244				244
Total	3,050	0		(4)	3,046

3. HRA Fixed Assets

In accordance with Government guidelines, dwellings have been valued at their ‘existing use with vacant possession’ based upon beacon values and then reduced to reflect ‘existing use for social housing’. This value is included within the Balance Sheet. The market value at 1 April 2010 is estimated to be £308,371,350. A valuation of the housing stock was carried out as at 1 April 2010 by DTZ, a firm of independent valuers.

	Dwellings £’000	Other Land and Buildings £’000	Total £’000
Balance Sheet Value 1 April 2010	170,379	5,634	176,013
Revaluation	115	0	115
Impairments	(72,517)	0	(72,517)
Restatements	0	0	0
Assets reclassified (to)/from Held for Sale	587		587
Book Value 1 April 2010	98,564	5,634	104,198
Depreciation	(1,811)	(429)	(2,239)
Additions (see below)	2,597	0	2,597
Disposals	(1,049)	0	(1,049)
Balance Sheet Value 31 March 2011	98,302	5,205	103,507

4. Major Repair Reserve

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

Major Repairs Reserve	**2010/2011 £'000**	**2009/2010 £'000**
Opening Balance 1 April	639	2,840
HRA Depreciation from Capital Financing Account	2,239	1,711
Depreciation Adjusting Transfer from HRA	0	501
Financing of HRA Capital Expenditure	(1,862)	(4,413)
Balance Carried Forward 31 March	1,017	639

5. Analysis of HRA Capital Expenditure and Funding

Funding Source	**2010/2011 £'000**	**2009/2010 £'000**
Operational Assets		
Dwellings	2,558	5,148
Other Land and Buildings	39	0
Non-Operational Assets	0	0
Total	2,597	5,148
Funded by:		
Major Repairs Reserve	1,862	4,413
Borrowing	735	735
Housing Right To Buy Capital Receipts	0	0
Revenue contributions from the HRA	0	0
Total Funding	2,597	5,148

6. Summary of HRA Capital Receipts

	2010/2011 £'000	**2009/2010 £'000**
Receipts from the sale of land	22	4
Receipts from the sale of other property	714	354
Repayment of discount	8	26
Receipts from the sale of houses other than through the right to buy scheme	0	
Receipts from disposals of houses through the Right To Buy scheme	246	336
Total Capital Receipts	990	720

7. Housing Subsidy

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

Subsidy for 2010/2011 was based on an assumed number of dwellings of 3,053 compared with 3,058 for 2009/2010.

From 1 April 2004, the responsibility for the cost of rent rebates relating to Council Tenants was transferred from the Housing Revenue Account to the General Fund. In order to ensure a neutral effect, the Secretary of State determined under Item 10 of the Local Government and Housing Act 1989 that where authorities had set rents in excess of a specified preset limit, a transfer equal to the loss of rent rebate subsidy should be made from the Housing Revenue Account to the credit of the General Fund. In 2010/2011 this amounted to £216,337 (£153,811 in 2009/2010).

Housing Subsidy	**2010/2011 £'000**	**2009/2010 £'000**
Management Allowance	1,804	1,728
Maintenance Allowance	3,612	3,501
Major Repairs Allowance	2,239	2,212
Admissible Allowance	0	0
Rental Constraint Allowance	0	0
Charges for capital	1,092	999
Total Receivable Allowance	8,747	8,440
Less		
Guideline Rent Income	(10,143)	(9,951)
Interest on Receipts	(1)	0
Total Income Allowance to be netted against Receivable Allowance	(10,144)	(9,951)
Total Subsidy (Payable)/Receivable In-Year	**(1,397)**	**(1,511)**
Prior Year Adjustments	5	0
Total Subsidy (Payable)/Receivable Including Prior Year Adjustments	**(1,392)**	**(1,511)**
Rent Rebate Subsidy Limitation	(216)	(154)
Total Housing Subsidy/Rent Rebate Subsidy (Payable)/Receivable	**(1,608)**	**(1,665)**

8. Tenants' Arrears

Tenants' Arrears at 31 March were analysed as follows:

Type of Debt	**2010/2011 £'000**	**2009/2010 £'000**
General Stock	362	330
Garages	5	10
Former Tenancies – General Stock	287	268
Former Tenancies - Garages	5	4
Housing Benefit Overpayments – General Stock	57	55
Court Costs – General Stock	39	41
Former Tenancy Arrears of Current Tenants – General	32	34
Rechargeable Repairs	33	31
Total Arrears	820	773
Percentage of Gross Rents (HRA)	6.95%	6.83%

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

	2010/2011 £'000	2009/2010 £'000
Balance 1 April	585	597
Additional Provision made during year	82	46
Add Credit write-offs	55	0
Less amounts written off	(93)	(58)
Balance 31 March	629	585

9. Gross Rent Debit

The rent income figure is net of voids. The level of voids in 2010/2011 was on average equal to 0.94% (1.39% in 2009/2010). The level of rebates provided was £7,996,953 (2009/2010 £7,257,627), which amounted to 67.83% of rent and HB related service charges collectable (2009/2010 65.18%).

H GLOSSARY OF TERMS

ACCRUAL

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

ASSET

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

AUDIT OF ACCOUNTS

An independent examination of the Council's financial affairs.

BUDGET

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

CAPITAL EXPENDITURE

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

CAPITAL FINANCING

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

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

CAPITAL PROGRAMME

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

CAPITAL RECEIPT

The proceeds from the disposal of land or other non-current assets.

CENTRAL SERVICES

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

Corporate and Democratic Core incorporating

> Democratic Representation and Management which includes all aspects of members' activities including civic ceremonials, members' allowances and all officer support to this function and;
>
> Corporate management which includes all the functions of the Chief Executive, external audit, treasury management and 'corporate' bank charges.
>
> Unapportionable Central Overheads which is substantially the cost of past service contribution to the pension fund, charges for added years and early retirements. The former was previously allocated to services.

COLLECTION FUND

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

COMMUNITY ASSETS

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

CONSISTENCY

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

CREDIT APPROVAL

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

CREDITOR

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

DEBTOR

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

DEPRECIATION

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

FINANCE LEASE

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

GOVERNMENT GRANTS

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

HOUSING ADVANCES

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

HOUSING BENEFITS

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

HOUSING REVENUE ACCOUNT

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

INCOME

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

INFRASTRUCTURE ASSETS

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

LIABILITY

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

LOBOS

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

MINIMUM REVENUE PROVISION (MRP)

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

NON-DOMESTIC RATE

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

NON-OPERATIONAL ASSETS

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

OPERATING LEASE

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

OPERATIONAL ASSETS

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

PRECEPT

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

PROVISION

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

PROVISION FOR CREDIT LIABILITIES

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

PUBLIC WORKS LOAN BOARD (PWLB)

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

RATEABLE VALUE

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

RELATED PARTY TRANSACTIONS

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

RESERVES

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

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

REVENUE SUPPORT GRANT

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

STOCKS

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

TEMPORARY LOAN

Money borrowed for a period of less than one year.

TOTAL COST

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

The cost of that activity or service will then be consistently applied in reporting performance indicators, Best Value Performance Plans, statistics and returns and used as a benchmark against Capital expenditure which is of benefit beyond the current accounting period, but which does not result in a tangible fixed asset to the Council. An example of a deferred charge would be capital expenditure on improvement grants.

I. IMPACT OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Statement of Accounts for 2010/2011 is the first to be prepared on an IFRS basis. Adoption of the IFRS based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of accounts for 2009/2010.

An explanation of the differences between the amounts presented in the 2009/2010 financial statements and the equivalent amounts presented in the 2010/2011 financial statements is set out in the following tables and accompanying notes.

Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the date of transition to IFRS (1 April 2009)

	Previous GAAP	Absences	Effect of Transition to IFRS Leases	Grants	Other	IFRS
	Note	1	2	3	4	
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Property Plant and Equipment	1,005,452		781		(33,224)	973,009
Investment Property	72,566				(66,640)	5,926
Assets held for Sale	0					0
Long Term Investments	20,004					20,004
Long Term Debtors	882					882
Long Term Assets	**1,098,904**	**0**	**781**	**0**	**(99,864)**	**999,821**
Short Term Investments	114,747				(2,407)	112,340
Assets Held for Sale	0				2,668	2,668
Inventories	144					144
Short Term Debtors	51,211					51,211
Cash and Cash Equivalents	17,736				(14,059)	3,677
Current Assets	**183,838**	**0**	**0**	**0**	**(13,798)**	**170,040**
Bank Overdraft	(16,466)				16,466	(0)
Short Term Borrowing	(52,351)					(52,351)
Short Term Creditors	(55,457)	(3,112)				(58,569)
Provisions (<1 Year)	(0)					
Current Liabilities	**(124,274)**	**(3,112)**	**0**	**0**	**16,466**	**(110,920)**
Capital Grants etc Unapplied	(20,276)			20,276		0
Government Grant Deferred	(84,867)			84,867		0
Capital Contributions Deferred	(9,970)			9,970		0
Long Term Creditors	(52,006)					(52,006)
Provisions (>1 Year)	(1,735)					(1,735)
Long Term Borrowing	(200,260)					(200,260)
Net Pensions Liability	(132,100)					(132,100)
Embedded Lease Liability	(0)		(781)			(781)
Capital Grants Receipts in Advance	(0)			(8,143)		(8,143)
Long Term Liabilities	**(501,214)**	**0**	**(781)**	**106,970**	**0**	**(395,025)**
Net Assets	**657,254**	**(3,112)**	**0**	**106,970**	**(97,196)**	**663,916**
Capital Grants etc Unapplied	0			12,132		12,132
Other Usable Reserves	38,084					38,084
Usable Reserves	**38,084**	**0**	**0**	**12,132**	**0**	**50,216**
Capital Adjustment Account	682,745			94,838	(90,192)	687,391
Accumulated Absences Account	(657)	(3,112)				(3,769)
Other Unusable Reserves	(62,918)				(7,004)	(69,922)
Unusable Reserves	**619,170**	**(3,112)**	**0**	**94,838**	**(97,196)**	**613,700**
Total Reserves	**657,254**	**(3,112)**	**0**	**106,970**	**(97,196)**	**663,916**

Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the date of transition to IFRS (31 March 2010)

	Previous GAAP		Effect of Transition to IFRS			IFRS
		Absences	**Leases**	**Grants**	**Other**	
	Note	1	2	3	4	
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Property Plant and Equipment	1,012,128		595		(54,277)	958,446
Investment Property	70,872				(64,956)	5,916
Assets held for Sale	0					0
Long Term Investments	10,004					10,004
Long Term Debtors	788					787
Long Term Assets	**1,093,792**	**0**	**595**	**0**	**(119,233)**	**975,154**
Short Term Investments	79,056				(56,819)	22,237
Assets Held for Sale	0				3,770	3,770
Inventories	152					152
Short Term Debtors	61,651				(72)	61,579
Cash and Cash Equivalents	23,658				33,099	56,757
Current Assets	**164,517**	**0**	**0**	**0**	**(20,022)**	**144,495**
Bank Overdraft	(23,719)				23,719	(0)
Short Term Borrowing	(26,895)					(26,895)
Short Term Creditors	(58,768)	(3,781)			72	(62,477)
Provisions (<1 Year)	(0)					(0)
Current Liabilities	**(109,382)**	**(3,781)**	**0**	**0**	**23,791**	**(89,372)**
Capital Grants etc Unapplied	(32,737)			32,737		0
Government Grant Deferred	(96,286)			96,286		0
Capital Contributions Deferred	(9,476)			9,476		0
Long Term Creditors	(49,709)					(49,709)
Provisions (>1 Year)	(2,941)					(2,941)
Long Term Borrowing	(175,139)					(175,139)
Net Pensions Liability	(265,235)					(265,235)
Embedded Lease Liability	(0)		(595)			(595)
Capital Grants Receipts in Advance	(0)			(8,713)		(8,713)
Long Term Liabilities	**(631,523)**	**0**	**(595)**	**129,786**	**0**	**(502,332)**
Net Assets	**517,404**	**(3,781)**	**0**	**129,786**	**(115,464)**	**527,945**
Capital Grants etc Unapplied	0			24,024		24,024
Other Usable Reserves	36,534					36,534
Usable Reserves	**36,534**	**0**	**0**	**24,024**	**0**	**60,558**
Capital Adjustment Account	629,487			105,762	(97,375)	637,874
Accumulated Absences Account	(687)	(3,781)				(4,468)
Other Unusable Reserves	(147,930)				(18,089)	(166,019)
Unusable Reserves	**480,870**	**(3,781)**		**105,762**		**467,387**
Total Reserves	**517,404**	**(3,781)**	**0**	**129,786**	**(115,464)**	**527,945**

Reconciliation to total comprehensive income and expenditure under IFRS for the year ended 31 March 2010

	Previous GAAP	Absences	Leases	Grants	Other	IFRS
		Net Expenditure Effect of Transition to IFRS				
	Note	1	2	3	4	
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Gross Expenditure, gross income and net expenditure of continuing operations						
Central services to the public	2,086					2,086
Court services	458				(458)	0
Cultural, environmental, regulatory and planning services	46,520			1,947	(463)	48,004
Education and children's services	84,702	669		1,124	(3,567)	82,928
Highways and transport services	22,080		(40)	2,268		24,308
Local authority housing (HRA)	(1,263)			1		(1,262)
Other housing services	8,131			0		8,131
Adult social care	88,040					88,040
Corporate and democratic core	11,279			(2,051)	845	10,073
Non-distributed costs	674					674
Cost of Services	**262,707**	**669**	**(40)**	**3,289**	**(3,643)**	**262,982**
Other Operating Income and Expenditure	**(309)**				921	612
Financing and Investment Income and Expenditure	**14,754**		40		1,867	16,661
Taxation and Non-Specific Grant Income	**(191,476)**			**(59,153)**		**(250,629)**
(Surplus)/Deficit on the Provision of Services	**85,676**	**669**	**0**	**(55,864)**	**(855)**	**29,626**
(Surplus)/Deficit on Revaluation of Non-Current Assets	**(51,708)**				25,142	**(26,566)**
Amortisation of Grant Non-Current Assets	**(26,655)**			26,655		**0**
Actuarial (Gains)/Losses on Pension Assets and Liabilities	**132,537**					**132,537**
Movement in Accumulated Absences Reserve	**0**				699	**699**
Other Comprehensive Income and Expenditure	**54,174**	**0**	**0**	**26,655**	**25,841**	**106,670**
Total Comprehensive Income and Expenditure	**139,850**	**669**	**0**	**(29,209)**	**24,986**	**136,296**

Notes:

1 Short Term accumulated Compensated Absences refers to the benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit is holiday pay.

Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

2 Under the Code, local authorities are required to record the value of property, plant and equipment used by third parties in the provision of council services if those assets are exclusively employed within that authority. The assets are recorded in the balance sheet at their written down value. The operating costs of the service are included within the Cost of Services in the Comprehensive Income and Expenditure Statement although the interest element of the notional lease charge is removed and shown within Financing and Investment Income and Expenditure.

3 Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable unless there are conditions attached to their use. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of the Code, the balance on the Government Grants and Contributions Deferred Accounts as at 31 March 2009 have been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet. The government grants and contributions previously recognised as income have been removed from the Comprehensive Income and Expenditure Statement. Where conditions apply to the use of grants and contributions, predominantly Section 106 agreements etc., the balance of those amounts not yet applied to capital expenditure has been transferred to the Capital Grants and Contributions Unapplied Account. As these grants and contributions applied, they will be recognised through the relevant service line of the Comprehensive Income and Expenditure Statement.

4 Other restatements predominantly relate to the removal of foundation and other schools not directly controlled by the Council. This has resulted in a reduction of some £97 million in the value of Property Plant and Equipment recorded in the balance sheet as at 1 April 2009 and a corresponding reduction in the Capital Adjustment Account and Revaluation Reserve. The latter being contained within Other Unusable Reserves. In addition, the reclassification of a number of non-current assets from Investment Property to Property, Plant and Equipment has necessitated an adjustment between the Capital Adjustment Account and the Revaluation Reserve.

Bank balances and overdraft are now classified as cash and cash equivalents which comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. An investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition.

Levies, amounting to £921,000 in 2009/2010 formerly included within Cost of Service are now reclassified as Other Operating Expenditure in the Comprehensive Income and Expenditure Statement.