Statement of Accounts

for the year ended 31 March 2016

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Medway Council

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Introduction from the Chief Finance Officer – Phil Watts

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

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

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

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

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

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

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

1. An Introduction to Medway

Medway is an area of northern Kent comprising the towns of Rochester, Strood, Chatham, Gillingham and Rainham as well as nearby rural areas and the Hoo Peninsula. Medway Council is a unitary authority providing the full range of local government services in the area, including:
- Education
- Environment
- Social care
- Housing
- Planning
- Business Support

2. Key facts about Medway

Population (ONS estimate 2014) 274,000

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

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

Ethnicity (Census 2011)	
• White ethnicity	89.60%
• Black and minority ethnic	10.40%

3. The Political Structure of the Council

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

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

4. A Summary of the 2015/16 Financial Position

Revenue Account 2015/16 Final Outturn

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

Financial Statements, their Purpose and Relationship between them

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

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

- Movement in Reserves Statement for the period;
- Comprehensive Income and Expenditure Statement for the period;
- Balance Sheet as at the end of the period;
- Cash Flow Statement for the period;
- Notes comprising explanatory information;
- Housing Revenue Account Income and Expenditure Statement
- Movement on Housing Revenue Account Statement
- Collection Fund

The financial statements also include a Statement of Responsibilities which sets out the responsibilities of the Authority and the Chief Financial Officer in respect of the Statement of Accounts.

The Authority uses rounding to the nearest £'000 in presenting amounts in its financial statements; some notes are rounded to the nearest £ to aid the presentation and understanding of the financial statements.

The Statement of Accounts and the accompanying information comprises various sections which are explained below:

Information accompanying the Statement of Accounts

The Code and the Accounts and Audit Regulations 2011 require that certain information accompanies the Statement of Accounts but are not formally part of the Statement of Accounts.

Narrative Report

This section offers interested parties an easily understandable guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the Authority's financial position, and assists in the interpretation of the financial statements. It summarises the major influences affecting the Authority's income and expenditure and cash flow, and information on the financial needs and resources of the Authority.

Annual Governance Statement

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

Statement of Accounts

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

Statement of responsibilities

This Statement sets out the responsibilities of the Authority and the Chief Finance Officer in respect of the proper administration of the financial affairs of the Authority and for the preparation of the Statement of Accounts. The Chief Finance Officer has to certify that the accounts present a 'true and fair' view of the financial position of the Authority as at 31 March 2016 and its income and expenditure for the year.

Independent auditor's report

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

Financial statements and notes

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

The principal statements are set out on pages 54 to 61 and are presented as follows:

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the Authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and Housing Revenue Account for Council Tax setting and dwelling rent setting purposes. The net increase / decrease before transfers to earmarked reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow Statement

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

Notes to the principal financial statements

The notes to the principal financial statements present information about the basis of preparation of the financial statements and the specific accounting policies used, disclose additional information required by the Code that is not presented elsewhere in the financial statements, and provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them. These notes are set out on pages 62 to 120.

The supplementary financial statements are set out on pages 121 to 134 and are presented as follows:

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

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

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

Other information

A glossary of terms has been included in this document to explain some of the technical accounting language used to assist the reader and is set out on pages 135-143.

Summary of the 2015/16 Financial Performance of the Authority

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

Budget

How the Authority's Budget has Changed

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

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

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

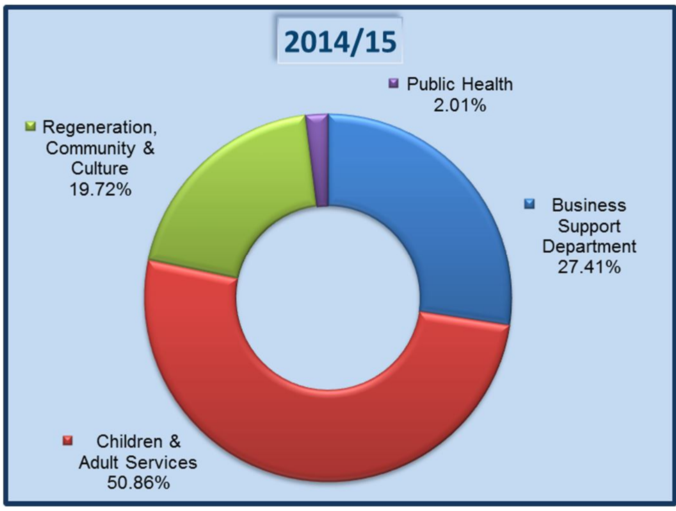
Revenue

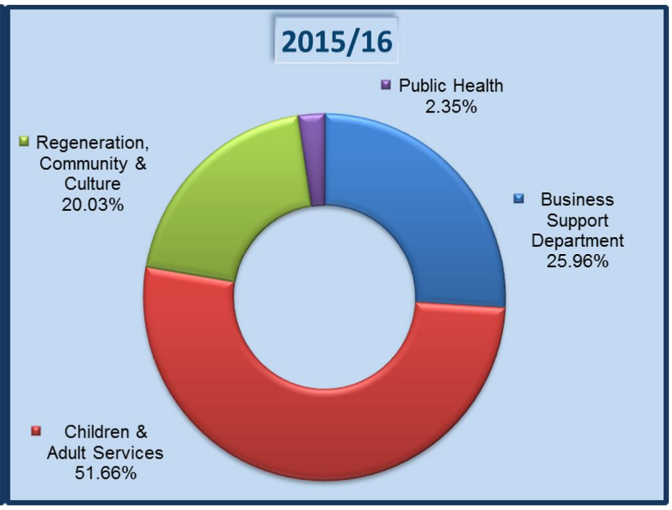
A contribution from earmarked reserves of £1.15m was planned for 2015/16. However, a corporate underspend resulted in a contribution to the General Reserve of £0.125m at year end so, essentially, the reserve drawdown was reduced to £1.025m.

The table on the following page details the management accounts summarising the income and expenditure for each directorate of the Council for 2015/16. Although these figures differ from the those shown in the Comprehensive Income and Expenditure Statement, the two sets can be linked by referring to Note 6 of the financial statements:

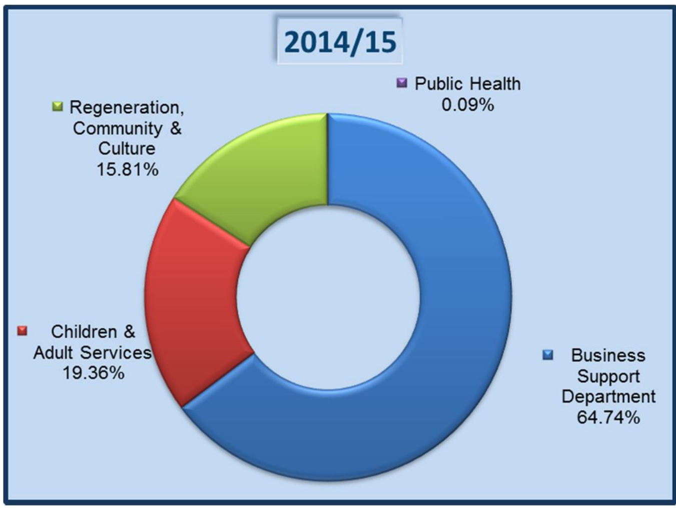
Sub total Services reported within management accounts	**596,427**	**(249,023)**	**347,404**	**344,053**	**3,351**
Levies	1,090	0	1,090	1,039	51
Depreciation Credit	0	(38,977)	(38,977)	(38,977)	0
Interest & Financing	9,787	0	9,787	13,242	(3,455)
Total Expenditure	**607,304**	**(288,000)**	**319,304**	**319,357**	**(53)**
Funded:-					
Contributions from Reserves	0	(1,150)	(1,150)	(1,150)	0
Specific Non-ringfenced Grants	0	(138,380)	(138,379)	(138,307)	(72)
RSG	0	(38,784)	(38,784)	(38,784)	0
Retained Business Rate Income	0	(45,866)	(45,866)	(45,866)	0
Council Tax	0	(95,250)	(95,250)	(95,250)	0
Total Funding	**0**	**(319,430)**	**(319,429)**	**(319,357)**	**(72)**
Total Net Expenditure			**(125)**	**0**	**(125)**

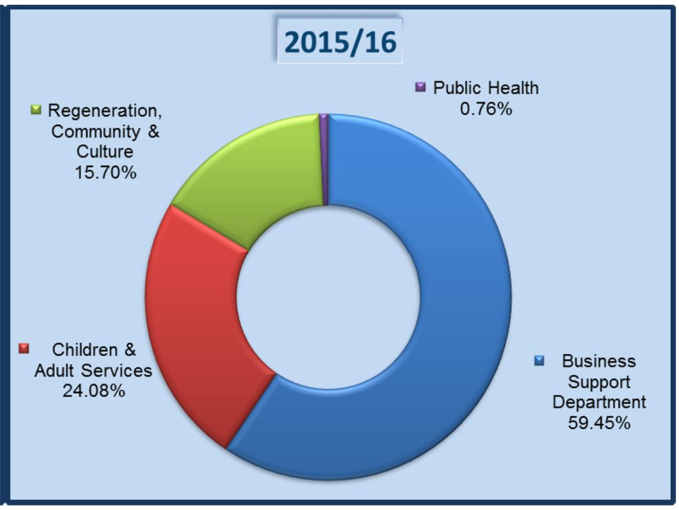
The graphs below show the breakdown of the gross expenditure to the individual costs of services. Note 6 to the financial statements gives further detail.



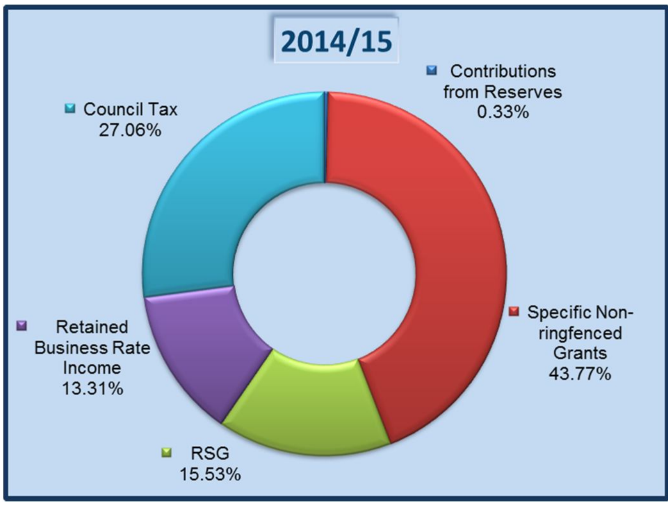


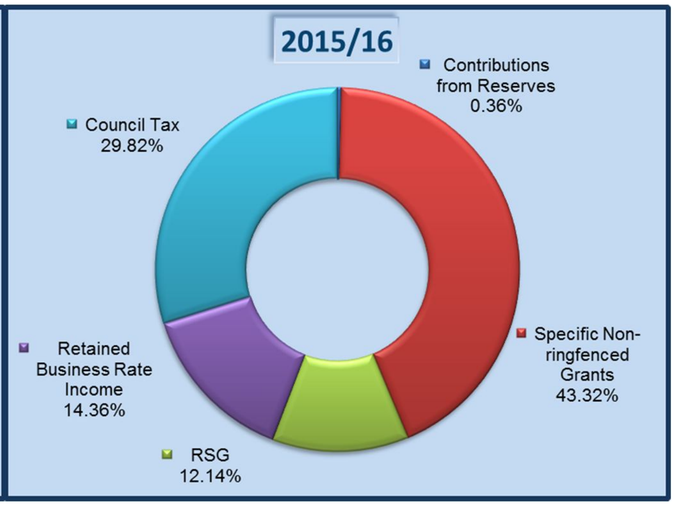
The graphs below show the breakdown of the gross Income to the individual costs of services. Note 6 to the financial statements gives further detail.





The graphs below show the funding of the budget.





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

Capital

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

Capital Expenditure has been financed from the following sources:

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

The Council spent £22.894m on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included a programme of improvements to the Council's housing stock, the provision of new classrooms and improvements to school infrastructure. The remainder of capital expenditure is split between capital works in progress of £10.985m and £8.217m relating to "Revenue Expenditure Funded from Capital under Statute" (formerly 'deferred charges'). (see Accounting Policy 23).

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

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

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

Borrowing/Investments

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

Full details of the Treasury Management performance and outturn figures can be found within the Treasury Management Outturn report 2015/16 considered by Audit Committee on 30 June 2016.

Non-Current Assets

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

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

B. Annual Governance Statement

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1. Scope of responsibility

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

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

The Council approved a local code of corporate governance at its meeting on 13 November 2008, and this is consistent with the principles of the CIPFA/SOLACE Framework for Delivering Good Governance in Local Government. The code is set out within the Council's constitution and a copy is on our website at www.medway.gov.uk and can also be obtained from the Monitoring Officer at Medway Council, Gun Wharf, Dock Road, Chatham (01634) 332133. The code is reviewed each year to ensure it remains fit for purpose, for example it was amended in 2012 to reflect changes to Councillor Conduct Complaints under the Localism Act 2011.

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

This statement explains how the Council has complied with the code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit Regulations 2011 in relation to the publication of a governance statement.

2. The purpose of the governance framework

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

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

The following section of the statement summarises Medway Council's governance framework that has been in place for the year ended 31 March 2016 and up to the date of approval of this Statement. The framework described reflects the arrangements in place to meet the six core principles of effective governance.

3. The Council's Governance Framework

a) Focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the local area

The council works with its partners to set the vision and priorities for the area. The council manages a process of bringing together performance data, demographic information and consultation findings to determine key shared priorities.

The council's well established 'framework for managing performance' at Medway Council sets out how the Council Plan helps to inform and shape the council's own priorities.

In 2016 the council reviewed the Council Plan 2016/17-2020/21, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2016 the council refreshed the Council Plan performance indicators. The Plan forms an essential part of the council's governance framework, setting out the council's priorities and the measures against which success will be judged.

b) Members and Officers working together to achieve a common purpose with clearly defined functions and roles.

The Council has ensured that the necessary roles and responsibilities for its governance are identified and allocated so that it is clear who is accountable for decisions that are made.

c) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

The Council promotes and maintains high standards of ethical conduct of members and officers through the work of its Councillor Conduct Committee. The Council fosters a culture of behaviour based on shared values, ethical principles and good conduct.

The Council takes fraud and corruption very seriously and has:

- An Anti-Bribery Act policy
- A Fraud Resilience Strategy
- An Anti Money Laundering Policy

The outcome of complaints made under the whistle blowing policy are reported to the Audit Committee on an annual basis, in order that they can keep them under review.

d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The Council has ensured that the decision-making process includes a rigorous risk assessment including:

- Financial, legal and staffing implications
- Diversity and racial impact assessment where appropriate
- Risks, mitigations and opportunities

All reports to the Council or Cabinet are checked by the Chief Finance Officer (the section 151 Officer) and the Chief Legal Officer (the Monitoring Officer) for financial and legal implications. The Council has been rigorous and transparent about how decisions are taken and recorded. Cabinet reports include a mandatory paragraph on risk to enable the Council to consider the implications of its decisions.

e) Developing the capacity and capability of Members and officers to be effective.

The Council has ensured that those charged with the governance of the Council have the skills, knowledge and experience they need to perform well.

f) Engaging with local people and other stakeholders to ensure robust public accountability.

The Council is committed to increasing public involvement in decision-making and devolving power to individuals and local organisations. We have sought and responded to the views of stakeholders and the community.

4. Review of effectiveness

Medway Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the Corporate Management Team who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Head of Internal Audit's annual review of the code of corporate governance checks the control environment within the two directorates and the business support department, and the results of this review have been used to inform our assessment of significant control issues for the Council. That report concluded:

> *"The AGS provides a reasonable and evidenced summary of the Authority's governance arrangements, which meets the requirements of the CIPFA/SOLACE framework. The overall opinion on the AGS is therefore "strong"."`*

Assurances have been provided from the Corporate Management Team that key elements of the control framework were in place during the year in their divisions and control weaknesses were identified and addressed.

5. Governance: Key Areas of Focus

The Authority faces another challenging year in 2016/17 as it seeks to manage significant budget reductions, increasing demand for some services and new ways of working, whilst ensuring it complies with its statutory duties. The following represent the key issues to be addressed in relation to significant governance issues:-

(a) A continuation of the significant reductions in Government grant funding over the medium term and the on-going demands for greater expenditure, particularly for children's services and older people are considerable challenges. The Council has plans in place to respond to these financial tests for 2016/17 but the budget reductions will require careful monitoring and immediate action if they fall behind during implementation. The Council will need to ensure that decisions are taken with "due regard" for the Public Sector Equality Duty. The Cabinet chaired by the Leader of the Council will need to monitor the robustness of saving proposals contained in the budget with action needed by Corporate Management Team throughout the year as appropriate.

(b) The Council is exploring a number of new approaches to service delivery to complement those already in place such as the Building Control Partnership and Medway Norse. The creation of Medway Commercial Group has seen the tele-healthcare and CCTV services take a more commercial route. The Council has for some time had a commissioning team that is shared with the Clinical Commissioning Group and we continue to explore the benefits to be realised in health and social care through joint working. The Council is seeking to deliver many of its services through digital means and has engaged consultants to assist in setting a vision for that work. Other services are looking at the ability to increase external income as a means of countering reduced revenue budgets. These new approaches provide an organisational challenge, require appropriate governance and new skill sets and significant cultural change.

(c) Discussions about the possibilities for devolution of powers and funding from central government are taking place and pose a political and constitutional challenge as well as significant opportunities for the Medway area. As the possible approaches locally that could come forward including Medway Council emerge, careful thought will need to be given to the governance and management of those.

6. Certification

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year 2015/16 although we recognise the areas for additional focus identified in section 5.

We are satisfied that these enhancements will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation and conduct a further annual review.

The financial management arrangements of the Council conform with the CIPFA "Statement on the Role of the Chief Finance Officer in Local Government (2010)".

……………………………………….
Leader of the Council

………………………………………..
Chief Executive

7. Portfolio of evidence to support the Annual Governance Statement

7(a) The Council has done this by:

- Appointing a four year Leader of the Council; executive members (Cabinet Members), with defined executive responsibilities, including appointing a lead member for Children's Services, with responsibility for making sure the statutory functions for Children's Services are carried out.
- Agreeing a scheme of delegated executive responsibilities to directors, deputy directors, assistant directors and other senior officers and protocols that make clear the respective roles of Members and officers and ensure effective communication between them.
- Annually appointing committees to discharge the Council's regulatory responsibilities
- Annually appointing committees to discharge the Council's overview and scrutiny responsibilities
- Setting clear role definitions for chairs of committees and councillors in their different roles
- Ensuring that the Constitution is regularly reviewed – several amendments have been made to the Constitution this year.
- Making the Chief Executive (the Head of Paid Service) responsible and accountable to the Council for all aspects of operational management.
- Making the Chief Finance Officer (as Section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. Medway Council's financial management arrangements conform with the governance requirements of the CIPFA Statements on the Role of the Chief Financial Officer in Local Government (2010).
- Making the Director of Children and Adults Services responsible to the authority for ensuring that the statutory functions of children's services and adults services are carried out.
- Make the Director of Public Health responsible for ensuring that the statutory public health functions are carried out.
- Making the Chief Legal Officer (as Monitoring Officer) responsible to the authority for ensuring the lawfulness and fairness of decision-making, and that agreed procedures are followed and that all applicable statutes and regulations are complied with.
- Ensuring significant partnerships and contracts with other public bodies, voluntary and community organisations, and the private sector have clear governance accountabilities, including effective and equitable financial arrangements which are approved for example by Cabinet.
- Having in place effective and comprehensive arrangements for the scrutiny of services including a Scrutiny Officer (the Head of Democratic Services)

7(b) The Council has done this by establishing and keeping under review:

- The Council's Constitution
- A Members' Code of Conduct
- An Employee Code of Conduct
- A protocol governing Member/Employee Relations
- A Members' Planning Code of Good Practice
- A Members Licensing Code of Good Practice
- Communications Protocol
- Contract Standing Orders and Financial Regulations

The Monitoring Officer is responsible for the review of the constitution, and for ensuring that it is kept up to date.

Conduct of Members is monitored by the Councillor Conduct Committee, which also considers investigations of allegations of misconduct by Members. There has been one formal complaint this year which was fully investigated and the Committee took no further action. The conduct process has a strong emphasis on informal resolution.

The Council has:

- Ensured the Cabinet make decisions with reasons in an open and transparent way and that information relating to those decisions is made available to the public, unless statutory rules allow otherwise
- Ensured that all decisions of regulatory committees of the Council are made in public and that information relating to those decisions is made available to the public, unless statutory rules allow otherwise
- Ensured that legal, financial and risk implications are recognised in all reports on which decisions are based
- Recorded all decisions that are made by committees and those decisions delegated to senior named officers by Cabinet in line with the executive decision making regulations
- Rules and procedures, which govern how decisions are made
- Developed and maintained an effective overview and scrutiny function which encourages constructive challenge
- Maintained an effective Audit Committee and Councillor Conduct Committee

The Council has continued to develop its risk management strategy to enable the Council to manage and control risks in order to maximise the quality of its service provision and uphold its reputation, making a powerful contribution to continuous service improvement and the achievement of best value. The strategy is reviewed annually.

7(c) The Council has ensured that under the risk management system:

- Officers formally identify and manage risks
- Elected Members are involved in the risk management process
- A risk assessment of every key or strategic decision is undertaken
- Risks to financial and other key internal controls are mapped
- Business continuity planning is reflected; and
- The Cabinet reviews and, if necessary, updates its risk management processes at least annually
- Detailed risk assessment of budgets are carried out with signed acceptance form from managers highlighting risk areas

7(d) The Council has done this by:

- Developing leadership skills and capacity across the Council through a learning and development programme for staff
- Ensuring that the Chief Finance Officer and Monitoring Officer are both members of the Corporate Management Team
- Developing our approach to workforce planning
- Encouraging quality mark accreditation for services
- Maintaining and developing our personal development review system
- Cascading regular information to Members and staff by paper and electronic means regarding emerging issues
- Holding a full induction and training programme for all Members to attend

7(e) The Council has done this by:

- Improving effective corporate consultation including maintaining effective mechanisms for on-going engagement e.g., Children in Care Council, Young Commissioners, Learning Disability Partnership Board, Tenants Forums, Medway Ambassadors Scheme and the Community Safety Partnership
- Carrying out in depth consultation exercises as required to inform policy development and service change – e.g. Maintaining effective data exchange through the Corporate Research and Information Group to plan and coordinate consultation and to share findings
- Making use of local forums at ward, parish and neighbourhood level to maintain communication with all the Council's communities and other stakeholders e.g. Rural Liaison Committee with parishes, community futures workshops in our most deprived areas to inform the development of community owned action plans, participation in Partner and Communities Together (PACT) meetings
- Maintaining and reviewing an effective complaints procedure

Throughout 2015/16 the Council has received and considered a number of reports including:-

(a) A review of the Constitution (April 2016)
(b) Exemptions to the contract procedure rules (January 2016)
(c) Budget Report 2016/17 (February 2016)
(d) Council Plan 2016/17 (February 2015)
(e) Special urgency decisions (April 2015, January 2016)

Cabinet has considered and approved a number of reports in its role as the executive:-
(a) Revenue Budget monitoring 2015/16 (August 2015, February 2016)
(b) Capital monitoring 2014/15 (August 2015, February 2016)
(c) Capital and Revenue Budget 2016/17 (February 2016)
(d) Six monthly review of the risk register (April 2015, October 2015)
(e) Annual Review of the Risk Management Strategy (October 2015)
(f) Medium Term Financial Plan 2015/20 (September 2015)
(g) Statement of Accounts 2014/2015 (July 2015)
(h) 2014/15 Year End Performance Monitoring (July 2015)
(i) Council Plan 2016/17-2020/21 Monitoring (February 2016)

The Audit Committee have considered a wide variety of issues including:-
(a) Review of Risk Management (September 2015)
(b) Internal Audit and Counter Fraud Partnership (September 2015)
(c) Revised Internal Audit Plan 2015-16 (January 2016)
(d) Corporate Fraud (September 2015)
(e) Statement of Accounts 2014/15 (July 2015)

C. Statement of Responsibilities

The Authority's Responsibilities

The Authority is required to:

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

The Chief Finance Officer's Responsibilities

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

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

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

The Chief Finance Officer has also:

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

Certificate of the Chief Finance Officer

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Authority at the reporting date and of its expenditure and income for the year ended 31 March 2016.

Phil Watts
Chief Finance Officer 29 September 2016

Adoption of the Accounts

In accordance with Accounts and Audit Regulations 2015 the Chair of the meeting adopting the statement of Accounts must sign and date the statement in order to confirm that the adoption process has been completed.

I confirm that the Statement of Accounts for the period ending 31 March 2016 was approved at the meeting of Audit Committee held on 29 September 2016.

Councillor Barry Kemp
Chairman of the Audit Committee 29 September 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MEDWAY COUNCIL

Opinion on the Council's financial statements

We have audited the financial statements of Medway Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Housing Revenue Account Income and Expenditure Statement and the Movement on the Housing Revenue Account Statement and and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Medway Council in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in the Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read the financial and non-financial information in the Narrative Report and Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Medway Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Narrative Report and Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice (April 2015) requires us to report to you if:

- the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the National Audit Office in November 2015, as to whether in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The National Audit Office has determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2015, we are satisfied that, in all significant respects, Medway Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to:

- issue our assurance statement in respect of the Council’s Whole of Government Accounts consolidation pack;

- conclude on an objection to the accounts received from a local government elector relating to the lawfulness of Lender Option, Borrower Option (LOBO) loans. This issue is referred to in note 34 to the financial statements.

We are satisfied that these matters do not have a material effect on the financial statements or on our value for money conclusion.

BDO LLP

David Eagles
For and on behalf of BDO LLP, Appointed Auditor

Ipswich, UK

30 September 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

E. Statement of Accounting Policies

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(i) Accounting Policies

1. General Principles

The financial statements summarises the Authority's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Accounts and Audit (England) Regulations 2015 requires the Authority to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

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

2. Qualitative Characteristics of Financial Statements

Relevance

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

Materiality

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

Faithful Representation

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

Comparability

In addition to complying with the Code the accounts also comply with the Service Reporting Code of Practice (SeRCOP). This code establishes proper practice in relation to consistent financial reporting below statement of accounts level and aids comparability with other local authorities.

Verifiability

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

Timeliness

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

Understandability

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

3. Underlying Assumptions

Accruals Basis

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

Going Concern

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

Primacy of Legislation Requirements

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

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

4. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments for them are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

.Exceptions to this are payments of:

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

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

Accounting for Council Tax

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Authority's General Fund, or paid out to the major preceptors. The amount credited to the General Fund under statute is the Authority's demand for the year plus or minus the Authority's share of the surplus or deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to Council Tax shall be measured at the full amount receivable (net of any impairment losses) as the transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Authority from Council Tax payers belongs proportionately to the Authority and the major preceptors. The difference between the amounts collected on behalf of the major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Accounting for Non Domestic Rates (NDR)

While the NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Authority's General Fund, or paid out to the precepting authorities and the Government. The amount credited to the General Fund under statute is the Authority's share of NDR for the year specified in the National Non Domestic Rates NNDR1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year and is as set out in the NNDR3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to NDR shall be measured at the full amount receivable (net of any impairment losses) as these transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Authority from NDR payers belongs proportionately to the Authority, the precepting authorities and Government. The difference between the amounts collected on behalf of the precepting authorities and Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

5. Cash and Cash Equivalents

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

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

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

6. Period Adjustments, Changes in Accounting Policy and Estimates and Errors

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

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

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

7. Charges to Revenue for Non-Current Assets

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

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

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

8. Employee Benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement (CIES) at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment benefits

Employees of the Authority are members of three separate pension schemes.

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by EA Finance NHS Pensions
- The Local Government Pensions Scheme, administered by Kent County Council

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

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the CIES is charged with the employer's contributions payable to Teachers' Pensions in the year. The Public Health line in the CIES is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The Local Government Pension Scheme

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

- The liabilities of the Kent pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their fair value at current prices, using a discount rate of 3.7%

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

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

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

  - Service cost comprising:

    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked

    - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs

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

  - Remeasurements comprising:

    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

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

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

Discretionary Benefits

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

9. Events after the Reporting Period

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

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

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

10. Financial Instruments

Financial Liabilities

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the CIES in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the CIES is spread over the life of the loan by an adjustment to the effective interest rate.

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

Financial Assets

The Authority's financial assets (investments) are classified into:

- Loans and Receivables - assets that have fixed or determinable payments but which are not quoted in an active market
- Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables

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

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Available-for-Sale Assets

Available-for-Sale Assets – are recognised on the balance sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the Instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the CIES when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

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

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES, along with any accumulated gains or losses previously recognised in the Available-for-Sale reserve.

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

11. Government Grants and Contributions

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

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

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

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

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

12. Heritage Assets

Heritage Assets are held purely for increasing the knowledge, understanding and appreciation of the Authority's history and local area and are recognised by using the latest insurance valuation, which shall be subject to a five yearly rolling review, phased over 5 annual tranches. Valuations should also provide value for money for taxpayers with regards to the information provided within the financial statements verses the cost of obtaining the data.

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

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

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

Buildings

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

Furniture

The Authority holds many items of furniture ranging from clocks, chairs, chaise longues, and various types of chests and writing cabinets dating from the 17th, 18th and 19th centuries. Some of these items are on display whilst others are held in storage.

Silver/Gold Collections

There are currently various different pieces held within this collection including items of civic regalia, iron age coins and other miscellaneous items from the 17th, 18th and 19th centuries and are held within the Balance Sheet. These items were revalued by industry experts during 2013/14 as part of the five year programme of revaluations.

Art Collection

The collection consists of items including various paintings, marble busts and engravings dating from the 17th, 18th and 19th centuries. Part of this catergory was revalued during 2014/15 by industry experts as part of the five year programme of revaluations.

Other

The Authority holds many items within this category including collections of medals, various coins and trading tokens, pianos, cameras, costumes and jewellery dating from the Bronze Age to the 20th century. Many can be found on display whilst a few are held in storage. The insurance valuations will be reviewed by industry experts as part of the five year programme of valuations.

Heritage Assets – General

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

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

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

13. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority and is above the de-minimis level of £25,000.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CIES. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

14. Interests in Companies and Other Entities

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

15. Long-Term Contracts

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

16. Investment Property

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

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

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

17. Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

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

18. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly

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.

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Authority as Lessor

Operating Leases

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

20. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2015/16* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

These two cost categories are defined in SeRCOP and accounted for as separate headings in the CIES, as part of Net Expenditure on Continuing Services.

21. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value

- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

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

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

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

Componentisation

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

All assets, other than investment properties, have a land and building/depreciable split where appropriate. After assessing the materiality of the various items of Property, Plant and Equipment, it was decided that assets with a Gross Book Value in excess of £2.5m and the following asset types would be further componentised upon the date of their next scheduled revaluation:

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- council dwellings and other buildings – straight-line allocation over the outstanding life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over the projected life of the asset
- infrastructure – straight-line allocation over the outstanding life of the asset.

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

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

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

Disposals and Non-current Assets Held for Sale

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing revenue account related disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

Recognition of Schools' Non-current Assets

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

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

22. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Carbon Reduction Commitment Scheme

The Authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its second phase, which ends on 31 March 2019. The authority is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

Non Domestic Rate (NDR) Appeals Provision

Local Authorities retain an element of all NDR collected and in Medway's case we retain 49% of collected NDR. With this responsibility we also suffer the loss of income from successful appeals against the rateable value of non-domestic property which include appeals submitted to the Valuation Office (VOA) prior to the introduction of this new regime. In order to mitigate against future losses of income from these appeals the Authority has created a provision to offset the cost of back-dated refunds as the appeals are settled. The provision has been calculated as an estimate of potential cost against each individual appeal case and the cost is adjusted to take account of the probability of success. The value of this Provision is being spread to impact upon revenue over a 5 year period.

Contingent Liabilities

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

Contingent Assets

A contingent asset arises when an event has taken place that gives the Authority 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 Authority.

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

23. Reserves

Usable Earmarked Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus or Deficit on the Provision of Service in the CIES. 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.

Unusable Accounting Reserves

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

24. Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

25. Schools

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

26. VAT

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

(ii) Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United kingdom 2016/17 has introduced several changes in accounting policies which will be required from 1 April 2016.

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

None of the above are anticipated to have a material impact upon the financial statements for future years.

(iii) Critical Judgements in applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Authority recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Authority recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Authority, school or school Governing Body then it is not included on the Authority’s Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Authority, school or school Governing Body. The Authority has completed a school by school assessment across the different types of schools it controls within the Borough. Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. Voluntary aided schools the legal ownership of the land and buildings rests with the relevant Dioceses. The Diocese has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Authority’s Balance Sheet. Academies are not considered to be maintained schools in the Authority’s control. Thus the land and building assets are not owned by the Authority and not included on the Authority’s Balance Sheet.

(iv) Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Public sector consultants Barnett Waddingham are engaged to provide the Authority with expert advice about the assumptions to be applied.	The effect of changes in assumptions on discount rate, long term salary increases, pension increase and deferred revaluation and mortality rates would be as detailed within the sensitivity analysis table within Note 29 to the financial statements.

F. Principal Financial Statements

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Movement in Reserves Statement

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

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

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

Housing Revenue Account – This contains any surplus or deficit arising from the provision of Authority housing by the Authority and earmarked Housing Revenue Account reserves. It can only be used for local authority housing provision. As at 31 March 2016, the Housing Revenue Account working balance stood at £2.816m.

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

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

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

Capital Grants Unapplied – This reserve contains Government grants and other contributions which are held to finance future capital expenditure.

Unusable Reserves – The major reserves included in this category are the Revaluation Reserve, Pension Reserve and Capital Adjustment Account. Their purpose is of a technical accounting nature and cannot be used to support the services of the Authority. They are explained in more detail in note 32.

Movement in Reserves Statement for the years Ending 31 March 2015 and 31 March 2016

	Notes	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked Housing Revenue Account Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 31 March 2014		**5,000**	**42,557**	**1,969**	**0**	**0**	**138**	**17,702**	**67,366**	**393,935**	**461,301**
Movement in reserves during 2014/15											
Surplus/(Deficit) on provision of services		(103,175)	0	4,970	0	0	0	0	**(98,206)**	0	**(98,206)**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	**0**	(46,058)	**(46,058)**
Total Comprehensive Income and Expenditure		**(103,175)**	**0**	**4,970**	**0**	**0**	**0**	**0**	**(98,206)**	**(46,058)**	**(144,264)**
Adjustments between accounting & funding basis under regulations	1	95,170	0	(4,698)	0	2,014	531	(1,620)	**91,396**	(91,397)	**0**
Net Increase/decrease before Transfers to Earmarked Reserves		**(8,005)**	**0**	**271**	**0**	**2,014**	**531**	**(1,620)**	**(6,809)**	**(137,455)**	**(144,264)**
Transfers to/from Earmarked Reserves	2	8,005	(8,005)	(6)	6	0	0	0	**0**	0	**0**
Increase/(Decrease) in 2014/15		**0**	**(8,005)**	**266**	**6**	**2,014**	**531**	**(1,620)**	**(6,809)**	**(137,455)**	**(144,264)**
Balance at 31 March 2015		**5,000**	**34,551**	**2,235**	**6**	**2,014**	**669**	**16,082**	**60,557**	**256,480**	**317,037**

	Notes	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked Housing Revenue Account Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 31 March 2015		**5,000**	**34,551**	**2,235**	**6**	**2,014**	**669**	**16,082**	**60,557**	**256,480**	**317,037**
Movement in reserves during 2015/16											
Surplus/(Deficit) on provision of services		(95,813)	0	22,563	0	0	0	0	**(73,250)**	0	**(73,250)**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	**0**	63,720	**63,720**
Total Comprehensive Income and Expenditure		**(95,813)**	**0**	**22,563**	**0**	**0**	**0**	**0**	**(73,250)**	**63,720**	**(9,530)**
Adjustments between accounting & funding basis under regulations	1	92,772	0	(21,981)	0	(1,489)	(669)	(6,742)	**61,890**	(61,890)	**0**
Net Increase/decrease before Transfers to Earmarked Reserves		**(3,041)**	**0**	**582**	**0**	**(1,489)**	**(669)**	**(6,742)**	**(11,360)**	**1,830**	**(9,530)**
Transfers to/from Earmarked Reserves	2	3,041	(3,041)	0	0	0	0	0	**0**	0	**0**
Increase/(Decrease) in 2015/16		**0**	**(3,041)**	**582**	**0**	**(1,489)**	**(669)**	**(6,742)**	**(11,360)**	**1,830**	**(9,530)**
Balance at 31 March 2016		**5,000**	**31,509**	**2,816**	**6**	**525**	**(0)**	**9,340**	**49,196**	**258,310**	**307,506**

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 Authority 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.

2014/2015					2015/16		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Service	Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
3,807	(1,642)	2,165	Central services to the public		3,819	(1,373)	2,446
27,426	(8,020)	19,406	Cultural and related services		29,214	(8,711)	20,503
36,587	(9,324)	27,263	Environmental & regulatory services		35,592	(13,232)	22,360
20,151	(8,285)	11,866	Planning services		19,263	(4,486)	14,777
247,786	(145,358)	102,428	Children's and education services		221,514	(144,691)	76,823
42,583	(11,901)	30,682	Highways and transport services		39,467	(9,671)	29,796
7,140	(14,300)	(7,160)	Local authority housing (HRA)		10,396	(14,701)	(4,305)
0	0	0	Local authority housing (HRA) – reversal of impairments		(20,450)	0	(20,450)
118,976	(110,055)	8,921	Other housing services		114,036	(107,041)	6,995
87,393	(21,112)	66,281	Adult social care		94,773	(30,445)	64,328
5,872	(1,723)	4,149	Corporate and democratic core		5,334	(1,825)	3,509
5,469	(6,003)	(534)	Non-distributed costs		2,646	(4,871)	(2,225)
11,828	(14,507)	(2,679)	Public Health		17,905	(20,166)	(2,261)
615,018	**(352,230)**	**262,788**	**Cost of Services**		**573,509**	**(361,213)**	**212,296**
38,358	0	38,358	Other operating expenditure	3	47,205	0	47,205
20,639	(4,456)	16,183	Financing and investment income and expenditure	4	20,345	(4,731)	15,614
0	(219,124)	(219,124)	Taxation and non-specific grant income	5	0	(201,865)	(201,865)
674,015	**(575,810)**	**98,206**	**(Surplus) or Deficit on Provision of Services**		**641,059**	**(567,809)**	**73,250**
			Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services				
		(21,102)	(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets	28			(32,170)
		0	Impairment losses on non-current assets charged to the Revaluation Reserve				8,720
		67,160	Re-measurement of net defined pension liability	29			(40,447)
		46,058					**(63,897)**
			Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services				
		0	(Surplus)/Deficit on revaluation of available for sale financial assets	28			177
		0					**177**
		46,058	**Other Comprehensive Income and Expenditure**				**(63,720)**
		144,263	**Total Comprehensive Income and Expenditure**				**9,530**

Balance Sheet

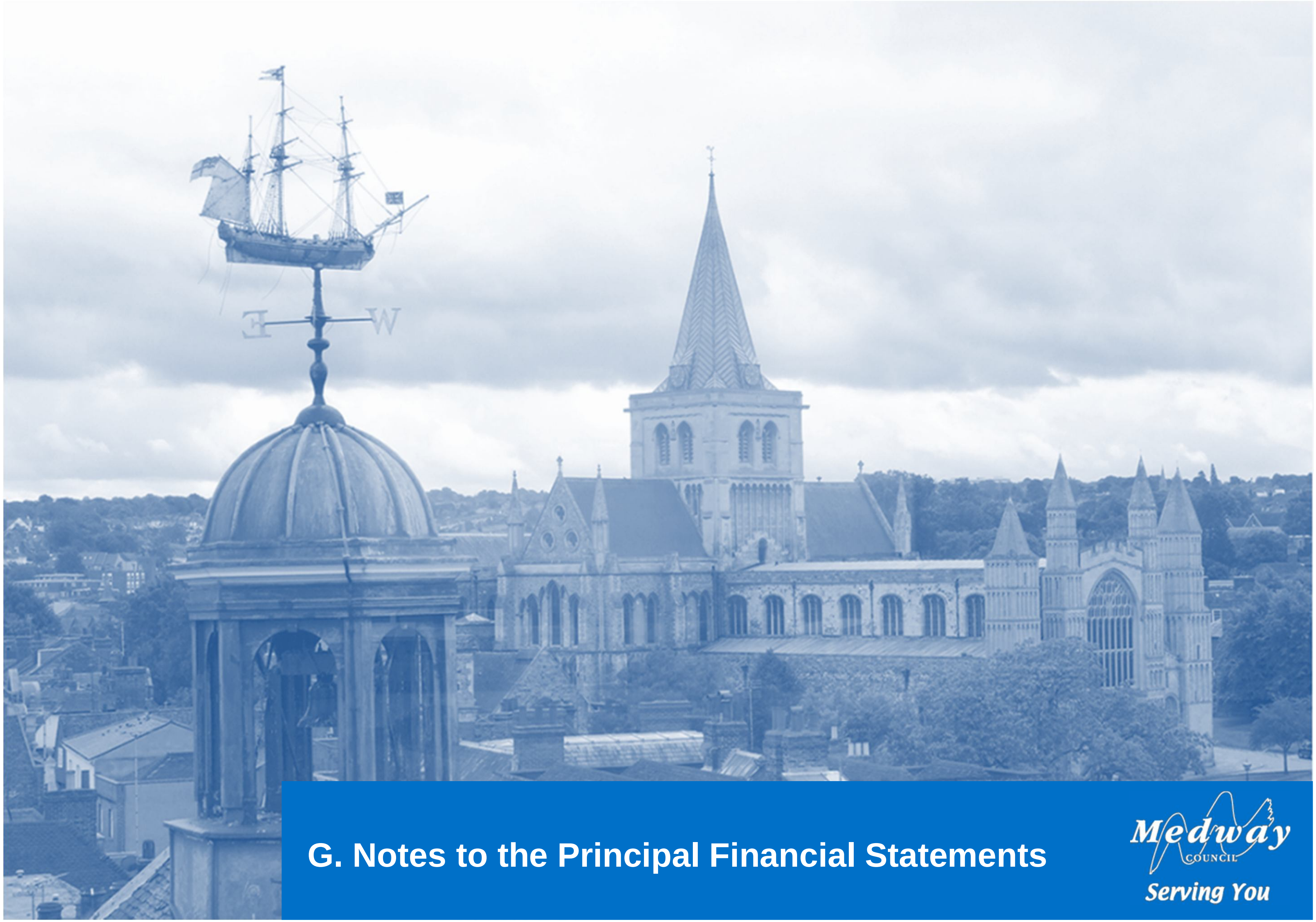
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves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

31 March 2015 £'000	Balance Sheet Summary	Notes	31 March 2016 £'000
758,212	Property Plant and Equipment	15	733,860
15,380	Heritage Assets	16	15,850
6,450	Investment Property		6,819
1,175	Intangible Assets		1,264
19,737	Long Term Investments	18	22,556
155	Long Term Debtors	18	158
801,109	**Long Term Assets**		**780,507**
900	Assets Held for Sale		350
178	Inventories		116
43,894	Short Term Debtors	22	38,299
8,799	Cash and Cash Equivalents	23	0
53,772	**Current Assets**		**38,765**
0	Cash and Cash Equivalents	23	(1,250)
(1,277)	Short Term Borrowing	18	(9,271)
(43,711)	Short Term Creditors	24	(36,123)
(3,701)	Provisions	25	(3,826)
(48,690)	**Current Liabilities**		**(50,470)**
(38,695)	Long Term Creditors	18	(37,158)
(6,517)	Provisions	25	(4,888)
(164,729)	Long Term Borrowing	18	(171,526)
(271,642)	Other Long Term Liabilities	21,29	(240,283)
(7,569)	Grants Receipts in Advance - Capital	13	(7,440)
(489,153)	**Long Term Liabilities**		**(461,295)**
317,037	**Net Assets**		**307,507**
60,557	Usable Reserves	27	49,196
256,480	Unusable Reserves	28	258,310
317,037	**Total Reserves**		**307,507**

Cash Flow Statement

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

2014/15 £'000		2015/16 £'000
98,206	Net (Surplus) or deficit on the provision of services	**73,250**
(116,710)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements	**(93,788)**
28,666	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities	**12,963**
10,162	**Net cash flows from Operating Activities (Note 30)**	**(7,576)**
20,216	Investing Activities (Note 31)	23,695
1,272	Financing Activities (Note 32)	(6,070)
31,650	**Net (increase) or decrease in cash and cash equivalents**	**10,049**
40,449	**Cash and cash equivalents at the beginning of the reporting period**	**8,799**
8,799	**Cash and cash equivalents at the end of the reporting period (Note 23)**	**(1,250)**



G. Notes to the Principal Financial Statements

Medway Council
Serving You

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G1 Notes Supporting the Movement in Reserves Statement

Medway Council
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1. Adjustments between Accounting Basis and Funding Basis under Regulations

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

General Fund Balance

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

Housing Revenue Account Balance

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

Major Repairs Reserve

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

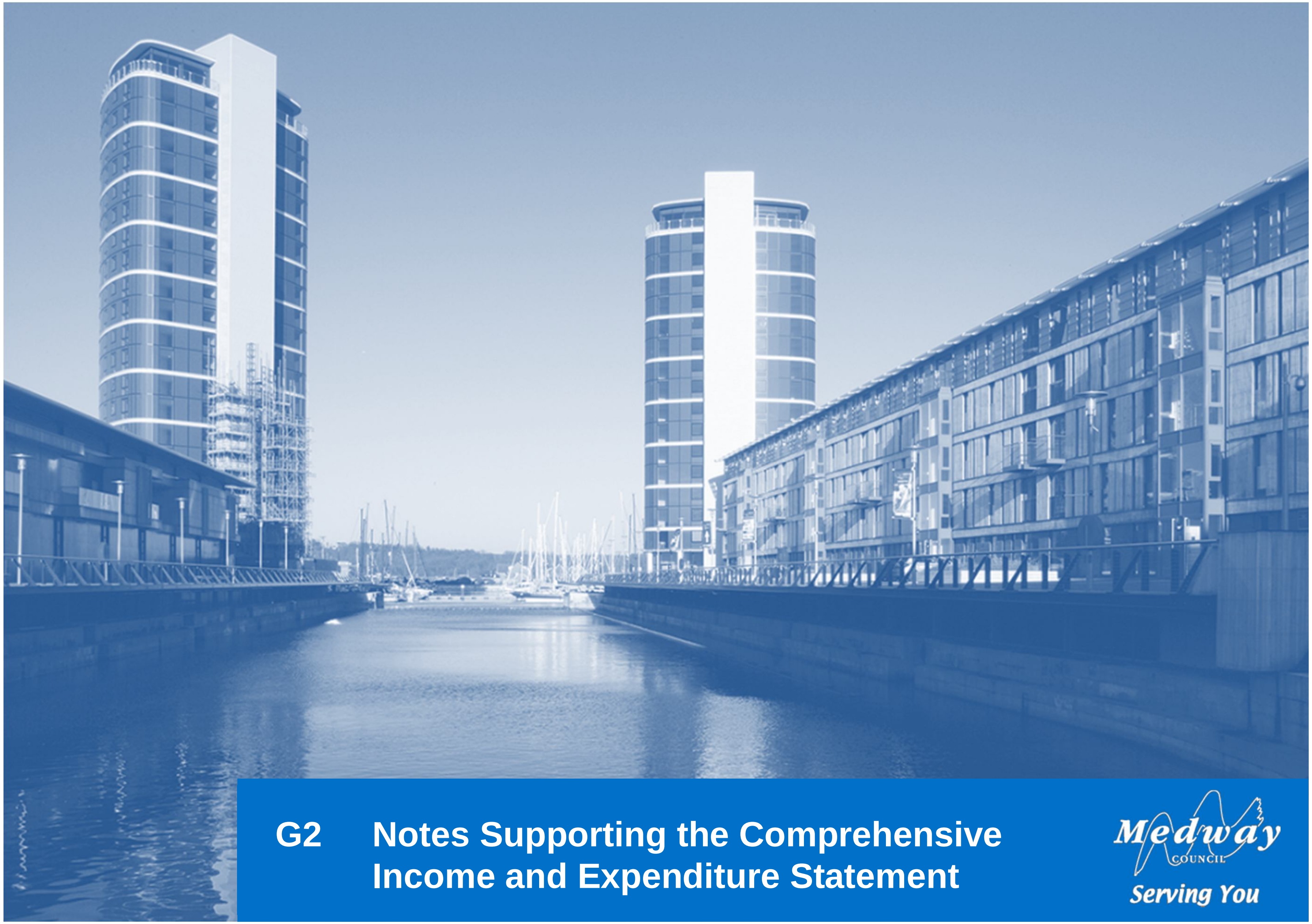
Adjustments for 2015/16	Usable Reserves: General Fund Balance	Housing Revenue Account Balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£000s	£000s	£000s	£000s	£000s
ADJUSTMENTS TO THE REVENUE RESEOURCES					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to (or from) the Pensions Reserve)	9,268	152	0	0	0
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(196)	12	0	0	0
Council tax and NDR (transfers to or from Collection Fund)	816	0	0	0	0
Holiday pay (transferred to the Accumulated Absences Reserve)	(108)	(2)	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to the movement from Capital Grants Unapplied to Revenue Grants	4,343	0	0	0	(4,343)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	87,164	(16,538)	0	0	1,921
Total Adjustments To Revenue Resources	**101,286**	**(16,376)**	**0**	**0**	**(2,422)**
ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES:					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,328)	(758)	3,086	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	269	0	(269)	0	0
Posting of HRA resources from revenue to the Major Repairs Reserve		(3,480)	0	3,480	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(4,424)	0	0	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(2,030)	(1,368)	0	0	0
Total Adjustments between Revenue and Capital Resources	**(8,514)**	**(5,605)**	**2,817**	**3,480**	**0**
ADJUSTMENTS TO CAPITAL RESOURCES					
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(4,307)	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(4,150)	0
Application of capital grants to finance capital expenditure	0	0	0	0	(4,319)
Total Adjustments To Capital Resources	**0**	**0**	**(4,307)**	**(4,150)**	**(4,319)**
Total Adjustments 2015/16	**92,772**	**(21,981)**	**(1,489)**	**(669)**	**(6,742)**

Adjustments for 2014/2015	Usable Reserves: General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£000s	£000s	£000s	£000s	£000s
ADJUSTMENTS TO THE REVENUE RESEOURCES					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to (or from) the Pensions Reserve)	8,965	171	0	0	0
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(249)	12	0	0	0
Council tax and NDR (transfers to or from Collection Fund)	672	0	0	0	0
Holiday pay (transferred to the Accumulated Absences Reserve)	(18)	3	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	99,760	1,053	0	0	4,852
Total Adjustments To Revenue Resources	**109,131**	**1,239**	**0**	**0**	**4,852**
ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES:					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(4,355)	(1,158)	5,513	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	235	0	(235)	0	0
Posting of HRA resources from revenue to the Major Repairs Reserve	0	2,985	0	(2,985)	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(7,549)	0	0	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(2,292)	(4,248)	0	0	0
Total Adjustments between Revenue and Capital Resources	**(13,961)**	**(2,421)**	**5,278**	**(2,985)**	**0**
ADJUSTMENTS TO CAPITAL RESEOURCES					
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(3,264)	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	(3,516)	0	3,516	0
Application of capital grants to finance capital expenditure	0	0	0	0	(6,472)
Total Adjustments To Capital Resources	**0**	**(3,516)**	**(3,264)**	**3,516**	**(6,472)**
Total Adjustments 2014/15	**95,170**	**(4,698)**	**2,014**	**531**	**(1,620)**

2. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General fund and Housing Revenue Account balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2015/16.

	Balance 1 April 2014	Transfers in 2014/2015	Transfers out 2014/2015	Balance 31 March 2015	Transfers in 2015/16	Transfers out 2015/16	Balance 31 March 2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital	(343)	(66)	0	**(409)**	(1,036)	748	**(696)**
Capital C&A	(2,491)	0	227	**(2,264)**	0	68	**(2,196)**
Capital RCC	0	0	0	**0**	(621)	494	**(127)**
Development Plan Reserve	(220)	(80)	0	**(300)**	(85)	52	**(333)**
Provision For Local Election	(605)	(18)	18	**(605)**	0	391	**(213)**
	(63)	(165)	36	**(192)**	**0**	1	**(191)**
Community Hubs Reserve	(2,000)	0	934	**(1,066)**	0	201	**(864)**
Reserve Fund Computer Development	(106)	0	0	**(106)**	0	0	**(106)**
DSG Reserve	(2,593)	(420)	1,167	**(1,845)**	0	1,545	**(300)**
Economic Development	(173)	0	17	**(156)**	0	8	**(149)**
Directorate Carry Forwards	(11,160)	(1,103)	3,558	**(8,705)**	(2,791)	6,339	**(5,157)**
Collection Fund Holding	(1,695)	(5,892)	7,587	**0**	(3,771)	0	**(3,771)**
Invest To Save	(148)	0	0	**(148)**	0	0	**(148)**
Severance Payments	(2,676)	0	1,708	**(967)**	(1,532)	1,363	**(1,136)**
South Medway Development	(4,906)	0	55	**(4,851)**	0	1,009	**(3,842)**
Transformation Reserve	(582)	0	262	**(320)**	0	268	**(52)**
Salix Repayments	(5)	(97)	29	**(73)**	(121)	91	**(103)**
HEE Public Health Grant	0	0	0	**0**	(1,214)	146	**(1,069)**
Other Earmarked Reserves	(105)	(69)	49	**(125)**	(61)	50	**(137)**
General Reserve							
General Reserve	(3,102)	(1,459)	1,593	**(2,968)**	(124)	289	**(2,804)**
Reserves Held by Schools							
Schools Balances	(7,122)	(1,861)	2,706	**(6,277)**	(1,403)	2,278	**(5,402)**
Insurance Reserves							
Insurance Fund	(2,464)	(719)	9	**(3,174)**	0	461	**(2,713)**
Total Earmarked General Fund Reserves	**(42,557)**	**(11,948)**	**19,954**	**(34,551)**	**(12,759)**	**15,801**	**(31,509)**
Earmarked HRA Reserves							
HRA IT Reserve	0	(6)	0	**(6)**	0	0	**(6)**
Total Earmarked Reserves	**(42,557)**	**(11,954)**	**19,954**	**(34,557)**	**(12,759)**	**15,801**	**(31,515)**



G2 Notes Supporting the Comprehensive Income and Expenditure Statement

3. Other Operating Expenditure

	2014/15 £'000	2015/16 £'000
Parish Council Precepts	357	366
Levies	990	1,123
HRA Share of Corporate and Democratic Core	99	0
Payment to the Government Housing Capital receipts Pool	235	269
Gains/losses on disposal of non-current assets	36,677	45,447
Total	**38,358**	**47,205**

4. Financing and Investment Income and Expenditure

5. Taxation and Non-Specific Grant income and expenditure

	2014/15 £000s	2015/16 £000s
Council tax income	(94,696)	(96,630)
Non-domestic rates income and expenditure	(39,639)	(47,808)
Non-ringfenced government grants	(61,635)	(47,553)
Capital grants and contributions	(23,154)	(9,874)
Total	**(219,124)**	**(201,865)**

Shown in the table above are significant movements between 2014/15 and 2015/16 relating to Non-domestic rates income and expenditure and Non-ring fenced government grants. This movement directly reflects the continued reduction in Central Government Support to Local Government arising from austerity measures.

6. Amounts Reported for Resource Allocation Decisions

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

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

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.
- expenditure on support services is budgeted for within the Business Support department.

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

Directorate Income and Expenditure 2015/16	Children and Adult Services	Regeneration, Community and Culture	Business Support	Public Health	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(31,217)	(33,393)	(41,907)	(1,587)	**(108,104)**
Interest and investment income	0	0	(536)	0	**(536)**
Government grants	(28,633)	(5,638)	(105,318)	(302)	**(139,891)**
Total Income	**(59,850)**	**(39,031)**	**(147,761)**	**(1,888)**	**(248,531)**
Employee expenses	102,257	20,296	22,615	3,405	**148,573**
Other service expenses	184,853	65,738	120,178	10,242	**381,011**
Support service recharge	7,526	9,819	10,167	353	**27,866**
Depreciation, amortisation and impairment	13,498	23,583	1,897	0	**38,977**
Total Expenditure	**308,134**	**119,436**	**154,857**	**14,001**	**596,428**
Net Expenditure	**248,284**	**80,405**	**7,096**	**12,112**	**347,897**

Directorate Income and Expenditure 2014/15	Children and Adult Services	Regeneration, Community and Culture	Business Support	Public Health	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(25,594)	(36,428)	(45,911)	(28)	**(107,961)**
Interest and investment income	0	0	(160)	0	**(160)**
Government grants	(20,362)	(1,407)	(109,046)	(181)	**(130,996)**
Total Income	**(45,956)**	**(37,836)**	**(155,118)**	**(208)**	**(239,117)**
Employee expenses	110,495	21,001	24,294	3,387	**159,177**
Other service expenses	171,913	65,428	126,664	8,377	**372,381**
Support service recharge	8,010	10,299	12,414	308	**31,031**
Depreciation, amortisation and impairment	15,368	22,001	1,790	0	**39,158**
Total Expenditure	**305,786**	**118,729**	**165,162**	**12,071**	**601,748**
Net Expenditure	**259,830**	**80,893**	**10,044**	**11,863**	**362,630**

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

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

	2014/15	2015/16
	£'000	£'000
Net expenditure in Directorate analysis	362,630	347,897
Net expenditure of services and support services not included in the Analysis	(1,561)	(582)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(98,281)	(135,019)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(99,842)	(135,601)
Cost of Services in Comprehensive Income and Expenditure Statement	**262,788**	**212,296**

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.

2015/16	Directorate Analysis	Services not in Analysis HRA	Amounts not Reported to Management	Allocation of Recharges	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(108,104)	(14,695)	(30)	37,344	(85,485)	(369)	(85,854)
Interest and investment income	(536)	(37)	412	0	(162)	(4,362)	(4,523)
Income from Council tax	0	0	0	0	0	(96,629)	(96,629)
Income from NNDR	0	0	0	0	0	(47,808)	(47,808)
Government grants and contributions	(139,891)	(5)	(135,671)	0	(275,567)	(57,427)	(332,994)
Total Income	**(248,531)**	**(14,738)**	**(135,289)**	**37,344**	**(361,213)**	**(206,596)**	**(567,809)**
Employee Expenses	148,573	1,580	1,418	0	151,571	8,619	160,190
Interest Expense	0	0	0	0	0	11,609	11,609
Other service expenses	381,011	8,512	8,273	(8,894)	388,903	86	388,989
Support service recharge	27,866	584	0	(28,450)	0	0	0
Depreciation, amortisation and revaluations	38,977	3,480	(10,051)	0	32,407	31	32,437
Precepts and levies	0	0	0	0	0	1,489	1,489
Payments to Housing Capital Receipts Pool	0	0	342	0	342	269	611
Gain or loss on disposal of fixed assets	0	0	0	0	0	45,447	45,447
Pension Adjustment	0	0	287	0	287	0	**287**
Total Expenditure	**596,428**	**14,156**	**270**	**(37,344)**	**573,510**	**67,550**	**641,059**
(Surplus)/Deficit on the provision of services	**347,897**	**(582)**	**(135,019)**	**0**	**212,296**	**(139,046)**	**73,250**

2014/15	Directorate Analysis	Services not in Analysis HRA	Amounts not Reported to Management	Allocation of Recharges	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(107,961)	(14,301)	9,102	31,600	(81,560)	(371)	**(81,930)**
Interest and investment income	(160)	(35)	(21)	0	(216)	(4,085)	**(4,302)**
Income from Council tax	0	0	0	0	0	(94,695)	**(94,695)**
Income from NNDR	0	0	0	0	0	(39,639)	**(39,639)**
Government grants and contributions	(130,996)	0	(139,458)	0	(270,454)	(84,789)	**(355,243)**
Total Income	**(239,117)**	**(14,336)**	**(130,377)**	**31,600**	**(352,230)**	**(223,580)**	**(575,810)**
Employee Expenses	159,177	1,709	1,102	0	161,988	8,349	**170,337**
Interest Expense	0	0	0	0	0	11,764	**11,764**
Other service expenses	372,381	6,980	4,302	0	383,664	210	**383,873**
Support service recharge	31,031	569	0	(31,600)	0	0	**0**
Depreciation, amortisation and revaluations	39,158	3,516	26,408	0	69,082	415	**69,497**
Precepts and levies	0	0	0	0	0	1,347	**1,347**
Payments to Housing Capital Receipts Pool	0	0	0	0	0	235	**235**
Gain or loss on disposal of fixed assets	0	0	0	0	0	36,677	**36,677**
Pension Adjustment	0	0	284	0	284	0	**284**
Total Expenditure	**601,748**	**12,775**	**32,096**	**(31,600)**	**615,018**	**58,997**	**674,015**
(Surplus)/Deficit on the provision of services	**362,630**	**(1,561)**	**(98,281)**	**0**	**262,788**	**(164,582)**	**98,206**

7. Pooled Budgets

Better Care Fund (BCF)

The Council operated a Better Care Fund of £17,633k with Medway Clinical Commissioning Group under a s75 arrangement throughout 2015/16. The arrangements for each scheme within the Better Care Fund have been reviewed to determine the appropriate accounting treatment by the Council and Medway CCG. Control of the commissioning arrangements has been key to determining the nature of each scheme within the fund.

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

Better Care Fund (BCF)	2014/15		2015/16	
	£'000	£'000	£'000	£'000
Funding provided through the s75 agreement:				
Medway Council	0		1,479	
Medway CCG	0		16,154	
		0		17,633
Expenditure met from the s75 agreement:				
Medway Council	0		1,479	
Medway CCG	0		16,154	
		0		17,633
Net surplus/(deficit) arising on the pooled budget during the year		**0**		**0**

8. Members' Allowances

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

	2014/15 £000	2015/16 £000
Basic Allowance	471	467
Special Responsibility Allowance	258	251
Expenses	5	4
	734	722
National Insurance	41	40
Total	**775**	**762**

Medway Council is comprised of 55 Members. In 2015/16 75 Members were entitled to claim allowances, this includes 20 Councillors whose term of office ended in May 2015 and 55 current Councillors.

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

http://www.medway.gov.uk/councilanddemocracy/councillors/membersallowances.aspx

9. Officers' Remuneration

The remuneration paid to the Authority's senior employees during 2015/16 is as follows:

Post	Salaries, Fees and Allowances £	Expenses £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	155,967	0	155,967	27,124	183,091
Director of Children & Adult Services	129,612	79	129,691	22,460	152,151
Director of Regeneration, Community & Culture - left 21.6.2015	29,603	0	29,603	5,134	34,737
Director of Regeneration, Community & Culture - appointed 22.6.2015	88,020	0	88,020	15,132	103,152
Director of Public Health - left 29.2.16	133,809	1,958	135,767	16,380	152,147
Director of Public Health - appointed 1.3.2016	13,904	0	13,904	1,988	15,892
Deputy Director Customer Contact, Leisure, Democracy & Governance - left 21.6.2015	22,285	0	22,285	3,891	26,176
Assistant Director Communications, Performance & Partnerships	93,380	15	93,395	15,772	109,167
Chief Finance Officer	90,731	22	90,753	14,852	105,605
Deputy Director - Children & Adult Services	93,802	0	93,802	16,334	110,136
Assistant Director Legal & Corporate Services	84,977	0	84,977	14,719	99,696

Comparative figures for 2014/15 are as follows:

Post	Salaries, Fees and Allowances £	Expenses Allowances £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	155,037	150	155,187	26,962	182,149
Director of Children & Adult Services	129,136	144	129,280	22,381	151,661
Director of Regeneration, Community & Culture	131,136	152	131,288	22,747	154,035
Director of Public Health	145,974	1,867	147,841	17,495	165,336
Deputy Director Customer Contact, Leisure, Democracy & Governance	98,606	0	98,606	17,218	115,824
Assistant Director Communications, Performance & Partnerships	93,530	83	93,613	15,705	109,318
Chief Finance Officer (left 28.02.2015)	93,964	0	93,964	16,438	110,402
Chief Finance Officer (started 01.03.2015)	7,516	0	7,516	1,307	8,823
Deputy Director - Children & Adult Services (left 26.10.2014)	56,259	0	56,259	9,824	66,083
Deputy Director - Children & Adult Services (started 16.03.2015)	4,010	0	4,010	698	4,708
Assistant Director Legal & Corporate Services	82,185	0	82,185	14,213	96,398

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	2014/15	2015/16	2014/15	2015/16
£50,000 to £54,999	24	16	22	31
£55,000 to £59,999	14	18	14	14
£60,000 to £64,999	15	13	25	20
£65,000 to £69,999	11	7	6	12
£70,000 to £74,999	5	5	3	3
£75,000 to £79,999	5	4	0	2
£80,000 to £84,999	4	1	0	1
£85,000 to £89,999	0	2	0	0
£90,000 to £95,999	0	1	1	2
£95,000 to £99,999	1	0	2	1
£100,000 to £104,999	1	1	0	0
£105,000 to £109,999	0	0	3	1
£110,000 to £114,999	0	0	0	0
£115,000 to £119,999	0	0	0	0
£120,000 to £124,999	1	1	0	0
Total	**81**	**69**	**76**	**87**

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

Exit package cost band (including special payments)	Number of compulsory redundancies 2015/16	Number of other departures agreed 2015/16			Total number of exit packages by cost band 2015/16			Total cost of exit packages in each band £ 2015/16		
	Total	Schools	Non School	Total	Schools	Non School	Total	Schools	Non School	Total
£0 - £20,000	13	16	47	63	16	60	76	70,875	360,314	431,189
£20,001 - £40,000	1	1	4	5	1	5	6	25,000	136,786	161,786
£40,001 - £60,000	0	0	3	3	0	3	3	0	141,621	141,621
£60,001 - £80,000	0	0	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0	0	0
£150,001 - £200,000	0	0	0	0	0	0	0	0	0	0
Total	**14**	**17**	**54**	**71**	**17**	**68**	**85**	**95,875**	**638,721**	**734,596**

The total cost of £0.735m in the table above for exit packages has been charged to the Authority's Comprehensive Income and Expenditure Statement in the current year.

Exit package cost band (including special payments)	Number of compulsory redundancies 2014/15	Number of other departures agreed 2014/15			Total number of exit packages by cost band 2014/15			Total cost of exit packages in each band £ 2014/15		
	Total	Schools	Non School	Total	Schools	Non School	Total	Schools	Non School	Total
£0 - £20,000	79	1	6	7	21	65	86	102,755	438,521	541,276
£20,001 - £40,000	7	0	5	5	2	10	12	48,301	283,506	331,807
£40,001 - £60,000	1	0	1	1	0	2	2	0	109,354	109,354
£60,001 - £80,000	0	0	2	2	0	2	2	0	150,647	150,647
£80,001 - £100,000	1	0	1	1	0	2	2	0	169,409	169,409
£100,001 - £150,000	0	0	1	1	0	1	1	0	146,100	146,100
£150,001 - £200,000	0	0	1	1	0	1	1	0	155,500	155,500
Total	**88**	**1**	**17**	**18**	**23**	**83**	**106**	**151,056**	**1,453,037**	**1,604,093**

The total cost of £1.604m in the table above for exit packages was charged to the Authority's Comprehensive Income and Expenditure Statement in during 2014/15.

10. Termination Benefits

During the year the Council terminated the contracts of a number of employees across a range of services. The Council incurred liabilities of £734,596 (2014/15 £1,604,091) in respect of redundancy, payment in lieu of notice and added years pension costs - see note 9 for the number of exit packages and total cost per band.

11. External Audit Costs

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

	2014/15 £'000	2015/16 £'000
Fees payable to BDO with regard to external audit services carried out by the appointed auditor for the year	190	142
Fees payable to BDO for the certification of grant claims and returns for the year	12	10
Fees payable in respect of other services provided by BDO during the year	0	7
Total	**202**	**159**

12. Dedicated Schools Grant

The Authority’s expenditure on schools is funded primarily by grant monies provided by the Department for Education, through the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department for Education to fund academy schools in the Medway area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

During 2015/16 the Council incurred an overspend of £1.545m on DSG funded services. After taking account of the surplus of £3.845m brought forward from 2014/15, £301m was carried forward to 2016/17.

Details of the deployment of DSG receivable for 2015/16 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2015/16 before Academy recoupment			212,024
Less: Academy figure recouped for 2015/16			(104,665)
Total DSG after Academy recoupment for 2015/16			107,359
Plus: Brought forward from 2014/15			3,845
Less: Carry forward agreed in advance			(178)
Agreed initial budgeted distribution in 2015/16	4,227	106,799	111,026
In year adjustments	148	0	148
Final budget distribution in 2015/16	4,375	106,799	111,174
Less: Actual central expenditure	(3,573)		(3,573)
Less: Actual Individual Schools Budget deployed to schools		(105,478)	(105,478)
Plus: Local authority contribution for 2015/16	0	0	0
Carry forward to 2016/17	**802**	**1,321**	**2,123**
Less: Agreed transfer to capital earmarked reserves.			(2,000)
Add: Carry forward to 2016/17 agreed in advance			178
Total Carry forward to 2016/17	**802**	**1,321**	**301**

13. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015-16.

	2014/15 £'000	2015/16 £'000
Credited to Taxation and Non Specific Grant Income		
Department for Communities and Local Government		
- Formula Grant / Revenue Support Grant	52,391	38,784
- Council Tax Support New Burdens Funding	162	0
- Inshore Fisheries Conservation Authorities Grant	33	32
- New Homes Bonus	5,605	6,226
Department for Education		
- Education Support Grant	3,187	2,326
Department for Environment, Food and Rural Affairs		
- Lead Local Flood Authorities Grant	77	51
Department of Health		
- Healthwatch Grant	180	134
Recognition of Capital Grants and Contributions	23,154	9,874
Total	**84,788**	**57,427**
Credited to Services		
Cabinet Office		
- Cabinet	630	319
Department for Culture, Media & Sport		
- DCMS Other	93	247
Department for Education		
- Dedicated Schools Grant	116,068	107,359
- Pupil Premium Grant	6,879	5,906
- Education Funding Agency	494	0
- Sixth Form Grant	1,214	616
- DFE Other *	5,303	6,076
Department of Health		
- Public Health Grant	14,280	15,762
- DoH Other	264	1,358
Department for Communities and Local Government		
- Tax Collection & Benefit Administration	289	283
- Housing Benefit Administration	1,863	1,282
- Benefit Subsidy	104,190	100,667
- DCLG Other	1,027	7,993
Department for Environment, Food and Rural Affiars		
- DEFRA Other	0	76
Department of Transport		
- DoT Other	208	234
Department for Work & Pensions		
- DWP Other	848	126
Home Office		
- HO Other	72	74
Ministry of Justice		
- Contributions from the Youth Justice Board	590	525
- MoJ Other	107	109
Department for Business, Innovation & Skills		
- Skills Funding Agency	1,961	1,848
Other Miscellaneous Grants	2,241	996
Contributions from NHS Partners	9,436	17,439
Contributions from Other Local Authorities	1,437	1,154
Miscellaneous Contributions	959	486
Recognition of Capital Grants and Contributions	0	4,632
Total	**270,453**	**275,567**

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

Current Liabilities	31 March 2015 £'000	31 March 2016 £'000
Capital Grants Receipts in Advance (Capital Grants)		
Applicable Section Agreements	7,569	7,440
Total	**7,569**	**7,440**

14. Interests in Companies and Other Entities

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

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

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

Medway Norse Limited

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

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

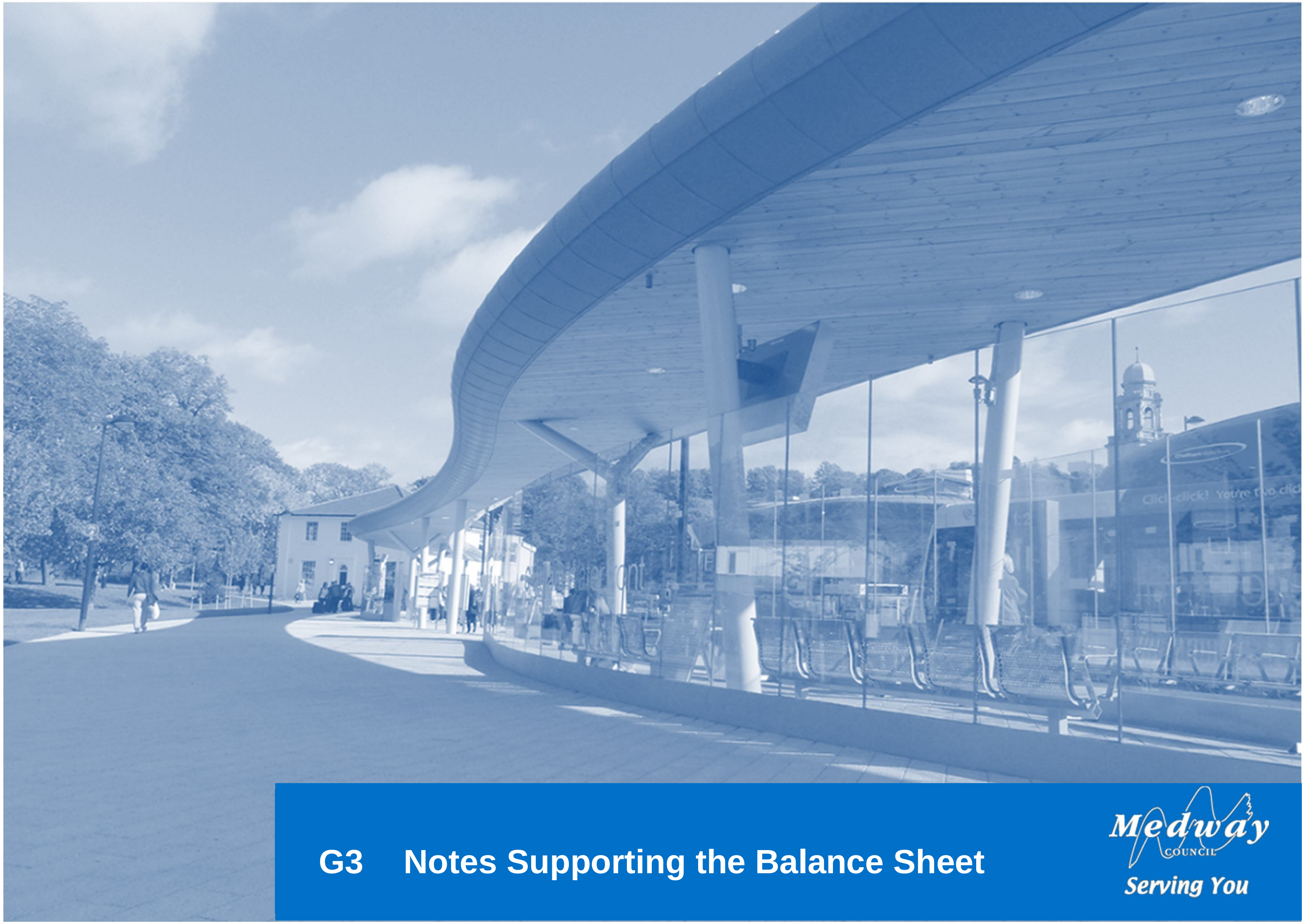
Under IFRS 11 the relationship between Medway Council and Medway Norse Ltd is a joint venture. We have, therefore, included under cost of services, the costs charged by Medway Norse net of rebate in the Income and Expenditure Account and have included the investment at cost plus post acquisition reserves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

Medway Norse Transport

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

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

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



G3 Notes Supporting the Balance Sheet

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15. Property, Plant and Equipment

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

Movements on Balances 2015/16	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2015	112,223	512,245	14,861	295,295	7,912	150	732	943,418
Additions	4,129	5,230	555	12,258	40	0	10,297	32,509
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	15,278	0	0	(16)	0	0	15,262
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	17,151	(18,410)	0	0	102	0	0	(1,157)
Derecognition – disposals	(443)	(53,203)	(643)	(1)	(30)	0	0	(54,320)
Derecognition - embedded leases	0	0	(477)	0	0	0	0	(477)
Transfers between asset categories	628	399	47	40	(262)	(150)	(702)	0
As at 31 March 2016	**133,687**	**461,538**	**14,343**	**307,592**	**7,746**	**0**	**10,327**	**935,235**
Accumulated Depreciation and Impairment								
As at 1 April 2015	0	(32,698)	(4,686)	(147,811)	(12)	0	0	(185,207)
Depreciation Charge (Excl. Embedded Leases)	(3,243)	(19,134)	(1,760)	(17,683)	0	0	0	(41,821)
Depreciation Charge (Embedded Leases)	0	0	(288)	0	0	0	0	(288)
Depreciation written out to the Revaluation Reserve	0	7,961	0	1	0	0	0	7,962
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,231	7,974	0	0	0	0	0	11,205
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	2	0	0	0	0	0	2
Derecognition – disposals	12	5,777	548	0	0	0	0	6,337
Derecognition - embedded leases	0	0	432	0	0	0	0	432
Transfers between asset categories	0	(0)	(1)	0	1	0	0	(0)
At 31 March 2016	**0**	**(30,118)**	**(5,755)**	**(165,493)**	**(11)**	**0**	**0**	**(201,377)**

Net Book Value	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
At 31 March 2016	**133,688**	**431,421**	**8,588**	**142,100**	**7,735**	**0**	**10,327**	**733,860**
At 31 March 2015	**112,223**	**479,546**	**10,175**	**147,484**	**7,901**	**150**	**732**	**758,210**

Movements on Balances 2014/2015	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2014	106,418	576,268	14,909	285,216	10,378	150	4,204	997,543
Additions	5,436	11,796	1,108	9,840	74		732	28,986
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	8,467	0	288	5,119	0	0	13,874
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(145)	(44,762)	0	0	(1,411)	0	0	(46,318)
Derecognition – disposals	(684)	(47,633)	(603)	(51)	0	0	0	(48,971)
Derecognition - embedded leases	0	0	(1,696)	0	0	0	0	(1,696)
Transfers between asset categories	1,198	8,109	1,143	2	(6,249)	0	(4,204)	0
As at 31 March 2015	**112,223**	**512,245**	**14,861**	**295,295**	**7,912**	**150**	**732**	**943,418**
Accumulated Depreciation and Impairment								
As at 1 April 2014	0	(45,018)	(4,113)	(130,334)	(54)	0	0	(179,519)
Depreciation charge	(3,216)	(19,654)	(2,066)	(17,477)	0	0	0	(42,413)
Depreciation written out to the Revaluation Reserve	0	7,129	0	0	29	0	0	7,158
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,252	16,193	0	0	5	0	0	19,450
Impairment losses/(reversals) recognised recognised in the Surplus/Deficit on the Provision of Services	0	438	0	0	0	0	0	438
Derecognition – disposals	18	8,160	603	0	0	0	0	8,781
Derecognition - embedded leases	0	0	898	0	0	0	0	898
Transfers between asset categories	(54)	54	(8)	0	8	0	0	0
At 31 March 2015	**0**	**(32,699)**	**(4,686)**	**(147,811)**	**(12)**	**0**	**0**	**(185,207)**

Net Book Value	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
At 31 March 2015	**112,223**	**479,546**	**10,175**	**147,484**	**7,901**	**150**	**732**	**758,210**
At 31 March 2014	**106,418**	**531,250**	**10,796**	**154,882**	**10,324**	**150**	**4,204**	**818,024**

Capital Commitments

As at 31 March 2016 the only significant contractual commitment (in excess of £4 million) that the Authority had outstanding related to a contract with Neilcott Construction in relation to the construction of a new building for Abbeycourt special school. As at 31 March 2016, the outstanding liability against this contract was to £7.090 million with construction expected to finish in December 2016.

Revaluations

The Authority carries out a rolling programme which ensures that all relevant Property, Plant and Equipment required to be measured at current value is revalued at least every five years. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the Professional Standards of the Royal Institution of Chartered Surveyors by RICS Registered Valuers. This year the HRA property portfolio was externally valued by Kier. All other property and land revaluations were undertaken by internal RCIS qualified valuers. If the revaluation of a specific asset results in a material change in value, an exercise is undertaken to establish whether the change is specific to that asset or could affect the whole asset class. If the material change cannot be identified as specific to that asset, then a review of the whole of that class, e.g. "Car Parks", will be undertaken to ensure that the fair value of that asset class held within the balance sheet at the end of the reporting period is not materially misstated.

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

Rolling Programme for the Revaluation of Property, Plant & Equipment

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction
	£000	£000	£000	£000	£000	£000	£000
Valued at historical cost	0	5,760	14,343	272,467	7,281	0	10,327
Valued at current value during the year ending:							
31 March 2016	133,688	146,802	0	0	150	0	0
31 March 2015	0	157,306	0	266	0	0	0
31 March 2014	0	38,535	0	0	0	0	0
31 March 2013	0	47,378	0	0	0	0	0
31 March 2012	0	57,212	0	0	0	0	0
31 March 2011	0	465	0	0	0	0	0
Capital expenditure on assets not revalued since the capital expenditure was incurred	0	8,081	0	34,860	316	0	0
Total	**133,688**	**461,539**	**14,343**	**307,593**	**7,747**	**0**	**10,327**

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

Inspections

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

Information

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

Title

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

Planning and highway proposals

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

Construction and state of repair

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

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

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

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

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

Deleterious or hazardous substances

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

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

Environmental Assessment

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

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

Plant and machinery

Plant and machinery installed to provide services normally expected with that type or quality of building or land holding has been valued as an integral part of the asset unless the plant and machinery element has been identified as forming a significant proportion of the overall value of the asset.

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

Lotting occurs if a number of individual assets are packaged and sold simultaneously. No allowance or discount has been made for any 'flooding' of the market which might in practice occur in this instance. All reported values assume each property is disposed of separately.

Removal of Schools Transferring to Academies

Schools with a value of £15.67m (2014-15 £26.89m) have achieved academy status between 01 April 2015 and 31 March 16 and therefore have been removed from the balance sheet for the 2015/16 financial statements. A further £26.9m has also been removed from the Balance Sheet in 2015/16 relating to a school that had converted to an Academy in a previous year. In addition, there are likely to be existing schools with a value of 19.2m (2014-145 £2.99m) that will achieve academy status between 01 April 2016 and 31 March 2017. Two newly built academies with a value of £54m are expected to be removed from the balance sheet during 2016/17.

16. Heritage Assets

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

	Buildings	Furniture	Silver / Gold Collections	Art Collection	Other	Total Assets
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation						
1 April 2014	10,147	269	1,163	1,213	2,457	15,249
Additions	61	0	0	0	0	61
Impairment (Losses)/reversals recognised in the Revaluation Reserve	244	0	0	0	1	245
Impairment (Losses)/reversals recognised in Surplus or Deficit on the Provision of Services	0	0	0	(175)	0	(175)
31 March 2015	**10,452**	**269**	**1,163**	**1,038**	**2,458**	**15,380**
Cost or Valuation						
1 April 2015	10,452	269	1,163	1,038	2,458	15,380
Additions	244	0	0	0	0	244
Revaluations	(32)	0	155	29	74	226
31 March 2016	**10,664**	**269**	**1,318**	**1,066**	**2,532**	**15,850**

Heritage Buildings

Those buildings which have been classified to Heritage are:

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

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

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

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

Furniture, Silver/Gold Collections, Art Collection and Other Historical Interest Items

The collection of fire arms held at the Guildhall Museum was revalued in February 2016 as a continuation of a rolling programme of revaluations that take place over a rolling five year programme for non-building assets. The valuation was undertaken by Culvertons on an insurance basis in accordance Authority policy. The majority of the Authority's heritage assets are held at the Guildhall Museum. There are also a number of items held at Eastgate House.

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

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

Other historical interest items include:

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

17. Heritage Assets: Further Information on the buildings and collections

Policy on acquiring Heritage Assets for its Museum Service

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

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

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

Preservation of Heritage Assets

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

Management of Heritage Assets

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

Disposals of Heritage Assets

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

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

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

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

18. Financial Instruments

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

Financial Instruments held for less than 3 months are classified as Cash and Cash Equivalents. Please see note 27.

Categories of Financial Instruments	Long term		Current	
	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000
Investments				
Loans and Receivables	19,733	19,733	0	0
Available for sale financial assets	4	2,823	0	0
Total Investments	**19,737**	**22,556**	**0**	**0**
Debtors				
Loans and Receivables	155	158	24,378	16,639
Total Debtors	**155**	**158**	**24,378**	**16,639**
Borrowings				
Financial liabilities at amortised cost	(164,729)	(171,526)	(1,277)	(9,271)
Total Borrowings	**(164,729)**	**(171,526)**	**(1,277)**	**(9,271)**
Creditors				
Financial liabilities at amortised cost	(38,695)	(37,158)	(31,478)	(28,932)
Total Creditors	**(38,695)**	**(37,158)**	**(31,478)**	**(28,932)**

Income, Expenses, gains and Losses

	2014/2015					2015/2016				
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	(11,448)	0	0	0	(11,448)	(11,475)	0	0	0	(11,475)
Total expense in Surplus or Deficit on the Provision of Services	**(11,448)**	**0**	**0**	**0**	**(11,448)**	**(11,475)**	**0**	**0**	**0**	**(11,475)**
Interest income	0	2,963	0	0	2,963	0	3,181	0	0	3,181
Total income in Surplus or Deficit on the Provision of Services	**0**	**2,963**	**0**	**0**	**2,963**	**0**	**3,181**	**0**	**0**	**3,181**
Net gain/(loss) for the year	**(11,448)**	**2,963**	**0**	**0**	**(8,485)**	**(11,475)**	**3,181**	**0**	**0**	**(8,294)**

Fair Value of Assets and Liabilities

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

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

The fair values calculated are as follows:

	31 March 2015		31 March 2016	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial liabilities	197,484	230,166	209,729	283,559
Long-term Creditors	38,695	38,695	37,158	37,158

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

	31 March 2015		31 March 2016	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and receivables	24,378	24,378	30,554	50,791
Long-term debtors	19,848	19,848	22,714	22,714

The fair value of the assets is greater than the carrying amount because the Authority's portfolio of loans and receivables 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.

Fair Value Hierarchy and Valuation Techniques

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

The fair value of other financial assets and liabilities disclosed above are measured using Level 2 inputs i.e. inputs other than quoted prices that are observable for the financial asset or liability. The fair values can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

Interest Rates on 31 March 2016 for equivalent loans
- loans receivable 0.69% to 1.12%
- PWLB borrowing 1.47% to 3.04%
- LOBO borrowing 2.84% to 3.17%
- market borrowing 1.08% to 1.44%

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

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

19. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit risk

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

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

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

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

The full investment strategy for 2015/16 was approved by full Council on 26/02/15 and the 2016/17 strategy was approved on 25/02/16. Both are available on the Authority's website.

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

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

	Amount at 31 March 2016	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£'000	%	£'000
Deposits with banks and financial institutions*	21,357		0
Customers	12,432		2,184
Total	**33,789**		**2,184**

* This is made up of the following:	Amount at 31 March 2016
	£'000
Barclays	1,568
Handlesbanken	40
Lloyds	13
Santander	3
Other Local Authorities	19,733
Total	**21,357**

The Authority does not generally allow credit for customers, such that £10.053 million of the £12.432 million balance is past its due date for payment. The past amount can be analysed by age as follows:

	£'000
Less than three months	1,619
Three to six months	1,609
Six months to one year	1,636
More than one year	5,189
	10,053

The Authority provision for bad debts stood at £2.184m at 31 March 2016 (£1.995m at 31 March 2015). The provision is calculated by applying the aged debt analysis and applying percentages to agreed categories of debt.

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

Liquidity risk

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

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

The maturity analysis of financial liabilities is as follows:

	31 March 2015 £'000	31 March 2016 £'000
Not later than one year	11,737	10,000
Between one and two years	10,404	10,274
Between two and five years	32,711	31,929
More than five years	450,222	447,553
Total Principal and Interest	**505,074**	**499,756**

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

	Lower Limit %	Upper Limit %	Actual 31 March 2016 %
Under 12 Months	0	75	34.68
12 months and within 24 months	0	50	12.32
24 months and within 5 years	0	50	20.02
5 years and within 10 years	0	50	4.62
10 years and above	0	100	28.35

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

Market risk

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

Interest rate risk

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

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure account will rise

- Borrowings at fixed rates – the fair value of the borrowings will fall (no impact on revenue balances)

- Investments at variable rates – the interest income credited to the Income and Expenditure account will rise

- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

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

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

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

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

Borrowing Analysis	Fixed or Variable Rate	Borrowing as at 31 March 2016
Long-Term Borrowing:		£’000
PWLB Loans (Principal)	Fixed	60,524
LOBO Loans (Principal)	Variable	101,800
Other Loans & Accounting Adjustments	Fixed	9,202
Total Long Term Borrowing		**171,526**
Current Borrowing:		
Other Local Authorities	Fixed	9,183
Other Short Term Borrowing & Accrued Interest	Fixed	88
Total Short Term Borrowing		**9,271**

Other loans and accounting adjustments (£9,202,000) includes an accounting adjustment of £1,704,158 in respect of LOBO loans. This technical accounting adjustment represents the cash benefit obtained by paying lower interest payments over a specified initial period on some of the LOBO loans. The adjustment is shown in the balance sheet as an addition to the value borrowed but is reduced by way of a credit to the income and expenditure account each year over the full term of the relevant loans. The adjustment has been included above as being at fixed rates because the value will not be affected even if the LOBO lenders exercise their option to change the rates of interest on the underlying loans.

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

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

At 31 March 2016 if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000s
Increase in interest payable on variable rate investments	530
Impact on Surplus or Deficit on the Provision of Services	530
Share of overall impact credited to HRA	25

Price Risk

The Authority does not generally invest in equity shares or marketable bonds. It does however have stock in a local authority property vehicle at a value of £2.823m (2015/16 £0). The Authority has no exposure to losses arising from movements in the prices of the HM Treasury Stock.

The Stocks are classified as "available for sale" meaning that movement in price will not impact on gains and losses in Other Comprehensive Income and Expenditure for 2015/16.

Foreign Exchange Risk

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

20. 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:

	2014/15 £'000	2015/16 £'000
Capital Investment		
Property Plant and Equipment	28,986	32,509
Heritage Assets	61	244
Investment Properties	0	400
Intangible Assets	103	725
Revenue Expenditure Funded from Capital under Statute	11,962	8,217
Total	**41,112**	**42,096**
Sources of Finance		
Capital receipts	(3,264)	(4,307)
Government grants and other contributions	(24,774)	(21,248)
Sums set aside from revenue	(6,540)	(7,547)
Direct revenue contributions	0	0
Borrowing	(6,534)	(8,994)
Total	**(41,112)**	**(42,096)**

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

The CFR at 31 March 2016 was £252,965,000 (31 March 2015 £247,819,000).

21. Leases

Authority as Lessee

Finance Leases

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

	31 March 2015 £'000	31 March 2016 £'000
Other Land & Buildings	430	422

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

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

The Authority has finance lease arrangements through "embedded leases". Embedded leases are where assets, although not owned by the Authority, are used primarily by the Authority for service delivery. Embedded leases are contained within our Waste and Highways contracts. Equipment used under our new Ground Maintenance contract no longer meets the requirements of being embedded leases. Where we have not been able to ascertain the value and useful life of the assets, estimates have been used. Assets are recognised in the Balance Sheet at the net depreciated value and offset by a deferred liability.

The assets held through embedded leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2015 £'000	31 March 2016 £'000
Vehicles, Plant & Equipment	829	497

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired and finance costs The minimum lease payments are made up of the following amounts:

	31 March 2015 £'000	31 March 2016 £'000
Finance lease liabilities (net present value of minimum lease payments):		
• current	261	240
• non-current	240	0
Finance costs payable in future years	154	55
Minimum Lease Payments	**655**	**295**

The minimum lease payments will be payable over the following periods

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000
Not later than one year	333	295	261	240
Later than one year and not later than five years	322	0	240	0
	655	**295**	**501**	**240**

Operating Leases

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

	31 March 2015 £'000	31 March 2016 £'000
Not later than one year	1,094	1,023
Later than one year and not later than five years	2,230	1,864
Later than five years	3,174	3,310
Total	**6,498**	**6,197**

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

	2014/15 £'000	2015/16 £'000
Minimum Lease Payments	1,540	1,094
Sublease Payments Receivable	(160)	(6)
	1,380	**1,088**

Authority as Lessor

Operating Leases

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

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

The future minimum lease payments receivable are:

	31 March 2015 £'000	31 March 2016 £'000
Not later than one year	1,165	1,183
Later than one year and not later than five years	2,529	2,365
Later than five years	10,101	9,807
Total	**13,795**	**13,355**

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 2015/16; £369,567 contingent rents were receivable by the Authority (2014/15; £339,567).

22. Debtors

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

	31 March 2015 £'000	31 March 2016 £'000
Central government bodies	8,633	9,338
Other Local Authorities	1,895	1,932
NHS bodies	6,293	1,778
Public corporations and trading funds	37	0
Bodies external to general government	27,036	25,251
Total Debtors	**43,894**	**38,299**

23. Cash and Cash Equivalents

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

	31 March 2015 £'000	31 March 2016 £'000
Cash held by the Authority	25	25
Bank current accounts	15,057	17,523
Bank Overdraft	(18,951)	(20,422)
Short-term deposits with financial institutions	12,668	1,624
Total Cash & Cash Equivalents	**8,799**	**(1,250)**

24. Creditors

	31 March 2015 £'000	31 March 2016 £'000
Central government bodies	11,861	6,947
Other Local Authorities	6,465	2,916
NHS bodies	537	237
Public corporations and trading funds	6	65
Bodies external to general government	24,842	25,958
Total Creditors	**43,711**	**36,123**

25. Provisions

	at 31 March 2015 £000s	2015/16				as at 31 March 2016 £000s
		Additional Provisions Made £000s	Amounts Used £000s	Unused Amounts Reversed £000s	Unwinding of Discounting £000s	
<u>Short Term Provisions</u>						
Short Term Provisions	677	0	(127)	0	0	550
NDR Appeals	3,025	0	0	252	0	3,277
Total	**3,701**	**0**	**(127)**	**252**	**0**	**3,826**
<u>Long Term Provisions</u>						
Insurance Provision	1,186	1,673	(1,053)	0	0	1,806
NDR Appeals	4,908	0	0	(2,259)	0	2,649
Other Provisions	424	157	(148)	0	0	433
Total	**6,518**	**1,830**	**(1,201)**	**(2,259)**	**0**	**4,888**

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

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

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2016 in line with IAS 37. The majority of the unsettled claims are for public liability.

26. Pension Schemes Accounted for as Defined Contribution Schemes

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

The Scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of 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 2015/16, the Authority paid £5.335m to Teachers Pensions in respect of teachers retirement benefits, representing 14.1% of pensionable pay up to 31 August 2015, then 16.48% of pensionable pay from 1 September 2015. The figures for 2014/15 were £5.567m and 14.1%. There were no contributions remaining payable at year end. The movement in the level of contributions is predominantly due to the number of schools that have converted to Academy status, on or since 1 April 2015. The contributions due to be paid in the next financial year are estimated to be £5.305m.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 29.

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

27. Usable Reserves (As per the Movement in Reserves Statement)

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

28. Unusable Reserves

	31 March 2015	31 March 2016
	£'000	£'000
Revaluation Reserve	115,748	132,104
Available for Sale Financial Instruments Reserve	0	(177)
Capital Adjustment Account	417,721	372,866
Pensions Reserve	(270,813)	(239,786)
Financial Instruments Adjustment Account	515	699
Collection Fund Adjustment Account	(4,168)	(4,984)
Accumulated Absences Account	(2,521)	(2,411)
Total Unusable Reserves	**256,480**	**258,310**

Revaluation Reserve

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

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

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

	2014/15	2015/16	
	£'000	£'000	£'000
Balance as at 1 April	105,075		115,748
Upward revaluation of assets	24,737	32,170	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(3,635)	(8,720)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	21,102		23,450
Difference between fair value depreciation and historical cost depreciation	(1,883)	(2,367)	
Accumulated gains on assets sold or scrapped	(8,547)	(4,727)	
Amount written off to the Capital Adjustment Account	(10,430)		(7,094)
Balance as at 31 March	**115,748**		**132,104**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

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

	2014/15	2015/16	
	£'000	£'000	£'000
Balance as at 1 April	0		0
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	0	(177)	
	0		(177)
Balance as at 31 March	**0**		**(177)**

Capital Adjustment Account

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

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

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

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

	2014/15		2015/16	
	£'000	£'000	£'000	£'000
Balance as at 1 April		**489,131**		**417,721**
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	(42,434)		(42,109)	
• Revaluation movements on Property, Plant and Equipment	(26,377)		10,051	
• Amortisation of Intangible Assets	(589)		(637)	
• Revenue Expenditure funded from Capital Under Statute	(11,962)		(8,217)	
• 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	(42,190)		(48,533)	
		(123,552)		(89,445)
Adjusting amounts written out of the Revaluation Reserve	10,430		7,094	
Net written out amount of the cost of non-current assets consumed in the year		10,430		7,095
Capital financing applied in the year:				
• Use of Capital Receipts Reserve to finance new capital expenditure	3,264		4,307	
• Use of the Major Repairs Reserve to finance new capital expenditure	4,248		4,149	
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	18,302		16,929	
• Application of grants to capital financing from the Capital Grants Unapplied Account	6,472		4,319	
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,549		4,424	
• Capital expenditure charged against the General Fund and HRA balances	2,292		3,398	
		42,127		37,526
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(415)		(31)
Balance as at 31 March		**417,721**		**372,866**

Pensions Reserve

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

	2014/15 £'000	2015/16 £'000
Balance as at 1 April	**(194,517)**	**(270,813)**
Remeasurements of the net defined benefit liability/(asset)	(67,160)	40,447
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	(23,036)	(22,851)
Employer's pensions contributions and direct payments to pensioners payable in the year	13,900	13,431
Balance as at 31 March	**(270,813)**	**(239,786)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2016 will be charged to the General Fund over the next 33 years.

	2014/15 £'000	2015/16 £'000
Balance as at 1 April	**278**	**515**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement (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)	237	184
Balance as at 31 March	**515**	**699**

Collection Fund Adjustment Account

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

	2014/15 £'000	2015/16 £'000
Balance as at 1 April	**(3,496)**	**(4,168)**
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(3,687)	(816)
Adjustment to prior period balance	3,015	**0**
Balance as at 31 March	**(4,168)**	**(4,984)**

The balance of £4.984m shown above consists of the following component parts:

	2015/16 £'000
Medway Council Tax Surplus	(934)
Medway Non-Domestic Rate Deficit	5,918
Balance as at 31 March	**4,984**

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.

	2014/15	2015/16	
	£'000		£'000
Balance as at 1 April	**(2,536)**		**(2,521)**
Settlement or cancellation of accrual made at the end of the preceding year	2,536	2,521	
Amounts accrued at the end of the current year	(2,521)	(2,411)	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	15		110
Balance as at 31 March	**(2,521)**		**(2,411)**

29. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Authority 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 Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

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

The Administering Authority for the Fund is Kent County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund’s professional advisers.

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

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. On the Employer's withdrawal from the plan, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

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

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.

- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.

- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

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

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

Transactions Relating to Post-Employment Benefits

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

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme	
	31 March 2015	31 March 2016
	£'000	£'000
Present value of the defined benefit obligation	(680,260)	(650,237)
Fair value of plan assets	416,454	417,023
Net Liability	**(263,806)**	**(233,214)**
Present Value of Unfunded Obligation	(7,007)	(6,572)
Net liability arising from defined benefit obligation	**(270,813)**	**(239,786)**

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

	Local Government Pension Scheme	
	31 March 2015	31 March 2016
	£'000	£'000
Opening fair value of scheme assets	379,626	416,454
Interest income	16,970	13,690
Remeasurement gain/(loss):		
● The return on plan assets, excluding the amount included in the net interest expense	25,032	(9,282)
Administration Expenses	(284)	(287)
Contributions from employer including unfunded	13,900	13,431
Contributions from employees into the scheme	4,480	4,377
Estimated Benefits paid	(18,599)	(17,194)
Other (if applicable)	(4,671)	(4,166)
Closing fair value of scheme assets	**416,454**	**417,023**

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

	Funded Liabilities: Local Government Pension Scheme	
	2014/15	2015/16
	£'000	£'000
Opening balance at 1 April	**574,143**	**687,267**
Current service cost	17,474	21,193
Interest cost	25,319	22,309
Contributions by scheme participants	4,480	4,377
Remeasurement gains and (losses):		
● Actuarial gains and losses arising on changes in financial assumptions	92,507	(49,829)
● Experience (loss)/gain on defined benefit obligation	(315)	100
Liabilities extinguished on settlements	(9,402)	(11,448)
Estimated benefits paid net of transfers in	(18,075)	(16,677)
Past service cost, including curtailments	1,660	34
Unfunded pension payments	(524)	(517)
Closing balance at 31 March	**687,267**	**656,809**

Local Government Pension Scheme assets comprised:

Employer Asset Share Bid Value	Fair value of scheme assets (a)	
	2014/15	2015/16
	£'000	£'000
Equities	283,954	278,102
Gilts	4,355	3,694
Other Bonds	46,643	45,789
Property	52,057	60,578
Cash	11,388	10,737
Target Return Portfolio	18,057	18,123
Total assets	**416,454**	**417,023**

All scheme assets have quoted prices in active markets.

The funds Actuaries have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2016 is likely to be different from that shown due to estimation techniques.

Basis for Estimating Assets and Liabilities

The principal assumptions used by the actuary have been:

To assess the value of the Employer's liabilities at 31 March 2016, the actuary has rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2013 using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2016 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2016 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumption, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

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

The service cost for the year ending 31 March 2106 is calculated using an estimate of the average total pensionable payroll during the year.

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

The assumed life expectations from age 65:

Life Expectancy from age 65 (years)	Local Government Pension Scheme	
	31 March 2015	31 March 2016
Mortality assumptions:		
Longevity at 65 for current pensioners		
● Men	22.8	22.9
● Women	25.2	25.3
Longevity at 65 for future pensioners		
● Men	25.1	25.2
● Women	27.6	27.7

Further assumptions are:

- Members will exchange half of their commutable pension for cash at retirement

- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;

- No members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

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

	Local Government Pension Scheme	
	31 March 2015	31 March 2016
Rate of inflation CPI	2.40%	2.40%
Rate of inflation RPI	3.20%	3.30%
Rate of increase in salaries	4.20%	4.20%
Rate of increase in pensions	2.40%	2.40%
Rate for discounting scheme liabilities	3.30%	3.70%

These assumptions are set with the reference to market conditions at 31 March 2016.

The actuary's estimate of the duration of the Employer's liabilities is 19 years.

The discount rate is the annualised yield at the 19 year point on the Merill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Employer's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 19 year point on the Bank of England market implied inflation curve. The RPI assumption is therefore 3.3% p.a. This is consistent with the approach used at the last accounting date.

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

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

Sensitivity Analysis				
		£000's	£000's	£000's
Adjustment to discount rate		**0.10%**	**0.00%**	**(0.10%)**
	obligation	644,637	656,809	669,222
	Projected Service Cost	18,545	18,976	19,417
Adjustment to long term salary increase		**0.10%**	**0.00%**	**(0.10%)**
	obligation	658,087	656,809	655,539
	Projected Service Cost	18,985	18,976	18,967
Adjustment to pension increases and deferred revaluation		**0.10%**	**0.00%**	**(0.10%)**
	obligation	668,091	656,809	645,742
	Projected Service Cost	19,413	18,976	18,549
Adjustment to mortality age rating assumption		**+ 1 Year**	**None**	**-1 Year**
	obligation	676,709	656,809	637,512
	Projected Service Cost	19,460	18,976	18,504

Impact on the Authority's Cash Flow

The Authority anticipated to pay £12,543,000 expected contributions to the scheme in 2016/17.

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.

G4 Notes Supporting the Cash Flow Statement

Medway Council

Serving You

30. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2014/15 £'000	2015/16 £'000
Interest received	(233)	(575)
Interest paid	9,098	8,940

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

	2014/15 £'000	2015/16 £'000
Depreciation	(43,002)	(42,745)
Impairment and revaluations	(26,845)	9,843
(Increase) / decrease in creditors	6,864	1,260
Increase / (decrease) in debtors/Impairment for Bad Debts	1,209	(5,592)
Increase / (decrease) in inventories	7	(62)
Movement in pension liability	(9,136)	(9,420)
Contributions (to)/from Provisions	(2,819)	1,505
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(42,988)	(48,577)
Other non-cash items charged to the net surplus or deficit on the provision of services	(0)	0
	(116,710)	**(93,788)**

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

	2014/15 £'000	2015/16 £'000
The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:		
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	0	3
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,512	3,086
Any other items for which the cash effects are investing or financing cash flows	23,154	9,874
	28,666	**12,963**

31. Cash Flow – Investing Activities

	2014/15 £'000	2015/16 £'000
Purchase of property, plant and equipment, investment property and intangible assets	29,150	33,658
Purchase of short-term and long-term investments	19,475	3,000
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(5,513)	(3,086)
Proceeds from short-term and long-term investments	0	(3)
Other receipts from investing activities	(22,896)	(9,874)
Net cash flows from investing activities	**20,216**	**23,695**

32. Cash Flow – Financing Activities

	2014/15	2015/16
	£'000	£'000
Cash receipts of short- and long-term borrowing	0	(6,922)
Cash payments for the reduction of outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,147	764
Repayments of short- and long-term borrowing	125	88
Net cash flows from financing activities	**1,272**	**(6,070)**

G5 Other Notes

33. Related Parties

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

Central Government

Central government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 6 on reporting for resources allocation decisions.

Members

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

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

Two Members of the Council are Trust Members of Chatham Historic Dockyard Trust. During the year the Council paid £113,999 (£125,584 in 2014/15) to the organisation and the Trust paid the Council £25,694 (£3,936 in 2014/15). At 31 March 2016 the Council was owed nothing by the Trust (31 March 2015 £1,365).

One Member of the Council is a non-executive director of Medway Community Healthcare. During the year the Council received £95,946 (£122,875 2014/15) from Medway Community Healthcare and paid £4,361,631 (£1,025,752 2014/15) in respect of various services. At 31 March 2016 the Council was owed £39,889 (31 March 2015 £52,584) and owed nothing to the Trust (2014/15 £18,761).

Sunlight Development Trust – is a community owned organisation that works with partners across all Sectors. Its overriding aim is to improve health, inequality and wellbeing. One member is Chair of the Trustees. The Council made payments to the Trust amounting to £86,767 during 2015/16 (£215,706 2014/15).

Officers

One senior officer is a Council member of The University of Kent Governing Body. The total value of payments made by the University to the Council was £41,833 in 2015/16 (£100,818 in 2014/15). Payments from the Council to the University from the Council totalled £8,750 in 2015/16 (£5,820 in 2014/15). At 31 March 2016 the Council was owed £1,154 (31 March 2015 £505).

One senior officer is a Council member of Mid Kent College Governing Body. The Council made payments of £406,720 to the College in 2015/16 (£113,195 in 2014/15). The total value of transactions to the Council from the College was £2,630 in 2015/16 (£2,858 in 2014/15). At 31 March 2016 the Council owed nothing to the College (31 March 2015 £24) and the College owed the Council £637 (31 March 2015: nil).

Other Public Bodies

Other than transactions disclosed elsewhere within these accounts (e.g. note 9), there are no other disclosures required in respect of Related Party Transactions

The Authority has a 20% equity share in Medway Norse Limited and Medway Norse Transport (see note 14).

The Companies supply services to the Authority which is included in the cost of services.

Medway Council appoints 2 directors to the Boards of Medway Norse and Medway Norse Transport. The Council made payments of £11,486,946 to Medway Norse/Medway Norse Transport in 2015/16 (£10,112,787 2014/15). The total value of transactions to the Council from these companies was £101,772 in 2015/16 (£207,157 2014/15). At 31 March 2016 the Council was owed £28,651 (31 March 2015 £111,763) and owed £135,248 (14/15 £29,628).

Other Public Bodies (subject to common control by Central Government)

The Authority operates a number of joint funding initiatives with Medway Clinical Commissioning Group.

The Authority receives grant income from various government departments as detailed in note 13.

34. Contingent Liabilities

At 31 March 2016, the Authority had the following significant contingent liabilities:

A group of property search companies is seeking the refund of fees paid to the Council to access land charges data. The parties have agreed to pay the property search companies legal costs to be subject to a detailed assessment by way of costs only proceedings if not agreed. The council is in discussion with the claimants about the costs aspect of the claim. At present it is not possible to put a final value on these potential liabilities but the Council estimates the contingent liability at £100,000.

The Council has £101.8m of Lender Option Borrower Option loans (LOBOs), taken out between 2003 to 2008, with terms of 30 to 60 years. Information on the Council's borrowings, including LOBO loans, is included in Note 18. A number of local authorities, including this Council, have received objections from local electors as to the lawfulness of local authorities obtaining borrowings through LOBO loans. Whilst the LOBO loans held by this Council have not currently been found to be unlawful, there is on-going analysis of LOBOs generally by councils affected, their auditors and specialist lawyers. The law in relation to this matter is complex and there is uncertainty as to what the consequences could be should a local authority have obtained borrowing through a LOBO that was found to be unlawful. In the event of a LOBO loan being found to be unlawful, restitutionary remedies may result in the outstanding balances on these loans having to be repaid in full to the lender and may result in additional costs resulting from losses incurred by the lender.

35. Contingent Assets

There were no known material contingent assets as at 31 March 2016.

36. Non-adjusting event post reporting period

Local Government Pension Scheme Liability:

There has been a significant decrease in the yields for high quality corporate bonds that are used to calculate the discount rate for future obligation to pay pensions for the Council's defined benefits pension scheme. The valuation of these pension liabilities at 31 March 2016 had applied a discount rate of 3.7% and calculated the present value of the obligation (funded and unfunded) at £656,809,000 (see note 29). Average yields on high quality corporate bonds are now at around 2.1% (as at 31 August 2016) although is should be noted that the market is still showing volatility. The Council's actuary estimates that every 0.1% fall in the discount rate would increase the pension liability by approximately 2% which would increase the net pension liability in the balance sheet by £12,413,000.

F. Supplementary Financial Statements

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The Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. In its capacity as billing authority Medway Council acts as an agent for the other major Precepting authorities (Police and Fire) and Central Government as it collects and distributes council tax and business rates on their behalf.

The Authority has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The Purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and Non-Domestic Rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year. For Medway, the Council Tax precepting bodies are The Police and Crime Commissioner for Kent and The Kent Fire and Rescue Service.

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

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

The national code of practice followed by Local Authorities in England stipulates that a Collection Fund Income and Expenditure is included in the Authority's accounts. The Collection Fund Balance Sheet is incorporated into the Authority's Consolidated Balance Sheet.

Year Ended 31 March 2015 Total £'000		Notes	Year Ended 31 March 2016 Business Rates £'000	Council Tax £'000	Total £'000
(110,758)	Council Tax	1		(115,026)	(115,026)
(86,633)	Non-Domestic Rates	2	(88,855)		(88,855)
(197,391)	**Total Amount required by statute to be credited to the Collection Fund**		**(88,855)**	**(115,026)**	**(203,881)**
	Precepts and demands from major preceptors and the authority				
133,765	- Medway Council		44,629	95,610	140,239
11,312	(PCCK)			11,803	11,803
6,294	- Kent Fire and Rescue Service (KFRS)		911	5,667	6,578
	Payment with respect to central share (including allowable deductions) of the non-domestic rating income to be paid to central government by billing authorities				
	Business rates:				
42,992	- payment to Central Government		45,540		45,540
289	- costs of collection		284		284
103	- transitional protection		35		35
	Impairment of debts/appeals				
0	- write-offs of uncollectable amounts	3	0		0
1,601	- allowance for impairment		1,469	795	2,264
6,951	– Increase/Decrease in Provision for appeals		(4,095)		(4,095)
2,096	Transfer of Collection Fund surplus/(deficit)		(459)	2,856	2,397
205,403	**Total Amount required by statute to be debited to the Collection Fund**		88,314	116,731	205,045
1,798	**Opening fund balance**		12,619	(2,809)	**9,810**
9,810	**Closing Fund Balance**	**4**	12,078	(1,104)	10,974
8,012	**Movement on fund balance**		(541)	1,705	1,164

	Allocation of Closing Deficit/(Surplus)				
3,746	Medway Council		5,918	(934)	4,984
(251)	Police and Crime Commissioner for Kent		0	(115)	(115)
5	Kent Fire and Rescue Service		121	(55)	66
6,310	Central Government		6,039		6,039
9,810			12,078	(1,104)	10,974

Notes to the Collection Fund Account

1. Council Tax

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

The Council Tax Base for 2015/16 was 80,212.80 (78,406.79 in 2014/15). The tax base for 2015/16 was approved by the Portfolio Holder for Finance on 27 January 2015 and was calculated as follows:

Band	Chargeable Dwellings	Ratio 9ths	Band D Equivalent Gross	Exemptions & Discounts	Band D Equivalent Net
A	11,199	6	7,466	1,386	6,080.30
B	37,992	7	29,549	3,438	26,111.24
C	33,287	8	29,588	2,688	26,900.89
D	17,265	9	17,265	1,422	15,843.05
E	8,584	11	10,492	654	9,837.85
F	3,768	13	5,443	400	5,042.34
G	1,354	15	2,257	133	2,123.42
H	64	18	128	55	72.80
Total	**113,513**		**102,188**	**10,176**	**92,011.89**
Council Tax Support					(10,171.31)
Sub Total					81,840.58
Allowance for Non Collection (2.4%)					(1,964.18)
Sub Total					79,876.40
Crown Contribution					336.39
Tax Base for the Calculation of Council Tax 2015/16					**80,212.79**
Tax Base for the Calculation of Council Tax 2014/15					**78,406.79**

2. Income from Business Rates

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

In 2013/14, the administration of NDR changed following the introduction of a business rates retention scheme which aims to give authorities a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectable rates due. In the case of Medway the local share is 49%, Central Government 50% and Kent Fire and Rescue service 1%.

The business rates shares payable for 2015/16 were estimated before the start of the financial year as £45.6m to Central Government, £0.9m to KFRS and 44.6m to Medway Council. These sums have been paid in 2015/16 and charged to the collection fund in that year.

The total income from business rate payers collected in 2015/16 was £88.8m (£86.5m 2014/15)

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and hence business rates outstanding as at 31 March 2016. As such, authorities are required to make provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. The total reduction in provision credited to the collection fund for 2015/16 has been calculated at £4.0m (£7.0m charged for 2014/15).

For 2015/16, the total non-domestic rateable value at the year-end is £218.3m (£217.3m in 2014/15). The national multipliers for 2015/16 were 48.0p for qualifying Small Business, and the standard multiplier being 49.3p for all other businesses (47.1p and 48.2p respectively in 2014/15).

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

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

2014/15 £000s			2015/16 £000s	
Collection Fund	**Medway Share**		**Collection Fund**	**Medway Share**
2,482	2,095	Balance at 1 April	2,680	2,255
(688)	(582)	Write-offs during year	(716)	(715)
886	742	Contributions to provisions during year	795	796
198	**160**	**Net Increase/decrease in Provisions**	**79**	**81**
2,680	**2,255**	**Balance at 31 March**	**2,759**	**2,336**

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

2014/15 £000s			2015/16 £000s	
Collection Fund	**Medway Share**		**Collection Fund**	**Medway Share**
2,533	1,241	Balance at 1 April	2,181	1,069
(1,067)	(522)	Write-offs during year	(837)	(410)
715	350	Contributions to provisions during year	1,469	719
(352)	**(172)**	**Net Increase/decrease in Provisions**	**632**	**309**
2,181	**1,069**	**Balance at 31 March**	**2,813**	**1,378**

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2016. This is the third year of the provision.

2014/15 £000s			2015/16 £000s	
Collection Fund	**Medway Share**		**Collection Fund**	**Medway Share**
9,236	4,526	Balance at 1 April	16,187	7,932
6,951	3,406	Contributions to provisions during year	(4,095)	(2,007)
6,951	**3,406**	**Net Increase/decrease in Provisions**	**(4,095)**	**(2,007)**
16,187	**7,932**	**Balance at 31 March**	**12,092**	**5,925**

4. Surplus/Deficit

For 2015/16 the Collection Fund incorporates both Council Tax and Non Domestic Rates. Overall the Collection Fund shows a deficit of £10.9m (2014/15 deficit £9.8m), apportioned as follows:

Medway Council deficit £4.9m (2014/15 deficit £3.8m), The Police and Crime Commissioner for Kent surplus £115k (2014/15 surplus £251k), Kent and Medway Fire and Rescue Authority deficit £66k (2014/15 deficit £5k) and Central Government deficit of £6.0m (2014/15 deficit £6.3m). The makeup of these surpluses and deficits are shown in the table below:

	Total Collection Fund	Medway Council	Police and Crime Commissioner for Kent	KFRS	Central Government
	£'000	£'000	£'000	£'000	£'000
NDR Collection Fund (Surplus)/Deficit	12,078	5,918	0	121	6,039
Council Tax	(1,104)	(934)	(115)	(55)	
Total	**10,974**	**4,984**	**(115)**	**66**	**6,039**

Housing Revenue Account

Explanatory Foreword

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

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

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

- the Authority is required to follow by virtue of any enactment (statutory proper practices) – the principal statutory proper practices are determined by the 1989 Act, the 1993 Act, the Audit Commission Act 1998, the Accounts and Audit (England) Regulations 2011, the HRA (Accounting Practices) Directions 2011 and the Item 8 Determination

- are contained in a code of practice which is identified for this purpose by regulations made by the Secretary of State (non-statutory proper practices) – the most relevant to the HRA are the Code and SeRCOP.

Section 21(3) of the 2003 Act also requires that, in the event of any conflict between statutory and non-statutory practices, only those defined by statute are to be regarded as proper practices. This is particularly important in the context of capital charges and receipts, where calculation of the amounts to be credited or debited to the HRA is determined by the Secretary of State. However, problems can also arise with apparently less complex transactions such as the recharging of support services and administrative expenses.

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

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

HRA Income and Expenditure Statement

This Statement analyses in more detail the income and expenditure on HRA services included in the whole Authority Surplus or Deficit on the Provision of Services. It also shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Authority charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2014/15 £'000		Notes	2015/16 £'000
	Expenditure		
2,557	Repairs & maintenance		2,861
3,867	Supervision and management		3,653
184	Rents, rates, taxes and other charges		176
0	Rent Rebate Subsidy Limitation	8	0
386	Depreciation and impairment of non-current assets	4,11	(16,970)
0	Revenue Expenditure Funded from Capital Under Statute		2
75	Debt management costs		75
71	Movement in the allowance for bad debts	9	50
(7,160)	**Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(24,854)**
(4,970)	**Deficit/(Surplus) for the year on Housing Revenue Account Services**		**(22,563)**

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

Movement on the Housing Revenue Account Statement

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

2014/15 £'000		2015/16 £'000
(1,969)	**Balance on the HRA at the end of the previous reporting period**	**(2,235)**
(4,970)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	(22,563)
4,698	Adjustments between accounting basis and funding basis under statute	21,981
(271)	**Net (increase) or decrease before transfers to or from reserves**	**(582)**
6	Transfers to or (from) Earmarked HRA reserves	0
0	Transfers to or (from) GF reserves	0
(266)	**(Increase) or decrease in year on the HRA**	**(582)**
(2,235)	**Balance on the HRA at the end of the current reporting period**	**(2,817)**

Notes to the Housing Revenue Account

1. Adjustments between accounting basis and funding basis under statute

2014/15 £'000		2015/16 £'000
	ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:	
(3,516)	Charges for depreciation and impairment of non-current assets	(3,480)
3,162	Revaluation movements on Property, Plant and Equipment	20,450
0	Revenue Expenditure Funded from Capital Under Statue	(2)
(700)	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	(431)
	INSERTION OF ITEMS NOT DEBITED OR CREDITED TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT:	
1,264	Capital Expenditure charged Against HRA Balances	1,368
	ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:	
1,158	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	758
	ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:	
3,516	Reversal of Major Repairs Allowance credited to HRA	3,480
	ADJUSTMENTS PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT:	
(12)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(12)
	ADJUSTMENTS PRIMARLY INVOLVING THE PENSIONS RESERVE:	
(439)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(375)
268	Employer's pension contributions and direct payments to pensioners payable in the year	223
	ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:	
(3)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2
4,698	**TOTAL ADJUSTMENTS**	**21,981**

2. Transfers to or from (earmarked) reserves

In 2015/16, £0.45m (£0.6m 2014/15) was transferred from the available New Build Reserves to fund 12% (due to availability of New Build Reserves) of the allowable 30% allowance of new build construction costs (30% used in 2014/15). Remaining allowance (18%) will be carried forward to the future years to drawdown funds from New Build Reserves to pay off the debt from borrowing for current new build house programme. £2.58m from Major Repairs Reserves has been used in 2015/16 to defer borrowing to fund HRA new house build programme which will be paid back into MRR in 2016/17. The following table shows an analysis of the amounts held in HRA earmarked reserves and the amounts set aside in year and the amounts posted back from earmarked reserves to meet expenditure in 2015/16:

	Balance 1 April 2014 £'000	Transfers in 2014/15 £'000	Transfers out 2014/15 £'000	Balance 31 March 2015 £'000	Transfers in 2015/16 £'000	Transfers out 2015/16 £'000	Balance 31 March 2016 £'000
HRA IT Reserve	**0**	(6)	0	**(6)**	0	0	**(6)**
to Capital	**0**	0	0	**0**	(1,350)	1,350	**0**
Major Repair Reserve	**(138)**	(7,604)	7,073	**(669)**	(4,291)	4,960	**(0)**
HRA Capital Receipts (1-4-1)	**(268)**	(486)	563	**(190)**	(260)	450	**(0)**
Total	**(407)**	**(8,095)**	**7,637**	**(865)**	**(5,901)**	**6,760**	**(6)**

3. Housing Revenue Account Stock

a. Rentable Dwelling Stock

The Council managed 3,011 rentable dwellings as at 31 March 2016. The movement in stock is analysed as follows:

Stock Type	01 April 2015	Adjustments	Additions	Disposals	31 March 2016
Houses	1,291	0	7	(9)	1,289
Flats	1,257	(1)	0	0	1,256
Maisonettes	215	0	0	0	215
Bungalows	244	0	7	0	251
Total	**3,007**	**(1)**	**14**	**(9)**	**3,011**

b. Non-Rentable Dwelling Stock

The Council owned 1 non rentable dwelling (a flat) as at 31 March 2016.

c. Non-Dwelling Stock

The Council owned 875 non- dwellings as at 31 March 2016. The movement in stock is analysed as follows:

Stock Type	01 April 2015	Adjustments	Additions	Disposals	31 March 2016
Garages	440	0	0	(32)	408
Garages with water	183	0	0	(1)	182
Carports	82	0	0	(4)	78
Carspaces	147	0	33	0	180
Underground carspaces	26	0	0	0	26
Commercial Property	0	1	0	0	1
Total	**878**	**1**	**33**	**(37)**	**875**

4. HRA Non-Current Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Balance Sheet. The vacant possession value at 1 April 2015 was £347m. The 'discounted' existing use value reflects the economic cost to government of providing council housing at less than market rents.

	Dwellings £'000	Other Land and Buildings £'000	Total £'000
Cost or Valuation 1 April 2015	112,224	3,497	115,720
Additions	4,129	101	4,230
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	267	267
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	17,151	(169)	16,982
Derecognition – disposals	(443)	0	(443)
Assets reclassified (to)/from Held for Sale	661	0	661
Other movements in cost or valuation	(34)	34	0
As at 31 March 2016	**133,688**	**3,730**	**137,417**
Depreciation as at 1 April 2015	0	0	0
Depreciation charge	(3,243)	(237)	(3,480)
Depreciation written out to the Revaluation Reserve	0	0	0
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,231	237	3,468
Derecognition – disposals	12	0	12
As at 31 March 2016	**(0)**	**(0)**	**(0)**

Net Book Value			
As at 31 March 2015	112,224	3,496	115,720
As at 31 March 2016	133,688	3,730	137,418

5. Major Repairs Reserve

The Major Repairs Reserve is the account that can be used to fund capital works and repay debt. The Major Repairs Reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account for Major Repairs Allowance and debt repayment. This sum is then available to finance Housing Revenue Account capital expenditure on HRA Land, House and other property and to repay the debt. The analysis of movement on the Major Repairs Reserve as well as HRA total capital expenditure is as follows:

Major Repairs Reserve	2014/15 Re stated £'000	2015/16 £'000
Opening Balance	**(138)**	**(669)**
HRA Depreciation from Capital Adjustment Account	(3,516)	(3,480)
Debt Repayment from the HRA	(790)	(811)
Debt Repayment from the Capital Adjustment Account	790	811
Payment for Capital Expenditure on HRA Land, Houses & other Property	2,985	1,570
Payment for Capital Expenditure on New House Build Programme(borrowing from MRR)	0	2,579
Closing Balance	**(669)**	**0**

6. Analysis of HRA Capital Expenditure and Funding

	2014/15 Re stated £'000	2015/16 £'000
Operational Assets		
Dwellings	5,437	4,129
Other Land and Buildings	185	101
Asset under Construction	661	2,552
Revenue Expenditure Funded from Capital under Statute	0	2
Total	**6,283**	**6,784**
Funded by:		
Major Repairs Reserve	2,985	4,150
Transfer from 1-4-1 Capital Receipts Reserves	563	450
Prudential Borrowing for New House Build Programme	1,471	834
Revenue contributions from the HRA	1,264	1,350
Total Funding	**6,283**	**6,784**

The Revenue Expenditure Funded from Capital under Statute relates to:

	2014/15 £'000	2015/16 £'000
Expenditure type:		
New Build Programme-Pre Construction Expenditure	0	2
Total	**0**	**2**

7. Summary of HRA Capital Receipts

	2014/15 £'000	2015/16 £'000
Receipts from the sale of land	(20)	(5)
Receipts from disposals of houses through the Right To Buy scheme	(1,144)	(767)
Total Capital Receipts	**(1,164)**	**(772)**

8. Tenants' Arrears

Tenants' Arrears at 3 April were analysed as follows:

Type of Debt	2014/15 £'000	2015/16 £'000
General Stock	236	217
Garages	1	0
Former Tenancies – General Stock	307	263
Former Tenancies - Garages	1	0
Court Costs – General Stock	31	29
Former Tenancy Arrears of Current Tenants – General	52	50
Rechargeable Repairs	74	72
Total Arrears	702	631
Percentage of Gross Rents (HRA)	**5.45%**	**4.78%**

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

	2014/15 £'000	2015/16 £'000
Opening Balance		582
Additional Provision made during year		50
Add Credit write-offs		2
Less amounts written off		(104)
Closing Balance	**582**	**530**

9. Depreciation and Amortisation Charges

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

In 2015/16 the depreciation charged on HRA assets was £3.48m (£3.5m 2014/15). The charge for depreciation of £3.24m relating to the housing stock is funded from the Major Repairs Allowance. The charge of £0.24m relating to other non-current assets is appropriated from the Major Repairs Reserve to the HRA. The following table shows the depreciation charged on HRA assets:

	2014/15 £'000	2015/16 £'000
Property, Plant and Equipment		
Council Dwellings	3,216	3,243
Other Land and Buildings	300	237
Total Depreciation and Amortisation	**3,516**	**3,480**

10. Item 8 Credit and Item 8 Debit (General) Determination

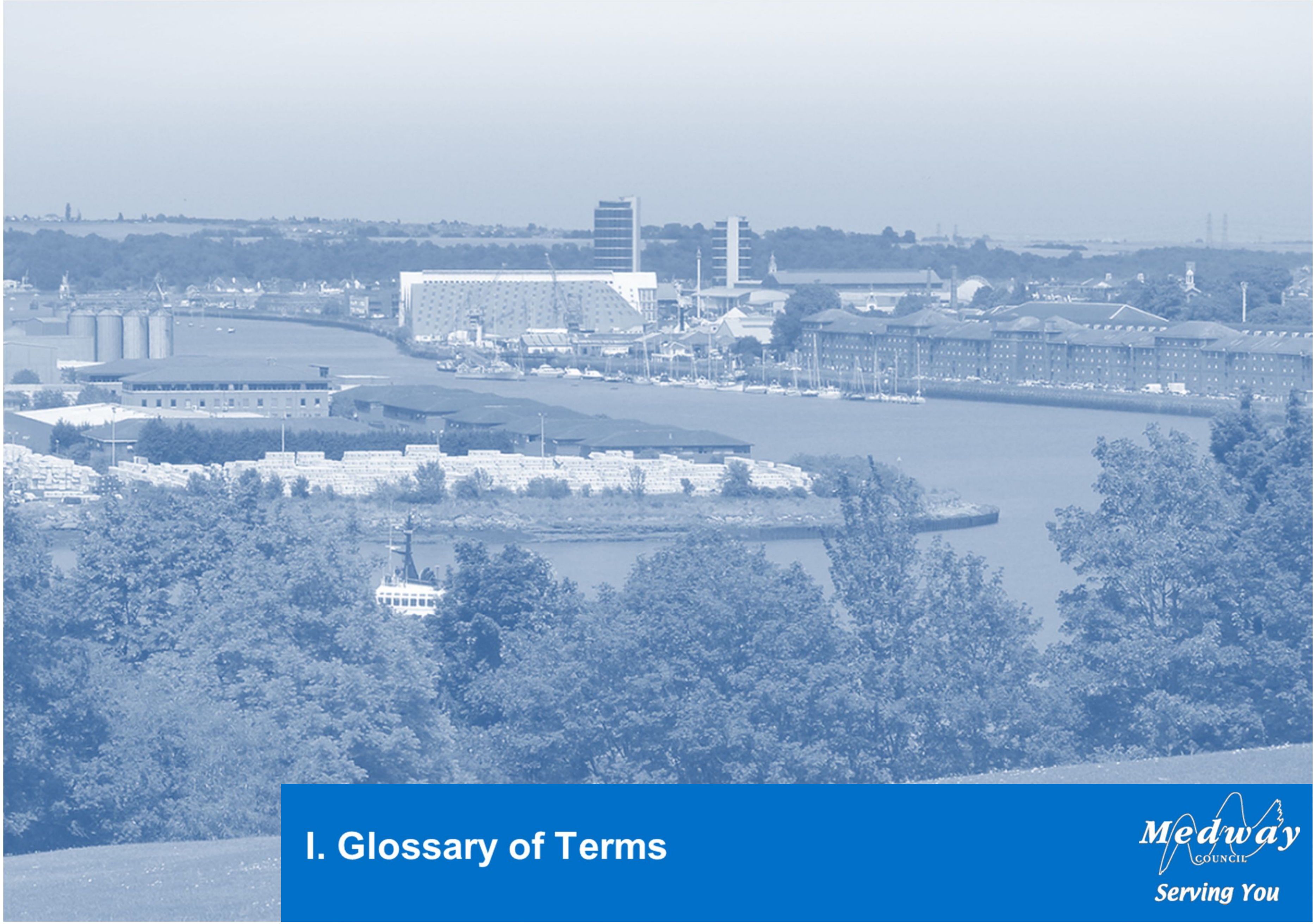
The capital asset charges accounting adjustment, calculated in accordance with the Item 8 credit and Item 8 debit (general) determination for 2015/16 was a credit of £14.4m (2014/15 was £2.8m.)

The following table shows the breakdown of this adjustment:

Type of Debt	2014/15 £'000	2015/16 £'000
Capital Asset Charges		
Revaluation and Impairment (Gain) / Losses	(3,162)	(20,450)
Revenue Expenditure Funded from Capital Under Statute	0	2
Depreciation Charge in Respect of Council Dwellings	3,216	3,243
Other Depreciation Charges	300	237
Debt repayment	790	811
Total Capital Asset Charges	**1,144**	**(16,157)**
Actual Interest Charged on HRA Debt	1,681	1,711
Capital Asset Charges Accounting Adjustment	**2,825**	**(14,446)**

11. Gross Rent Debit

The rent income figure is net of voids. The level of voids in 2015/16 was on average equal to 0.40% (0.43% in 2014/15). The level of rebates provided was £8.9m (2014/15 £8.88m), which amounted to 63.82% of rent and HB related service charges collectable (2014/15 65.48%).



I. Glossary of Terms

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

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

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

APPOINTED AUDITORS
BDO (LLP) is Medway Council's appointed Auditor.

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

AUDIT OF ACCOUNTS
An independent examination of the Authority's financial affairs.

AUTHORISED LIMIT
The maximum amount of external debt the Authority can owe to external lenders under the Local Government Act 2003

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

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

CAPITAL EXPENDITURE
Expenditure to acquire or enhance long-term assets.

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

CAPITAL PROGRAMME
The capital schemes the Authority intends to carry out over a specified period of time.

CAPITAL RECEIPT
The proceeds from the disposal of land or other long-term assets.

CHARTERED INSTITUTE OF PUBLIC FINANCE & ACCOUNTANCY (CIPFA)
The professional accountancy body specialising in the public sector.

CORPORATE AND DEMOCRATIC CORE
Incorporates:

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

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

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

COLLECTION FUND
A separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR).

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

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

CONSTRUCTION CONTRACT
A construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Construction contracts include contracts for the rendering of services which are directly related to the construction of an asset (for example those for the services of project managers and architects), contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

CONTINGENT ASSET
A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority.

CONTINGENT LIABILITY
A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

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

CURRENT SERVICE COST
The increase in the present value of a defined benefit obligation resulting from employee service in the current period.

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

DEFINED BENEFIT SCHEME
A pension scheme under which members pension benefits are calculated independently of contributions payable.

DEFINED CONTRIBUTION SCHEME
A pension scheme under which contributions into the scheme are set but the pension benefits payable are related to the performance of investments made by the fund.

DEPRECIABLE AMOUNT
Depreciable amount is the cost of an asset, or other amount substituted for cost, less residual value.

DEPRECIATION
Is the systematic allocation of the depreciable amount of an asset over its useful life.

DERECOGNITION
This is the process of removing financial assets or liabilities from the Balance Sheet once performance under the contract is complete or the contract is terminated.

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

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

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

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

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

EXPENDITURE

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

FAIR VALUE

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FINANCIAL INSTRUMENTS

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

FINANCE LEASE

Is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

GENERAL FUND

The main revenue fund of the Authority including all services financed by local taxation and government grants.

GOVERNMENT GRANTS

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

GROUP ACCOUNTS

Group Accounts consolidate the financial results of the Authority, any of its subsidiaries and/or associates. The Authority is not required to produce this for the 2015/16 Statement of Accounts, due to materiality.

HERITAGE ASSET

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

HIGHWAYS NETWORK ASSET

A grouping of interconnected components, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Components include carriageways, footways and cycletracks, structures, street lighting, street furniture, traffic management systems and land.

HOUSING BENEFITS

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

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

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

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

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

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

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

INVESTMENT PROPERTIES
Properties (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for either the use in the production or supply of goods/services/administrative purposes, or sale in the ordinary course of operations.

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

LEASE
An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

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

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

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

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

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

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

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

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

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

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

NET DEBT
Net debt is the Authority's borrowings less cash and treasury investments.

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

NON-OPERATIONAL ASSETS
Fixed assets held by the Authority, but not directly occupied or used in the delivery of services. Examples are investment properties, or assets that are surplus to requirements, pending sale or redevelopment.

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

OPERATING LEASE
Is a lease other than a finance lease.

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

PAST SERVICE COST
The change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the authority in the number of employees covered by a plan), and any gain or loss on settlement.

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

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

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

PROPERTY, PLANT AND EQUIPMENT
Tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

REPORTING STANDARDS

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

RESERVES

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

REVALUATION RESERVE

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

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

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

REVENUE SUPPORT GRANT

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

SERVICE REPORTING CODE OF PRACTICE (SeRCOP)

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

TREASURY MANAGEMENT

The process of controlling the Authority’s cash flow, borrowing and lending activities.

TREASURY MANAGEMENT STRATEGY

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