Statement of Accounts

Medway Council | 2018/19

Medway
COUNCIL
Serving You

CONTENTS

The Statement of Accounts for Medway Council have been prepared in accordance with the Accounts and Audit Regulations 2015 and primarily, the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (“the Code”) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) as adopted for the UK public sector under the oversight of the Financial Reporting Advisory Body (FRAB).

Section A

Narrative Report

Battle of Medway Commemorations

Introduction

Chief Finance Officer
Phil Watts

I'm proud to present Medway Council's annual Statement of Accounts for the year ending 31 March 2019. This Statement provides information so that members of the public, including electors and residents, Council Members, partners and other interested parties can:

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

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

The Statement has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2018/19.

We continue to operate in very challenging financial times, but our strong financial governance arrangements including robust monitoring and management of resources during the year have enabled us to balance and deliver on our 2018/19 budget and deliver a balanced budget for 2019/20. The core financial statements continue to demonstrate the Council's robust financial standing.

Chief Executive
Neil Davies

As a Council we are becoming more self-supporting and thinking more innovatively to ensure we maximise opportunities for our residents and businesses. We have established a housing company, Medway Development Company, which is moving forward with plans to provide new accommodation across Medway, including affordable homes. We are also committed to developing our land to create more commercial space for businesses to grow.

Medway's 14,000 businesses are thriving and contributing towards a healthy economy, which has significantly grown to £5.17billion. Our business growth rate is beating both the UK and south-east averages, providing more employment opportunities for our residents.

Despite the ongoing financial challenges, we continue to provide our residents with value for money and high quality services. Moving forward, I feel confident that the Council's priorities and strategic direction will allow us to continue to deliver and develop our services whilst overcoming future financial challenges.

Leader of the Council
Alan Jarrett

As a unitary authority we provide all of the Council services in Medway, from maintaining the 519 miles of roads to collecting household waste every week from the thousands of homes across our five towns.

The population is growing and we have responded to this by investing tens of millions of pounds in Medway's schools and providing more school places. We also remain dedicated to providing the best possible support for our most vulnerable residents. Our residents benefit from having a number of places they can visit across our five towns to access help and support. We have invested heavily in our community hubs and libraries, which provide a number of services, and we also work closely with our partner agencies to provide support at our children and family hubs and family wellbeing centres.

We have improved the online access for our residents, with many services now being available on our website, from reporting a problem to paying Council Tax quickly and securely.

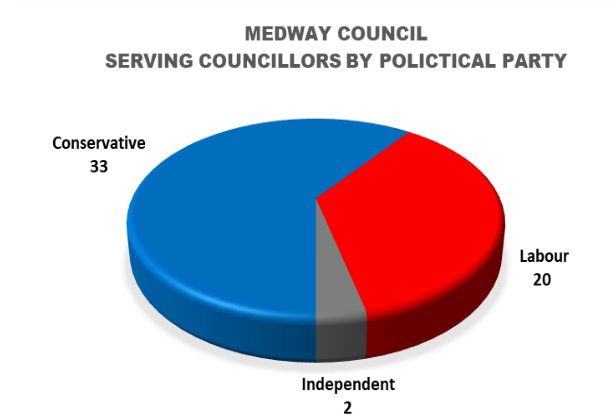
Medway is thriving as a place to live, work, learn and visit, and we will continue to support all of our communities and provide opportunities to ensure Medway's future remains prosperous.

Medway residents and businesses remain at the heart of everything we do.

About the Council

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

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



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

Decision making

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

Our vision—Growth for All

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

We have already made good progress - tackling the legacy challenges that followed the closure of Chatham Dockyard in 1984 - high unemployment, shortage of skills, a weak economy, and health inequalities.

Medway is one of the largest urban areas in the south east outside London and the biggest regeneration zone within the Thames Gateway. Supported by significant government funding, with the potential for a further £1billion of private sector investment, we are recognised as an area of strategic development by the Ministry of Housing, Communities and Local Government (MHCLG).

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

Medway is a place of contrasts – an area with a rich heritage, ideally located and boasting stunning green spaces – but the closure of the Chatham Dockyard and the decline of many manufacturing industries in the 1980s brought a legacy of high unemployment, health inequalities, low skills, and poor self-esteem and confidence.

Tackling these challenges has been at the heart of the Council's priorities and ambitions and we recognise that there are still issues to be addressed. We are also determined to be at the vanguard of regional development taking advantage of the Thames Gateway initiative to drive growth in Medway.

The Council's vision and priorities are set out in our Council Plan, which is renewed every four years and updated annually.

Our Directorates and the services they provide

Regeneration, Culture, Environment and Transformation

Frontline Services
- Integrated transport
- Highways and parking
- Environmental services
- Waste
- Community safety
- The wardens service
- Highways
- Road safety
- Trading standards
- Emergency planning
- Bereavement and registration services

Physical and Cultural Regeneration
- Festivals, arts, theatres and events
- Sports, leisure, tourism and heritage
- Strategic housing
- Housing management
- Planning: development management
- Local plan
- STG building control
- Regeneration delivery
- Economic development
- Skills and employability

Transformation
- RCET business change programme management
- C&A business change programme management
- ICT
- Communications and marketing
- Digital
- RCET business intelligence
- Human resources
- Customer and business support (CABS)
- Libraries and community hubs
- Medway adult education

Children and Adults

Adult Social Care
- Deprivation of liberty safeguards
- Adult Social Care for mental health, learning disability, physical disability and older people
- Adult safeguarding
- Community Support Outreach Team (CSOT)
- Approved Mental Health Practitioner (AMHP)
- Shared Lives
- Business and Intelligence
- Self Directed Support
- Client Financial Affairs

Children
- Early help and targeted services
- Integrated 0-25 disability
- Quality assurance and safeguarding
- Provider services

Education
- School admissions
- School transport
- Attendance advisory service to schools and academies

Public Health

Health Improvement
- Tobacco control and smoking cessation
- Supporting healthy weight
- Sexual health promotion
- Healthy child programme
- Mental health promotion
- Substance misuse

Healthcare – Public Health
- Providing specialist public health advice to Medway Clinical Commissioning Group:
  - Expert public health advice to programme management groups
  - Needs assessment, support for equity audits
  - support for service redesign and development.

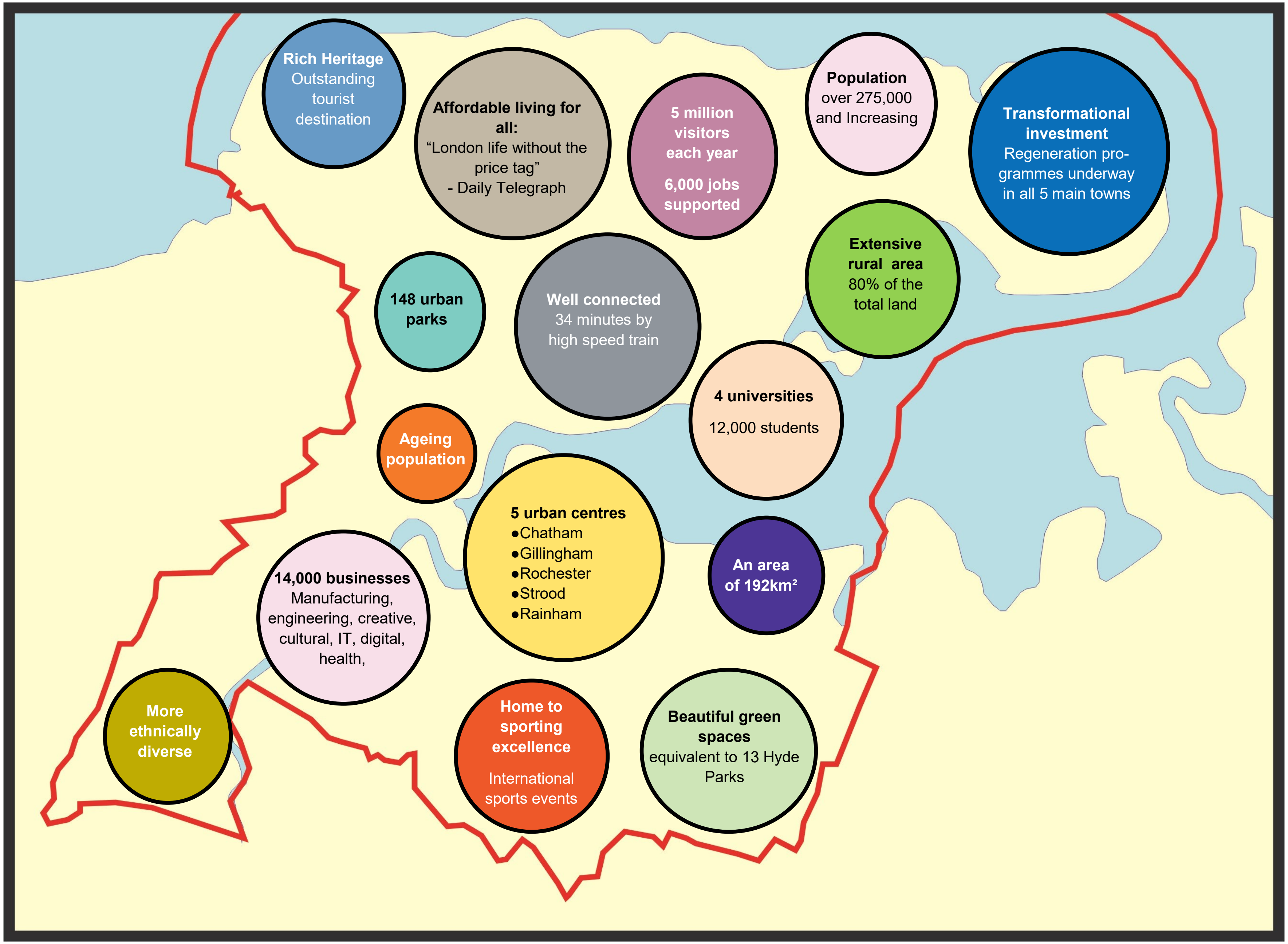
Health Protection
- Working with partners to prevent the spread of infectious diseases and to minimise the harm caused by environmental hazards
- Ensuring that plans are in place dealing with public health emergencies
- Assure high quality vaccination and screening programmes
- Support a comprehensive infection prevention and control service across Medway.

Business Support

Finance
- Finance strategy
- Revenues and benefits service
- Audit and counter fraud
- Finance operations

Legal and Corporate Services
- Legal Services
- Democratic services, elections and member services
- Property and capital projects
- Category management
- Licensing

About Medway



Medway: A place to be proud of

Achievements

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

Command of the Heights £2.2million Heritage Lottery Funded project commenced. The project aims to revitalise open space at Chatham Waterfront.

Medway Place Story launched bringing together Medway's business communities to promote the area and further boost the economy.

Lowest Council Tax in Kent.

Over 30 days of free festivals.

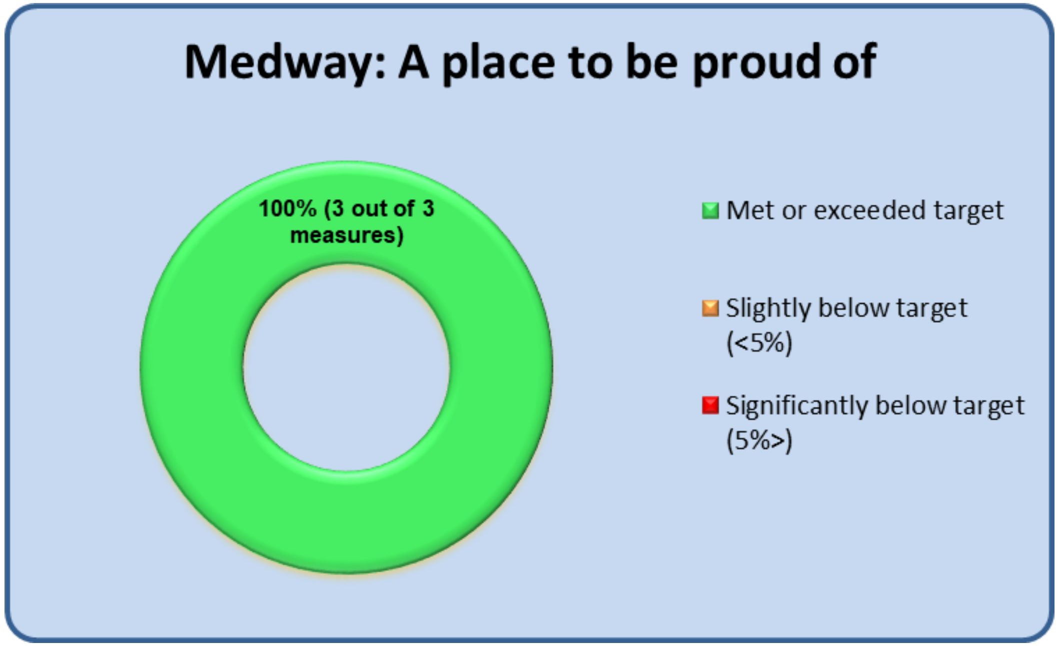
Queen Elizabeth Playing Fields BMX pump track launched.

2,097 greenspaces volunteering days.

100% reported fly tips removed within 1 working day.

388,159 visits to Medway sports centres (target 342,000).

Performance



Quarter 4 2018/19

Maximising regeneration and economic growth

Achievements

Innovation Park Medway (IPM) masterplan finalised and adopted by Cabinet. IPM will promote innovation and business growth across Medway, complementing the existing Innovation Centre and Innovation Studios.

Local economy = £5.2billion, up 2.9% from 2015. Higher than South East average.

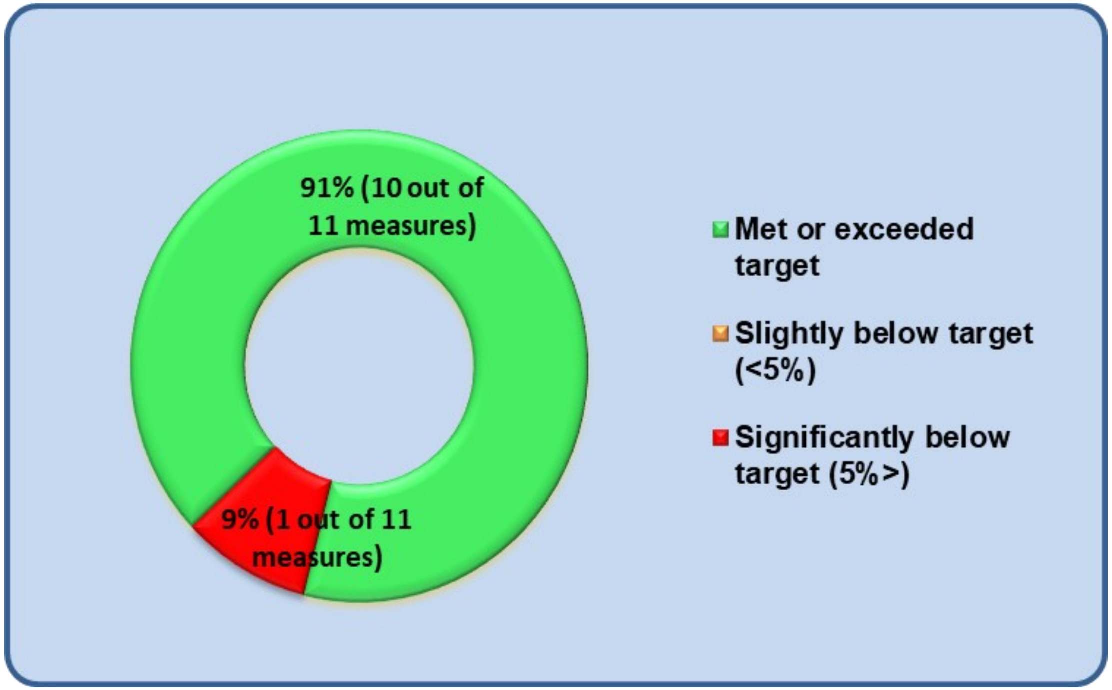
Planning permission granted to develop a high quality, mixed use development at Chatham Waterfront— a driver for further regeneration.

Construction has begun at Rochester Riverside; Medway's flagship regeneration programme which will bring new homes, a new school and a new hotel as well as leisure facilities.

Medway's economic growth rate 3% higher than national average.

£1.4million Chatham station regeneration is breathing new life into the area around Chatham railway station. Improved links between station, town centre and bus station.

Performance



Quarter 4 2018/19

Medway Council Serving You

Supporting Medway's people to realise their potential

Achievements

Medway has improved 31 places in the Local Authority ranking for overall pupil absence rates. Medway is now better than national average.

100% secondary schools are working with Public Health on the Personal Social Health and Economic (PSHE) health agenda. Task group set up to look at the issue of self-harming.

Biggest improvement in health visiting coverage in South East.

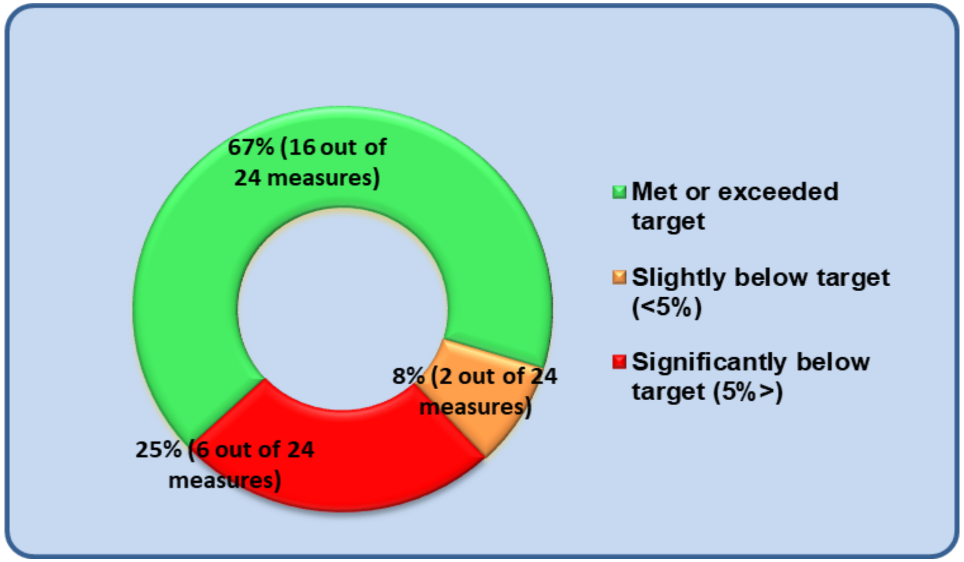
New single point of access, new child development team and routine smoking screening for all new mothers.

99% of long term community services delivered via a personal budget; higher than the 89.7% national figure.

More than 85% of our schools have an Ofsted rating of good or better.

Delayed transfers of care remain low. Medway has been identified as an authority others can learn from.

Performance



Quarter 4 2018/19

Medway Council Serving You

Regeneration, Transformation & Alternative Delivery Models

Regeneration

Medway is fast becoming known as the new economic powerhouse for the south-east. Following the area's significant transformation journey and the Council's ongoing 20-year regeneration programme, Medway is now the biggest regeneration zone within the Thames Gateway. Medway's economy is now worth a staggering £5.17bn and it is one of the most promising growth areas in the south-east. Medway 2035 sets out the regeneration aims and objectives for Medway across six priority areas. These areas include:

Destination and placemaking - putting Medway on the map as a smart and sustainable city.

Inward investment - increasing high value businesses and expanding high quality employment.

Innovation - continuing to support the creation and growth of businesses.

Business accommodation and digital connectivity - providing the right infrastructure for business success.

Sector growth - enhancing a strong, mixed economy.

Improving employability - matching business demand and supply of skills.

Transformation

We have set ourselves ambitious savings targets through our transformation programme whilst maintaining the integrity of service delivery. A Member-led Transformation Board oversees this programme and a specialist team has been working across the Council to review everything we do, re-engineer our business and, where relevant, explore alternative delivery models. The programme has successfully delivered target savings of £5million in 2018/19 and is on track to deliver a further £3million in 19/20.

We envisage that the savings will, in the long term, allow us to reinvest funds back into the services that matter most to our residents such as education, social care, and front line services including roads and waste.

Shared services

Medway launched its first shared service, a building control service, for Medway, Gravesham and Swale in 2007 and since then the number of services delivered through shared arrangements has grown significantly. Medway hosts shared service arrangements with Gravesham to provide audit and counter fraud services, legal services, payroll and HR services. We are now exploring more opportunities for sharing back office functions with neighbouring authorities.

Joint Venture (JV)

Our JV company Medway Norse was established in 2013 to provide services to the Council more efficiently, giving better value for money, growing the business by taking on external commercial contracts and increasing employment opportunities for local people. Medway Norse is now responsible for activity amounting to just under £16.5million per annum and since 2013 has taken on the provision of a number of our services including facilities management, grounds maintenance and SEN transport.

Local Authority Trading Company (LATCO)

Medway Commercial Group (MCG) is our Local Authority Trading Company and provides CCTV, Telecare, Out of Hours and lone worker solutions, traded services with schools including cleaning and catering, energy and ICT services, and provides temporary, contract and interim staffing for Medway Council. MCG is forecast to contribute by way of cost subsidy reduction as traded services are expected to generate profits that will be returned via dividends to the Council as the sole shareholder.

Housing Company

Medway Development Company Limited (MDCL) has been created to help meet our ambitious housing delivery targets. MDCL provide consultancy, predominantly to the Council, to turn land assets into viable residential schemes delivering regeneration and investment returns. This will also support the delivery of the Council's ambitious regeneration programme, such as the prestigious Chatham Waterfront site, which will be attract high profile development and maximise benefits for Medway.

Risk Management

The Council has a long-established process in place to identify the principal risks that may influence or impact on the delivery of services. The Council's Risk Management Strategy has been prepared in line with ISO31000 and is reviewed annually to ensure it remains up to date.

The Strategy sets out the process by which the Council identifies, analyses, evaluates and treats the risks it faces both on a strategic and operational level. The process requires judgements to be made on the likelihood and impact of a potential risk and enables us to develop and implement appropriate controls to manage or mitigate these risks to reduce the impact.

The Council's Corporate Risk Register includes the key risks set out below, with full details of the nature of each risk and the arrangements in place to manage them included in the full version reported to the Cabinet in June 2019, and is available on the Council's website through the agenda pack for that meeting.

1. Business continuity and emergency planning	9. Data and information
2. Finances	10. Impact of welfare reform
3. Keeping vulnerable young people safe and on track	11. Successful delivery of the corporate transformation programme
4. Delivering regeneration	12. Homelessness
5. Procurement savings – capacity and delivery	13. Alternative service delivery models
6. Adult social care transformation	14. Cyber Security
7. Children's services	15. Transfer of waste contract to Medway Norse
8. Government changes to Local Authority's responsibility for schools	

Financial Review

Financial Review of 2018/19

We are proud of how we have managed our finances over the past seven years, as resources available to local government have reduced. We continue to levy the lowest council tax in Kent and the eighteenth lowest of all 56 unitary authorities. We have continued to deliver excellent services and, in some cases, protect services that other local authorities have been forced to stop providing. This has been achieved by taking a forward-looking approach to everything we do including effective financial planning across all our services, our transformation programme, alternative service delivery initiatives, partnership work with other councils, taking a more commercial approach to our operations and successfully securing external funding opportunities. Together, these initiatives will help us address the financial challenges we face and form the basis for a resilient and sustainable Medway for the medium and longer term.

Medium term financial strategy and Capital Strategy

For many years we have prepared a medium term financial plan to inform our budget setting process for the coming year. In response to the continuing challenges of reductions in funding and increases in costs, we now prepare a five year Medium Term Financial Strategy (MTFS) and a Capital Strategy which together aim to enable the council to deliver a balanced budget, year on year. Taking a strategic approach to planning the council's finances is vital to ensuring we continue to focus our resources on our key priorities and to plan to meet the challenges of the future for a sustainable and resilient Medway. The MTFS and Capital Strategy have been compiled following significant research to understand the population of Medway and the likely demand for council services over the next five years.

Our processes

The council's budget setting processes are robust and focus on three strands - efficiency savings, generating income and where appropriate service rationalisation. Annual revenue and capital budgets are monitored regularly and financial forecasts reported quarterly through to Cabinet. Management Action Plans are monitored by Cabinet Members and formulated at directorate level to address any forecast overspending. Year on year we have achieved a favourable Value for Money opinion from our external auditors.

Transformation

We have set ourselves ambitious savings targets through our transformation programme whilst maintaining the integrity of service delivery. A Member-led Transformation Board oversees this programme and a specialist team has been working across the council to review everything we do, re-engineer our business and, where relevant, explore alternative delivery models. The programme has successfully delivered target savings for years one, two and three has plans in place to deliver the overall savings target with a further £3million expected to be delivered in 2019/20. We envisage that the savings will, in the long term, allow us to reinvest funds back into the services that matter most to our residents such as education, social care, and front line services including roads and waste.

One successful strand of transformation is in our adult social care programme. At the heart of the programme is the model of practice called "Three Conversations" which aims to connect people with resources in their own communities to help them to stay independent for longer. Evaluation of the pilot so far has shown that it has reduced the proportion of people contacting us, who then go on to require long term care and support. We have also developed a brokerage function that now manages all placement activity for Adult Social Care. Now successfully tested, the model will be rolled out further across Adult Social Care.

Financial Review (continued)

How the Authority's Budget has Changed		
	£'000	£'000
Budget requirement 2017/18	294,484	
Changes in function and funding		
Adjusted Base Budget		**294,484**
Inflation	2,783	
Other cost pressures	7,113	
Service pressures	9,100	
Efficiency and other savings	(23,202)	
		(4,206)
Budget Requirement 2018/19		**290,278**
Financed By:		
National Non-Domestic Rates (NNDR) Redistribution	60,094	
Revenue Support Grant (RSG)	0	
Other Specific Grant	114,276	
Council Tax	114,663	
Reserves	1,245	
Total		**290,278**

Summary of the Local Government Finance Settlement 2018/19				
	Final 2017/18	Final 2018/19	Change	
	£'000	£'000	£'000	%
NNDR Redistribution	46,302	60,094	13,792	29.8%
Revenue Support Grant	18,848	0	(18,848)	(100.0%)
Total	**65,150**	**60,094**	**(5,056)**	**(7.8%)**

The tables above show that 2018/19 was a financially difficult year with an 7.8% cut in Local Government Finance Settlement against the comparable figure for 2017/18. Funding from the Local Government Finance Settlement has been further reduced by 0.1% in 2019/20.

Medway's joint submission to pilot 100% business rate retention, in a pooled arrangement with Kent County Council, Kent Fire and Rescue Service and the twelve lower tier Kent authorities, was one of only ten successful bids. Under the terms of the pilot, local authorities retained 100% of all rates collected, but received no Revenue Support Grant. The baseline additional rates retained were used to offset the loss of grant and the balance returned to Government in the form of an adjusted tariff. The submission to participate in the pilot of the 75% business rate retention scheme was not successful, so the council returns to the traditional 50% retention rate for 2019/20.

Financial Review (continued)

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

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	115,074	(107,910)	7,165	9,021	(1,856)
Children & Adult Services	269,014	(58,051)	210,963	207,682	3,282
Regeneration, Culture, Environment and Transformation	129,642	(56,124)	73,518	72,834	684
Public Health	15,073	(1,383)	13,690	13,690	0
Sub-total Services	**528,803**	**(223,467)**	**305,336**	**303,226**	**2,110**
Amounts included within management accounts but excluded from services within statutory accounts:					
Medway Norse	0	(251)	(251)	(263)	12
Digitalisation Savings	0	0	0	0	0
Investment Properties	0	(345)	(345)	(413)	68
Sub-total excluded from services within Statutory accounts	**0**	**(595)**	**(595)**	**(676)**	**81**
Sub-total Services reported within management accounts	**528,803**	**(224,062)**	**304,741**	**302,550**	**2,190**
Levies	1,419	0	1,419	1,260	159
Depreciation Credit	0	(24,255)	(24,255)	(24,255)	0
Interest & Financing	10,365	0	10,365	10,723	(358)
Total Net Expenditure	**540,587**	**(248,318)**	**292,270**	**290,278**	**1,991**
Funding:-					
Contribution from Reserves	0	0	0	(1,245)	1,245
Revenue Support Grant	0	0	0	0	0
Non-Domestic Rates Retention	0	(65,168)	(65,168)	(60,094)	(5,074)
Council Tax	0	(113,116)	(113,116)	(114,663)	1,547
Dedicated Schools Grant	0	(83,666)	(83,666)	(83,666)	0
Other School Grants	0	(4,108)	(4,108)	(4,108)	(0)
Other Specific Grants	0	(6,773)	(6,773)	(6,773)	0
Education Support Grant	0	0	0	0	0
New Homes Bonus	0	(2,222)	(2,222)	(2,512)	290
Public Health Grant	0	(17,217)	(17,217)	(17,217)	(0)
Total Funding	**0**	**(292,270)**	**(292,270)**	**(290,278)**	**(1,991)**
Total Funding and Expenditure Variance			**0**	**0**	**(0)**

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

Full details, including notes on individual variances within directorates can be found within the Outturn Report that will considered at Cabinet on 11 June 2019.

Financial Review (continued)

Housing Revenue Account

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

Budget Requirement:	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Housing Revenue Account	14,064	(14,424)	(361)	(191)	(170)
Total Funding and Expenditure	**14,064**	**(14,424)**	**(361)**	**(191)**	**(170)**

Capital Expenditure

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

In 2018/19 the Council spent £49.877m on General Fund and Housing Revenue Account capital schemes. Of this, £34.801m on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included the provision of new classrooms, improvements to school infrastructure, highways improvements and regeneration schemes. The remainder of general fund capital expenditure is split between capital assets under construction of £1.854m and £13.222m relating to "Revenue Expenditure Funded from Capital under Statute" (formerly 'deferred charges' - see Note 1 Accounting Policies page 59).

The above included Housing Revenue Account with expenditure of £3.771m which was used on an ongoing programme of improvements to the Council's housing stock.

The final capital outturn position for the year is shown in the table below, together with how this expenditure was financed:

Capital Budget 2018/19	Approved Programme 2018/19+ £'000	Forecast Spend 2018/19 £'000	Outturn 2018/19 £'000	Variation to Forecast 2018/19 £'000	Slippage to 2019/20+ £'000
Directorate/Service					
Digital Transformation	2,992	2,852	2,644	(208)	348
Business Support	188,234	7,173	8,154	981	180,079
Children and Adult Services	42,367	11,501	11,195	(306)	31,172
Regeneration, Culture, Environment and Transformation	62,766	18,296	24,077	5,782	38,689
Public Health	0	0	0	0	0
Member Priorities	197	151	36	(115)	161
Housing Revenue Account	7,045	4,581	3,771	(810)	3,274
Total	**303,601**	**44,554**	**49,877**	**5,323**	**253,724**

Funding source	£'000
Borrowing (supported capital expenditure and unsupported)	18,181
Government Grants and Other Contributions	23,152
Major Repairs and Other Contributions	3,589
Capital Receipts	2,415
Developer Contributions	1,976
Revenue and Reserves	564
Total	**49,877**

Medway Council Serving You

Financial Review (continued)

Treasury Management Performance

Total investments managed in-house as at 31 March 2019 stood at £43.6million (2017/18, £49.8m). During 2018/19 the council operated a prudent investment strategy with investment priorities being security first, liquidity second and then return. Funds are invested in loans to other UK local authorities, Property Funds and bank deposits.

The Council also had £211,861m long-term borrowing as at 31 March 2019 (31 March 2018, £171.4m), primarily in the form of PWLB and market loans. In addition short term borrowing stood at £41.7 at 31 March 2019 (£68.9m at 31 March 2018). The decrease in short term borrowing of £27.2m was due to a policy of reducing interest rate risk.

The council achieved an average rate of return of 1.26% (1.106% in 2017/18) on its internally managed cash flow investments (including cash equivalents) for the year.

The Level of Working Balances and Reserves

The council's working balances stood at £10.114m as at 31 March 2019 (£9.911m at 31 March 2018).

The council also holds earmarked reserves, kept for specific types of expenditure in the future. The total amount of earmarked reserves held as at 31 March 2019 is £17.027m (£14.170m at 31st March 2018).

Commentary on Financial Statements

Statement of Accounts

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

Statement of responsibilities

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

Annual Governance Statement

The Authority is required to carry out an annual review of the effectiveness of the system of internal control and to include a report accompanying the Statement of Accounts. This Statement explains how the Authority has complied with the 'CIPFA/ SOLACE Delivering Good Governance' Framework during the year and up to the date of the approval for publication of the Statement of Accounts. The Annual Governance Statement is set out on pages 20 to 30.

Independent auditor's report

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

Core Financial statements and notes

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

The core statements are set out on pages 33 to 39.

Comprehensive Income and Expenditure Statement

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

Movement in Reserves Statement

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

Balance Sheet

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

Cash Flow Statement

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

Notes to the principal financial statements

The notes to the principal financial statements present information about the basis of preparation of the financial statements and the specific accounting policies used, disclose additional information required by the Code that is not presented elsewhere in the financial statements, and provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them. These notes are set out on pages 40 to 129.

The supplementary financial statements are set out on pages 130 to 143 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.

Glossary

A glossary of terms has been included in this document to explain some of the technical accounting language used to assist the reader and is set out on pages 144 to 151.

Section B

Annual Governance Statement

Rochester Cathedral

1. Scope of Responsibility

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

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

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

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

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

2. The purpose of the governance framework

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

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

3. Review of effectiveness of the governance framework

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

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

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

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

The following section of the statement summarises the results of this review; presenting the governance framework that has been in place at Medway Council for the year ended 31 March 2019 and up to the date of approval of this Statement.

Core Principle	How we have complied in 2018/19
Principle A: “Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law”	The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council’s business are defined in the Constitution, Contract Standing Orders and Financial Regulations; the Monitoring Officer is responsible for reviewing and updating these as required. Codes of conduct are in place for, and define the high ethical values and standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity. The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. The Councillor Conduct Committee is regularly updated on compliance with the Code of Conduct. 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. The Council seeks feedback from the public through its complaints and comments procedures and responds to the outcomes, as appropriate.
Principle B: “Ensuring openness and comprehensive stakeholder engagement”	Council meetings are held in public unless there are good reasons for not doing so on the grounds of considering “exempt” information within the meaning of the Local Government Act 1972, Schedule 12A. Unless confidential, decisions made by Council, the Cabinet or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out. The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users.

Core Principle	How we have complied in 2018/19
Principle C: “Defining outcomes in terms of sustainable economic, social and environmental benefits”	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. In 2018 the Council reviewed the Council Plan 2016/17-2020/21, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2018 the council refreshed the Council Plan performance indicators. The Plan forms an essential part of the Council's governance framework, setting out the council's priorities and the measures against which success will be judged. 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. Equalities are considered during the decision making process to promote fair access to services. All Cabinet and Council decisions are made on the basis of formal reports, which all follow a standard Council template. The template includes guidance on report writing which specifically refers to Diversity Impact Assessments (“DIA”) and provides a link to the Council’s DIA guidance which sets out how and when these should be completed.
Principle D: “Determining the interventions necessary to optimise the achievement of the intended outcomes”	Decision makers receive objective analysis on a variety of options indicating how intended outcomes would be achieved together with the risks associated with those options. In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. Community benefit is an important consideration in the procurement of goods and services. The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council Plan. For example, significant partner engagement in health and social care Strategic and Locality Plans.

Core Principle	How we have complied in 2018/19
Principle E: “Developing the entity’s capacity, including the capability of its leadership and the individuals within it”	The corporate management structure consists of the Chief Executive, three Directors (one of whom is the Deputy Chief Executive), a Deputy Director, four Assistant Directors and two Chief Officers. The roles of officers are defined in agreed job profiles. Staff performance is reviewed on an annual basis in accordance with the performance and development review (PDR) process. The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision making and scrutiny, supporting other statutory officers, and building relationships with all Councillors. The Member development programme includes the comprehensive induction programme which is periodically supplemented by additional training.
Principle F: “Managing risks and performance through robust internal control and strong public financial management”	The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The “executive committee” or Cabinet is the key decision-making and monitoring committee and the various scrutiny committees for reviewing policy decisions before and after implementation. The Council has a risk management strategy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council’s ability to meet its objectives to deliver services to the public. The Chief Financial Officer (the Section 151 officer) is responsible for the proper administration of all aspects of the Council’s financial affairs including ensuring appropriate advice is given to the Council on all financial matters. The Council’s system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably. A Medium Term Financial Strategy and associated Risk Register, and plans for revenue and capital income and expenditure based on corporate priorities are developed, led by the Cabinet and Corporate Management Team, and presented for approval by Council in February each year. Revenue and Capital Budget Monitoring reports are presented to the Cabinet on a quarterly basis for monitoring and control purposes including the annual outturn.

Core Principle	How we have complied in 2018/19
Principle G: "Implementing good practices in transparency, reporting, and audit to deliver effective accountability"	The Head of Audit & Counter Fraud provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The opinion of the Head of Audit & Counter Fraud over the Council's overall control environment, delivered in the Audit & Counter Fraud Annual Report 2018/19 is: The Accounts & Audit Regulations 2015 require local authorities to ensure that they have: *a sound system of internal control which— (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the authority is effective; and (c) includes effective arrangements for the management of risk.* The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The Audit & Counter Fraud Team has carried out all internal audit work in line with the Public Sector Internal Audit Standards and in accordance with our Quality Assurance & Improvement Programme. In my capacity as Chief Audit Executive, with responsibility for the provision of internal audit services to the council, I am required to provide the organisation, and the Chief Executive, with a statement as to my opinion of the adequacy and effectiveness of the organisation's risk management, control and governance processes. This opinion is intended to support the council's annual governance statement. In assessing the level of assurance to be given, the following have been taken into account; • the results of all work carried out by the Audit & Counter Fraud Shared Service for Medway from the preparation of the Annual Internal Audit Report 2017-18 in June 2018 to the date of this report, • follow-up of recommendations linked to audits from previous periods, • Significant recommendations not accepted by management or acted upon and the consequent risks, • The effects of any significant changes in the organisation's objectives or systems, • Matters arising from previous reports to the organisation, and • The results of work performed by other assurance providers.

Core Principle	How we have complied in 2018/19
Principle G: "Implementing good practices in transparency, reporting, and audit to deliver effective accountability"	Although limited to the risk areas considered in the services and functions that have been subject to review in the year; I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation's risk management, system of internal control and governance processes. While it has been identified that the authority has mainly established adequate internal controls within the areas subject to review during 2018-19, there are areas where compliance with existing controls should be enhanced or strengthened or where additional controls should be introduced to reduce the risk of loss to the authority. Where such findings have been made, recommendations have been made to management to improve the controls within the systems and processes they operate. Management have accepted responsibility for the implementation of these recommendations and follow up arrangements are in place to ensure that appropriate action is taken. The results of all work completed will be reported to the Audit Committee in accordance with the Audit & Counter Fraud Charter. **It is therefore my opinion that Medway Council's framework of governance, risk management and system of internal control is adequate and effective, and contributes to the proper, economic, efficient and effective use of resources in achieving the council's objectives.** The Council responds to the findings and recommendations of Audit & Counter Fraud, External Audit, Scrutiny and Inspection bodies. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

4. Update on actions identified in the 2017/18 Annual Governance Statement

The Annual Governance Statement for 2017/18 identified five key areas of focus:

A) Robust saving plans were agreed as part of this year's budget build for budget pressures identified in a range of front line services including in the Children's & Adults directorate and the Regeneration, Culture Environment and Transformation directorate. Regular monitoring and scrutiny at a political and officer level will be needed to deliver those savings. As the Council heads into an election year, the importance of strong budgetary control and appropriate medium and longer term planning will be focussed on to a greater extent than normal.

Update: the outturn for 2018/19 will show an overspend of just under £2.0 million, however the administration deliberately chose not to allocate in its revenue budget circa £4.7 million of additional business rates growth retained under the 100% pilot scheme and this will be used to fund the overspend.

B) The Council has an ambitious Transformation Programme which will change the way the Council provides services with amongst other changes, a shift to digital channels. The successful and timely implementation of this programme is key to the Council's future financial and organisational planning.

Update: The savings target for 2018/19 of £5.0 million was achieved. Plans are in place to enable the Transformation Programme to continue as "business as usual" with additional areas being identified for detailed work.

C) There is also a significant Adult Social Care improvement programme that builds on the early success of the "three conservations" model, which supports frontline staff to have 3 precise, specific conversations with people as a way of discovering a person's needs and finding ways to enable them to be independent and safe. This programme will need careful political oversight and officer management to succeed.

Update: Good progress has been made towards this specific transformation programme, with the 3 Conversations Model now part of business as usual. Performance Dashboards have been developed to support managers and enable a continuous improvement cycle.

D) The Council has embarked on a number of alternative delivery models including Medway Norse and Medway Commercial Group. 2017 saw the birth of two more models, Medway Development Company Limited (to manage delivery of a programme of residential housing) and Medway Growth (for a separate residential housing programme). The governance and ethical considerations that this new way of providing services and the competing interests that this involves, is an area of review in this coming year.

Update: Medway Development Company Ltd has obtained planning permission for the first two of its development sites at Chatham Waterfront and Britton Farm, with two further sites coming forward for permission in May 2019. There is an on-going review of Medway Commercial Group commissioned by its new Chairman.

E) The Sustainability and Transformation Partnership creates the opportunity for new models of health and social care delivery in Medway and Kent. The Council is a significant partner in this ambitious programme of change. This is an area of review in the coming year as senior politicians and officers support an array of work to define actions and outcomes and to ensure Medway's interests are protected and enhanced.

Update: The Council plays a key role in plans for the development of a new Integrated Care System for Kent and Medway and the anticipated Integrated Care Partnership for Medway and Swale, which will have a significant impact on the commissioning and provision of social care and public health services for the population of Medway.

5. Proposed enhancements to the Council's governance arrangements

The review of the effectiveness of the Council's governance framework for 2018/19 did not highlight any specific areas of concern. Where internal audit work has indicated additional controls could be in place, officers are focussed on making the necessary changes to do so.

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

A) After a Joint Targeted Area Inspection (JTAI) focussing on the "front door" of social care it is widely anticipated that a full Ofsted Inspection of Local Authority Children's Service (ILACS) will take place this year. Strong Member oversight and a multi-agency and pan-Council approach will need to be evidenced as well as clear improvement in the specific case work reviewed. It is right therefore that a focus for this year is this vital area of Council practice.

B) With a budget pressure identified in this year's revenue budget, continued work will need to be done to identify additional income or cost reductions. The Leader and Cabinet will want to ensure there is strong Member oversight of this work, with Corporate Management Team responsible for identifying areas for consideration.

C) The Council has an ambitious set of regeneration projects many of which are either just starting or due to start this year. The Council will hear the outcome of its £170 million Housing Infrastructure Fund bid, will commence building homes in central Chatham and Gillingham, take ownership of the Pentagon Shopping Centre, learn the outcome of its £14 million Future High Street Fund bid and start works to develop the Innovation Park Medway. These and a range of other projects will need to be appropriately managed to ensure delivery but also to enable the Council to make the most of these significant opportunities.

An update on the implementation of these areas of review will be provided in the 2019/20 Annual Governance Statement.

6. Conclusion

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

Certification by the Leader of the Council

I confirm that the 2018/19 Annual Governance Statement has been considered and approved by Medway Council at the meeting of the Audit Committee on 27 June 2019:

[redacted]

………………………………………………………………………………………………

Date: 29 July 2019

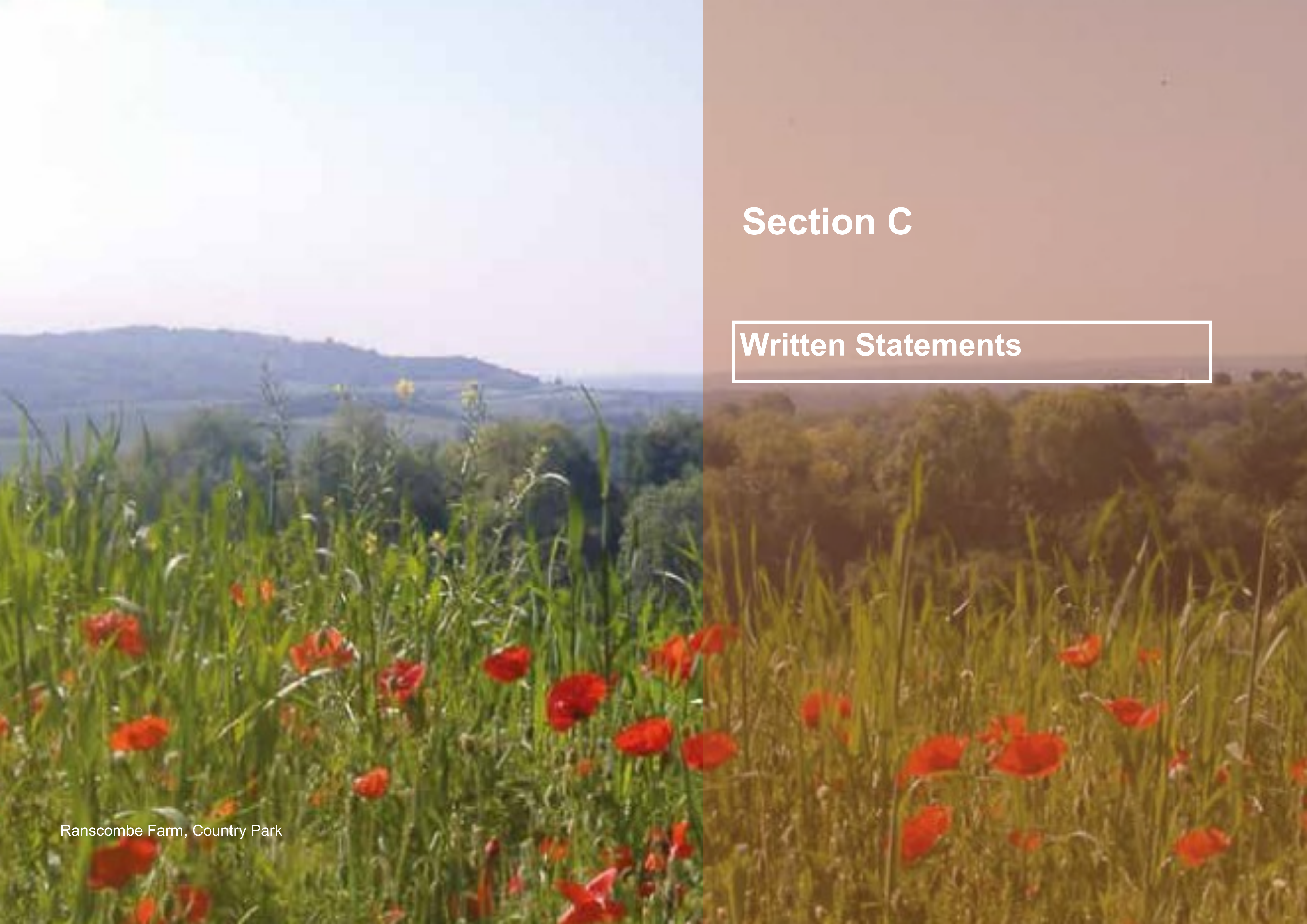
Certification by the Chief Executive

I confirm that the 2018/19 Annual Governance Statement has been considered and endorsed by Medway Council's Corporate Management Team:

[redacted]

………………………………………………………………………………………………

Date: 29 July 2019



Section C

Written Statements

Ranscombe Farm, Country Park

Statement of Responsibilities

The Authority's Responsibilities

The Authority is required to:

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

The Chief Finance Officer's Responsibilities

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

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

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

The Chief Finance Officer has also:

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

Certificate of the Chief Finance Officer

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its expenditure and income for the year ended 31 March 2019.

Signed:

Phil Watts
Chief Finance Officer, Section 151 Officer
Dated: 29 July 2019

Approval of the Statement of Accounts

In accordance with Accounts and Audit Regulations 2015 I certify that the Statement of Accounts for the period ending 31 March 2018 was approved at the meeting of Audit Committee held on 30 July 2019.

Signed:

Councillor Adrian Gulvin
Chair of the Audit Committee
Dated: 29 July 2019

Independent Auditors Report to the Members of Medway Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medway Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Accounts, the Housing Revenue Account which include the Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Core Statements, Policies and Judgements, EFA, Notes to the Collection Fund Account and Notes to the Housing Revenue Account. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the Narrative Report together with information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit.

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- 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 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of 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 Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing 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 issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Darren Wells

for and on behalf of Grant Thornton UK LLP, Local Auditor

Gatwick

1 August 2019

Section D

Core Financial Statements

Rochester Castle

Comprehensive Income and Expenditure Statement

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

2017/18					2018/19		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Service	Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
111,124	(105,843)	5,281	Business Support Department		104,090	(95,206)	8,883
280,577	(153,593)	126,984	Children's and Adults		272,384	(142,024)	130,360
10,342	(14,426)	(4,084)	Local authority housing (HRA)		8,791	(14,358)	(5,567)
(6,299)	0	(6,299)	Local authority housing (HRA) – reversal of impairments		0	0	0
16,518	(18,803)	(2,285)	Public Health		14,948	(17,947)	(2,999)
119,548	(41,730)	77,818	Regeneration, Culture, Environment and Transformation		130,638	(48,906)	81,732
531,809	**(334,395)**	**197,414**	**Cost of Services**		**530,850**	**(318,441)**	**212,409**
42,889	0	42,889	Other operating expenditure	9	3,894	0	3,894
19,928	(4,942)	14,986	Financing and investment income and expenditure	10	16,000	(4,155)	11,845
0	(195,562)	(195,562)	Taxation and non-specific grant income and expenditure	11	0	(211,642)	(211,642)
594,628	**(534,899)**	**59,728**	**(Surplus) or Deficit on Provision of Services**		**550,745**	**(534,239)**	**16,506**
		Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services					
		(26,446)	Surplus on revaluation of property, plant and equipment assets	35			(58,128)
		5,160	Revaluation losses on non-current assets charged to the Revaluation Reserve	35			14,027
		(26,581)	Re-measurement of net defined pension liability/(asset)	36			(34,558)
		(47,868)					**(78,658)**
		Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services					
		470	(Surplus)/deficit on revaluation of available for sale financial assets	35			0
		470					**0**
		(47,398)	**Other Comprehensive Income and Expenditure**				**(78,658)**
		12,331	**Total Comprehensive Income and Expenditure**				**(62,152)**

Movement in Reserves Statement

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

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

General Fund Balance	This 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.
Earmarked General Fund Reserves	These are reserves created to fund specific revenue or capital expenditure relating to the General Fund.
Earmarked HRA reserve	These are reserves created to fund specific revenue or capital expenditure relating to the Housing Revenue Account.
Capital Receipts Reserve	Proceeds from the sale of Authority assets are paid into this reserve which can be used to finance capital expenditure or repay debt.
Major Repairs Reserve	This reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account and can only be used to fund major Housing Revenue Account repairs.
Capital Grants Unapplied	This reserve contains Government grants and other contributions which are held to finance future capital expenditure.
Unusable Reserves	The major reserves included in this category are the Revaluation Reserve, Pension Reserve and Capital Adjustment Account. Their purpose is of a technical accounting nature and cannot be used to support the services of the Authority. They are explained in more detail in note 35.

Movement in Reserves Statement (continued)

2018/19	Notes	Revenue Reserves						Capital Reserves					
		General Fund Balance £000s	Earmarked General Fund Reserves £000s	Total General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Housing Revenue Account Reserves £000s	Total Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Unusable Reserves £000s	Total Reserves £000s
Balance at 1 April 2018		**(5,000)**	**(14,164)**	**(19,163)**	**(4,910)**	**(6)**	**(4,916)**	**(331)**	**(8)**	**(8,250)**	**(32,668)**	**(144,427)**	**(177,096)**
Movement in reserves during 2018/19													
Total Comprehensive Expenditure and Income		20,449	0	20,449	(3,943)	0	(3,943)	0	0	0	**16,506**	(78,658)	**(62,152)**
Adjustments between accounting & funding basis under regulations	19	(23,312)	0	(23,312)	2,551	0	2,551	(779)	(92)	(2,739)	**(24,370)**	24,370	**0**
Net (increase)/decrease before transfers to Earmarked Reserves		**(2,864)**	**0**	**(2,864)**	**(1,391)**	**0**	**(1,391)**	**(779)**	**(92)**	**(2,739)**	**(7,864)**	**(54,288)**	**(62,152)**
Movements in Earmarked Reserves	20	2,864	(2,864)	0	1,188	(1,188)	0	0	0	0	**0**		**0**
(Increase)/Decrease in 2018/19		**0**	**(2,864)**	**(2,864)**	**(203)**	**(1,188)**	**(1,391)**	**(779)**	**(92)**	**(2,739)**	**(7,864)**	**(54,288)**	**(62,152)**
Balance at 31 March 2019 carried forward		**(5,000)**	**(17,028)**	**(22,027)**	**(5,113)**	**(1,194)**	**(6,307)**	**(1,110)**	**(100)**	**(10,988)**	**(40,532)**	**(198,716)**	**(239,248)**

Movement in Reserves Statement (continued)

2017/18	Notes	Revenue Reserves						Capital Reserves					
		General Fund Balance £000s	Earmarked General Fund Reserves £000s	Total General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Housing Revenue Account Reserves £000s	Total Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Unusable Reserves £000s	Total Authority Reserves £000s
Balance at 1 April 2017		**(5,000)**	**(16,940)**	**(21,939)**	**(3,616)**	**(6)**	**(3,622)**	**(408)**	**0**	**(5,764)**	**(31,734)**	**(157,692)**	**(189,426)**
Movement in reserves during 2017/18													
Total Comprehensive Expenditure and Income		68,632	0	68,632	(8,904)	0	(8,904)	0	0	0	**59,728**	(47,398)	**12,330**
Adjustments between accounting & funding basis under regulations	19	(65,856)	0	(65,856)	7,611	0	7,611	77	(8)	(2,486)	**(60,662)**	60,662	**0**
Net (increase)/decrease before transfers to Earmarked Reserves		**2,776**	**0**	**2,776**	**(1,294)**	**0**	**(1,294)**	**77**	**(8)**	**(2,486)**	**(934)**	**13,264**	**12,330**
Movements in Earmarked Reserves	20	(2,776)	2,776	0	0	0	0	0	0	0	**0**		**0**
(Increase)/Decrease in 2017/18		**(0)**	**2,776**	**2,776**	**(1,294)**	**0**	**(1,294)**	**77**	**(8)**	**(2,486)**	**(934)**	**13,264**	**12,330**
Balance at 31 March 2018 carried forward		**(5,000)**	**(14,164)**	**(19,164)**	**(4,910)**	**(6)**	**(4,916)**	**(331)**	**(8)**	**(8,250)**	**(32,668)**	**(144,427)**	**(177,096)**

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 2018 £'000	Balance Sheet Summary	Notes	31 March 2019 £'000
653,637	Property Plant & Equipment	21	689,148
16,983	Heritage Assets	22	17,436
8,443	Investment Property	24	16,967
2,422	Intangible Assets		1,842
32,428	Long Term Investments	25	22,725
538	Long Term Debtors	29	1,033
714,452	**Long Term Assets**		**749,150**
122	Inventories		83
5,100	Short Term Investments	25	17,076
55,569	Short Term Debtors	29	75,546
12,235	Cash and Cash Equivalents	31	3,764
73,027	**Current Assets**		**96,469**
(68,941)	Short Term Borrowing	25	(41,656)
(42,281)	Short Term Creditors	32	(41,363)
(21)	Finance Leases > 1 Year	28	(21)
(4,213)	Provisions (Short Term)	33	(5,393)
(115,456)	**Current Liabilities**		**(88,434)**
(34,346)	Long Term Creditors	32	(33,244)
(5,843)	Provisions (Long Term)	33	(10,509)
(171,288)	Long Term Borrowing	25	(211,861)
(277,740)	Other Long Term Liabilities	28,36	(261,345)
(5,711)	Grants Receipts in Advance - Capital	17	(978)
(494,927)	**Long Term Liabilities**		**(517,937)**
177,096	**Net Assets**		**239,248**
(32,668)	Usable Reserves	MiRS	(40,532)
(144,428)	Unusable Reserves	35	(198,716)
(177,096)	**Total Reserves**		**(239,248)**

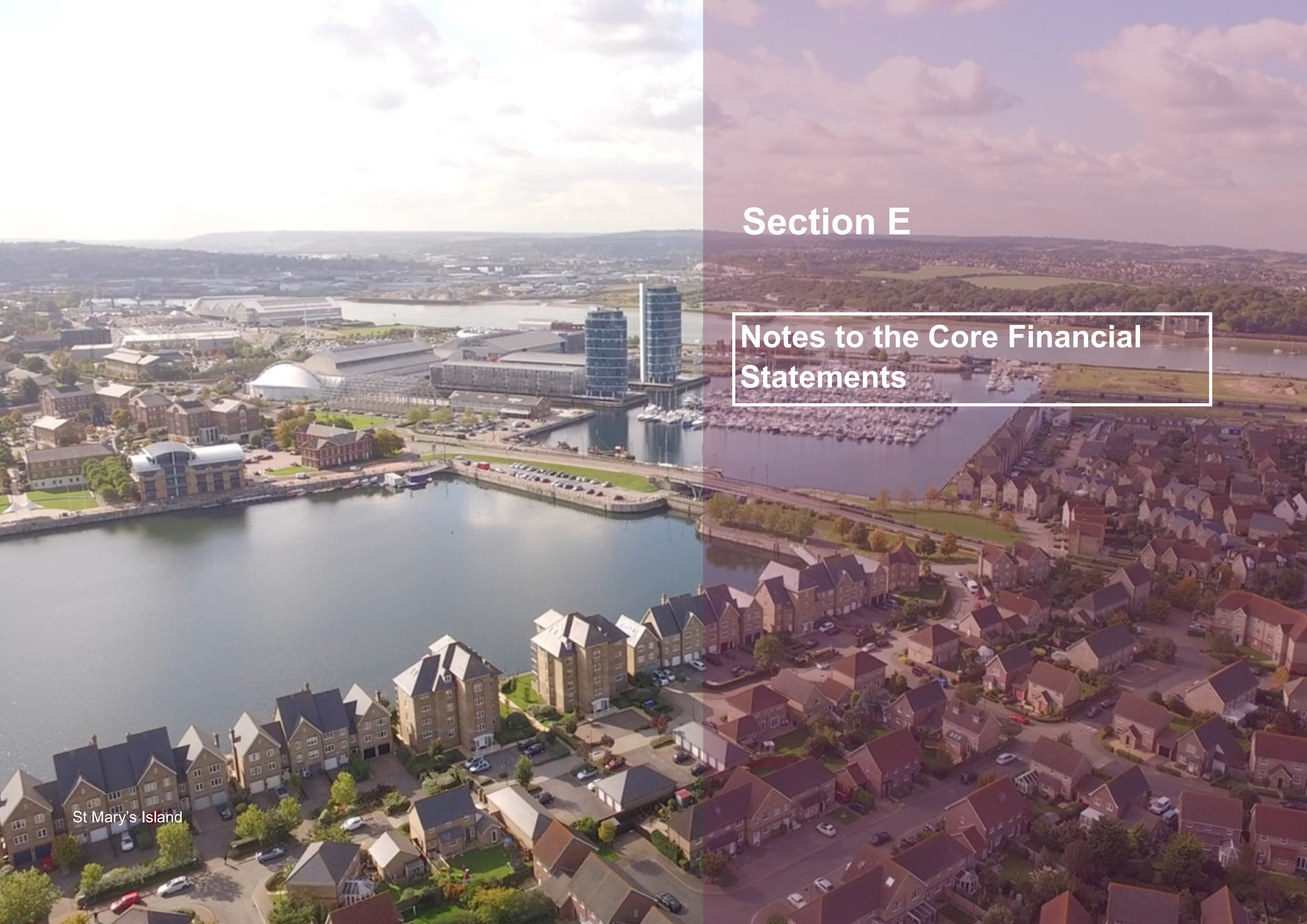
Cash Flow Statement

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.

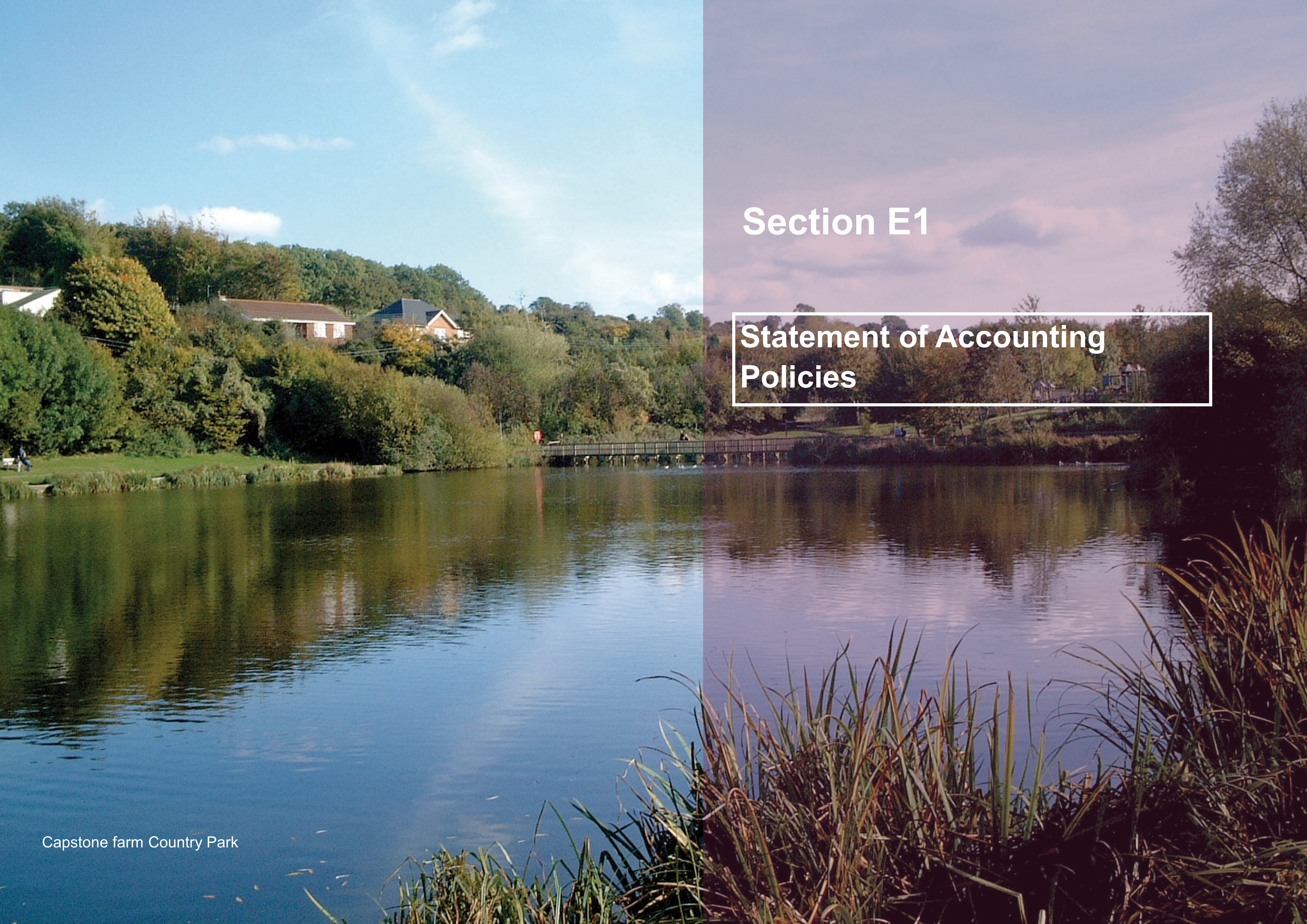
2017/18 £'000		Notes	2018/19 £'000
59,729	Net (Surplus) or deficit on the provision of services		16,506
(75,164)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements		(33,323)
20,026	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities		2,254
4,591	**Net cash flows from Operating Activities**	37	**(14,563)**
20,783	Investing Activities	38	36,323
(32,575)	Financing Activities	39	(13,289)
(7,201)	**Net (increase) or decrease in cash and cash equivalents**		**8,471**
5,034	**Cash and cash equivalents at the beginning of the reporting period**		**12,235**
12,235	**Cash and cash equivalents at the end of the reporting period**	31	**3,764**

Section E

Notes to the Core Financial Statements



St Mary's Island



Section E1

Statement of Accounting Policies

Capstone farm Country Park

Note 1. Accounting Policies

General Principles

The financial statements summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS).

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

Qualitative Characteristics of Financial Statements

Relevance

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

Materiality

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

Faithful Representation

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

Comparability

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

Verifiability

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

Timeliness

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

Understandability

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

Accruals Basis

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

Going Concern

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

Primacy of Legislation Requirements

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

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

Accruals of Income and Expenditure

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

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

Note 1. Accounting Policies (continued)

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

Exceptions to this are payments of:

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

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

Charges to Revenue for Non-Current Assets

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

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

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

Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

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

Overheads and Support Services

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

Value Added Tax

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

Note 2. Accounting standards issued but not yet adopted

Standards that have been issued but not yet adopted, which may require disclosure in 2018/19 accounts, are anticipated to be listed in Appendix C of the 2019/20 Code when it is published. In the interim potentially relevant standards include:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

The following changes in accounting policies will be required from 1 April 2019.

Note 3. Critical Judgement in Applying Accounting Policies

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

- 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 Authority has completed a school by school assessment across the different types of schools it controls within Medway. Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. Voluntary aided schools the legal ownership of the land and buildings rests with the relevant Dioceses. The Diocese has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Authority's Balance Sheet. Academies are not considered to be maintained schools in the Authority's control. Thus the land and building assets are not owned by the Authority and not included on the Authority's Balance Sheet.

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

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 2019 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 36 to the financial statements.
Valuation of operational property	Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. The Council's internal valuers provided valuations as at March 2019 for all of the Council's investment portfolio and approximately 20% of its operational portfolio. The remaining balance of operational properties was also reviewed to ensure values reflect current values. The estimated remaining useful life of all operational assets is reviewed annually based on the advice from the Council external valuers. The key assumptions that are most likely to affect the valuation are: Council dwellings are valued on an Existing Use (Social Housing) basis. The market value for each of the beacon properties (groups of similar properties) is determined by reference to sales data recorded on the land registry, and adjusted to reflect the characteristics of the beacon properties. The social housing discount factor is applied for these properties. The valuer has been guided by the Government's stock valuation guidance which suggests a discount factor for South East England of 33%. Specialised properties are valued on the basis of depreciated replacement cost (DRC). This basis seeks to determine the current cost of replacing an asset with its modern equivalent, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. Assumptions are made about build cost and adjustments for obsolescence. Non-specialised properties are valued on the basis of Current Value in Existing Use. Value is determined by reference to market evidence but subject to the assumption that the asset remains in use for its existing purpose.	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in a charge either to the Revaluation Reserve or to the Comprehensive Income and Expenditure Statement of approximately £50m. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement. Depreciation charges for operational buildings will change in direct relation to changes in estimated current value. The net book value of non-current assets subject to potential revaluation is over £500m.

Section E2

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

Sweeps Festival, Rochester

Note 5. Expenditure and Funding Analysis

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

2017/18					Directorate	2018/19				
Management Accounts £'000	Amounts Not Reported to Management/ Corporate Amounts £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Adjustments between the Funding and Accounting Basis (See Note 6) £'000	Net Expenditure Chargeable to the General Fund and HRA Balances £'000		Management Accounts £'000	Amounts Not Reported to Management/ Corporate Amounts £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Adjustments between the Funding and Accounting Basis (See Note 6) £'000	Net Expenditure Chargeable to the General Fund and HRA Balances £'000
7,211	(1,930)	5,281	2,682	7,963	Business Support Department	7,165	1,719	8,883	(2,397)	6,487
218,362	(91,378)	126,984	(14,539)	112,446	Children's and Adults	210,963	(80,603)	130,360	(14,603)	115,757
74,273	3,544	77,818	(24,849)	52,968	Regeneration, Community, Environment and Transformation	73,518	8,214	81,732	(31,734)	49,998
14,390	(16,675)	(2,285)	(303)	(2,588)	Public Health	13,690	(16,689)	(2,999)	(282)	(3,280)
(1,293)	(9,090)	(10,383)	7,611	(2,772)	Housing Revenue Account	(361)	(5,206)	(5,567)	2,551	(3,016)
312,943	**(115,529)**	**197,414**	**(29,398)**	**168,016**	**Net Cost of Services**	**304,975**	**(92,566)**	**212,409**	**(46,464)**	**165,945**
(20,032)	(117,654)	(137,686)	(28,847)	(166,533)	Other operating income and expenditure	6,580	(202,483)	(195,903)	25,703	(170,200)
292,912	**(233,183)**	**59,728**	**(58,246)**	**1,483**	**(Surplus) or Deficit**	**311,555**	**(295,049)**	**16,506**	**(20,761)**	**(4,255)**
				(25,562)	Opening General Fund and HRA Balance					(24,079)
				1,483	Less Deficit on General Fund and HRA Balance in Year					(4,255)
				(24,079)	**Closing General Fund and HRA Balance ***					**(28,334)**

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

Note 6. Note to Expenditure and Funding Analysis

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

Adjustments between Funding and Accounting Basis						2018/19
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes (Note a) £'000**	**Net change for the Pensions Adjustments (Note b) £'000**	**Other Statutory Differences (Note c) £'000**	**Total Statutory Differences £'000**	**Other (Non-statutory) Adjustments (Note d) £'000**	**Total Adjustments £'000**
Business Support Department	(1,264)	(1,163)	0	(2,427)	30	(2,397)
Children's and Adults	(8,982)	(5,657)	0	(14,639)	36	(14,603)
Regeneration, Community, Environment and Transformation	(27,941)	(3,821)	0	(31,762)	28	(31,734)
Public Health	0	(294)	0	(294)	13	(282)
Housing Revenue Account	2,855	(293)	(10)	2,552	(1)	2,551
Net Cost of Services	**(35,332)**	**(11,229)**	**(10)**	**(46,571)**	**107**	**(46,464)**
Other income and expenditure from the Expenditure and Funding Analysis	26,350	(6,934)	533	19,950	5,753	25,703
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(8,982)**	**(18,163)**	**524**	**(26,621)**	**5,860**	**(20,761)**

Adjustments between Funding and Accounting Basis						2017/18
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes (Note a) £'000**	**Net change for the Pensions Adjustments (Note b) £'000**	**Other Statutory Differences (Note c) £'000**	**Total Statutory Differences £'000**	**Other (Non-statutory) Adjustments (Note d) £'000**	**Total Adjustments £'000**
Business Support Department	(2,414)	5,050	0	2,636	46	2,682
Children's and Adults	(8,291)	(6,516)	0	(14,807)	268	(14,539)
Regeneration, Community, Environment and Transformation	(20,368)	(4,388)	0	(24,756)	(93)	(24,849)
Public Health	0	(291)	0	(291)	(12)	(303)
Housing Revenue Account	7,853	(232)	0	7,621	(10)	7,611
Net Cost of Services	**(23,219)**	**(6,378)**	**0**	**(29,597)**	**199**	**(29,398)**
Other income and expenditure from the Expenditure and Funding Analysis	(18,879)	(7,837)	0	(26,716)	(2,131)	(28,847)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(42,098)**	**(14,215)**	**0**	**(56,313)**	**(1,932)**	**(58,246)**

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

Adjustments for Capital Purposes

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

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

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

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

Net Change for the Pensions Adjustments

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

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

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

Other Statutory Adjustments

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

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

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

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

Other Non-statutory Adjustments

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

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

• For **Taxation and Non-Specific Grant Income and Expenditure** the other non-statutory adjustments column recognises adjustments to service segments, eg for unringfenced government grants

Note 7. Segmental Income

Income received on a segmental basis is analysed below:

	2017/18 Income from Services £'000	2018/19 Income from Services £'000
Business Support Department	(3,997)	(3,911)
Children's and Adults	(16,229)	(17,613)
Regeneration, Community, Environment and Transformation	(31,210)	(31,525)
Public Health	0	0
Housing Revenue Account	(14,413)	(14,320)
Total income analysed on a segmental basis	**(65,849)**	**(67,369)**

Note 8. Expenditure and income Analysed by Nature

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

	2017/18	Management Accounts							Amounts Not Reported to Management	Allocation of Recharges	Net Cost of Services	Corporate Amounts	2018/19
		Business Support	Childrens & Adults	Regeneration, Community, Environment and Transformation	Public Health	Total General Fund	Housing Revenue Account	Total Management Accounts					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure/Income													
Expenditure													
Employee benefits expenses	134,341	10,047	70,639	29,911	3,045	113,641	1,451	115,092	10,866	0	125,958	6,934	132,892
Other services expenses	379,028	100,451	185,711	70,205	11,625	367,992	8,264	376,256	4,418	(4,229)	372,027	(257)	376,187
Support service recharges	2	3,619	7,867	11,024	404	22,915	669	23,583	0	(23,583)	4,418	0	0
Depreciation, amortisation and impairment	27,326	957	4,796	18,502	0	24,255	3,680	27,935	2,558	0	27,935	(1,722)	28,771
Interest payments	10,795	0	0	0	0	0	0	0	0	0	2,558	11,046	11,046
Precepts and levies	1,692	0	0	0	0	0	0	0	0	0	0	1,907	1,907
Payments to Housing Capital Receipts Pool	306	0	0	0	0	0	0	0	0	0	0	264	264
Gain on the disposal of assets	40,891	0	0	0	0	0	0	0	0	0	0	1,723	1,723
Pension Adjustment	248	0	0	0	0	0	0	0	256	0	256	0	256
Total expenditure	**594,630**	**115,074**	**269,014**	**129,642**	**15,073**	**528,803**	**14,064**	**542,867**	**18,098**	**(27,812)**	**533,152**	**19,894**	**553,047**
Income													
Fees, charges and other service income	(74,511)	(18,477)	(28,498)	(50,352)	(654)	(97,982)	(14,358)	(112,340)	10,546	27,812	(73,982)	(345)	(74,326)
Interest and investment income	(4,867)	0	(18)	(434)	0	(453)	(66)	(519)	66	0	(453)	(3,706)	(4,158)
Income from council tax and non-domestic rates	(154,039)	0	0	0	0	0	0	0	0	0	0	(185,560)	(185,560)
Government grants and contributions	(301,484)	(89,432)	(29,534)	(5,337)	(729)	(125,032)	0	(125,032)	(121,276)	0	(246,308)	(26,187)	(272,495)
Total income	**(534,901)**	**(107,910)**	**(58,051)**	**(56,124)**	**(1,383)**	**(223,467)**	**(14,424)**	**(237,891)**	**(110,664)**	**27,812**	**(320,743)**	**(215,798)**	**(536,540)**
Surplus or Deficit on the Provision of Services	**59,729**	**7,165**	**210,963**	**73,518**	**13,690**	**305,336**	**(361)**	**304,975**	**(92,566)**	**0**	**212,409**	**(195,903)**	**16,506**

Section E3

Notes Supporting the Comprehensive Income and Expenditure Statement

Gillingham Park

Note 9. Other Operating Expenditure

	2017/18 £'000	2018/19 £'000
Parish council precepts	408	455
Levies	1,284	1,452
Payments to the government housing capital receipts pool	306	264
Gains/losses on disposal of non-current assets	40,891	1,723
Total	**42,889**	**3,894**

Note 10. Financing & Investment Income and Expenditure

	2017/18 £'000	2018/19 £'000
Interest payable and similar charges	10,891	11,053
Net interest on the net defined benefit liability (asset)	7,837	6,934
Pensions interest costs and expected return on pensions assets	0	0
(Gain)/Loss on Financial Assets at Fair Value through Profit and Loss	0	(416)
Interest receivable and similar income	(3,438)	(3,659)
Income and expenditure in relation to investment properties and changes in their fair value	829	(2,067)
Other investment income	(1,133)	0
Total	**14,986**	**11,845**

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

	2017/18 £000s	2018/19 £000s
Council tax income	(108,317)	(117,391)
Non-domestic rates income and expenditure	(45,723)	(68,169)
Non-ringfenced government grants	(24,405)	(2,255)
Capital grants and contributions	(17,118)	(23,827)
Total	**(195,562)**	**(211,642)**

Note 12. Pooled Budgets

Better Care Fund (BCF)

The Council operated a Better Care Fund of £24.350m with Medway Clinical Commissioning Group under a s75 arrangement throughout 2018/19. For 2018/19 the s75 arrangement included the Council's allocation in respect of the Improved Better Care Fund. 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.

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

Better Care Fund (BCF)	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Funding provided through the s75 agreement:				
Medway Council	(5,817)		(7,169)	
Medway CCG	(16,976)		(17,181)	
		(22,793)		(24,350)
Expenditure met from the s75 agreement:				
Medway Council	5,817		7,169	
Medway CCG	16,976		17,181	
		22,793		24,350
Net surplus/(deficit) arising on the pooled budget during the year		**0**		**0**
Authority share of 50% of the net surplus arising on the pooled budget		**0**		**0**

Note 13. Members Allowances

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

Medway Council is comprised of 55 Members. In 2018/19, 55 Members were entitled to claim allowances. This includes 1 Councillor whose term of office ended during 2018/19 and 54 current Councillors.

	2017/18 £000	2018/19 £000
Basic Allowance	472	505
Special Responsibility Allowance	269	267
Expenses	5	4
Total	**746**	**776**

Note 14. Officers Remuneration

Senior Officers Remuneration by Job Title

The remuneration paid to the Authority's senior employees during 2018/19 is as follows:

Post	Salary £	Fees and Allowances £	Salaries, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	150,937	8,642	159,579	54	0	159,633	27,752	187,385
Director of Children & Adult Services	117,665	7,751	125,416	0	0	125,416	21,664	147,080
Director of Regeneration, Community, Environment & Transformation	114,957	7,751	122,708	0	0	122,708	21,168	143,876
Director of Public Health	108,236	7,751	115,987	141	0	116,128	19,938	136,066
Assistant Director - Transformation	81,904	5,365	87,269	0	0	87,269	14,022	101,291
Chief Finance Officer	97,870	5,365	103,235	41	0	103,276	16,495	119,771
Deputy Director - Childrens and Adults	95,975	7,934	103,909	0	0	103,909	18,164	122,073
Assistant Director - Commissioning, Business & Intelligence (Left 13/05/2019)	10,079	634	10,713	0	0	10,713	1,623	12,336
Assistant Director - Adult Social Care	73,428	5,365	78,793	0	0	78,793	12,939	91,732
Assistant Director - Legal & Corporate Services	87,980	5,365	93,345	0	0	93,345	16,231	109,576
Assistant Director - Physical and Cultural Regeneration (Left 12/08/2018)	31,978	3,597	35,575	0	0	35,575	5,810	41,385
Assistant Director - Physical and Cultural Regeneration (Appointed 03/12/2018)	23,986	1,759	25,745	0	0	25,745	4,432	30,177
Assistant Director - Front Line	73,720	7,365	81,085	0	0	81,085	13,988	95,073

During 2018/19 the Commissioning, Business and Intelligence Assistant Director post (previously named Partnership Commissioning) within the Children and Adult's Directorate was deleted. Business and Intelligence, Self-Directed Support and Client Financial Affairs teams now sit within Adult Social Care and Adult Partnership Commissioning team is now within Public Health.

Note 14. Officers Remuneration (continued)

Comparative figures for 2017/18 are as follows:

Post	Salary £	Fees and Allowances £	Salaries, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Total Excluding Pension £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	149,295	8,548	157,843	0	0	157,843	27,450	185,293
Director of Children & Adult Services	104,584	7,666	112,250	32	0	112,282	19,268	131,550
Director of Regeneration, Community, Environment & Transformation	108,642	7,666	116,308	0	0	116,308	20,010	136,318
Director of Public Health (Left 30/04/2017)	6,899	7,141	14,040	81	0	14,121	0	14,121
Director of Public Health (Appointed 01/05/2017)	95,868	7,027	102,895	283	0	103,178	17,662	120,840
Chief People Officer (Left 10/09/2017)	33,438	2,358	35,796	0	0	35,796	5,725	41,521
Assistant Director - Transformation (Left 10/09/2017)	38,451	3,968	42,419	0	0	42,419	7,094	49,513
Assistant Director - Transformation (Appointed 11/09/2017)	44,830	2,947	47,777	0	0	47,777	7,644	55,421
Chief Finance Officer	91,860	5,306	97,166	326	0	97,492	15,551	113,043
Deputy Director - Childrens and Adults	92,573	8,452	101,025	0	0	101,025	17,645	118,670
Assistant Director - Commissioning, Business & Intelligence	82,604	5,306	87,910	0	0	87,910	14,337	102,247
Assistant Director - Adult Social Care (Appointed 18/12/17)	20,808	1,526	22,334	0	0	22,334	3,635	25,969
Assistant Director - Legal & Corporate Services	86,000	5,306	91,306	0	0	91,306	15,867	107,173
Assistant Director - Physical and Cultural Regeneration	86,516	5,306	91,822	38	0	91,860	16,643	108,503
Assistant Director - Front Line	72,586	5,306	77,892	150	0	78,042	13,412	91,454

Officers Remuneration > £50,000

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

	Number of Employees			
	Schools		Non-Schools	
Remuneration Band	2017/18	2018/19	2017/18	2018/19
£50,000 to £54,999	12	15	32	38
£55,000 to £59,999	14	15	19	13
£60,000 to £64,999	14	11	11	19
£65,000 to £69,999	4	9	13	12
£70,000 to £74,999	4	3	5	4
£75,000 to £79,999	1	4	2	0
£80,000 to £84,999	2	0	3	2
£85,000 to £89,999	1	1	0	0
£90,000 to £95,999	0	1	0	0
£95,000 to £99,999	0	0	0	0
£100,000 to £104,999	0	1	0	0
£105,000 to £109,999	0	1	0	0
£110,000 to £114,999	0	0	0	0
£115,000 to £119,999	0	1	0	0
£120,000 to £124,999	2	0	0	0
£125,000 to £129,999	0	1	0	0
£130,000 to £149,999	0	0	1	0
£150,000 to £154,999	0	0	0	0
Total	**54**	**63**	**86**	**88**

Note 14. Officers Remuneration (continued)

Number of Exit Packages

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

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

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

Restated exit package cost band (including special payments)	Number of compulsory redundancies 2017/18			Number of other departures agreed 2017/18			Total number of exit packages by cost band 2017/18			Total cost of exit packages in each band £ 2017/18		
	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total
£0 - £20,000	57	38	95	11	13	24	68	51	119	272,026	354,817	626,843
£20,001 - £40,000	1	12	13	1	0	1	2	12	14	54,812	328,180	382,992
£40,001 - £60,000	0	1	1	0	1	1	0	2	2	0	91,214	91,214
£60,001 - £80,000	0	1	1	0	0	0	0	1	1	0	60,819	60,819
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	1	1	0	0	0	0	1	1	0	120,404	120,404
£150,001 - £200,000	0	0	0	0	0	0	0	0	0	0	0	0
Total	**58**	**53**	**111**	**12**	**14**	**26**	**70**	**67**	**137**	**326,838**	**955,434**	**1,282,272**

The total cost of £1.282m detailed in the table above for exit packages agreed during 2017/18. An amount of £1.296m has been charged to the Authority's Comprehensive Income and Expenditure Statement in that financial year.

Note 15. External Audit Costs

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

	2017/18 £'000	2018/19 £'000
Fees payable to BDO/GT with regard to external audit services carried out by the appointed auditor for the year	142	110
Fees payable to BDO/GT for the certification of grant claims and returns for the year	25	37
Fees payable in respect of other services provided by BDO/GT during the year	7	0
Total	**174**	**147**

The Authority's external auditor was BDO LLP up to the period ended 31 March 2018, and has subsequently changed to Grant Thornton (GT) with effect from the period 01 April 2018 onwards for a period of 5 years.

Note 16. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

During 2018/19 the Council incurred an overspend of £4.252m on DSG funded services. After taking account of the surplus of £0.452m brought forward from 2017/18, £4.139m was carried forward to 2019/20.

Details of the deployment of DSG receivable for 2018/19 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2018/19 before Academy recoupment			229,641
Less: Academy figure recouped for 2018/19			(145,975)
Total DSG after Academy recoupment for 2018/19			83,666
Plus: Brought forward from 2017/18			452
Less: Carry forward to 2019/20 agreed in advance			(113)
Agreed initial budgeted distribution in 2018/19	5,393	78,612	84,005
In year adjustments			0
Final budget distribution in 2018/19	5,393	78,612	84,005
Less: Actual central expenditure	(5,222)		(5,222)
Less: Actual Individual Schools Budget deployed to schools		(83,035)	(83,035)
Carried forward to 2019/20	**171**	**(4,423)**	**(4,252)**
Less: Agreed transfer to capital earmarked reserves			0
Add: Carry forward to 2019/20 agreed in advance			113
Total carried forward to 2019/20			**(4,139)**

Note 17. Grant Income

Accounting Policy - Government Grants and Contributions

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

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

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

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

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

Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19.

	2017/18 £'000	2018/19 £'000
Credited to Taxation and Non Specific Grant Income		
Ministry of Housing, Communities & Local Government		
- Formula Grant / Revenue Support Grant	(18,848)	0
- Inshore Fisheries Conservation Authorities Grant	(33)	(32)
- New Homes Bonus	(5,146)	(2,222)
- MHCLG Other	0	(105)
Department for Education		
- Education Support Grant	(378)	0
Department for Environment, Food and Rural Affairs		
- Lead Local Flood Authorities Grant	0	0
Department of Health & Social Care		
- Healthwatch Grant	0	0
Recognition of Capital Grants and Contributions	(17,118)	(23,827)
Total	**(41,523)**	**(26,187)**
Credited to Services		
Cabinet Office		
- Cabinet	(915)	(63)
Department for Digital, Culture, Media & Sport		
- DCMS Other	(89)	(119)
Department for Education		
- Dedicated Schools Grant	(90,263)	(83,666)
- Pupil Premium Grant	(3,789)	(3,421)
- Education Funding Agency	(168)	(298)
- Sixth Form Grant	(702)	(686)
- Student Loan Company	(78)	(45)
- DFE Other *	(5,393)	(5,147)

Note 17. Grant Income (continued)

Credited to Services (continued)	£'000	£'000
Department of Health & Social Care		
- Public Health Grant	(17,671)	(17,217)
- DoH Other	(260)	(246)
Ministry of Housing, Communities & Local Government		
- Tax Collection & Benefit Administration	(273)	(269)
- Housing Benefit Administration	(966)	(871)
- Benefit Subsidy	(96,109)	(86,852)
- DCLG Other	(7,825)	(10,333)
Department for Environment, Food and Rural Affairs		
- DEFRA Other	0	(10)
Department for Transport		
- DoT Other	(218)	(220)
Department for Work & Pensions		
- DWP Other	(171)	(391)
Home Office		
- HO Other	(15)	(120)
Ministry of Justice		
- Contributions from the Youth Justice Board	(440)	(782)
- MoJ Other	(111)	(109)
Department for Business, Energy & Industrial Strategy		
- Skills Funding Agency	(1,746)	(1,766)
Other Miscellaneous Grants	(917)	(740)
Contributions from NHS Partners	(19,104)	(20,524)
Contributions from Other Local Authorities	(2,393)	(2,648)
Miscellaneous Contributions	(498)	(5,829)
Recognition of Capital Grants and Contributions	(9,847)	(4,040)
Total	**(259,961)**	**(246,413)**

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 money to be returned to the giver. The balances at the year end are as follows:

Long-Term Liabilities	31 March 2018 £'000	31 March 2019 £'000
Capital Grants Receipts in Advance (Capital Grants)		
Applicable Section Agreements	(5,711)	(978)
Total	**(5,711)**	**(978)**

Note 18. Interests in Companies and Other Entities

Accounting Policy

Interests in Companies and Other Entities

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

Joint Ventures

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

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

• Determine whether theAuthority 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 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 suppied 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 NorseTransport net of rebate in the Income and Expenditure Account and have included the investment at cost in the Balance Sheet.

Medway Commercial Group (MCG)

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

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

Medway Development Company (MDC)

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

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

Section E4

Notes Supporting the Movement in Reserves Statement

Fort Amherst, Chatham

Note 19. Adjustments between accounting basis and funding basis

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

General Fund Balance

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

Housing Revenue Account Balance

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

Major Repairs Reserve

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

Capital receipts Reserve

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

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would

otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against

which it can be applied and/or the financial year in which this can take place.

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

Adjustments for 2018/19	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)	17,870	293	0	0	0
Financial instruments (transferred to the Financial Instruments Adjustments Account/Financial Instruments Revaluation Reserve)	(533)	10	0	0	0
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(4,031)	0	0	0	0
Holiday pay (transferred to the Accumulated Absences Account)	(108)	1	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):	20,017	2,186	0	0	7,526
Total Adjustments To Revenue Resources	**33,215**	**2,490**	**0**	**0**	**7,526**
ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES:					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,254)	(1,204)	3,458	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	264	0	(264)	0	0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement (Transfer to the Deferred Capital Receipts Reserve)	(2,897)	0	0	0	0
Posting of HRA resources from revenue to the Major Repairs Reserve		(3,680)	0	3,680	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(4,609)	0	0	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(406)	(158)	0	0	0
Total Adjustments between Revenue and Capital Resources	**(9,903)**	**(5,041)**	**3,194**	**3,680**	**0**
ADJUSTMENTS TO CAPITAL RESOURCES					
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(2,415)	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(3,589)	0
Application of capital grants to finance capital expenditure	0	0	0	0	(4,788)
Total Adjustments To Capital Resources	**0**	**0**	**(2,415)**	**(3,589)**	**(4,788)**
Total Adjustments 2018/19	**23,312**	**(2,551)**	**779**	**92**	**2,739**

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

2017/18 Comparative Figures	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)	13,983	232	0	0	0
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(178)	12	0	0	0
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	1,109	0	0	0	0
Holiday pay (transferred to the Accumulated Absences Account)	(209)	(1)	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):	57,944	(1,932)	0	0	4,987
Total Adjustments To Revenue Resources	**72,649**	**(1,690)**	**0**	**0**	**4,987**
ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES:					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,322)	(1,289)	2,610	0	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	306	0	(306)	0	0
Posting of HRA resources from revenue to the Major Repairs Reserve		(3,520)	0	3,520	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(4,855)	0	0	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(921)	(1,112)	0	0	0
Total Adjustments between Revenue and Capital Resources	**(6,792)**	**(5,921)**	**2,305**	**3,520**	**0**
ADJUSTMENTS TO CAPITAL RESEOURCES					
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(2,382)	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(3,512)	0
Application of capital grants to finance capital expenditure	0	0	0	0	(2,501)
Total Adjustments To Capital Resources	**0**	**0**	**(2,382)**	**(3,512)**	**(2,501)**
Total Adjustments 2017/18	**65,856**	**(7,611)**	**(77)**	**8**	**2,486**

Note 20. Movements in Earmarked Reserves

This note sets out the amounts set aside from the General fund and Housing Revenue Account balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2018/19.

	Balance 31 March 2017 £'000	Transfers in 2017/18 £'000	Transfers out 2017/18 £'000	Balance 31 March 2018 £'000	Transfers in 2018/19 £'000	Transfers out 2018/19 £'000	Balance 31 March 2019 £'000
General Fund							
Balances held by schools under a scheme of delegation	(3,209)	(402)	2,430	**(1,181)**	(1,128)	305	**(2,004)**
School Rev Contributions To Capital	(224)	(426)	285	**(365)**	(280)	239	**(406)**
Revenue Contributions To Capital C&A	(28)	(350)	374	**(4)**	(62)	66	**0**
Revenue Contributions To Capital RCET	(6)	(4)	4	**(6)**	(19)	17	**(8)**
Development Plan Reserve	(393)	0	29	**(364)**	(80)	331	**(113)**
Provision For Local Election	(171)	(90)	19	**(242)**	(138)	96	**(283)**
Bereavement Services Reserves	(25)	0	0	**(25)**	(1)	0	**(26)**
Community Hubs Reserve	(438)	0	363	**(75)**	0	35	**(40)**
Reserve Fund Computer Development	(273)	0	273	**(0)**	0	0	**(0)**
Developer Contributions Revenue Reserves	0	0	0	**0**	(5,508)	1,282	**(4,226)**
DSG Reserve	(132)	(320)	0	**(452)**	0	4,591	**4,139**
Economic Development Loans Fund	(145)	0	4	**(141)**	0	7	**(134)**
Directorate Carry Forwards	(2,653)	(1,005)	745	**(2,913)**	(3,417)	3,030	**(3,300)**
Homelessness Reduction	0	(169)	0	**(169)**	0	0	**(169)**
BirdWatch/Samms Inv Funds	0	0	0	**0**	(300)	0	**(300)**
Collection Fund Holding Account	(1,741)	(2,290)	1,741	**(2,290)**	0	2,290	**(0)**
Invest To Save	(148)	0	148	**(0)**	0	0	**(0)**
Severance Payments Reserve	1	(1,000)	999	**0**	(1,000)	545	**(455)**
South Medway Development Res	(3,243)	(1,692)	1,000	**(3,935)**	(84)	18	**(4,001)**
Transformation Reserve	(52)	0	52	**(0)**	0	0	**(0)**
Salix Repayments	(50)	(109)	140	**(19)**	(86)	56	**(49)**
HEE Public Health Grant	(637)	0	399	**(238)**	0	62	**(176)**
Other Earmarked Reserves	(613)	(20)	346	**(287)**	(62)	129	**(221)**
General Reserve	(8)	(80)	0	**(88)**	(5,081)	1,130	**(4,039)**
Insurance Reserve	(2,747)	0	1,379	**(1,368)**	0	152	**(1,216)**
Total Earmarked General Fund Reserves	**(16,936)**	**(7,957)**	**10,730**	**(14,163)**	**(17,246)**	**14,381**	**(17,028)**
Housing Revenue Account							
HRA Earmarked Reserves	(6)	(1,112)	1,112	**(6)**	(1,188)	0	**(1,194)**
Total Earmarked Housing Revenue Account Reserves	**(6)**	**(1,112)**	**1,112**	**(6)**	**(1,188)**	**0**	**(1,194)**
Total Earmarked Reserves	**(16,942)**	**(9,069)**	**11,842**	**(14,169)**	**(18,434)**	**14,381**	**(18,222)**

Balances held by schools under a scheme of delegation

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

School Revenue Contributions To Capital

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

Revenue Contributions To Capital C&A

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

Revenue Contributions To Capital RCET

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

Development Plan Reserve

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

Provision For Local Election

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

Bereavement Services Reserves

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

Community Hubs Reserve

To finance development of community hubs in our libraries.

Reserve Fund Computer Development

Reserve Fund for Computer Development/ Replacement of Steria and then Medway Grid for Learning (MGfL) reserve added in 2016/17.

DSG Reserve

Dedicated School Grant reserves. Significant increase in Special Educational Needs (SEN) expenditure in 2018/19 was transferred here. The deficit on this reserve will be addressed through a three year recovery plan to be agreed by the School's forum.

Economic Development Loans Fund

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

Directorate Carry Forwards

Revenue carry forwards relating to the general fund.

Homelessness Reduction

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

Collection Fund Holding Account

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

Invest To Save

Represents a sum set aside to generate long term financial benefits from pump-priming financial resources.

Severance Payments Reserve

Provided to support staffing cost implications of service transformation programmes.

South Medway Development Reserve

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

Transformation Reserve

Provided to finance the transformation of the Council's services as required to achieve leading edge service and financial provision.

Salix Repayments

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

HEE Public Health Grant

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

Other Earmarked Reserves

Represent non-material balances.

General Reserve

This is the main non earmarked revenue reserve for the Council.

Insurance Reserve

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

HRA Earmarked Reserves

Monies held in an Earmarked Reserve for the HRA.

Section E5

Notes Supporting the Balance Sheet

Chatham Dockyard, No1 Smithery

Note 21. Property, Plant & Equipment

Accounting Policy

Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

Componentisation

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following basis:

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

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

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

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

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

Disposals

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

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

Note 21. Property, Plant & Equipment (continued)

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

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

Schools

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

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

The Council has the following types of maintained schools:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation

However, Voluntary aided and voluntary controlled schools are not recognised on the Council's Balance Sheet as the balance of control for these schools lies with the respective dioceses.

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.

Note 21. Property, Plant & Equipment (continued)

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

Movements on Balances 2018/19	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2018	164,877	368,986	15,239	327,623	8,436	636	62	885,858
Additions	3,403	12,287	910	11,126	0	0	1,855	29,581
Donations								0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	250	16,324	0	0	0	4,512	0	21,086
Revaluation increases/(decreases) recognised in the Surplus/ Deficit on the Provision of Services	(745)	(8,719)	0	0	0	(22)	0	(9,486)
Derecognition – disposals	(713)	(3,940)	0	0	(4)	(32)	0	(4,689)
Derecognition - other	0	(3,518)	(205)	0	0	0	0	(3,723)
Assets reclassified (to)/from Surplus Assets	0	(5,670)	0	0	0	5,670	0	0
Other Reclassifications								0
Other movements in cost or valuation	2	(195)	1	(1)	(1)	(1)		(195)
As at 31 March 2019	**167,074**	**375,555**	**15,945**	**338,748**	**8,431**	**10,763**	**1,917**	**918,432**
Accumulated Depreciation and Impairment								
As at 1 April 2018	1	(27,783)	(9,281)	(195,146)	(11)	(1)	0	(232,221)
Depreciation Charge	(3,405)	(11,493)	(1,471)	(10,834)	0	(1)	0	(27,204)
Depreciation written out to the Revaluation Reserve	296	22,387	0	0	0	0	0	22,683
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,095	3,834	0	0	0	0	0	6,929
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition – disposals	14	36	0	0	0	0	0	50
Derecognition - other	0	79	205	0	0	0	0	284
Other Reclassifications								0
Other movements in depreciation and impairment	(1)	192	1	1		1		194
As at 31 March 2019	**0**	**(12,748)**	**(10,546)**	**(205,979)**	**(11)**	**(1)**	**0**	**(229,285)**
Net Book Value								
At 31 March 2019	**167,074**	**362,807**	**5,399**	**132,769**	**8,420**	**10,762**	**1,917**	**689,147**
At 31 March 2018	**164,878**	**341,203**	**5,958**	**132,477**	**8,425**	**635**	**62**	**653,637**

Note 21. Property, Plant & Equipment (continued)

Movements on Balances 2017/18	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 2017	157,322	384,527	14,766	317,750	7,762	755	13,527	896,408
Additions	4,716	5,021	641	9,869	0	0	2,961	23,208
Donations								
Revaluation increases/(decreases) recognised in the Revaluation Reserve	408	14,381	0	2	0	160	0	14,951
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	3,088	543	0	0	0	1	0	3,632
Derecognition – disposals	(727)	(48,632)	(231)	0	0	(325)	0	(49,915)
Derecognition - other	0	(2,488)	0	0	(1)	0	0	(2,489)
Assets reclassified (to)/fromAssets Under Construction	0	16,426	0	0	0	0	(16,426)	0
Other Reclassifications	70	(792)	0	2	675	45	0	
Other movements in cost or valuation	0	0	63	0	0	0	0	63
As at 31 March 2018	**164,877**	**368,986**	**15,239**	**327,623**	**8,436**	**636**	**62**	**885,858**
Accumulated Depreciation and Impairment								
As at 1 April 2017	0	(29,421)	(7,418)	(180,868)	(11)	(3)	0	(217,721)
Depreciation Charge	(3,241)	(13,805)	(2,094)	(14,278)	0	(1)	0	(33,419)
Depreciation written out to the Revaluation Reserve	0	6,307	0	0	0	0	0	6,307
Depreciation written out to the Surplus/Deficit on the Provision of Services	3,230	477	0	0	0	3	0	3,710
Impairment losses/(reversals) recognised in the Revaluation Reserve								0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services								0
Derecognition – disposals	15	8,216	231	0	0	0	0	8,462
Derecognition - other	0	440	0	0	0	0	0	440
Other Reclassifications								
Other movements in depreciation and impairment	(3)	3						0
As at 31 March 2018	**1**	**(27,783)**	**(9,281)**	**(195,146)**	**(11)**	**(1)**	**0**	**(232,221)**
Net Book Value								
At 31 March 2018	**164,878**	**341,203**	**5,958**	**132,477**	**8,425**	**635**	**62**	**653,637**
At 31 March 2017	**157,322**	**355,106**	**7,348**	**136,882**	**7,751**	**752**	**13,527**	**678,687**

Note 21. Property, Plant & Equipment (continued)

Effects of Changes in Estimates

In 2018/19 the Council made no material changes to its accounting estimates for Property, Plant and Equipment.

Revaluations

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

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

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

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

Rolling Programme for the Revaluation of Property, Plant & Equipment

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Valued at historical cost	0	6,127	0	0	0	0	0	6,127
Capital expenditure on assets not revalued since the capital expenditure was incurred	0	288	15,945	338,476	7,692	10,160	1,917	374,478
Carried at historic cost	0	6,415	15,945	338,476	7,692	10,160	1,917	380,605
Valued at current value (fair value for surplus assets) during the year ending:								
31 March 2019	167,074	164,099	0	0	0	0	0	331,173
31 March 2018	0	70,549	0	3	0	333	0	70,885
31 March 2017	0	74,857	0	0	0	46	0	74,903
31 March 2016	0	40,819	0	3	429	32	0	41,284
31 March 2015	0	18,185	0	266	310	192	0	18,953
31 March 2014	0	0	0	0	0	0	0	0
31 March 2013	0	580	0	0	0	0	0	580
31 March 2012	0	0	0	0	0	0	0	0
31 March 2011	0	51	0	0	0	0	0	51
Total	**167,074**	**375,555**	**15,945**	**338,748**	**8,431**	**10,763**	**1,917**	**918,433**

Note 21. Property, Plant & Equipment (continued)

Capital Commitments

As at 31 March 2019 the following capital commitments were in place (17/18: £10.8m):

Directorate	Capital Commitments £000
Business Support Department	16
Children's and Adults	4,354
Regeneration, Community, Environment and Transformation	19,151
Public Health	0
Housing Revenue Account	1,254
Total	**24,775**

Removal of Schools Transferring to Academies

No schools achieved academy status between 1 April 2018 and 31 March 2019. In 2017/18 schools with a value of £39.02m converted to academies and were removed from the balance sheet for the 2017/18 financial statements. There is 1 existing schools which are likely to achive achieve academy status between 1 April 2019 and 31 March 2020 with a balance sheet value of £5.9m (2018/19 nil).

Note 22. Heritage Assets

Accounting Policy

Heritage Assets

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

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

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

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

Buildings

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

Furniture

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

Silver/Gold Collections

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

.Art Collection

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

Other

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

Heritage Assets – General

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

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

Note 22. Heritage Assets (continued)

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

	Buildings £'000	Furniture £'000	Silver / Gold Collections £'000	Art Collection £'000	Other £'000	Total Assets £'000
Cost or Valuation						
1 April 2017	10,991	269	1,318	1,559	2,532	16,670
Additions	284	0	0	0	0	284
Revaluations	45	(31)	13	0	2	29
31 March 2018	**11,320**	**238**	**1,331**	**1,559**	**2,534**	**16,983**
Cost or Valuation						
1 April 2018	11,320	238	1,331	1,559	2,534	16,983
Additions	122					122
Revaluations	331					331
31 March 2019	**11,773**	**238**	**1,331**	**1,559**	**2,534**	**17,436**

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 Collection, Art Collection and Other

Valuations of tangible heritage assets may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. There has been an annual programme of selective valuations in prior years which have resulted in minor changes to the values held in the balance sheet. However, in line with the Authority's accounting policies for heritage assets, there needs to be assurance that the costs of providing valuations give value for money for taxpayers with regards to the information provided within the financial statements verses the cost of obtaining the data. Due to the disproportionate costs of providing valuations from industry experts against the changes in valuation held in the balance sheet, it has been decided that there will be no valuations carried out during 2017/18. A decision as to whether revaluations will be carried out in future years will be taken in due course.

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

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

Other historical interest items include:

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

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

Policy on acquiring Heritage Assets for its Museum Service

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

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

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

Preservation of Heritage Assets

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

Management of Heritage Assets

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

Disposals of Heritage Assets

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

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

No museum objects are to be disposed of for any of the following:

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

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

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

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

Note 24. Investment Properties

Accounting Policy

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

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

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

Fair Value Measurement

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

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.

Revenue Income & Expenditure relating to investment properties

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

Investment properties	2017/18 £'000	2018/19 £'000
Rental income from investment property	373	345
Net gain/(loss)	**373**	**345**

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

Note 24. Investment Properties (continued)

Movement in fair value

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

Investment Properties	31 March 2018 £'000	31 March 2019 £'000
Balance at start of year	9,644	8,443
Additions		
● Purchases	0	6,801
● Construction	0	0
● Subsequent expenditure	0	0
Disposals	0	0
Net gains/(loss) from fair value adjustments	(1,201)	1,722
Transfers (to)/from Property, Plant and Equipment	0	0
Balance at end of year	**8,443**	**16,967**

Fair Value Hierarchy

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

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

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

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

Highest and Best Use

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

Valuation Process for Investment Properties

The fair value of the Authority’s investment property is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Authority’s valuation experts work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters.

Note 25. Financial Instruments

Accounting Policy

Financial Liabilities

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

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

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

Financial Assets

Financial assets are classified based on a classification and m1easurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

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

Loans and Receivables (applicable up to 31 March 2018 only)

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 Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the 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 Comprehensive Income and Expenditure Statement 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 Directorate (for receivables specific to that Directorate) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. 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 Comprehensive Income and Expenditure Statement.

Note 25. Financial Instruments (continued)

Financial Assets Measured at Amortised Cost

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

However, the authority has made a number of loans to employees at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised line in the CIES.

cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Note 25. Financial Instruments (continued)

Expected Credit Loss Model

The need to provide for impairment losses on financial assets held at amortised cost is assessed using the expected credit loss model.

This requires an evaluation of lifetime losses based upon any expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments -discounted cash flow analysis.

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.

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

Categories of Financial Instruments

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

	31 March 2018 (Reclassified)		31 March 2019	
	Current £'000	Non-Current	Current	Non-Current
Loans and Receivables				
Cash and Cash Equivalents	12,235	0	0	0
Debtors	28,840	538	0	0
Investments	5,100	10,120	0	0
Financial Assets at Amortised Cost				
Investments *	0	22,308	0	0
Fair Value Through Profit and Loss - Financial Assets				
Investments	0	0	0	22,724
Financial Assets at Amortised Cost				
Cash and Cash Equivalents	0	0	3,764	0
Debtors	0	0	45,336	1,032
Investments	0	0	17,076	0
Total Financial Assets	**46,175**	**32,966**	**66,176**	**23,757**
Financial Liabilities at Amortised Cost				
Borrowing	(68,941)	(171,288)	(41,656)	(211,861)
Creditors	(34,341)	(29,089)	(33,235)	(31,034)
Total Financial Liabilities	**(103,282)**	**(200,377)**	**(74,891)**	**(242,895)**

*** Reclassifications as a result of implementing IFRS 9**

Assets previously held as Financial Assets Held for Sale have been recategorised as Fair Value Through Profit and Loss. Loans and receivables have been reclassified as Financial Assets at Amortised Cost.

Note 25. Financial Instruments (continued)

Income, Expense, Gains and losses

	2017/18			2018/19		
	Financial Liabilities Measured at Amortised Cost £'000	Financial Assets: Loans and Receivables £'000	Financial Assets: Available for Sale £'000	Financial Liabilities Measured at Amortised Cost £'000	Financial Assets: Loans and Receivables £'000	Financial Assets Measured at Fair Value through Profit and Loss £'000
Net loss on financial assets at fair value through profit and loss	0	0	0	0	0	0
Interest Expense	(10,851)	0	0	(11,079)	0	0
Impairment Losses	0	0	0	0	0	0
Gains on Revaluation	0	0	0	0	0	416
Losses on Revaluation	0	0	0	0	0	0
Total Expense in Surplus/Deficit on the Provision of Services	**(10,851)**	**0**	**0**	**(11,079)**	**0**	**416**
Interest Income	0	2,490	0	0	0	2,455
Investment Income	0	262	645	0	0	1,999
Total income in Surplus/Deficit on the Provision of Services	**0**	**2,752**	**645**	**0**	**0**	**4,454**
Gains on Revaluation	0	0	52	0	0	0
Losses on Revaluation	0	0	(522)	0	0	0
Surplus/(Deficit) arising on Revaluation of Financial Assets in Other Comprehensive Income and Expenditure	**0**	**0**	**(470)**	**0**	**0**	**0**
Net Gain/(Loss) for the Year	**(10,851)**	**2,752**	**175**	**(11,079)**	**0**	**4,870**

Note 25. Financial Instruments (continued)

Fair Value of Assets and Liabilities

Accounting Policy - Fair Value Measurement

The Authority measures 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.

There were no changes to the valuation techniques used between 2017/18 and 2018/19 and no instruments were reclassified within the fair value hierarchy.

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

The fair values calculated are as follows:

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

Financial Liabilities	31 March 2018		31 March 2019	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Borrowing	240,229	352,607	210,280	277,892
Creditors	63,425	63,425	64,269	64,269

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.

Financial Assets	31 March 2018		31 March 2019	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value* £'000
Loans and receivables - Investments	15,220	15,734	17,076	17,405
Cash and Cash Equivalents	12,235	12,235	3,764	3,764
Available for sale financial assets	22,308	22,308	0	0
Investments at Fair Value through Profit & Loss			22,724	22,724
Debtors	29,378	29,378	46,368	46,368

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

* All financial assets held at Fair Value are categorised as Level 1 in the fair value hierarchy.

Fair Value Hierarchy and Valuation Techniques

The fair value of the property fund investments (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:

Market rates for investments

- Fixed term deposits 0.77% to 1.3%

Discount rates for borrowing

- LOBO 2.05% to 2.358%
- Market Debt 1.42503% to 1.4912%
- PWLB maturity 1.47% to 2.29%
- PWLB annuity 1.56%

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.

26. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit Risk

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

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

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

The full investment strategy for 2018/19 was approved by full Council on 22/02/18 and the 2019/20 strategy was approved on 21/02/19. Both are available on the Authority's website.

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

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £1.306m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise.

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

* This is made up of the following:	Amount at 31 March 2019 £'000
Barclays	4
Svenska Handlesbanken	0
Lloyds	1,302
CCLA	6,922
Other Local Authorities	10,154
Total	**18,382**

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

The Authority does not generally allow credit for customers, such that £19.441m of the £25.812m balance is past its due date for payment. The past amount can be analysed by age as show to the right:

	31 March 2018 £'000	31 March 2019 £'000
Less than three months	3,095	3,365
Three to six months	1,280	4,878
Six months to one year	1,801	3,421
More than one year	6,440	7,777
	12,616	**19,441**

The Authority provision for bad debts stood at £2.804m at 31 March 2019 (£2.379m at 31 March 2018). The provision is calculated by applying the aged debt analysis and applying percentages to agreed categories of debt.

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

Liquidity Risk

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

	Lower Limit %	Upper Limit %	Actual 31 March 2018 %	Actual 31 March 2019 %
Less than one year	0	50	0.00	1.04
Between one and two years	0	50	1.23	2.60
Between two and five years	0	50	3.08	6.50
Between five and ten years	0	50	4.62	13.00
More than ten years	0	100	91.07	76.86

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.

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

In addition to the fixed rate borrowing the authority has £40m (31 March 2018 £67.5m) of loans from other authorities repayable within 12 months. These loans are classified as variable rate due to the short time before repayment.

The maturity analysis of financial liabilities is as follows:

	31 March 2018 £'000	31 March 2019 £'000
Less than one year	79,146	53,362
Between one and two years	20,575	31,612
Between two and five years	37,866	40,669
More than five years	408,547	420,181
Total Principal and Interest	**546,134**	**545,824**

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

	Lower Limit %	Upper Limit %	Actual 31 March 2019 %
Less than one year	0	75	33.14
Between one and two years	0	50	20.14
Between two and five years	0	50	16.14
Between five and ten years	0	50	10.76
More than ten years	0	100	19.81

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

Market Risk

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

Interest Rate Risk

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

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

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

Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

Fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure.

Current Authority policy is to not exceed a maximum of 40% of borrowings in variable rate loans.

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

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 monthsand 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 2019 £'000
Long-Term Borrowing:		
PWLB Loans (Principal)	Fixed	90,524
LOBO Loans (Principal)	Variable	101,800
Other Loans and Accounting Adjustments	Fixed	19,537
Total Long-Term Borrowing		**211,861**
Short-Term Borrowing:		
Other Local Authorities	Fixed	40,000
Other Short-Term Borrowing and Accrued Interest	Fixed	1,656
Total Short-Term Borrowing		**41,656**

Other loans and accounting adjustments (£19.537m) includes an accounting adjustment of £1.58m 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.

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

According to this assessment strategy, as at 31 March 2019, 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 borrowing	477
Increase in interest receivable on variable rate investments	297
Impact on Surplus or Deficit on the Provision of Services	**774**
Decrease in fair value of fixed rate investment assets	12
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	12,192

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

Price Risk

The Authority does not generally invest in equity shares or marketable bonds. It does however hold stock in the form of investments in property funds at a value of £22.724m (2017/18 £22.308m).

The funds are classified as "financial assets at fair value through profit and loss" meaning that movement in price will impact on gains and losses in the surplus or deficit on the provision of services within the Comprehensive Income and Expenditure Statement for 2018/19.

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.

27. Capital Expenditure & Capital Financing

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

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of recognisable non-current assets has been charged as expenditure to the relevant Directorate in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax. The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2017/18 £'000	2018/19 £'000
Opening Capital Financing Requirement	256,354	255,968
Capital Investment		
Property Plant and Equipment	23,207	29,581
Heritage Assets	284	122
Investment Properties	0	6,801
Intangible Assets	1,533	152
Revenue Expenditure Funded from Capital under Statute	11,851	13,222
Sources of Finance		
Capital receipts	(2,382)	(2,415)
Government grants and other contributions	(24,479)	(25,128)
Sums set aside from revenue		
Direct revenue contributions	(2,033)	(564)
Major Repairs Reserve	(3,512)	(3,589)
Minimum Revenue Provision	(4,855)	(4,609)
Closing Capital Financing Requirement	**255,968**	**278,758**
Explanation of movements in year		
Increase in underlying need to borrowing (supported by government financial assistance)	0	0
Increase in underlying need to borrowing (unsupported by government financial assistance)	(416)	13,572
Assets acquired under finance leases	30	0
Increase/(decrease) in Capital Financing Requirement	**(386)**	**13,572**

28. Leases

Accounting Policy

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

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

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

Authority as Lessee (Finance Leases)

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

Lease payments are apportioned between:

● a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

● a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

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

	31 March 2018 £'000	31 March 2019 £'000
Other Land & Buildings	685	674

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

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

During 2018/19 the Authority did not enter into any finance leases which individually were for more than £25,000 (two in 2017/18). These are shown as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2018 £'000	31 March 2019 £'000
Vehicles, Plant & Equipment	63	63

28. Leases (Continued)

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

	31 March 2018 £'000	31 March 2019 £'000
Finance lease liabilities (net present value of minimum lease payments):		
• current	21	21
• non-current	42	42
Finance costs payable in future years	4	4
Minimum Lease Payments	**67**	**67**

The minimum lease payments will be payable over the following periods

	Minimum Lease		Finance Lease Payments	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	21	38	2	2
Later than one year and not later than five years	42	25	2	2
Later than five years	0	0	0	0
	63	**63**	**4**	**4**

Accounting Policy - Authority as Lessee (Operating Leases)

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

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 2018 £'000	31 March 2019 £'000
Not later than one year	887	949
Later than one year and not later than five years	2,316	6,631
Later than five years	4,221	869
Total	**7,424**	**8,449**

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

	2017/18 £'000	2018/19 £'000
Minimum Lease Payments	966	887
Sublease Payments Receivable	(30)	(37)
	936	**850**

28. Leases (Continued)

Accounting Policy— Authority as Lessor (Operating Leases)

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

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

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

The future minimum lease payments received are:

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 2018/19; £0.370m contingent rents were receivable by the Authority (2017/18; £0.370m).

	31 March £'000	31 March £'000
Not later than one year	867	1,359
Later than one year and not later than five years	1,262	3,050
Later than five years	9,577	12,721
Total	**11,706**	**17,130**

Note 29. Debtors

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

31 March 2018				31 March 2019		
Long-Term £'000	Short-Term £'000	Total £'000		Long-Term £'000	Short-Term £'000	Total £'000
494	22,413	22,907	Trade receivables	1,011	30,552	31,563
0	2,481	2,481	Prepayments	0	2,019	2,019
44	30,675	30,719	Other receivable amounts	22	42,975	42,977
538	**55,569**	**38,258**	**Total Debtors**	**1,033**	**75,546**	**76,579**

This note has been reclassified for 2017/18 to reflect new disclosure requirements for 2018/19 onwards in order to give a direct comparison between years.

Note 30. Debtors for Local Taxation

The Council has no past due but not impaired amount for local taxation (council tax and non-domestic rates).

Note 31. Cash and Cash Equivalents

Accounting Policy - Cash and Cash Equivalents

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

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

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

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

	31 March 2018 £'000	31 March 2019 £'000
Cash held by the Authority	26	24
Bank current accounts	15,993	11,993
Bank overdraft	(17,100)	(9,559)
Short-term deposits with financial institutions	13,316	1,306
Total Cash & Cash Equivalents	**12,235**	**3,764**

Note 32. Creditors

31 March 2018				31 March 2019		
Long-Term £'000	Short-Term £'000	Total £'000		Long-Term £'000	Short-Term £'000	Total £'000
(318)	(24,495)	(24,813)	Trade payables	(577)	(35,822)	(36,399)
(34,028)	(17,786)	(51,814)	Other payables	(32,666)	(5,541)	(38,208)
(34,346)	**(42,281)**	**(76,627)**	**Total Creditors**	**(33,244)**	**(41,363)**	**(74,607)**

This note has been reclassified for 2017/18 to reflect new disclosure requirements for 2018/19 onwards in order to give a direct comparison between years.

Note 33. Provisions

Accounting Policy - Provisions

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

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

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

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

Non Domestic Rate (NDR) Appeals Provision

Local Authorities retain an element of all NDR collected and in Medway's case we typically retain 49% of collected NDR, However in 2018/19 Medway participated in the 100% Business Rate Retention Pilot Scheme. We also suffer the loss of income from successful appeals against the rateable value of non-domestic property which include appeals submitted to the Valuation Office (VOA). In order to mitigate against future losses of income from appeals the Authority has created a provision to offset the cost of back-dated refunds as the appeals are settled. The provision has been calculated as an estimate of potential cost against each individual appeal case and the cost is adjusted to take account of the probability of success.

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

Note 33. Provisions (continued)

	Short Term			
	Insurance Provision £000s	NDR Appeals Provision £000s	Other Provisions £000s	Total £000s
Balance as at 31 March 2018	0	(4,084)	(129)	(4,213)
Additional provisions made in 2018/19	0	(1,281)	(93)	(1,374)
Amounts used in 2018/19	0	131	62	193
Unused amounts reversed in 2018/19	0	0	0	0
Unwinding of discounting in 2018/19	0	0	0	0
Transfer from/(to) Long Term in 2018/19	0	0	0	0
Balance as at 31 March 2019	**0**	**(5,234)**	**(160)**	**(5,393)**

	Long Term			
	Insurance Provision £000s	NDR Appeals Provision £000s	Other Provisions £000s	Total £000s
Balance as at 31 March 2018	(2,381)	(2,955)	(506)	(5,842)
Additional provisions made in 2018/19	(2,468)	(4,840)	(169)	(7,477)
Amounts used in 2018/19	2,810	0	0	2810
Unused amounts reversed in 2018/19	0	0	0	0
Unwinding of discounting in 2018/19	0	0	0	0
Transfer from/(to) Short Term in 2018/19	0	0	0	0
Balance as at 31 March 2019	**(2,039)**	**(7,795)**	**(675)**	**(10,509)**

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

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

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2019 in line with IAS 37. The majority of the unsettled claims are for public liability.

Note 34. Pension Schemes Accounted for as Defined Contribution Schemes

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

Some employees of the Authority are members of :

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

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

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

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

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

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

In 2018/19, the Authority paid £3.395m to Teachers Pensions in respect of teachers retirement benefits, representing 16.48% of pensionable pay. The figures for 2017/18 were £3.726m representing 16.48% of pensionable pay. There were no contributions remaining payable at year end. The reduction in the level of contributions is predominantly due to the number of schools that have converted to Academy status, on or since 1 April 2018. The contributions due to be paid in the next financial year are estimated to be £4.269m.

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

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

Note 35. Unusable Reserves

Accounting Policy

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

	31 March 2018 £'000	31 March 2019 £'000
Revaluation Reserve	(129,361)	(166,368)
Financial Instruments Revaluation Reserve	0	275
Capital Adjustment Account	(296,114)	(289,442)
Financial Instruments Adjustment Account	(1,076)	(1,183)
Deferred Capital Receipts Reserve	0	(2,897)
Pensions Reserve	277,698	261,303
Collection Fund Adjustment Account	1,861	(2,170)
Accumulated Absences Account	1,873	1,766
Available for Sale Financial Instrument Reserve	691	0
Total Unusable Reserves	**(144,428)**	**(198,716)**

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.

	2017/18	2018/19	
	£'000	£'000	£'000
Balance as at 1 April	**(128,214)**		**(129,361)**
Upward revaluation of assets	(26,446)	(58,128)	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	5,160	14,027	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	(21,287)		(44,100)
Difference between current value depreciation and historical cost depreciation	4,639	4,094	
Accumulated gains on assets sold or scrapped	15,501	3000	
Amount written off to the Capital Adjustment Account	20,140		7,094
Balance as at 31 March	**(129,361)**		**(166,368)**

Financial Instruments Revaluation Reserve

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

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

	2017/18	2018/19
	£'000	£'000
Balance as at 1 April	**0**	**0**
Transfer from Available for Sale Financial Instruments Reserve	0	691
Financial Instruments held under Fair Value through Profit & Loss Subject to MHCLG Statutory Over-Ride	0	(416)
Balance as at 31 March	**0**	**275**

Note 35. Unusable Reserves (continued)

Capital Adjustment Account

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

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

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

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

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Balance as at 1 April		**(321,689)**		**(296,114)**
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	33,418		26,467	
● Revaluation gains on Property, Plant and Equipment	(7,342)		3,295	
● Amortisation of Intangible Assets	348		731	
● Revenue Expenditure funded from Capital Under Statute	11,850		13,222	
● 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	43,502		8,078	
		81,776		51,793
Adjusting amounts written out of the Revaluation Reserve	(20,140)		(7,094)	
Other adjustments	0			
Net written out amount of the cost of non-current assets consumed in the year		(20,140)		(7,094)
Capital financing applied in the year:				
● Use of Capital Receipts Reserve to finance new capital expenditure	(2,382)		(2,415)	
● Use of the Major Repairs Reserve to finance new capital expenditure	(3,512)		(3,589)	
● Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(21,978)		(20,341)	
● Application of grants to capital financing from the Capital Grants Unapplied Account	(2,501)		(4,788)	
● Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(4,855)		(4,609)	
● Capital expenditure charged against the General Fund and HRA balances	(2,033)		(564)	
		(37,261)		(36,305)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		1,200		(1,722)
Balance as at 31 March		**(296,114)**		**(289,442)**

Note 35. Unusable Reserves (continued)

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2018 will be charged to the General Fund over the next 33 years.

	2017/18	2018/19	
	£'000	£'000	£'000
Balance as at 1 April	**(909)**	**0**	**(1,076)**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(167)	(107)	0
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	0	0	**0**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(167)	0	(107)
Balance as at 31 March	**(1,076)**	**0**	**(1,183)**

Deferred Capital Receipts Reserve

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

	2017/18 £'000	2018/19 £'000
Balance as at 1 April	**0**	**0**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	(2,897)
Transfer to the Capital Receipts Reserve upon receipt of cash	0	**0**
Balance as at 31 March	**0**	**(2,897)**

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

	2017/18 £'000	2018/19 £'000
Balance as at 1 April	**290,064**	**277,698**
Remeasurements of the net defined benefit liability/(asset)	(26,581)	(34,558)
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	26,292	30,317
Employer's pensions contributions and direct payments to pensioners pay-	(12,077)	(12,154)
Balance as at 31 March	**277,698**	**261,303**

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.

	2017/18 £'000	2018/19 £'000
Balance as at 1 April	**752**	**1,861**
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	1,109	(4,031)
Balance as at 31 March	**1,861**	**(2,170)**

The balance of £2.170m shown above consists of the following component parts:

	2017/18 £'000	2018/19 £'000
Medway Council Tax Surplus	2,100	(3,130)
Medway Non-Domestic Rate Deficit	(3,961)	960
Balance as at 31 March	**(1,861)**	**(2,170)**

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.

	£'000	£'000	£'000
Balance as at 1 April	**2,083**		**1,873**
Settlement or cancellation of accrual made at the end of the preceding year	(2,083)	(1,873)	0
Amounts accrued at the end of the current year	1,873	1,766	0
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the	(210)	0	(107)
Balance as at 31 March	**1,873**	**0**	**1,766**

Available for Sale Financial Instrument 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 are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

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

	2017/18 £'000	2018/19 £'000
Balance as at 1 April	**221**	**691**
Revaluations - Other	**470**	**0**
Transfer of Available for Sale Reserve opening balance to Financial Instruments Revaluation Reserve under IFRS 9	0	(691)
Balance as at 31 March	**691**	**0**

Note 36. Defined Benefit Pension Schemes

Accounting Policy - Post-employment benefits

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

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

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

- The liabilities of the Kent pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.55%
- The change in the net pension liability is analysed into the following components:
- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the Business Support Department.
  - net interest on the net defined benefit liability/asset, i.e. net interest expense for the Authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments.

Remeasurements comprising:

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

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

Discretionary Benefits

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

Participation in Pension Schemes

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

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

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

Note 36. Defined Benefit Pension Schemes (continued)

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

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

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. On the Employer's withdrawal from the plan, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

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

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

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

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

Transactions relating to post Employment Benefits

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

	2017/18 £'000	2018/19 £'000
Comprehensive Income and Expenditure Statement		
Cost of Services		
Service cost comprising:		
● Current service costs	23,894	22,536
● Past service costs	416	669
● (gain)/loss from settlements	(6,103)	(78)
Financing and Investment Income and Expenditure		
Net Interest expense	7,837	6,934
Administration expenses	248	256
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services	**26,292**	**30,317**
Remeasurement of the net defined benefit liability comprising:		
● Return on plan assets in excess of interest	(3,313)	(26,728)
● Actuarial gains and losses arising on changes in demographic assumptions	0	(45,720)
● Actuarial gains and losses arising on changes in financial assumptions	(23,268)	37,890
Total Remeasurements Recognised in Other Comprehensive Income	**(26,581)**	**(34,558)**
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**(289)**	**(4,241)**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	26,292	30,317
Actual amount charged against the General Fund Balance for pensions		
Employers' contributions payable to scheme	12,077	12,154

Note 36. Defined Benefit Pension Schemes (continued)

Pensions Assets and Liabilities Recognised in the balance sheet

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

	Local Government Pension Scheme	
	31 March 2018 £'000	31 March 2019 £'000
Present value of the defined benefit obligation	(783,386)	(801,956)
Fair value of plan assets	512,072	546,522
Sub-total	(271,314)	(255,434)
Present value of unfunded obligation	(6,384)	(5,869)
Net liability arising from defined benefit obligation	**(277,698)**	**(261,303)**

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

	Local Government Pension Scheme	
	31 March 2018 £'000	31 March 2019 £'000
Opening fair value of scheme assets	502,641	512,072
Interest income	13,932	12,995
Remeasurement gain/(loss):		
● The return on plan assets, excluding the amount included in the net interest expense	3,313	26,728
Administration expenses	(248)	(256)
Contributions from employer including unfunded	12,077	12,154
Contributions from employees into the scheme	3,959	3,914
Benefits paid	(16,882)	(20,980)
Settlement prices received/(paid)	(6,720)	(105)
Closing fair value of scheme assets	**512,072**	**546,522**

Note 36. Defined Benefit Pension Schemes (continued)

Reconciliation of Present Value Scheme Liabilities (Defined Benefit Obligation)

	Funded Liabilities: Local Government Pension Scheme	
	2017/18 £'000	2018/19 £'000
Opening balance at 1 April	**792,705**	**789,770**
Current service cost	23,894	22,536
Interest cost	21,769	19,929
Contributions from scheme participants	3,959	3,914
Remeasurement (gains)/losses:		
● Actuarial gains and losses arising on changes in demographic assumptions	0	(45,720)
● Actuarial gains and losses arising on changes in financial assumptions	(23,268)	37,890
● Experience loss/(gain) on defined benefit obligation	0	0
● Other	0	0
Past service cost	0	0
Losses/(gains) on curtailment (where relevant)	0	0
Liabilities extinguished on settlements	(12,823)	(183)
Estimated benefits paid net of transfers in	(16,399)	(20,504)
Past service cost, including curtailments	416	669
Unfunded pension payments	(483)	(476)
Closing balance at 31 March	**789,770**	**807,825**

Note 36. Defined Benefit Pension Schemes (continued)

Local Government Pension Scheme assets comprised:

	Period Ended 31 March 2018				Period Ended 31 March 2019			
	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total £'000	Percentage of total asset %	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total £'000	Percentage of total asset %
Equities	329,116	0	329,116	64.27%	361,033	0	361,033	66.06%
Fixed Interest Government Securities	3,917	0	3,917	0.76%	3,607	0	3607	0.66%
Corporate Bonds	48,960	0	48,960	9.56%	49,788	0	49,788	9.11%
Property	0	64,385	64,385	12.57%	0	65,638	65,638	12.01%
Others:								
Cash	0	16,969	16,969	3.31%	0	9,509	9,509	1.74%
Private Equity	0	7,263	7,263	1.42%	0	4,099	4,099	0.75%
Infrastructure	0	5,326	5,326	1.04%	0	(547)	(547)	(0.10%)
Absolute Return Portfolio	36,136	0	36,136	7.06%	43,230	0	43,230	7.91%
Derivatives	0	0	0	0.00%	0	10,165	10,165	1.86%
Total assets	**418,129**	**93,943**	**512,072**	**100.00%**	**457,658**	**88,864**	**546,522**	**100.00%**

The funds Actuaries have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2019 is likely to be different from that shown due to estimation techniques.

Basis for estimating Assets, liabilities and Assumptions

The principal assumptions used by the actuary have been:

To assess the value of the Employer's liabilities at 31 March 2019, the actuary has rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2016 using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2019 without completing a full valuation.

However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2019 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 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 2016 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and our Employees.

Note 36. Defined Benefit Pension Schemes (continued)

Medway Council participates in a pool with other employers in order to share experience of risks they are exposed to in the Fund. At the 2016 valuation, the deficit for the whole pool was calculated and allocated to each employer in proportion to their value of liabilities. The next reallocation will be carried out at the 2019 valuation, should the Employer remain in the pool. Each employer within the pool pays a contribution rate based on the cost of benefits of combined membership of the pool.

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 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 95% for males and 95% for females. These base tables are then projected using the CMI 2018 Model, allowing for a long term rate of improvement of 1.5% per annum.

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation’s model, CMI_2018, which was released in March 2019. They have adopted the default smoothing parameter of 7.0 and have not applied an additional initial rate, while continuing to adopt a long term improvement rate of 1.5% p.a. At the last accounting date, the CMI_2015 Model was adopted.

The assumed life expectations from age 65:

Life Expectancy from age 65 (years)	Local Government Pension Scheme	
	31 March 2018	31 March 2019
Mortality assumptions:		
Longevity at 65 for current pensioners		
• Men	23.0	23.1
• Women	25.0	25.2
Longevity at 65 for future pensioners		
• Men	25.1	25.3
• Women	27.4	27.5

Further assumptions are:

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

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

	Local Government Pension Scheme	
	31 March 2018	31 March 2019
Rate of increase in salaries	3.80%	3.90%
Rate of increase in pensions	2.30%	2.40%
Rate for discounting scheme liabilities	2.55%	2.40%

These assumptions are set with the reference to market conditions at 31 March 2019.

The actuary's estimate of the duration of the Employer's liabilities is 20 years.

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

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

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.4% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts and is consistent with the approach used at the previous accounting date.

Note 36. Defined Benefit Pension Schemes (continued)

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table below. remain constant.

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

Sensitivity Analysis	£000's	£000's	£000's
Adjustment to discount rate	**0.10%**	**0.00%**	**(0.10%)**
Present Value of Total obligation	792,537	807,825	823,423
Projected Service Cost	21,949	22,495	23,055
Adjustment to long term salary increase	**0.10%**	**0.00%**	**(0.10%)**
Present Value of Total obligation	809,077	807,825	806,582
Projected Service Cost	22,495	22,495	22,495
Adjustment to pension increases and deferred revaluation	**0.10%**	**0.00%**	**(0.10%)**
Present Value of Total obligation	822,155	807,825	793,765
Projected Service Cost	23,055	22,495	21,948
Adjustment to life expectation assumption	**+ 1 Year**	**None**	**-1 Year**
Present Value of Total obligation	836,801	807,825	779,855
Projected Service Cost	23,267	22,495	21,748

The Authority anticipates that it will pay £11.064m expected contributions to the scheme in 2019/20.

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.

McCloud / Sargeant Ruling on Pension Account Disclosures

Two successful employment tribunal cases were brought against the Government in relation to discrimination on reforms to public sector pensions in 2015.

The impact of the results of these cases has yet to be determined within the confines of the LGPS. At the suggestion of both the Government Actuaries Department (GAD), the Ministry of Housing, Communities and Local Government (MHCLG) and our External Auditors, Grant Thornton, we asked the Funds Actuaries, Barnett Waddingham to undertake a review on whether the ruling would have a material impact on the figures shown within this note. They have concluded that any impact would not be of a material nature. The Council has not therefore restated any of the details supplied within the year end assessment.

Guaranteed Minimum Pension (GMP) Equalisation

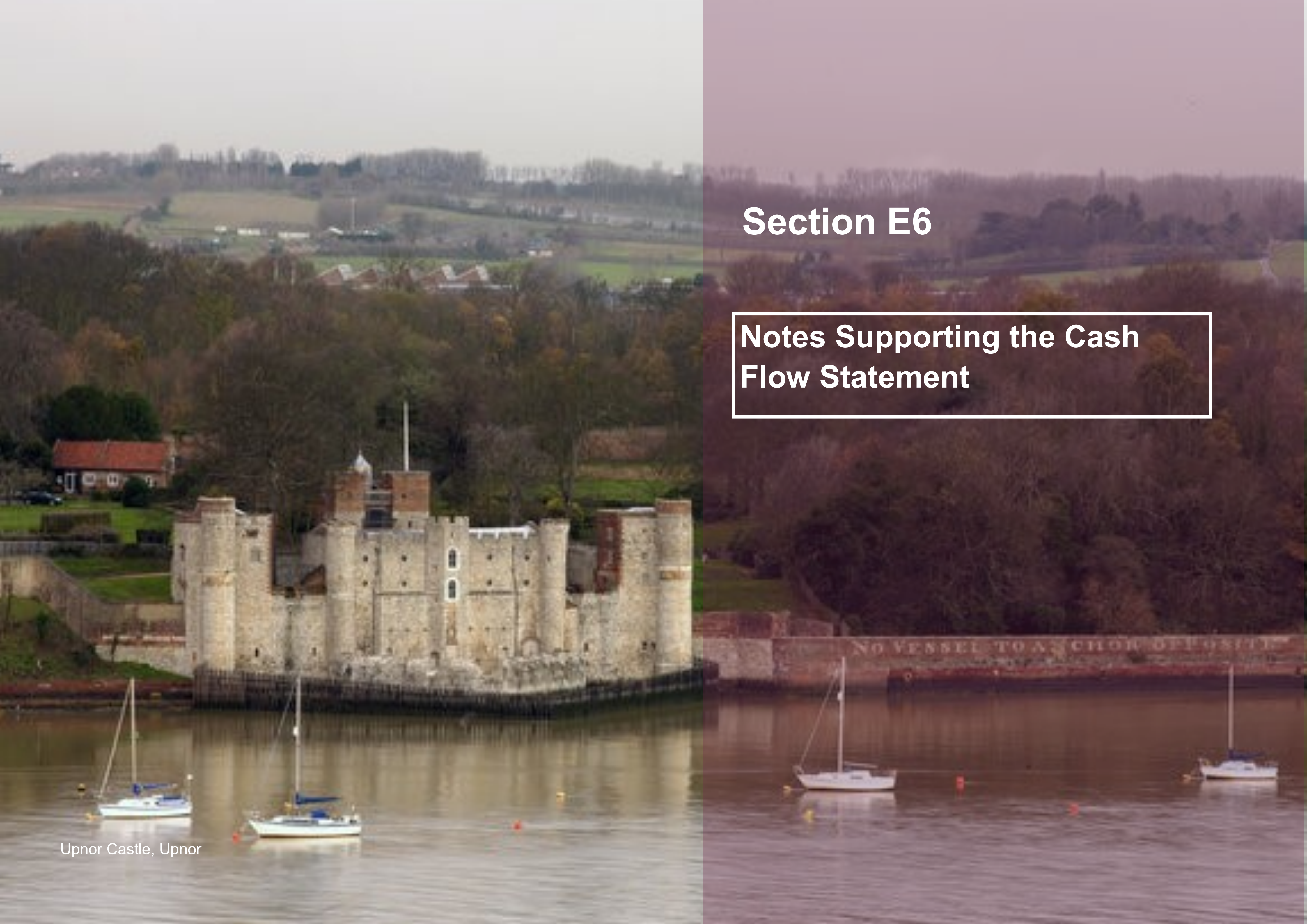
As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here.

On 22 January 2018, the Government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016.

Our actuaries valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, they have assumed that the Fund will be required to pay the entire inflationary increase. Therefore they do not believe there is a need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Section E6

Notes Supporting the Cash Flow Statement



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37. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2017/18 £'000	2018/19 £'000
Interest received	(244)	(167)
Interest paid	8,590	8,832
Dividends received	(731)	(1,190)

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

	2017/18 £'000	2018/19 £'000
Depreciation	(33,766)	(21,007)
Impairment and downward revaluations	7,343	(9,486)
Increase in valuation of inventories	0	2,139
(Increase) / decrease in creditors	(4,780)	13,720
Increase / (decrease) in debtors/Impairment for Bad Debts	16,765	13,438
Increase / (decrease) in inventories	20	(39)
Movement in pension liability	(14,215)	(18,163)
Contributions (to)/from Provisions	(1,859)	(5,847)
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(43,502)	(8,078)
Other non-cash items charged to the net surplus or deficit on the provision of	(1,170)	0
	(75,164)	**(33,323)**

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

	2017/18 £'000	2018/19 £'000
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	0	0
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,610	2,254
Any other items for which the cash effects are investing or financing cash flows	17,416	0
	20,026	**2,254**

38. Cash Flow Statement - Investing Activities

	2017/18 £'000	2018/19 £'000
Purchase of property, plant and equipment, investment property and intangible assets	25,026	36,655
Purchase of short-term and long-term investments	19,999	6,922
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible	(2,611)	(2,254)
Proceeds from short-term and long-term investments	(4,513)	(5,000)
Other receipts from investing activities	(17,118)	0
Net cash flows from investing activities	**20,783**	**36,323**

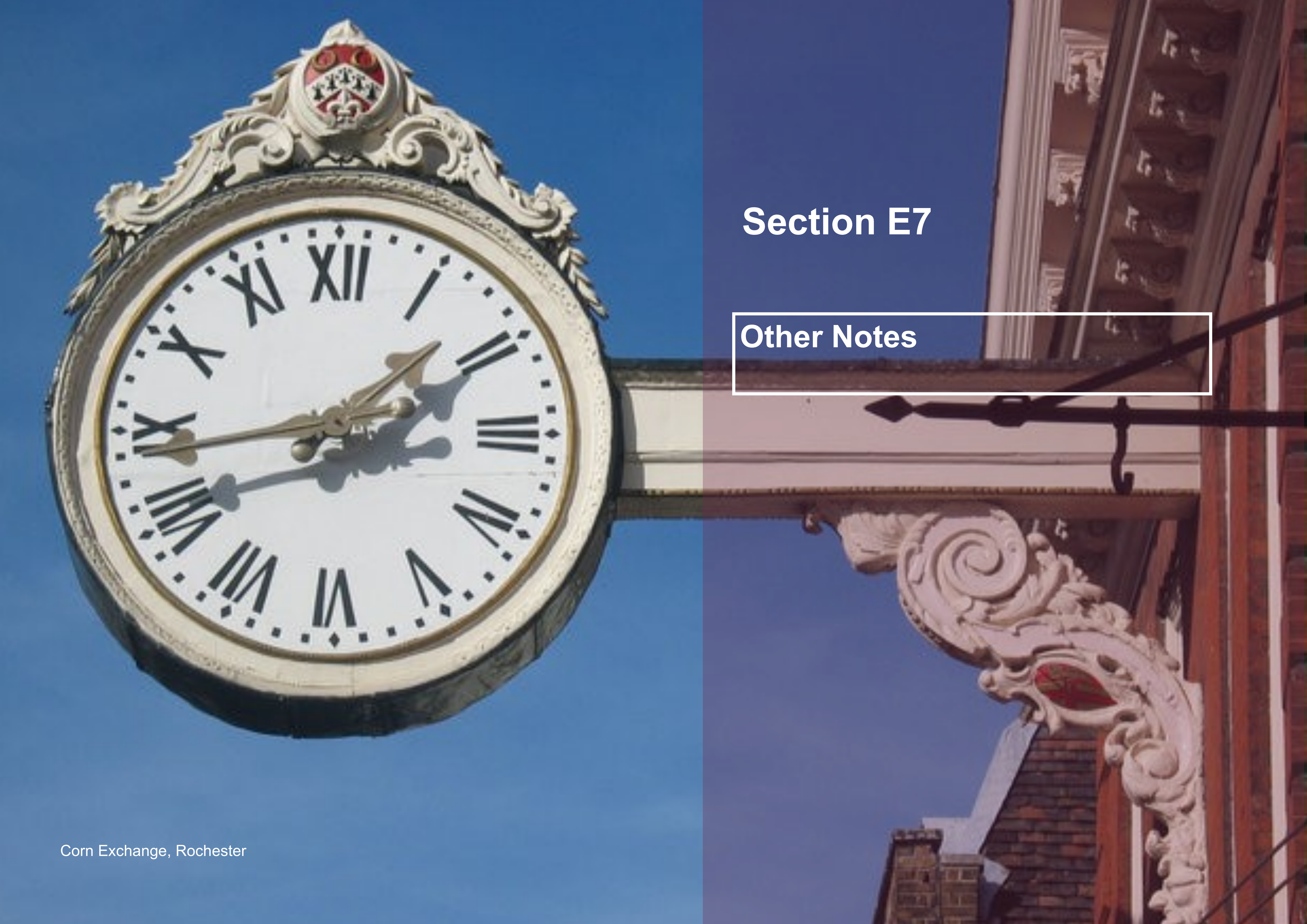
39. Cash Flow Statement - Financing Activities

	2017/18 £'000	2018/19 £'000
Cash receipts of short- and long-term borrowing	(32,655)	(40,573)
Other receipts from financing activities	(30)	0
Cash payments for the reduction of outstanding liabilities relating to finance leases	0	0
Repayments of short- and long-term borrowing	110	27,284
Other payments for financing activities	0	0
Net cash flows from financing activities	**(32,575)**	**(13,289)**

40. Record of Liabilities from Financing Activities

	1 April 2018	Financing cash flows	Non-cash changes		31 March 2019
			Acquisition	Other non-cash changes	
	£'000	£'000	£'000	£'000	£'000
Long-term borrowings	171,288	40,573			211,861
Short-term borrowings	68,941	(27,285)			41,656
● Lease liabilities	63,168	0	0	0	63,168
Total liabilities from financing activities	**303,397**	**13,288**	**0**	**0**	**316,685**

	1 April 2017	Financing cash flows	Non-cash changes		31 March 2018
			Acquisition	Other non-cash changes	
	£'000	£'000	£'000	£'000	£'000
Long-term borrowings	171,398	(110)			171,288
Short-term borrowings	36,286	32,655			68,941
● Lease liabilities	0	0	63,168	0	63,168
Total liabilities from financing activities	**207,684**	**32,545**	**63,168**	**0**	**303,397**



Section E7

Other Notes

Corn Exchange, Rochester

Note 41. Related Parties

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

Central Government

Central government has significant influence over the general operations of the Authority—it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 11. Grant receipts outstanding at 31 March 2019 are shown in Note 17.

Members

Members of the council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 13.

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

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

Sunlight Development Trust is a community owned organisation that works with partners across all Sectors. Its overriding aim is to improve health, inequality and well-being. One member is Chair of the Trustees. The Authority made payments to the Trust amounting to £62k during 2018/19 (2017/18 £56k).

A family member of a Councillor runs a business to which the Council made payments of £12k in 2018/19 (£5k in 2017/18) of which £2k was outstanding as at 31 March 2019 (£2k as at 31 March 2018).

The committees of Parkwood Youth Centre, Strood Youth Centre and Woodlands Youth Centre are controlled by various Council members. In 2018-19 the Council had transactions with these bodies of £41k of which £20k was outstanding at 31 March 2019.

Officers

The Chief Executive is a Council member of The University of Kent Governing Body. Payments of £16k were made by the University to the Council in 2018/19 (£0 in 2017/18). Payments to the University from the Council totalled £47k in 2018/19 (£47k in 2017/18). At 31 March 2019 the University was owed £27k (31 March 2018 £0).

The Chief Executive is also a Governor of Mid Kent College. Payments were made to Mid Kent College of £165k during 2018/19 (£470k in 2017/18). Mid Kent College made payments to the Council of £7k in 2018/19 (£8k in 2017/18) of which £0 was outstanding at 31 March 2019 (£6k as at 31 March 2018).

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

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

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

Entities controlled or significantly influenced by the Authority

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

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

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

Note 41. Related Parties (continued)

Medway Council appoints 2 directors to the Boards of Medway Norse and Medway Norse Transport. The Council made payments of £13.362m to Medway Norse/Medway Norse Transport in 2018/19 (£13.743m 2017/18) and owed them £1.697m as at 31 March 2019 (£0.847m as at 31 March 2018). The total value of transactions to the Council from these companies was £0.297m in 2018/19 (£0.362m in 2017/18) and owed £0 as at 31 March 2019 (31 March 2018: £61k).

Medway Council currently has two subsidiary companies; Medway Commercial Group Limited (MCG) and Medway Development Company Limited (MDC). As at 31 March 2019, two of the four Directors on the Board of MCG were appointed by Medway Council; an elected Cabinet Member and a senior officer. As at the same date, two of the four Directors on the Board of MDC were elected Cabinet Members of Medway Council.

MCG has two subsidiary companies; Medway Commercial Services (MCS) established to trade with the private sector and Medway Public Services (MPS) to trade with the public sector. The group provides CCTV, Telecare, Out of Hours and lone worker solutions, trades services with schools including cleaning and catering, energy and ICT services, and provides temporary, contract and interim staffing for Medway Council. The balance on loans given to MCG as at 31 March 2019 amount to £350k (£350k in 2017/18)

The Council made payments of £11.977m to MCG in relation to MPS in 2018/19 (£3.761m in 2017/18) and owed them £230k as at 31 March 2019 (£45k as at 31 March 2018). The Council had also made payments of £267k in 2017/18 to MCG in respect of CCTV operations, this service was subsequently provided by MPS and no payments have been made directly to MCG in 2018/19. The total value of transactions to the Council from MCG was £1.237m in 2018/19 (£451k in 2017/18) and they owed £3.801m as at 31 March 2019 (£617k as at 31 March 2018).

MDC was established to provide consultancy, predominantly to the Council, to turn land assets into viable residential schemes delivering regeneration and investment returns. The Council has agreed £120million of investment over the first five years of the company with twelve sites identified. The balance on loans given to MDC as at 31 March 2019 amount to £27k (£27k in 2017/18).

The Council made payments of £44k to MPS in 2018/19 and had no outstanding balance as at 31 March 2019 . MDC made purchases from the Council of £6k during 2018/19 of which £3k was owing at 31 March 2019. There were no transactions between Medway Council and MDC in 2017/18.

Note 42. Contingent Liabilities

Accounting Policy - Contingent Liabilities

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

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

Note 43. Events after Reporting Period

Accounting Policy - Events after the Reporting Period

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

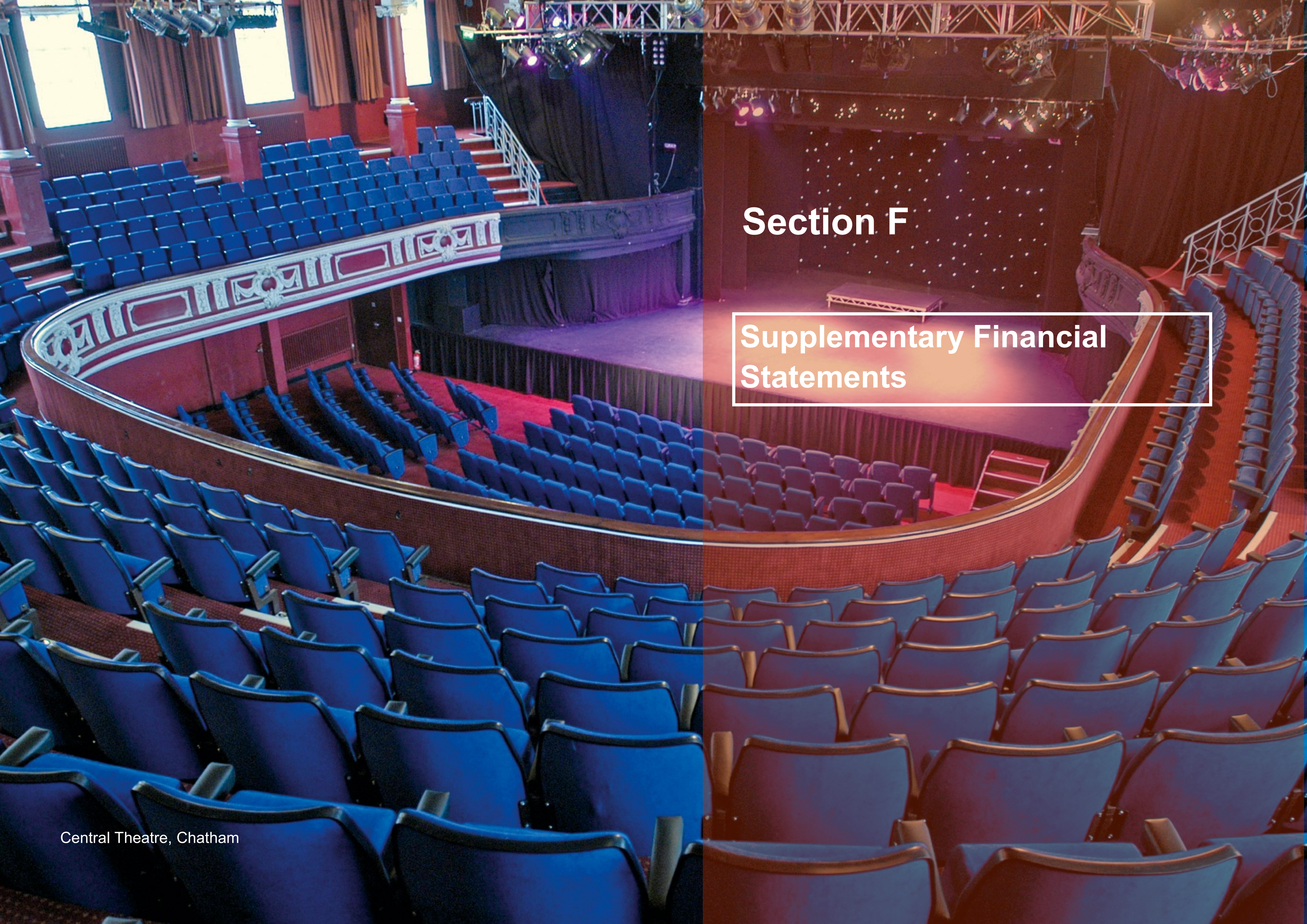
- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events,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

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

There have been no events between 31 March 2019 and the issuing of this Statement of Accounts which have a significant bearing on the financial results year or the financial position presented in the Balance Sheet.

Section F

Supplementary Financial Statements



Central Theatre, Chatham

The Collection Fund Statement

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

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

The Business Rates scheme allows the Authority to retain a proportion of the total rates received. In 2018/19 Medway was part of a 100% Business Rate pilot and part of a pooling arrangement with other councils in Kent. Through this pilot, Medway's share of Business Rates increased to 99%, with 1% being due to the Kent Fire and Rescue Service.

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

Year Ended 31 March 2018				Collection Fund Notes	Year Ended 31 March 2019		
Business Rates	Council Tax	Total			Business Rates	Council Tax	Total
£'000	£'000	£'000			£'000	£'000	£'000
			Amounts required by statute to be credited to the Collection Fund				
	(129,013)	(129,013)	Council Tax	1		(138,161)	(138,161)
(98,303)		(98,303)	Non-Domestic Rates	2	(89,808)		(89,808)
(98,303)	**(129,013)**	**(227,316)**	**Total Amount required by statute to be credited to the Collection Fund**		(89,808)	(138,161)	**(227,969)**
			Amounts required by statute to be debited to the Collection Fund				
			Precepts and demands from major preceptors and the Authority				
41,015	106,556	147,571	- Medway Council		85,722	115,118	200,840
	12,866	12,866	- Police and Crime Commissioner for Kent (PCCK)			14,113	14,113
837	6,005	6,842	- Kent Fire and Rescue Service (KFRS)		866	6,300	7,166
			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:				
41,852		41,852	- payment to Central Government		0		0
273		273	- costs of collection		269		269
			enterprize zone growth disregard		34		
7,694		7,694	- transitional protection		1,621		1,621
			Impairment of debts/appeals				
0	0	0	- write-offs of uncollectable amounts	3	0	0	0
1,636	1,507	3,143	- allowance for impairment		610	(61)	549
12,017		12,017	– Increase/Decrease in Provision for appeals		(1,207)		(1,207)
(3,095)	1,122	(1,973)	Transfer of Collection Fund surplus/(deficit)		(2,228)	1,416	(812)
102,229	**128,056**	**230,285**	**Total Amount required by statute to be debited to the Collection Fund**		**85,687**	**136,886**	**222,539**
4,155	**(1,515)**	**2,640**	**Opening fund balance**		**8,081**	**(2,472)**	**5,609**
8,081	**(2,472)**	**5,609**	**Closing Fund Balance**		**3,960**	**(3,747)**	**179**
3,926	**(957)**	**2,969**	**Movement on fund balance**		**(4,121)**	**(1,275)**	**(5,430)**
			Allocation of Closing Deficit/(Surplus)				
3,960	(2,100)	1,860	Medway Council		994	(3,130)	(2,136)
	(255)	(255)	Police and Crime Commissioner for Kent			(446)	(446)
81	(117)	(36)	Kent Fire and Rescue Service		40	(171)	(131)
4,040		4,040	Central Government		2,926		2,926
8,081	**(2,472)**	**5,609**			**3,960**	**(3,747)**	**213**

Notes to the Collection Fund Account

1 Council Tax

Council Tax derives from charges raised according to the value of residual properties, which have been classified in 8 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and major preceptors for the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of band D dwellings).

The Council Tax Base for 2018/19 was 83,435.21 (81,969.00 in 2017/18). The tax base for 2018/19 was approved by the Portfolio Holder for Finance on 29 January 2018 and was calculated as follows:

Band	Chargeable Dwellings	Ratio 9ths	Band D Equivalent Gross	Exemptions & Discounts	Band D Equivalent Net
A	11,162	6	7,441	1,361	6,079.60
B	38,124	7	29,652	3,256	26,396.00
C	33,653	8	29,914	2,562	27,352.31
D	17,469	9	17,469	1,266	16,203.28
E	8,916	11	10,897	734	10,162.80
F	3,834	13	5,538	244	5,294.08
G	1,389	15	2,315	102	2,212.78
H	66	18	132	53	78.80
Total	**114,613**		**103,358**	**9,578**	**93,779.65**
Council Tax Support					(8,598.81)
Sub Total					85,180.84
Allowance for Non Collection (2.4%)					(2,044.34)
Sub Total					83,136.50
Crown Contribution					298.71
Tax Base for the Calculation of Council Tax 2018/19					**83,435.21**
Tax Base for the Calculation of Council Tax 2017/18					**81,869.00**

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%.

In 2018/19 Medway was part of a 100% business rate pilot and part of a pooling arrangement with other councils in Kent. Medway's share of business rates increased to 99%, with 1% being due to Kent Fire and rescue Service. The arrangement terminated on 31 March 2019.

The business rates shares payable for 2018/19 were estimated before the start of the financial year as £nil to Central Government, £0.9m to KFRS and £85.7m to Medway Council. These sums have been paid in 2018/19 and charged to the collection fund in that year.

The total income from business rate payers collected in 2018/19 was £89.8m (£98.3m 2017/18).

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 2019. As such, authorities are required to make provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. The reduction in provision charged to the collection fund for 2018/19 was £1.2m (£2.3m increase for 2017/18).

For 2018/19, the total non-domestic rateable value at the year-end is £231.8m (£227.2m in 2017/18). The national multipliers for 2018/19 were 48.0p for qualifying Small Business, and the standard multiplier being 49.3p for all other businesses (46.6p and 47.9p respectively in 2017/18).

3 Impairment of Debts/Appeals

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

2017/18 £000s			2018/19 £000s	
Collection Fund	Medway Share		Collection Fund	Medway Share
2,878	**2,445**	**Balance at 1 April**	**3,978**	**3,378**
(407)	(344)	Write-offs during year	(706)	(627)
1,507	1,277	Contributions to provisions during year	(61)	(54)
1,100	**933**	**Net Increase/(decrease) in Provisions**	**(767)**	**(681)**
3,978	**3,378**	**Balance at 31 March**	**3,211**	**2,697**

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

2017/18 £000s			2018/19 £000s	
Collection	Medway		Collection	Medway
2,924	**1,433**	**Balance at 1 April**	**3,937**	**1,930**
		Amendment due to Pooling		**1,968**
(623)	(305)	Write-offs during year	(2,128)	(2,107)
1,636	802	Contributions to provisions during year	609	603
0	0	Provisions utilised during the year	0	0
1,013	**497**	**Net Increase/decrease in Provisions**	**(1,519)**	**464**
3,937	**1,930**	**Balance at 31 March**	**2,418**	**2,394**

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 2019. This is the sixth year of the provision.

2017/18 £000s			2018/19 £000s	
12,092	**5,925**	**Balance at 1 April**	**14,367**	**7,040**
		Amendment due to Pooling		**7,182**
12,017	5,889	Contributions to provisions during	4,248	4,206
(9,742)	(4,774)	Provisions utilised during the year	(5,455)	(5,400)
2,275	**1,115**	**Net Increase/(decrease) in**	**(1,207)**	**5,988**
14,367	**7,040**	**Balance at 31 March**	**13,160**	**13,028**

Housing Revenue Account

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

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

· the HRA Income and Expenditure Statement

· the Movement on the HRA Statement

As the Movement on the HRA Statement incorporates the surplus or deficit on the HRA Income and Expenditure Statement, it effectively meets the statutory requirement to include the HRA as a single statement in the Statement of Accounts. The net movement will reconcile to the statutory outturn for the HRA, even though some of the gross transactions posted to the two statements will not have been specified in the statutory arrangements.

Income and Expenditure Statement

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

2017/18 £'000		HRA Notes	2018/19 £'000
	Expenditure		
2,762	Repairs & maintenance		3,163
3,544	Supervision and management		3,736
166	Rents, rates, taxes and other charges		158
(2,779)	Depreciation, impairment and revaluation movements of non-current assets	3	1,319
135	Revenue Expenditure Funded from Capital Under Statute	4	169
75	Debt management costs		73
28	Movement in the allowance for bad debts	6	57
3,931	**Total Expenditure**		**8,675**
	Income		
(12,934)	Dwelling rents		(12,739)
(176)	Non-dwelling rents		(193)
(1,267)	Charges for services and facilities		(1,359)
(28)	Contributions towards expenditure		(14)
(7)	Reimbursement of Costs		(37)
(14,412)	**Total Income**		**(14,342)**
(10,481)	**Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(5,666)**
99	HRA services share of Corporate and Democratic Core		99
(94)	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services		10
(10,477)	**Net Expenditure/(Income) for Housing Revenue Account Services**		**(5,558)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
(577)	(Gain) or loss on sale of HRA non-current assets		(505)
2,063	Interest payable and similar charges		2,063
(43)	Interest and investment income		(57)
130	Net interest on the net defined benefit liability (asset)		113
(8,904)	**Deficit/(Surplus) for the year on Housing Revenue Account Services**		**(3,943)**

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.

2017/18 £'000		2018/19 £'000
(3,618)	**Balance on the HRA at the end of the previous reporting period**	**(4,911)**
(8,904)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	(3,943)
7,611	Adjustments between accounting basis and funding basis under statute (HRA Note 1)	2,551
(1,293)	**Net (increase) or decrease before transfers to or from reserves**	**(1,392)**
0	Transfers to or (from) Earmarked HRA reserves	1,188
0	Transfers to or (from) GF reserves	0
(1,293)	**(Increase) or decrease in year on the HRA**	**(204)**
(4,911)	**Balance on the HRA at the end of the current reporting period**	**(5,115)**

Notes to the Housing Revenue Account

1 Adjustments between Accounting Basis and Funding Basis under Statute

2017/18 £'000		2018/19 £'000
	ADJUSTMENTS PRIMARILY AFFECTING THE CAPITAL ADJUSTMENT ACCOUNT:	
(3,520)	Charges for depreciation and impairment of non-current assets	(3,680)
6,299	Revaluation movements on Property, Plant and Equipment	2,362
(135)	Revenue Expenditure Funded from Capital Under Statue	(169)
(712)	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	(699)
	INSERTION OF ITEMS NOT DEBITED OR CREDITED TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT:	
1,112	Capital Expenditure charged Against HRA Balances	158
	ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE:	
1,289	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,204
	ADJUSTMENTS PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE:	
3,520	Transfer from HRA to the Major Repairs Reserve	3,680
	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	(10)
	ADJUSTMENTS PRIMARLY INVOLVING THE PENSIONS RESERVE:	
(432)	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(492)
201	Employer's pension contributions and direct payments to pensioners payable in the year	199
	ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT:	
1	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1)
7,611	**TOTAL ADJUSTMENTS**	**2,551**

2 Stock

Rentable Dwelling Stock

The Council managed 3,005 rentable dwellings as at 31 March 2019. The movement in stock is analysed as follows:

Stock Type	1 April 2018	Adjustments	Additions	Disposals	31 March 2019
Houses	1,267	0	0	(8)	1,259
Flats	1,252	0	0	(2)	1,250
Maisonettes	214	0	0	(1)	213
Bungalows	283	0	0	0	283
Total	**3,016**	**0**	**0**	**(11)**	**3,005**

Non-Rentable Dwelling Stock

The Council owned one non-rentable dwelling as at 31 March 2019.

Stock Type	1 April 2018	Adjustments	Additions	Disposals	31 March 2019
Flats	0	0	1	0	1
Total	**0**	**0**	**1**	**0**	**1**

Non-Dwelling Stock

The Council owned 863 non dwellings as at 31 March 2019. The movement in stock is analysed as follows:

Stock Type	1 April 2018	Adjustments	Additions	Disposals	31 March 2019
Garages	393	(12)	0	0	381
Garages with water	183	1	0	0	184
Carports	78	0	0	0	78
Carspaces	194	0	0	0	194
Underground carspaces	26	0	0	0	26
Commercial Property	0	0	0	0	0
Total	**874**	**(11)**	**0**	**0**	**863**

3 Non-Current Assets

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' based upon beacon values and then reduced to reflect 'existing use for social housing'. This value is included within the Balance Sheet. The vacant possession value at 1 April 2018 was £499.6m. The 'discounted' existing use value reflects the economic cost to government of providing council housing at less than market rents.

Movements on Balances 2018/19	Dwellings	Other Land and Buildings	Assets Under Construction	Total
	£'000	£'000	£'000	£'000
Cost or valuation 1 April 2018	164,877	3,933	0	168,810
Assets Under Construction brought into use	0	0	0	0
Additions	3,403	30	169	3,602
Donations	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	250	(29)	0	221
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(745)	0	0	(745)
Derecognition – disposals	(713)	0	0	(713)
Derecognition - Surplus Assets	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0
Other movements in cost or valuation	0	0	0	0
Cost or valuation as at 31 March 2019	**167,072**	**3,934**	**169**	**171,175**
Depreciation as at 1 April 2018	2	(2)	0	(0)
Depreciation charge	(3,405)	(275)	0	(3,680)
Depreciation written out to the Revaluation Reserve	296	264	0	560
Depreciation written out to the Surplus//Deficit on the Provision of Services	3,095	12	0	3,107
Derecognition – disposals	14	0	0	14
Derecognition - Surplus Assets	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0
Other movements in depreciation and impairment	0	(2)	0	(2)
Depreciation as at 31 March 2019	**2**	**(3)**	**0**	**(1)**
Net Book Value				
As at 31 March 2018	164,879	3,931	0	168,810
As at 31 March 2019	167,074	3,931	169	171,174

Notes to the Housing Revenue Account (continued)

Movements on Balances 2017/18	Dwellings	Other Land and Buildings	Assets Under Construction	Total
	£'000	£'000	£'000	£'000
Cost or Valuation 1 April 2017	157,320	4,004	0	161,324
Assets Under Construction brought into use	0	0	0	0
Additions	4,717	44	0	4,761
Donations	0	0	0	0
Revaluation increases/(decreases) recognised in	408	(16)	0	392
Revaluation increases/(decreases) recognised in	3,088	(29)	0	3,059
Derecognition – disposals	(726)	0	0	(726)
Derecognition - Surplus Assets	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0
Other movements in cost or valuation	70	(70)	0	0
Cost or valuation as at 31 March 2018	**164,877**	**3,933**	**0**	**168,810**
Depreciation as at 1 April 2017	0	(2)	0	(2)
Depreciation charge	(3,240)	(281)	0	(3,521)
Depreciation written out to the Revaluation	0	266	0	266
Depreciation written out to the Surplus//Deficit on	3,230	11	0	3,241
Derecognition – disposals	15	0	0	15
Derecognition - Surplus Assets	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0
Other movements in depreciation and impairment	(3)	3	0	0
Depreciation as at 31 March 2018	**2**	**(2)**	**0**	**(0)**
Net Book Value				
As at 31 March 2017	157,320	4,002	0	161,322
As at 31 March 2018	164,879	3,931	0	168,810

4 Analysis of Capital Expenditure and Funding

	2017/18 £'000	2018/19 £'000
Capital Expenditure		
Dwellings	4,717	3,404
Other Land and Buildings	44	29
Assets under Construction	0	169
Revenue Expenditure Funded from Capital under Statute	135	169
Total	**4,896**	**3,771**
Funded by:		
Major Repairs Reserve	3,512	3,589
Transfer from 1-4-1 Capital Receipts Reserves	272	25
Prudential Borrowing for New House Build Programme	0	0
Revenue contributions from the HRA	1,112	158
Total Funding	**4,896**	**3,771**

The Revenue Expenditure Funded from Capital under Statute relates to:

	2017/18 £'000	2018/19 £'000
Expenditure type:		
New Build Programme-Pre Construction Expenditure	0	0
Non HRA Properties/Leaseholders Expenditure	135	169
Total	**135**	**169**

5 Summary of HRA Capital Receipts

	2017/18 £'000	2018/19 £'000
Receipts from the sale of land	(10)	(20)
Receipts from the sale of other property	0	0
Repayment of discount	0	(21)
Receipts from the sale of houses other than through the right to buy	0	0
Receipts from disposals of houses through the Right To Buy scheme	(1,279)	(1,199)
Total Capital Receipts	**(1,289)**	**(1,240)**

6 Tenant's Arrears

Tenants' Arrears at 29 March 2019 (3 April 2018 for 2017/18) were analysed as follows:

Type of Debt	2017/18 £'000	2018/19 £'000
General Stock	151	165
Former Tenancies – General Stock	301	269
Former Tenancies - Garages	0	0
Court Costs – General Stock	48	51
Former Tenancy Arrears of Current Tenants – General	38	40
Rechargeable Repairs	79	62
Total Arrears	617	587
Percentage of Gross Rents (HRA)	**4.32%**	**4.17%**

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

	2017/18 £'000	2018/19 £'000
Opening Balance	**509**	**522**
Additional Provision made during year	28	57
Add Credit write-offs	7	2
Less amounts written off	(21)	(108)
Closing Balance	**522**	**473**

Section G

Glossary

River Medway

GLOSSARY OF TERMS

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

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

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

AMORTISATION
The process of recognising the consumption of intangible assets in the Cost of Services on a systematic basis. Typically, this is done by dividing the gross cost of the asset over its useful life on a straight- line basis.

APPOINTED AUDITORS
Grant Thornton is Medway Council's appointed Auditor.

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

ASSETS UNDER CONSTRUCTION
A class of property, plant and equipment asset held at historical cost and typically representing the cost of works to date on incomplete capital projects.

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

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

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

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

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

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

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

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

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

CHURCHES, CHARITIES AND LOCAL AUTHORITIES (CCLA)
The Authority holds units in a property fund, managed by this organisation.

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

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

COMPONENTISATION
The process of analysing an asset into significant component parts where those components have different useful lives. This is required whenever the resultant depreciation charges and their impact on asset carrying amounts would make a material difference to the accounts.

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

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

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

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

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

CURRENT SERVICE COST
A system of measurement to reflect the increase in the present value of a defined benefit obligation resulting from employee service in the current period.

CURRENT VALUE
Measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date. In this section of the Code, the current value measurement bases include:
- existing use value
- existing use value – social housing (EUV–SH)
- depreciated replacement cost
- fair value

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

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

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

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

DEPRECIATED REPLACEMENT COST (DRC)
A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology, authorities should use the ‘instant build’ approach at the valuation date and the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.

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

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

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

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

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

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

EXISTING USE VALUE (EUV)
The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

EXISTING USE VALUE – SOCIAL HOUSING (EUV – SH)
The estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arm’s-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following further assumptions that:

- the property will continue to be let by a body and used for social housing
- at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor’s ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body’s requirements
- properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession
- any subsequent sale would be subject to all of the above assumptions.

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

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

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 these or group accounts for the 2018/19 Statement of Accounts, due to materiality.

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

HISTORICAL COST (HC)
Is deemed to be the carrying amount of an asset as at 1 April 2007 (ie brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

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.

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

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 exercise this option, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

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

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

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

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

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

MINIMUM REVENUE PROVISION (MRP)
MRP is the minimum amount which must be charged to an Authority’s revenue account each year and set aside as provision for credit liabilities, as required by the Local Government 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
Non-current assets held by the Authority, but not directly occupied or used in the delivery of services. Examples are investment properties, or assets that are surplus to requirements, pending sale or redevelopment.

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

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

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

PUBLIC WORKS LOAN BOARD (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, the cost of which has been charged as expenditure to the Comprehensive Income and Expenditure Statement (CIES).

REVENUE SUPPORT GRANT (RSG)
The main non-ringfenced grant from Central Government to the Authority to support revenue budgets.

SURPLUS ASSET
A class of property, plant and equipment assets which are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or assets held for sale. Surplus assets are valued at existing use value in their previous use and are subject to depreciation.

THE CODE (CIPFA ACCOUNTING CODE OF PRACTICE)
The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

TREASURY MANAGEMENT
The process of controlling the Authority's cash flow, borrowing and lending activities.

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