

**Rochester Bridge, Rochester**

# Statement of Accounts

# Medway Council | 2020/21



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# E2. Notes Supporting both the Comprehensive Income and Expenditure and the Movement in Reserves Statement



**Basin 1’, Chatham Dockyard**

# 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.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2019/20 Management Accounts** | **2019/20 Amounts Not Reported to Management/ Corporate Amounts** | **2019/20**  **Net Expenditure in the Comprehensive Income and Expenditure Statement** | **2019/20 Adjustments between the Funding and Accounting Basis  (See Note 6)** | **2019/20**  **Net Expenditure Chargeable to the General Fund and HRA Balances** | **Directorate** | **2020/21 Management Accounts** | **2020/21**  **Amounts Not Reported to Management/ Corporate Amounts** | **2020/21**  **Net Expenditure in the Comprehensive Income and Expenditure Statement** | **2020/21 Adjustments between the Funding and Accounting Basis  (See Note 6)** | **2020/21**  **Net Expenditure Chargeable to the General**  **Fund and HRA Balances** |
| **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| 9,374 | (1,227) | 8,146 | (6,500) | 1,646 | Business Support Department | 20,788 | 5,639 | 26,426 | (18,216) | 8,211 |
| 231,042 | (100,378) | 130,664 | (12,265) | 118,398 | Children's and Adults (Inc. Public Health) | 270,733 | (107,042) | 163,692 | (23,975) | 139,717 |
| 73,696 | 15,479 | 89,175 | (32,118) | 57,057 | Regeneration, Community, Environment and Transformation | 87,024 | 3,679 | 90,704 | (22,375) | 68,329 |
| (658) | 3,319 | 2,661 | (4,508) | (1,847) | Housing Revenue Account | (365) | 7,404 | 7,038 | (7,947) | (909) |
| **313,453** | **(82,806)** | **230,647** | **(55,392)** | **175,255** | **Net Cost of Services** | **378,180** | **(90,320)** | **287,860** | **(72,513)** | **215,347** |
| 7,122 | (196,145) | (189,023) | 9,246 | (179,777) | Other operating income and expenditure | 7,644 | (241,309) | (233,665) | (25,269) | (258,933) |
| **320,575** | **(278,951)** | **41,624** | **(46,145)** | **(4,522)** | **(Surplus) or Deficit** | **385,824** | **(331,629)** | **54,195** | **(97,781)** | **(43,586)** |
|  |  |  |  | (28,334) | Opening General Fund and HRA Balance |  |  |  |  | (32,856) |
|  |  |  |  | 0 | Reporting of schools budget deficit to new adjustment account at 1 April 2020 ¹ |  |  |  |  | (9,346) |
|  |  |  |  | (4,522) | Add Surplus on General Fund and HRA Balance in Year |  |  |  |  | (43,586) |
|  |  |  |  | **(32,856)** | **Closing General Fund and HRA Balance ² [[1]](#footnote-2)** |  |  |  |  | **(85,788)** |

# Note 5. Expenditure and Funding Analysis (continued)

## Management Accounts

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

## Amounts Not Reported to Management/Corporate Amounts

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

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

## Other Operating Income & Expenditure:

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

# Note 6. Note to Expenditure and Funding Analysis

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Adjustments between Funding and Accounting Basis** |  |  |  |  |  | **2020/21** |
| **Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts** | **Adjustments for Capital Purposes (Note a)** | **Net change for the Pensions Adjustments (Note b)** | **Other Statutory Differences  (Note c)** | **Total Statutory Differences** | **Other  (Non-statutory) Adjustments (Note d)** | **Total Adjustments** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Business Support Department | (14,457) | (3,592) | 0 | (18,049) | (167) | (18,216) |
| Children's and Adults (Inc. Public Health) | (11,880) | (11,711) | 0 | (23,591) | (384) | (23,975) |
| Regeneration, Culture & Environment | (17,230) | (5,104) | 0 | (22,234) | (41) | (22,375) |
| Housing Revenue Account | (7,518) | (424) | 0 | (7,942) | (5) | (7,947) |
| **Net Cost of Services** | **(51,084)** | **(20,831)** | **0** | **(71,915)** | **(598)** | **(79,035)** |
| Other income and expenditure from the Expenditure and Funding Analysis | 15,441 | (6,677) | (7,313) | 1,451 | (26,720) | (25,269) |
| **Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services** | **(35,643)** | **(27,508)** | **(7,313)** | **(70,464)** | **(27,318)** | **(97,781)** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Adjustments between Funding and Accounting Basis** |  |  |  |  |  | **2019/20** |
| **Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts** | **Adjustments for Capital Purposes (Note a)** | **Net change for the Pensions Adjustments (Note b)** | **Other Statutory Differences  (Note c)** | **Total Statutory Differences** | **Other  (Non-statutory) Adjustments (Note d)** | **Total Adjustments** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Business Support Department | (1,737) | (4,769) | 0 | (6,506) | 6 | (6,500) |
| Children's and Adults (Inc. Public Health) | (6,199) | (6,295) | 0 | (12,494) | 229 | (12,265) |
| Regeneration, Culture & Environment | (28,150) | (3,942) | 0 | (32,092) | (26) | (32,118) |
| Housing Revenue Account | (4,176) | (331) | 0 | (4,508) | (0) | (4,508) |
| **Net Cost of Services** | **(40,262)** | **(15,338)** | **0** | **(55,600)** | **209** | **(55,392)** |
| Other income and expenditure from the Expenditure and Funding Analysis | 14,794 | (6,114) | (677) | 8,002 | 1,244 | 9,246 |
| **Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services** | **(25,469)** | **(21,452)** | **(677)** | **(47,598)** | **1,453** | **(46,145)** |

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

## Adjustments for Capital Purposes

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

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

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

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

## Net Change for the Pensions Adjustments

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

* For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
* For **Financing and investment income and expenditure** –- the net interest on the defined benefit liability is charged to the CIES.

## Other Statutory Adjustments

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

* For **Services** this represents Amount by which officer remuneration charged to the Comprehensive I&E account on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.
* For **Financing and investment income and expenditure** this recognises adjustments to the General Fund for the timing differences for premiums and discounts and adjustments to service segments e.g. for interest income and expenditure and changes in the fair values of investment properties.

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

## Other Non-statutory Adjustments

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

* For **Financing and investment income and expenditure** the other non-statutory adjustments column recognises adjustments to service segments, e.g. for interest income and expenditure and changes in the fair values of investment properties.
* For **Taxation and Non-Specific Grant Income and Expenditure** the other non-statutory adjustments column recognises adjustments to service segments, e.g. for unringfenced government grants.

# Note 7. Segmental Income

Income received on a segmental basis is analysed below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2019/20** | **2019/20** | **2020/21** | **2020/21** |
|  | **Income from Services** | **Revenues from Transactions with Other Operating Segments of the Council** | **Income from Services** | **Revenues from Transactions with Other Operating Segments of the Council** |
|  | **£'000** | **£'000** | **£'000** | **£'000** |
| Business Support Department | (8,687) | (17,887) | (7,938) | (29,008) |
| Children's and Adults (inc. Public Health) | (16,534) | (20,470) | (11,880) | (28,095) |
| Regeneration, Community, Environment and Transformation | (29,581) | (18,589) | (17,445) | (5,699) |
| Housing Revenue Account | (14,266) | (74) | (13,996) | (75) |
| **Total income analysed on a segmental basis** | **(69,068)** | **(57,020)** | **(51,259)** | **(62,877)** |

# Note 8. Expenditure and income Analysed by Nature

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2019/20** | **Management Accounts Business Support** | **Management Accounts Children's and Adults (Inc. Public Health)** | **Management Accounts Regeneration, Culture & Environment** | **Management Accounts Total General Fund** | **Management Accounts Housing Revenue Account** | **Total Management Accounts** | **Amounts Not Reported to Management** | **Allocation of Recharges** | **Net Cost of Services** | **Corporate Amounts** | **2020/21** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Expenditure/Income** |  |  |  |  |  |  |  |  |  |  |  |  |
| **Expenditure** |  |  |  |  |  |  |  |  |  |  |  |  |
| Employee benefits expenses | 136,593 | 17,621 | 78,781 | 23,182 | 119,584 | 1,409 | 120,993 | 21,024 | (2,672) | 139,344 | 6,677 | 146,021 |
| Other services expenses | 348,904 | 101,328 | 244,022 | 66,480 | 411,830 | 7,911 | 419,740 | (30,387) | (13,848) | 375,505 | 559 | 376,064 |
| Support service recharges | (23) | 7,565 | 8,349 | 9,526 | 25,440 | 750 | 26,191 | 0 | (25,547) | 644 | 0 | 644 |
| Depreciation, amortisation and impairment | 42,886 | 2,289 | 4,610 | 17,011 | 23,911 | 3,698 | 27,609 | 22,618 | 0 | 50,226 | (101) | 50,126 |
| Interest payments | 12,191 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 12,444 | 12,444 |
| Precepts and levies | 1,995 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,073 | 2,073 |
| Payments to Housing Capital Receipts Pool | 264 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 179 | 179 |
| Loss on the disposal of assets | 9,622 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8,174 | 8,174 |
| Pension Adjustments | 316 | 0 | 0 | 0 | 0 | 0 | 0 | 405 | 0 | 405 | 0 | 405 |
| **Total expenditure** | **552,747** | **128,802** | **335,762** | **116,200** | **580,764** | **13,768** | **594,532** | **13,659** | **(42,067)** | **566,124** | **30,005** | **596,129** |
| **Income** |  |  |  |  |  |  |  |  |  |  |  |  |
| Fees, charges and other service income | (68,430) | (36,946) | (39,975) | (23,145) | (100,065) | (14,071) | (114,137) | 27,462 | 41,129 | (45,546) | (823) | (46,369) |
| Interest and investment income | (4,390) | 0 | (16) | 0 | (16) | (62) | (78) | 62 | 0 | (16) | (3,518) | (3,534) |
| Income from council tax and non-domestic rates | (178,018) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (138,184) | (138,184) |
| Government grants and contributions | (260,285) | (71,069) | (25,038) | (6,031) | (102,137) | 0 | (102,137) | (131,503) | 938 | (232,702) | (121,144) | (353,847) |
| **Total income** | **(511,514)** | **(108,015)** | **(65,029)** | **(29,175)** | **(202,219)** | **(14,134)** | **(216,352)** | **(103,979)** | **42,067** | **(278,264)** | **(263,670)** | **(541,934)** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Surplus or Deficit on the Provision of Services** | **41,624** | **20,788** | **270,733** | **87,024** | **378,545** | **(365)** | **378,180** | **(90,320)** | **0** | **287,860** | **(233,665)** | **54,195** |



# E3. Notes Supporting the Comprehensive Income and Expenditure Statement



**Rochester Castle, Rochester**

# Note 9. Other Operating Expenditure

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2020/21** |
|  | **£'000** | **£'000** |
| Parish Council Precepts | 479 | 509 |
| Levies | 1,516 | 1,564 |
| Payment to the Government Housing Capital Receipts Pool | 264 | 179 |
| Gains/losses on disposal of non-current assets | 9,622 | 8,174 |
| **Total** | **11,881** | **10,425** |

# Note 10. Financing & Investment Income and Expenditure

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2020/21** |
|  | **£'000** | **£'000** |
| Interest payable and similar charges | 12,117 | 12,443 |
| Net interest on the net defined benefit liability (asset) | 6,114 | 6,677 |
| Gain/(Loss) on Financial Assets at Fair Value through Profit and Loss | 745 | 444 |
| Interest receivable and similar income | (3,717) | (3,411) |
| Income and expenditure in relation to investment properties and changes in their fair value | (686) | (915) |
| **Total** | **14,573** | **15,238** |

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

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2020/21** |
|  | **£000s** | **£000s** |
| Council tax income | (122,778) | (121,844) |
| Non-domestic rates income and expenditure | (55,240) | (16,340) |
| Non-ringfenced government grants | (14,692) | (98,762) |
| Capital grants and contributions | (22,767) | (22,383) |
| **Total** | **(215,476)** | **(259,328)** |

# Note 12. Pooled Budgets

## Better Care Fund (BCF)

The Council operated a Better Care Fund of £28.858m with Kent & Medway Clinical Commissioning Group under a s75 arrangement throughout 2020/21. For 2020/21 the s75 arrangement included the Council's allocation in respect of the Improved Better Care Fund and Winter Pressures Grant. The arrangements for each scheme within the Better Care Fund have been reviewed in accordance with both IFRS 11 (Joint Arrangements) and IFRS 15 (Revenue from Contracts with Customers) to determine the appropriate accounting treatment by both the Council and the Kent & Medway CCG. Control of the commissioning arrangements has been key to determining the nature of each scheme within the fund.

Within the Better Care Fund there are elements under Medway Council control, elements under CCG control and elements where there is deemed to be joint control.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Better Care Fund (BCF)** | **2019/20** | **2019/20** | **2020/21** | **2020/21** |
|  | **£'000** | **£'000** | **£'000** | **£'000** |
| **Funding provided by each partner:** |  |  |  |  |
| Medway Council  (included in the authority's Comprehensive Income & Expenditure Statement) | 9,270 |  | 9,563 |  |
| Kent & Medway CCG (included in the authority's Comprehensive Income & Expenditure Statement) | 3,983 |  | 4,654 |  |
| Kent & Medway CCG (not included in the authority's Comprehensive Income & Expenditure Statement) | 14,318 |  | 14,640 |  |
|  |  | 27,571 |  | 28,858 |
| **Expenditure paid as part of the agreement:** |  |  |  |  |
| Medway Council/Kent & Medway CCG (included in the authority's Comprehensive Income & Expenditure Statement) | 13,253 |  | 14,218 |  |
| Kent & Medway CCG (not included in the authority's Comprehensive Income & Expenditure Statement) | 14,318 |  | 14,640 |  |
|  |  | 27,571 |  | 28,858 |
| **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 12. Pooled Budgets (continued)

In 2015 the government committed to deliver a regional adoption system where adoption agencies would come together to deliver services on a larger scale and expected all Local authorities to be part of a regional adoption agency (RAA) by March 2021.

The Council entered into an RAA with Kent County and the London Borough of Bexley worth £1.857m during 2020/21. The RAA known as Adoption Partnership South East went live on 1st November 2020 with Kent County Council acting as the lead partner. Medway have only included the income and expenditure associated with their share of the partnership in our statement of accounts and not the other partners’ shares.

The RAA aims to promote early permanence planning across the region; improve the timeliness of children’s adoption journey; reduce the length of time children wait to be adopted; improve post-adoption support service to families who have adopted children from care and reduce the number of agencies that provide adoption services thereby improving efficiency and effectiveness.

The partnership agreement outlines how any surplus generated will be reimbursed or how deficits will be funded by each of the partners. A partner’s percentage share is based on the income each partner contributed to the total overall funding of the partnership. Medway's percentage is therefore 20% of any surplus or deficits generated.

2020/21 was a transitional year for the partnership and some of the planned expenditure was delayed due to Covid and the change in working arrangements such as homeworking. At their meeting in March, the partnership board agreed the surplus generated during the year would be transferred into reserves to be spent in the next financial year rather then returning the surplus to partners.

|  |  |  |  |
| --- | --- | --- | --- |
| **Regional Adoption Agency (RAA)** | **2020/21** | **2020/21** | **Notes** |
|  | **£'000** | **£'000** |  |
| **Funding provided by each partner:** |  |  |  |
| Medway Council | 417,866 |  |  |
| Kent County Council & London Borough of Bexley | 1,439,183 |  | \*2 |
|  |  | 1,857,049 |  |
| **Expenditure paid as part of the agreement:** |  |  |  |
| Medway Council | 161,677 |  |  |
| Kent County Council & London Borough of Bexley | 1,348,594 |  | \*2 |
|  |  | 1,510,271 |  |
| **Net surplus/(deficit) arising on the pooled budget during the year** |  | **346,778** |  |
| **Opening Reserve Balance** |  | 0 |  |
| Net surplus/(deficit) transferred into or (out) of the reserve. |  | 346,778 |  |
| **Closing Reserve Balance** |  | 346,778 | \*1 |
| **Authority share of the reserve balance is 20%** |  | **69,356** | \*1 |

\*1 Not shown in our reserves statement as it is held by the lead partner in trust.

\*2 not shown in our income and expenditure accounts.

# Note 13. Members Allowances

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

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2020/21** |
|  | **£000** | **£000** |
| Basic Allowance | 564 | 582 |
| Special Responsibility Allowance | 305 | 316 |
| Expenses | 5 | 1 |
| **Total** | **874** | **899** |

Medway Council is comprised of 55 Members. In 2020/21, 55 Members were entitled to claim allowances (71 in 2019/20 including 16 Councillors who served only for part of the year).

# Note 14. Officers’ Remuneration

The remuneration paid to the Authority’s senior employees during 2020/21 was as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Post** | **Salary** | **Fees and Allowances** | **Salaries, Fees and Allowances** | **Expenses** | **Compensation for Loss of Office** | **Total Excluding Pension Contribution** | **Pension Contribution** | **Total** |
|  | **£** | **£** | **£** | **£** | **£** | **£** | **£** | **£** |
| Chief Executive (Neil Davies)¹ | 145,044 | 8,030 | 153,074 | 0 | 0 | 153,074 | 26,665 | 179,739 |
| Director of People - Children & Adults² | 121,986 | 8,003 | 129,989 | 0 | 0 | 129,989 | 7,486 | 137,475 |
| Director of Regeneration, Culture & Environment and Deputy Chief Executive | 121,986 | 8,003 | 129,989 | 0 | 0 | 129,989 | 22,459 | 152,448 |
| Director of Public Health | 115,645 | 8,003 | 123,648 | 0 | 0 | 123,648 | 21,298 | 144,946 |
| Chief Finance Officer | 107,528 | 5,540 | 113,068 | 0 | 0 | 113,068 | 18,110 | 131,178 |
| Assistant Director - Adult Social Care (left 13/07/2020) | 22,495 | 1,385 | 23,880 | 0 | 0 | 23,880 | 3,787 | 27,667 |
| Assistant Director - Adult Social Care (started 02/11/2020) | 31,248 | 2,293 | 33,541 | 0 | 0 | 33,541 | 5,774 | 39,315 |
| Assistant Director - Children’s Services (started 11/05/2020) | 97,876 | 8,978 | 106,854 | 0 | 0 | 106,854 | 18,773 | 125,627 |
| Assistant Director - Education and SEND³ (started 24/08/2020) | 54,611 | 20,582 | 75,193 | 3,000 | 0 | 78,193 | 0 | 78,193 |
| Chief Legal Officer (Monitoring Officer) | 93,882 | 5,540 | 99,422 | 0 | 0 | 99,422 | 17,316 | 116,738 |
| Assistant Director - Culture and Community (started 11/01/2021) | 16,845 | 1,236 | 18,081 | 0 | 0 | 18,081 | 3,113 | 21,194 |
| Assistant Director - Front Line Services (started 11/02/2021) | 85,995 | 5,707 | 91,701 | 0 | 0 | 91,701 | 15,872 | 107,573 |
| Assistant Director - Physical and Cultural Regeneration (left 13/12/2020) | 60,821 | 4,155 | 64,976 | 0 | 0 | 64,976 | 11,232 | 76,208 |
| Assistant Director - Physical and Cultural Regeneration (started 11/02/2021) | 12,317 | 808 | 13,125 | 0 | 0 | 13,125 | 2,274 | 15,399 |

¹ During 2020/21 the hours of the Chief Executive post were reduced from five to four days a week.

² The final Pension Contribution was made in July 2020.

³ Postholder not in pension scheme.

# Note 14. Officers Remuneration (continued)

Comparative figures for 2019/20 are as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Post** | **Salary** | **Fees and Allowances** | **Salaries, Fees and Allowances** | **Expenses** | **Compensation for Loss of Office** | **Total Excluding Pension Contribution** | **Pension Contribution** | **Total** |
|  | **£** | **£** | **£** | **£** | **£** | **£** | **£** | **£** |
| Chief Executive (Neil Davies) | 161,160 | 8,781 | 169,941 | 0 | 0 | 169,941 | 29,625 | 199,566 |
| Director of People - Children & Adults | 119,594 | 7,876 | 127,470 | 77 | 0 | 127,547 | 22,019 | 149,566 |
| Director of Regeneration, Culture & Environment and Deputy Chief Executive | 119,594 | 7,876 | 127,470 | 0 | 0 | 127,470 | 22,019 | 149,489 |
| Director of Public Health | 113,377 | 7,876 | 121,253 | 49 | 0 | 121,302 | 20,881 | 142,183 |
| Assistant Director - Transformation (left 18/02/2020) ¹ | 73,940 | 4,825 | 78,766 | 0 | 0 | 78,766 | 12,637 | 91,403 |
| Chief Finance Officer | 99,828 | 5,452 | 105,280 | 158 | 0 | 105,438 | 16,699 | 122,137 |
| Deputy Director - Children & Adult Services ¹ | 38,533 | 3,170 | 41,702 | 211 | 0 | 41,913 | 7,290 | 49,203 |
| Assistant Director - Adult Social Care | 77,397 | 5,452 | 82,849 | 0 | 0 | 82,849 | 13,733 | 96,582 |
| Chief Legal Officer (Monitoring Officer) | 92,041 | 5,452 | 97,493 | 0 | 0 | 97,493 | 16,977 | 114,470 |
| Assistant Director - Physical and Cultural Regeneration | 74,552 | 5,452 | 80,004 | 83 | 0 | 80,087 | 13,776 | 93,863 |
| Assistant Director - Front Line Services | 75,195 | 7,452 | 82,647 | 0 | 0 | 82,647 | 14,809 | 97,456 |

¹ During 2019/20 the Assistant Director – Transformation and the Deputy Director - Children’s and Adults posts were deleted.

Business Change, Digital, RCE Business Intelligence, Customer and Business Support (CABS), ICT and HR transferred to the Business Support Department. Communications & Marketing remained in Regeneration, Culture & Environment.

# Note 14. Officers Remuneration (continued)

## Officers Remuneration > £50,000

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Remuneration Band** | **Schools Number of Employees 2019/20** | **Schools Number of Employees 2020/21** | **Non-Schools Number of Employees 2019/20** | **Non-Schools Number of Employees 2020/21** |
| £50,000 to £54,999 | 10 | 15 | 39 | 47 |
| £55,000 to £59,999 | 13 | 8 | 25 | 22 |
| £60,000 to £64,999 | 7 | 7 | 13 | 15 |
| £65,000 to £69,999 | 4 | 5 | 15 | 14 |
| £70,000 to £74,999 | 7 | 4 | 5 | 11 |
| £75,000 to £79,999 | 3 | 2 | 2 | 2 |
| £80,000 to £84,999 | 1 | 3 | 1 | 2 |
| £85,000 to £89,999 | 1 | 0 | 0 | 0 |
| £90,000 to £95,999 | 0 | 0 | 0 | 0 |
| £95,000 to £99,999 | 0 | 0 | 0 | 0 |
| £100,000 to £104,999 | 0 | 0 | 0 | 0 |
| £105,000 to £109,999 | 0 | 0 | 0 | 0 |
| £110,000 to £114,999 | 0 | 0 | 0 | 0 |
| £115,000 to £119,999 | 0 | 0 | 0 | 0 |
| £120,000 to £124,999 | 0 | 0 | 0 | 0 |
| £125,000 to £129,999 | 0 | 1 | 0 | 0 |
| £130,000 to £149,999 | 1 | 0 | 0 | 0 |
| £150,000 to £154,999 | 0 | 0 | 0 | 0 |
| **Total** | **47** | **45** | **100** | **113** |

# Note 14. Officers Remuneration (continued)

## Accounting Policy

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer’s employment before the normal retirement date, or an officer’s decision to accept redundancy in exchange for those benefits, and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement at either when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring, whichever is earlier.

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

# Note 14. Officers Remuneration (continued)

## Numbers 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)** | **Schools Number of compulsory redundancies 2020/21** | **Non-School Number of compulsory redundancies 2020/21** | **Total Number of compulsory redundancies 2020/21** | **Schools Number of other departures agreed 2020/21** | **Non-School Number of other departures agreed 2020/21** | **Total Number of other departures agreed 2020/21** | **Schools Total number of exit packages by cost band 2020/21** | **Non-School Total number of exit packages by cost band 2020/21** | **Total number of exit packages by cost band 2020/21** | **Schools Total cost of exit packages in each band £** | **Non-School Total cost of exit packages in each band £** | **Total cost of exit packages in each band £** |
| £0 - £20,000 | 1 | 11 | 12 | 2 | 7 | 9 | 3 | 18 | 21 | 8,459 | 164,072 | 172,531 |
| £20,001 - £40,000 | 1 | 1 | 2 | 0 | 0 | 0 | 1 | 1 | 2 | 30,278 | 32,376 | 62,655 |
| £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** | **2** | **12** | **14** | **2** | **7** | **9** | **4** | **19** | **23** | **38,737** | **196,448** | **235,186** |

The total cost of £0.235m detailed in the table above for exit packages agreed during 2020/21. An amount of £0.243m has been charged to the Authority’s Comprehensive Income and Expenditure Statement in that financial year.

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

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

# 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:

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2019/20** |
|  | **£'000** | **£'000** |
| Scale fees payable to GT with regard to external audit services carried out by the appointed auditor for the year | 110 | 110 |
| Fees payable to GT with regard to additional external audit services carried out by the appointed auditor for the year | 0 | 74 |
| Fees payable to GT for the certification of Grant Claims and other services provided by GT | 28 | 30 |
| **Total** | **138** | **213** |

The 2019/20 audit plan presented to the Councils Audit Committee in March 2020 detailed the need for an additional fee of £21k due to additional requirements placed upon audit firms by the Financial Reporting Council and additional International Financial Reporting Standards. Grant Thornton indicated that following the completion of the 2019/20 audit, the requested additional fees increased to £76.153k. A final additional fee of £73.654k was approved by the Public Sector Audit Appointments Limited (PSAA) on 01 March 2022.

For 2019/20 the interim audit findings report presented to Audit Committee in January 2023 detailed proposed additional fees (in addition to the core fee) of £80.4k. However, to date, these additional fees have yet to be finalised by Grant Thornton and agreed by both the PSAA and the Council.

# Note 16. Dedicated Schools Grant

Accounting Policy — Schools

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

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

The Council has the following types of maintained schools:

* Community
* Voluntary Aided
* Voluntary Controlled
* Foundation

## **Recognition of Schools’ Non-current Assets**

Maintained schools’ non-current assets should be recognised in the local authority financial statements in accordance with the requirements of chapter four of the Code (Non-current Assets). The area likely to be of most concern is the land and buildings from which schools operate.  
If a school obtains academy status, then all responsibilities transfer to the Academy. The only exception to this will be where the school was previously a maintained school where the Authority had a form of control over the future ability to provide a school, whereby the responsibility for the non-current assets will be transferred to the Academy by way of a long-term lease, and therefore, the present value of that lease relating to the freehold will be all that remains within the Authority’s Balance Sheet.

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

During 2019/20 the Council incurred an overspend of £5.039m on DSG funded services (£5.207m in 2019/20). After taking account of the deficit of £9.346m brought forward from 2019/20 (£4.139m brought forward from 2018/19), £16.261m was carried forward to 2021/22.Over the past few years the LA has experienced a significant growth in the number of new education health care plans issued and when combined with the extended support up to the age of 25, has created a demand on the high needs block of the DSG which outstrips the funding available. These pressures first arose in 2018/19, when the LA overspent its high needs budget by £4.139m; with the then schools finance and early years regulations at the time allowed prior year overspends to have the first call on the following years allocation to repay the overspend. In 2019/20 the LA once again overspent spent its high needs budget by £5.207m excluding the repayments of any prior year overspend, and combined with the balances on the other two block of the DSG, the total overspend on the DSG reserve as at 31 March 2020 was £9.346m.

During 2019/20 the DfE changed its reporting regulations required all LA’s with DSG deficits greater then 1% to submit a DSG recovery plan by June 2020. This plan has been discussed with its Schools Forum, Schools and the ESFA and shows the LA aims to recover this overspend over the medium term across 4 main themes.

• Commissioning of resourced places and units in mainstream schools.

• Changes to the high needs banding for top up funding rates.

• Value for money in the independent sector

• Criteria and expectations for Non-Education, Health & Care Plan (EHCP) and EHCP funding

# Note 16. Dedicated Schools Grant (continued)

Details of the deployment of DSG receivable for 2020/21 are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Central Expenditure** | **Individual Schools Budget** | **Total  2020/21** | **Total  2019/20** |
|  | **£'000** | **£'000** | **£'000** | **£'000** |
| Final DSG for 2019/20 before Academy recoupment |  |  | 250,614 | 235,717 |
| Less: Academy figure recouped for 2019/20 |  |  | (161,419) | (152,522) |
| Total DSG after Academy recoupment for 2019/20 |  |  | 89,195 | 83,195 |
| Plus: Brought forward from 2019/20 |  |  | (9,346) | (4,139) |
| Less: Carry forward to 2021/22 agreed in advance |  |  | 0 | 0 |
| Final budget distribution in 2019/20 | 3,579 | 76,270 | 79,849 | 79,055 |
| Less: Actual central expenditure | (3,970) |  | (3,970) | (3,893) |
| Less: Actual Individual Schools Budget deployed to schools |  | (92,140) | (92,140) | (84,508) |
| **Carried forward to 2021/22** | **(391)** | **(15,870)** | **(16,261)** | **(9,346)** |
| Add: Carry forward to 2021/22 agreed in advance |  |  | 0 | 0 |
| **Total carried forward to 2021/22** |  |  | **(16,261)** | **(9,346)** |

# 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.

# Note 17. Grant Income (continued)

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

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2019/20** |
|  | **£'000** | **£'000** |
| **Credited to Taxation and Non Specific Grant Income** |  |  |
| Ministry of Housing, Communities & Local Government |  |  |
| - MHCLG Other | (280) | (150) |
| - Formula Grant / Revenue Support Grant | (6,053) | (6,151) |
| - New Homes Bonus | (1,978) | (1,221) |
| - Small Business Rate Relief Grant | 0 | (11,271) |
| - Covid-19 Additional Small Business Rate Relief Grant | 0 | (26,884) |
| - Covid-19 Council Tax hardship Fund Grant | 0 | (2,056) |
| - Covid-19 Emergency Funding | (6,628) | (16,441) |
| - Covid-19 Next Steps Accommodation Fund | 0 | (234) |
| - Covid-19 Compliance and Enforcement Grant | 0 | (153) |
| - Covid-19 Supporting Clinically Extremely Vulnerable People | 0 | (809) |
| - Covid-19 Test and Trace Isolation Payment scheme (discretionary fund) | 0 | (409) |
| - Covid-19 Local Additional Restrictions Grant (discretionary grant to support businesses) | 0 | (8,046) |
| - Covid-19 Test and Trace Isolation Payment Scheme (new burdens funding) | 0 | (197) |
| - Covid-19 Local Restrictions Support Grant New Burdens Funding | 0 | (305) |
| - Covid-19 Sales Fees & Charges Income Compensation Scheme | 0 | (7,033) |
| - Covid-19 Business Support Grants Scheme | 0 | (1,858) |
| Department for Education |  |  |
| - Wellbeing for Education Return Grant | 0 | (37) |
| - Additional Dedicated Home to School and College Transport | 0 | (527) |
| - Holiday Activities & Food Programme | 0 | (112) |
| Department for Environment, Food and Rural Affairs |  |  |
| - Emergency Assistance Grant for Food & Supplies | 0 | (337) |
| Department for Work & Pensions |  |  |
| - Covid-19 Winter Grant Scheme | 0 | (780) |
| Department of Health & Social Care |  |  |
| - Covid-19 Rapid Testing Funding | 0 | (383) |
| - Covid-19 Workforce Capacity Grant | 0 | (365) |
| - Covid-19 Infection Control Fund | 0 | (4,092) |
| - Covid-19 Contain Outbreak Management Fund | 0 | (7,004) |
| - Covid-19 Practical Support Funding | 0 | (65) |
| - Covid-19 Test, track and trace fund | 0 | (1,593) |
| Department of Transport |  |  |
| - COVID 19 - Active Travel Fund Phase 1 & 2 | 0 | (215) |
| Kent & Essex Inshore Fisheries Conservation Authority |  |  |
| - Inshore Fisheries Conservation Authorities Grant | (32) | (32) |
| Recognition of Capital Grants and Contributions | (22,767) | (22,383) |
| **Total** | **(37,739)** | **(121,144)** |

# Note 17. Grant Income (continued)

|  |  |  |
| --- | --- | --- |
| **Credited to Services** |  |  |
| Cabinet Office |  |  |
| - Individual Register of Electors Grant | (1,180) | (18) |
| - Elections Grant | 0 | (91) |
| - C/Tax Data ONS New Burden Fund | 0 | (1) |
| Department for Digital, Culture, Media & Sport |  |  |
| - DCMS Other | (207) |  |
| - Cultural Strategy | (18) | (2) |
| - Guardians of the Deep | (22) | (2) |
| - Theatre 31 | 0 | (179) |
| - Soldiers on our Streets | 0 | (4) |
| - NPO Guildhall Museum | 0 | (39) |
| - Picture Medway | 0 | (2) |
| Department for Education |  |  |
| - Dedicated Schools Grant1 | (83,195) | (93,349) |
| - Pupil Premium Grant | (3,236) | (3,265) |
| - Education Funding Agency | (198) | (154) |
| - Sixth Form Grant | (611) | (560) |
| - Student Loan Company | (21) | (23) |
| - DFE Other | (2,053) | (1,781) |
| - Sec 31 Extension of Previously Looked after Children Implementation Grant | (30) | (30) |
| - Teachers Pensions Supplementary Grant | 0 | (94) |
| - Covid 19 SEN Independent Providers | 0 | (26) |
| - Teachers Pay, Teachers Pension, PE&SG | (5) | (664) |
| - Teachers' Pension Employer Contribution Grant (TPECG) | (26) | (20) |
| - Extended Rights to Free HTS Transport | (105) | (82) |
| - Adoption Support Fund | (133) | (173) |
| - Social Work Teaching Partnerships Programme. | (949) | (233) |
| - Stay Put and PA Support | 0 | (209) |
| - Home to School Transport | 0 | (1) |

¹The Dedicated Schools Grant income for 2020/21 includes an accrual of £4.154m relating to early years adjustments as a result of both the effects of Covid-19 and the lagged funding system, neither of which are shown in the Dedicated Schools Grant note for that reporting period. The reason for the accrual relates to the associated expenditure being incurred in 2020/21, whereas the grant will not be received until 2021/22.

# Note 17. Grant Income (continued)

|  |  |  |
| --- | --- | --- |
| Department of Health & Social Care |  |  |
| - Public Health Grant | (16,762) | (17,408) |
| - Local Reform & Community Voices Grant/ War Pensions Scheme Disregard Grant/Social Care in Prisons Grant | (259) | (254) |
| - Covid 19 Lateral Flow Test Grant | 0 | (1,433) |
| Ministry of Housing, Communities & Local Government |  |  |
| - Tax Collection & Benefit Administration | (267) | (265) |
| - Housing Benefit Administration | (773) | (763) |
| - Benefit Subsidy | (74,176) | (68,211) |
| - MHCLG Other | (193) | (12) |
| - Troubled Families Programme | (1,273) | (1,177) |
| - Transparency Code Set Up | (13) | (13) |
| - Rough Sleeper Initiative | (844) | (902) |
| - Flexible Homelessness Support | (895) | (895) |
| - Homelessness Reduction Act New Burdens Funding | (222) | (342) |
| - Trading Standards Grant | 0 | (1) |
| - Domestic Abuse Grant | 0 | (10) |
| - Covid-19 Re Opening The High Streets Safely | 0 | (160) |
| - Oast Pocket Park Project | (8) | (7) |
| - Administering Council Tax Reduction Scheme Grant | (287) | (477) |
| - Neighbourhood Planning Grant | 0 | (67) |
| - Future High Streets Fund (Pre Contract Support) | 0 | (2) |
| - Future High Street Fund (Development Phase) | (94) | (56) |
| - Former Independent Living Fund Grant | (685) | (720) |
| - Winter Pressures Grant | (998) | (998) |
| - Social Care Support Grant | (1,705) | (5,492) |
| - Improved Better Care Fund | (6,095) | (6,095) |
| Department for Environment, Food and Rural Affairs |  |  |
| - Urban Tree Challenge Fund | 0 | (10) |
| Department for Transport |  |  |
| - DoT Other | 0 | (9) |
| - Bikeability Grant | (43) | (15) |
| - Covid-19 Operation Stack | 0 | (7) |
| - Bus Recovery Grant | 0 | (28) |
| - Bus Shelters Grant | 0 | (26) |
| - Bus Service Operator Grant | (172) | (496) |

# Note 17. Grant Income (continued)

|  |  |  |
| --- | --- | --- |
| Department for Work & Pensions |  |  |
| - Be Yourself Project | (108) | (41) |
| - Reducing Parental Conflict | (36) | (9) |
| - LA Funding Allocations/New Burdens Grant | (297) | (300) |
| Home Office |  |  |
| - IAG Grant | 0 | (300) |
| - Unaccompanied Asylum-Seeking Children Grant | (369) | (417) |
| Ministry of Justice |  |  |
| - Contributions from the Youth Justice Board | (699) | (443) |
| - MoJ Other | (116) | (116) |
| Department for Business, Energy & Industrial Strategy |  |  |
| - Skills Funding Agency | (1,854) | (1,919) |
| Other Miscellaneous Grants | (556) | (539) |
| Contributions from NHS Partners | (7,925) | (12,894) |
| Contributions from Other Local Authorities | (4,297) | (3,565) |
| Miscellaneous Contributions | (2,440) | (2,960) |
| Recognition of Capital Grants and Contributions | (6,099) | (2,779) |
| **Total** | **(222,546)** | **(233,640)** |

# Note 17. Grant Income (continued)

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

|  |  |  |
| --- | --- | --- |
| **Capital Grants Receipts in Advance (Capital Grants)** | **31 March 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Applicable Section Agreements | (2,207) | (3,997) |
| **Total** | **(2,207)** | **(3,997)** |

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

|  |  |  |
| --- | --- | --- |
| **Grants**  **Receipts in Advance - Revenue** | **31 March 2020**  **£'000** | **31 March 2021**  **£'000** |
| Ministry of Housing, Communities & Local Government |  |  |
| - Section 31 Grant | (5,712) | 0 |
| - Neighbourhood Plans Grant | (15) | 0 |
| - Capacity Building Grant | 0 | (40) |
| - Prevention Activity Funding | 0 | (100) |
| - Cladding Survey New Burden Fund | 0 | (11) |
| - Future High Street Fund Development | 0 | (2) |
| Department for Work and Pensions |  |  |
| - Reduced Parental Conflict Grant | (20) | 0 |
| Department for Education |  |  |
| - TP Funding for SW Student Laptops | (9) | 0 |
| Home Office |  |  |
| - Home Office Grant | 0 | (14) |
| - PCC Grant | 0 | (8) |
| Department for Culture, Media & Sport |  |  |
| - ESC Lottery Funding | 0 | (1) |
| - Arts Council for England Picture Medway Grant | (6) | (4) |
| Department for Business, Energy & Industrial Strategy |  |  |
| - Climate Change HNDU Grant | 0 | (25) |
| Department for Transport |  |  |
| - Funding for Supported Bus Services | 0 | (109) |
| - Covid 19 BSSG | 0 | (26) |
| Department of Health & Social care |  |  |
| - Health Education England PHWD Funding | 0 | (12) |
| Contributions from NHS Partners |  |  |
| - NHS Medway CCG Self Harm Project | 0 | (153) |
| Chatham Dockyard Grant | 0 | (45) |
| Royal Opera House Grant | 0 | (1) |
| Royal Opera House Bridge Funding | 0 | (2) |
| **Total** | **(5,762)** | **(553)** |

# Note 17. Grant Income (continued)

The Authority received a number of grants that Medway Council were acting as an Agent, therefore were not recognised through the Comprehensive Income & Expenditure Statement but would be shown within the Balance Sheet as liabilities until such time as they are discharged. All the above grants were discharged within 2019/20.

|  |  |  |
| --- | --- | --- |
| **Grants - Medway Council as Agent** | **31 March 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Department of Business, Energy and Industrial Strategy |  |  |
| - Covid 19 Christmas Support Payment for Wet Led Pubs | 0 | (69) |
| - Covid 19 Local Restrictions Grant Mandatory: Business Grants for Closed Businesses (LRSG) | 0 | (9,647) |
| - Covid 19 Local Restrictions Grant Mandatory: Closed Business Lockdown Payment | 0 | (5,954) |
| Ministry of Housing, Communities & Local Government |  |  |
| - Covid 19 Test and Trace Isolation Payment scheme (Mandatory Isolation Support Payments) | 0 | (447) |
| **Total** | **0** | **(16,117)** |

# Note 18. Interests in Companies and Other Entities

Accounting Policy

### Interests in Companies and Other Entities

### The Authority has material interests in companies and other entities that have the nature of subsidiaries that require it to prepare group accounts, but its interests in its associates, joint control and joint ventures are not considered to be controlling. Therefore, in the Authority’s own single-entity accounts, the interests in subsidiaries, associates, joint control and joint ventures are recorded as financial assets at cost, less any provision for losses.

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

* Determine whether the Authority has any form of interest in an entity
* Assess the nature of the relationship between the Authority and the entity
* Determine on 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 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 supplied to the Authority equal to 50% of the operating profit of the Company.

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

## Kyndi Ltd

Kyndi Limited (formerly Medway Commercial Group) is a company wholly owned by Medway Council. Group accounts have been prepared for the first time in 2019/20 and are shown elsewhere within these statements.

Kyndi Ltd 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 been prepared for the first time in 2019/20 and are shown elsewhere within these statements.

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.



# E4. Notes Supporting the Movement in Reserves Statement



**View of the River Medway from Jackson’s Field, Rochester**

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

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

## General Fund Balance

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

## Housing Revenue Account Balance

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

## Major Repairs Reserve

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

## Capital Receipts Reserve

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

## Capital Grants Unapplied

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

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Adjustments for 2019/20** | **Usable Reserves General Fund Balance** | **Usable Reserves Housing Revenue Account Balance** | **Usable Reserves Capital Receipts Reserve** | **Usable Reserves Major Repairs Reserve** | **Usable Reserves Capital Grants Unapplied** | **Unusable Reserves** |
|  | **£000s** | **£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) | 27,084 | 424 | 0 | 0 | 0 | (27,508) |
| Financial instruments (transferred to the Financial Instruments Adjustments Account/Financial Instruments Revaluation Reserve) | 397 | 0 | 0 | 0 | 0 | (397) |
| Council tax and NDR (transfers to or from Collection Fund Adjustment Account) | 27,063 | 0 | 0 | 0 | 0 | (27,063) |
| Holiday pay (transferred to the Accumulated Absences Account) | 592 | 5 | 0 | 0 | 0 | (598) |
| Amount by which Schools Deficit has moved in year (transferred to Dedicated Schools Grant Adjustment Account) | 6,916 | 0 | 0 | 0 | 0 | (6,916) |
| 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): | 35,223 | 13,986 | 0 | 0 | 13,823 | (63,032) |
| **Total Adjustments to Revenue Resources** | **97,275** | **14,416** | **0** | **0** | **13,823** | **(125,514)** |
| **ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES:** |  |  |  |  |  |  |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (5,332) | (371) | 5,703 | 0 | 0 | 0 |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | 179 | 0 | (179) | 0 | 0 | 0 |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (481) | 0 | 0 | 0 | 0 | 481 |
| Posting of HRA resources from revenue to the Major Repairs Reserve | 0 | (3,698) | 0 | 3,698 | 0 | 0 |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | (1,307) | 0 | 0 | 0 | 0 | 1,307 |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | (500) | (2,400) | 0 | 0 | 0 | 2,900 |
| **Total Adjustments between Revenue and Capital Resources** | **(7,441)** | **(6,469)** | **5,524** | **3,698** | **0** | **4,687** |
| **ADJUSTMENTS TO CAPITAL RESOURCES** |  |  |  |  |  |  |
| Use of the Capital Receipts Reserve to finance capital expenditure | 0 | 0 | (4,314) | 0 | 0 | 4,314 |
| Use of the Major Repairs Reserve to finance capital expenditure | 0 | 0 | 0 | (3,698) | 0 | 3,698 |
| Application of capital grants to finance capital expenditure | 0 | 0 | 0 | 0 | (6,670) | 6,670 |
| Cash payments in relation to deferred capital receipts | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Adjustments to Capital Resources** | **0** | **0** | **(4,314)** | **(3,698)** | **(6,670)** | **14,682** |
|  |  |  |  |  |  |  |
| **Total Adjustments 2019/20** | **89,834** | **7,947** | **1,210** | **0** | **7,152** | **(106,144)** |

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

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

# 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.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance  31 March  2019** | **Transfers  in  2019/20** | **Transfers out  2019/20** | **Balance  31 March  2020** | **Reserve adjustments at 1 April 2020** | **Restated Balance at 1 April 2020** | **Transfers  in  2019/20** | **Transfers out  2019/20** | **Balance  31 March  2021** |
| **General Fund** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Balances held by schools under a scheme of delegation | (2,004) | (760) | 1,408 | **(1,356)** | 0 | **(1,356)** | (1,833) | 1,775 | **(1,414)** |
| School Rev Contributions To Capital | (406) | (166) | 507 | **(65)** | 0 | **(65)** | (445) | 387 | **(123)** |
| Revenue Contributions To Capital BSD | 0 | (800) | 707 | **(93)** | 0 | **(93)** | 0 | 93 | **0** |
| Revenue Contributions To Capital C&A | 0 | 0 | 17 | **17** | 0 | **17** | 0 | 0 | **17** |
| Revenue Contributions To Capital RCET | (8) | (34) | 0 | **(42)** | 0 | **(42)** | (61) | 2 | **(101)** |
| Development Plan Reserve | (112) | (82) | 195 | **1** | 0 | **1** | (230) | 80 | **(149)** |
| Provision For Local Election | (284) | (138) | 414 | **(8)** | 0 | **(8)** | (138) | 22 | **(123)** |
| Bereavement Services Reserves | (25) | (1) | 0 | **(26)** | 0 | **(26)** | (150) | 1 | **(175)** |
| Rate Equalisation Fund | 0 | 0 | 0 | **0** | 0 | **0** | (4,663) | 0 | **(4,663)** |
| Community Hubs Reserve | (40) | 0 | 11 | **(29)** | 0 | **(29)** | 0 | (12) | **(41)** |
| BRMF - Annual Programme | 0 | (250) | 38 | **(212)** | 0 | **(212)** | (750) | 325 | **(637)** |
| Reserve Fund Computer Development | 0 | 0 | 0 | **0** | 0 | **0** | (1,000) | 0 | **(1,000)** |
| Developer Contributions Revenue Reserves | (4,227) | (2,134) | 1,859 | **(4,502)** | 0 | **(4,502)** | (1,596) | 851 | **(5,247)** |
| Economic Development Loans Fund | (134) | 0 | 54 | **(80)** | 0 | **(80)** | 0 | 0 | **(80)** |
| Directorate Carry Forwards | (3,302) | (1,629) | 1,156 | **(3,775)** | 0 | **(3,775)** | (2,195) | 1,352 | **(4,618)** |
| Homelessness Reduction | (168) | 0 | 0 | **(168)** | 0 | **(168)** | 0 | 0 | **(168)** |
| BirdWatch/Samms Inv Funds | (300) | (300) | 0 | **(600)** | 0 | **(600)** | (430) | 0 | **(1,030)** |
| Severance Payments Reserve | (455) | (351) | 806 | **(0)** | 0 | **(0)** | (1,000) | 0 | **(1,000)** |
| South Medway Development Res | (4,000) | 0 | 0 | **(4,000)** | 0 | **(4,000)** | 0 | 0 | **(4,000)** |
| Transformation Reserve | 0 | 0 | 0 | **0** | 0 | **0** | (2,000) | 0 | **(2,000)** |
| Salix Repayments | (49) | (61) | 96 | **(14)** | 0 | **(14)** | (64) | 2 | **(76)** |
| HEE Public Health Grant | (176) | 0 | 0 | **(176)** | 0 | **(176)** | 0 | 0 | **(176)** |
| Other Earmarked Reserves | (220) | (59) | 107 | **(172)** | 0 | **(172)** | (60) | 39 | **(194)** |
| Covid-19 Reserve Funding | 0 | (6,628) | 1,356 | **(5,272)** | 0 | **(5,272)** | (9,439) | 5,272 | **(9,439)** |
| Collection Fund S.31 Grant Adjustment Reserve | 0 | 0 | 0 | **0** | 0 | **0** | (18,502) | 0 | **(18,502)** |
| Insurance Reserve | (1,216) | 0 | 256 | **(960)** | 0 | **(960)** | 0 | (1,499) | **(2,459)** |
| **Total Earmarked General Fund Reserves** | **(17,126)** | **(13,393)** | **8,987** | **(21,532)** | **0** | **(21,532)** | **(44,556)** | **8,690** | **(57,398)** |
| Dedicated Schools Grant Reserve\* | 4,139 | (5,600) | 10,807 | **9,346** | (9,346) | **0** | (22,259) | 22,259 | **0** |
| **DSG Reserve** | **4,139** | **(5,600)** | **10,807** | **9,346** | **(9,346)** | **0** | **(22,259)** | **22,259** | **0** |
| **Housing Revenue Account** |  |  |  |  |  |  |  |  |  |
| HRA Earmarked Reserves | (1,194) | (1,273) | 866 | **(1,601)** | **0** | **(1,601)** | (990) | 2,285 | **(306)** |
| **Total Earmarked Housing Revenue Account Reserves** | **(1,194)** | **(1,273)** | **866** | **(1,601)** | **0** | **(1,601)** | **(990)** | **2,285** | **(306)** |
| **Total Earmarked Reserves** | **(14,181)** | **(20,266)** | **20,660** | **(13,787)** | **(9,346)** | **(23,133)** | **(67,805)** | **33,234** | **(57,704)** |

The deficit on the Dedicated Schools Grant Reserve at the 31 March 2020 was transferred to the Dedicated Schools Grant Adjustment Account, an unusable reserve. This movement was agreed as part of the statutory adjustments afforded to local authorities with deficit balances. This deficit balance will be reduced in the coming years and Medway Council has agreed a deficit recovery programme with central government to achieve this.

**Note 20. Movements in Earmarked Reserves (continued)**

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

School Revenue Reserves. School funding is ringfenced 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.

**Rate Equalisation Fund**

### Used to mitigate fluctuations in interest costs caused by changing rates.

**Community Hubs Reserve**

To finance development of community hubs in our libraries.

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

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

**Reserve Fund Computer Development**

Reserve Fund for Computer Development/Replacement of Steria and then Medway Grid for Learning (MGfL)

**Economic Development Loans Fund**

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

**Directorate Carry Forwards**

Revenue carry forwards relating to the general fund.

**Homelessness Reduction**

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

**BirdWatch/Samms (Strategic Access Management and Monitoring Strategy) Inv Funds**

To accumulate surplus funds to invest in the future operation of the Samms scheme for many years. This is funded from section 106 contributions received from developers less running costs of the samms team.

**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.

# Note 20. Movements in Earmarked Reserves (continued)

## Other Earmarked Reserves

Represent non-material balances.

## Covid-19 Reserve Funding

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

## Collection Fund S.31 Grant Adjustment Reserve

To hold additional Section 31 Grant income awarded as a result of the Covid-19 pandemic to be used to offset future deficits within the collection fund.

## Insurance Reserve

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

## DSG Reserve

119

## HRA Earmarked Reserves

Monies held in an Earmarked Reserve for the HRA.



# E5. Notes Supporting the Balance Sheet



**Maritime Way Bridge**

# Note 21. Property, Plant & Equipment

## Accounting Policy

### Other 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:

* 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.

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

## Componentisation

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

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

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

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

## 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

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
* surplus assets – 20 to 60 years

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

## Disposals

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

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

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

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

The Authority categorises its operational Property, Plant and Equipment into a number of subcategories, namely council dwellings, other land and buildings, vehicles, plant and equipment 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 subcategory of Property, Plant and Equipment:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Movements on Balances 2019/20** | **Council Dwellings** | **Other Land and Buildings** | **Vehicles, Plant, Furniture and Equipment** | **Community Assets** | **Surplus Assets** | **Assets Under Construction** | **Total Property, Plant and Equipment** |
| **Cost or Valuation** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| As at 1 April 2020 | 161,402 | 351,745 | 16,402 | 8,021 | 21,762 | 6,934 | 566,267 |
| Additions | 7,230 | 1,005 | 2,244 | 66 | 207 | 8,741 | 19,493 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 711 | (6,627) | 0 | 868 | (1,235) | 0 | (6,283) |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (12,938) | (17,802) | 0 | 0 | 293 | 0 | (30,448) |
| Derecognition – disposals | (222) | (8,743) | (833) | 0 | 0 | 0 | (9,798) |
| Assets reclassified (to)/from Held for Sale | 0 | 10,500 | 0 | 0 | 0 | (130) | 10,370 |
| Assets reclassified (to)/from Surplus Assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Assets reclassified (to)/from Assets Under Construction | 0 | 3,934 | 0 | 0 | 0 | (3,934) | 0 |
| Other Reclassifications | 0 | 3,996 | 0 | 0 | 0 | 0 | 3,996 |
| Other movements in cost or valuation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **As at 31 March 2021** | **156,182** | **338,008** | **17,814** | **8,955** | **21,028** | **11,611** | **553,598** |
| **Accumulated Depreciation and Impairment** |  |  |  |  |  |  |  |
| As at 1 April 2020 | 0 | (3,600) | (10,405) | (11) | (89) | 0 | (14,107) |
| Depreciation Charge | (3,423) | (13,041) | (1,528) | 0 | (49) | 0 | (18,040) |
| Depreciation written out to the Revaluation Reserve | 310 | 10,365 | 0 | 0 | 129 | 0 | 10,804 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 3,108 | 2,339 | 0 | 0 | 0 | 0 | 5,447 |
| Derecognition – disposals | 5 | 215 | 833 | 0 | 0 | 0 | 1,052 |
| Other Reclassifications | 0 | (2,555) | 0 | 0 | 0 | 0 | (2,555) |
| Other movements in depreciation and impairment | 0 | 0 | (242) | 0 | 0 | 0 | (242) |
| **As at 31 March 2021** | **0** | **(6,277)** | **(11,343)** | **(11)** | **(9)** | **0** | **(17,641)** |
| **Net Book Value at 31 March 2021** | **156,182** | **331,731** | **6,470** | **8,944** | **21,018** | **11,611** | **535,957** |
| **Net Book Value at 31 March 2020** | **161,402** | **348,145** | **5,996** | **8,010** | **21,673** | **6,934** | **552,160** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Movements on Balances 2019/20** | **Council Dwellings** | **Other Land and Buildings** | **Vehicles, Plant, Furniture and Equipment** | **Community Assets** | **Surplus Assets** | **Assets Under Construction** | **Total Property, Plant and Equipment** |
| **Cost or Valuation** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| As at 1 April 2019 | 167,074 | 375,555 | 15,945 | 8,431 | 10,763 | 1,917 | 579,686 |
| Additions | 4,446 | 44,354 | 2,142 | 11 | 3,818 | 6,777 | 61,547 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (713) | (5,849) | 0 | 183 | 22 | 0 | (6,357) |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (9,343) | (10,960) | 0 | 105 | (113) | 0 | (20,311) |
| Derecognition – disposals | (1,061) | (12,671) | (1,685) | 0 | (1) | 0 | (15,419) |
| Derecognition - other | 0 | (100) |  |  |  |  | (100) |
| Assets reclassified (to)/from Held for Sale | 0 | (32,779) | 0 | 0 | 0 | 0 | (32,779) |
| Assets reclassified (to)/from Surplus Assets | 0 | (7,082) | 0 | 0 | 7,082 | 0 | 0 |
| Assets reclassified (to)/from Assets Under Construction | 1,000 | 569 | 0 | 0 | 191 | (1,760) | 0 |
| Other Reclassifications | 0 | 708 | 0 | (708) | 0 | 0 | 0 |
| Other movements in cost or valuation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **As at 31 March 2020** | **161,402** | **351,745** | **16,402** | **8,021** | **21,762** | **6,934** | **566,266** |
| **Accumulated Depreciation and Impairment** |  |  |  |  |  |  |  |
| As at 1 April 2019 | 0 | (12,748) | (10,546) | (11) | (1) | 0 | (23,307) |
| Depreciation Charge | (3,449) | (13,637) | (1,530) | 0 | (1) | 0 | (18,617) |
| Depreciation written out to the Revaluation Reserve | 437 | 18,128 | 0 | 0 | 1 | 0 | 18,566 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 2,991 | 2,319 | 0 | 0 | 0 | 0 | 5,310 |
| Derecognition – disposals | 21 | 2,227 | 1,672 | 0 | 0 | 0 | 3,920 |
| Derecognition - other | 0 | 21 | 0 | 0 | 0 | 0 | 21 |
| Assets reclassified (to)/from Surplus Assets | 0 | 89 | 0 | 0 | (89) | 0 | 0 |
| Other Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other movements in depreciation and impairment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **As at 31 March 2020** | **0** | **(3,600)** | **(10,405)** | **(11)** | **(89)** | **0** | **(14,106)** |
| **Net Book Value at 31 March 2020** | **161,402** | **348,145** | **5,996** | **8,010** | **21,673** | **6,934** | **552,160** |
| **Net Book Value at 31 March 2019** | **167,074** | **362,807** | **5,399** | **8,420** | **10,762** | **1,917** | **556,379** |

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

## Effects of Changes in Estimates

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

## Revaluations

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

Jonathan Rogers, MRICS and Registered Valuer of Harrisons Chartered Surveyors was commissioned to undertake the valuation of the Pentagon Shopping Centre and Gun Wharf (Medway Council’s main offices). All other property and land revaluations were undertaken by RICS qualified valuers employed by the Authority.

The effective date of all valuations carried out in 2019/20 was 31 March 2021.

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.

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

The following table shows the progress of the Authority’s rolling programme for the revaluation of Other Property, Plant and Equipment:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Council Dwellings** | **Other Land and Buildings** | **Vehicles, Plant and Equipment** | **Community assets** | **Surplus Assets** | **Assets Under Construction** | Total |
|  | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | £000 |
| Valued at historical cost | 0 | 26 | 0 | 0 | 0 | 0 | 26 |
| Capital expenditure on assets not revalued since the capital expenditure was incurred | 0 | 244 | 17,814 | 8,955 | 0 | 11,611 | 38,624 |
| Carried at historic cost | 0 | 270 | 17,814 | 8,955 | 0 | 11,611 | 38,650 |
| Valued at current value (fair value for surplus assets) during the year ending: |  |  |  |  |  |  |  |
| 31 March 2021 | 156,182 | 190,293 | 0 | 0 | 19,604 | 0 | 366,079 |
| 31 March 2020 | 0 | 127,246 | 0 | 0 | 346 | 0 | 127,592 |
| 31 March 2019 | 0 | 7,950 | 0 | 0 | 596 | 0 | 8,546 |
| 31 March 2018 | 0 | 12,025 | 0 | 0 | 436 | 0 | 12,461 |
| 31 March 2017 | 0 | 224 | 0 | 0 | 46 | 0 | 270 |
| **Total** | **156,182** | **338,008** | **17,814** | **8,955** | **21,028** | **11,611** | **553,598** |

## Removal of Schools Transferring to Academies

1 school achieved academy status between 1 April 2020 and 31 March 2021 with a balance sheet value of £5.2m (2 in 2019/20; value £10.4m). There are no schools which are likely to achieve academy status between 1 April 2021 and 31 March 2022.

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

## Capital Commitments

As at 31 March 2021 the following capital commitments were in place (19/20: £18.219m):

|  |  |  |
| --- | --- | --- |
| **Directorate** | **2019/20 £'000** | **2019/20 £'000** |
| Business Support Department | 11,972 | 0 |
| Children's and Adults (inc. Public Health) | 517 | 104 |
| Regeneration, Community, Environment and Transformation | 5,266 | 17,478 |
| Housing Revenue Account | 463 | 0 |
| **Total** | **18,218** | **17,582** |

As at 31 March 2021 there were several large capital projects which had been approved by the Council but the main contracts had not been awarded. These include the £170m Housing Infrastructure Fund award, the construction of new Council dwellings and general property development. Approx. £10m of the capital commitments are with Volker primarily for projects relating to Highways and the installation of new LED street lighting.

In 2019/20 £11.887m capital commitments shown within BSD related to construction projects which either been completed (£2.6m) or transferred to Medway Development Company (£9.1m).

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

## Surplus Assets Fair Value Hierarchy

Details of the Authority's surplus assets and information about the fair value hierarchy as at 31 March 2021 are shown below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Recurring fair value measurements using:** | **Level 2 inputs** | **Level 3 Inputs** | **Fair Value as at 31 March 2021** | **Level 2 valuation technique** |
|  | **£000's** | **£000's** | **£000's** |  |
| Commercial development | 17,583 | 0 | 17,583 | Market based approach |
| Residential dwellings | 300 | 0 | 300 | Market based approach |
| Non residential buildings | 883 | 0 | 883 | Market based approach |
| Other leased land | 474 | 0 | 474 | Market based approach |
| Vacant land and buildings | 1,789 | 0 | 1,789 | Market based approach |
|  | **21,028** | **0** | **21,028** |  |

## Valuation Process for Surplus Assets

The fair value of the Council's surplus assets is measured at least every 5 years in line with our revaluation policy for Property, Plant and Equipment. All valuations are carried out by Royal Institute of Chartered Surveyors qualified employees in accordance with the Professional Standards of the RICS.

## Highest and Best Use of Surplus Assets

In estimating the fair value of the Council's Surplus assets, the highest and best use of all of these assets is their current use

## NB The Council does not have any Level 1 or Level 3 valuations

## Fair Value Measurement

The Authority measures surplus assets 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.

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

## Highways Infrastructure Assets

**Accounting Policy**

**Highways infrastructure assets**

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

**Recognition**

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the authority and the cost of the item can be measured reliably.

**Measurement**

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 England, which was deemed at that time to be historical cost.

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Medway Council was formed in 1998 from predecessor authorities, Gillingham Borough Council, Kent County Council (Medway Area) and Rochester Upon Medway City Council. As a highways authority, Kent County Council transferred a value of Infrastructure Assets on their balance sheet using an agreed percentage of those overall assets considered to equate to those within the Medway area.

**Depreciation**

Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.

Useful economic lives (UEL) of the various parts of the highways network are assessed by the Chief Highways Engineer using industry standards where applicable as follows:

Part of Highways network UEL

Carriageways 20 Years

Footways and Cycle tracks 50 Years

(attached to carriageway or segregated)

Structures 120 Years

Street Lighting 43 Years

Street Furniture 40 Years

Traffic management Systems 20 Years

**Disposals and derecognition**

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet 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). The written-off amounts of disposals are not a charge against council tax, as the cost of noncurrent assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the capital adjustment account from the General Fund Balance in the Movement in Reserves Statement.

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

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2019/20** |
|  | **£'000** | **£'000** |
| Net book value (modified historical cost) at 1 April | 132,769 | 137,927 |
| Additions | 13,783 | 9,311 |
| Derecognition | 0 | (2,399) |
| Depreciation | (8,360) | (5,788) |
| Impairment | (265) | 0 |
| Other movements in cost | 0 | (1,441) |
| **Net book value at 31 March** | **137,927** | **137,609** |

Reconciliation of Infrastructure Assets and Property, Plant & Equipment (PPE)

|  |  |  |
| --- | --- | --- |
|  | **31 March 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Infrastructure Assets | 137,927 | 137,609 |
| Other PPE Assets | 552,160 | 535,957 |
| **Total PPE Assets** | **690,087** | **673,566** |

The authority has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is 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 been 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)

**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** | **Furniture** | **Silver / Gold Collections** | **Art Collection** | **Other** | **Total Assets** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Cost or Valuation** |  |  |  |  |  |  |
| 1 April 2019 | 11,773 | 238 | 1,331 | 1,559 | 2,534 | 17,436 |
| Revaluations | 353 | 0 | 0 | 0 | 70 | 423 |
| **31 March 2020** | **12,126** | **238** | **1,331** | **1,559** | **2,604** | **17,859** |
| **Cost or Valuation** |  |  |  |  |  |  |
| 1 April 2020 | 12,126 | 238 | 1,331 | 1,559 | 2,604 | 17,859 |
| Revaluations | 364 | 0 | 0 | 0 | 0 | 364 |
| **31 March 2021** | **12,490** | **238** | **1,331** | **1,559** | **2,604** | **18,223** |

# Note 22. Heritage Assets (continued)

## Heritage Buildings

Those buildings which have been classified as Heritage are:

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

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

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

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

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

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

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

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

Other historical interest items include:

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

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

## Policy on acquiring Heritage Assets for its Museum Service

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

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

1. in the principal market for the asset or liability, or
2. 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** | **2019/20** | **2019/20** |
|  | **£'000** | **£'000** |
| Rental income from investment property | 834 | 823 |
| Direct operating expenses arising from investment property | 0 | (9) |
| **Net gain/(loss)** | **834** | **814** |

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 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Balance at start of year | 16,967 | 16,769 |
| Disposals | (50) | 0 |
| Net gains/(loss) from fair value adjustments | (148) | 101 |
| **Balance at end of year** | **16,769** | **16,869** |

## Fair Value Hierarchy

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

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

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

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

## Highest and Best Use

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

## Valuation Process for Investment Properties

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

The other investment properties are as follows:

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

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

# Note 25. Assets Held for Sale

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Current** |  | **Non-Current** |  |
|  | **2019/20** | **2019/20** | **2019/20** | **2019/20** |
|  | **£'000** | **£'000** | **£'000** | **£'000** |
| **Balance Outstanding at start of year** | **0** | **32,779** | **0** | **0** |
| Assets newly classified as held for sale: |  |  |  |  |
| § Property, plant and equipment | 32,779 | 130 | 0 | 0 |
|  |  |  |  |  |
| Revaluation losses | 0 | (895) | 0 | 0 |
| Assets declassified as held for sale: |  |  |  |  |
| § Property, plant and equipment | 0 | (10,500) | 0 | 0 |
| Assets sold | 0 | (3,213) | 0 | 0 |
| Additions | 0 | 91 | 0 | 0 |
| **Balance Outstanding at year end** | **32,779** | **18,392** | **0** | **0** |

## Accounting Policy - Non-current Assets Held for Sale

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

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

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

During 2019/20, several pieces of land within Rochester and Chatham were sold for sale for property development. The proposed disposal of the site of the former Civic Centre in Strood has been reconsidered and so the land has been transferred from assets held for sale.

# Note 26. Financial Instruments

## Accounting Policy - Financial Instruments

## Financial Assets

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

* amortised cost „
* fair value through profit or loss (FVPL)
* 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 (i.e. where the cash flows do not take the form of a basic debt instrument).

## Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

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

## Financial Liabilities

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

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

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

# Note 26. Financial Instruments (continued)

## Available-for-Sale Assets

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

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

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

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

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

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

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

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

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

# Note 26. Financial Instruments (continued)

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Financial Assets** |  |  |  |  |  |  |  |  |  |  |
|  | **Non-Current** |  |  |  | **Current** |  |  |  |  |  |
|  | **Investments** |  | **Debtors** |  | **Investments** |  | **Debtors** |  | **Total** |  |
|  | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** |
|  | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020**  **Restated** | **2021** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Fair value through profit or loss | 21,979 | 21,535 | 0 | 0 | 6,969 | 490 | 0 | 0 | 28,948 | 22,025 |
| Amortised cost - other | 0 | 0 | 977 | 16,637 | 0 | 0 | 42,250 | 46,541 | 43,227 | 63,178 |
| Cash & cash equivalents at amortised cost | 0 | 0 | 0 | 0 | 38,924 | 24,606 | 0 | 0 | 38,924 | 24,606 |
| **Total financial assets** | **21,979** | **21,535** | **977** | **16,637** | **45,893** | **25,096** | **42,250** | **46,541** | **111,099** | **109,809** |
| Non-financial assets | 0 | 0 | 1,429 | 3 | 0 | 0 | 28,747 | 42,041 | 30,176 | 42,044 |
| **Total** | **21,979** | **21,535** | **2,406** | **16,640** | **45,893** | **25,096** | **70,997** | **88,582** | **141,275** | **151,853** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Financial Liabilities** |  |  |  |  |  |  |  |  |  |  |
|  | **Non-Current** |  |  |  | **Current** |  |  |  |  |  |
|  | **Borrowings** |  | **Creditors** |  | **Borrowings** |  | **Creditors** |  | **Total** |  |
|  | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** | **31 March** |
|  | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Amortised cost | (262,672) | (235,433) | (31,840) | (30,776) | (36,250) | (48,183) | (41,343) | (50,400) | (372,105) | (364,792) |
| Cash & cash equivalents at amortised cost | 0 | 0 | 0 | 0 | 0 | (7,670) | 0 | 0 | 0 | (7,670) |
| **Total financial liabilities** | (262,672) | (235,433) | (31,840) | (30,776) | (36,250) | (55,853) | (41,343) | (50,400) | (372,105) | (372,462) |
| Non-financial liabilities | 0 | 0 | (13) | (19) | 0 | 0 | (15,640) | (22,402) | (15,653) | (22,421) |
| **Total** | **(262,672)** | **(235,433)** | **(31,853)** | **(30,795)** | **(36,250)** | **(55,853)** | **(56,983)** | **(72,802)** | **(387,758)** | **(394,883)** |

The sum of total financial assets as at 31 March 2020 has been restated as the amount shown in the 2019/2020 Statement of Accounts was arithmetically incorrect. The amounts of the individual components of the total have not been changed.

# Note 26. Financial Instruments (continued)

## Income, Expense, Gains & Losses

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2019/20** | **2019/20** | **2020/21** | **2020/21** |
|  | **Surplus or deficit on the provision of services** | **Other comprehensive income and expenditure** | **Surplus or deficit on the provision of services** | **Other comprehensive income and expenditure** |
|  | **£'000** | **£'000** | **£'000** | **£'000** |
| Net gains/losses on: |  |  |  |  |
| ● Financial assets measured at fair value through profit or loss | (745) | 0 | (444) | 0 |
| **Total net gains/losses** | **(745)** | **0** | **(444)** | **0** |
| Interest revenue: |  |  |  |  |
| ● Other financial assets measured at fair value through other comprehensive income | 3,717 | 0 | 3,411 | 0 |
| **Total interest revenue** | **3,717** | **0** | **3,411** | **0** |
| Interest expense: | 12,392 | 0 | 12,443 | 0 |
| Fee income: |  |  |  |  |
| ● Financial assets or financial liabilities that are not at fair value through profit or loss | 0 | 0 | 0 | 0 |
| ● Trust and other fiduciary activities | 0 | 0 | 0 | 0 |
| **Total fee income** | **0** | **0** | **0** | **0** |

# Note 26. Financial Instruments (continued)

## 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:

1. in the principal market for the asset or liability, or
2. 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.

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;

* 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.

# Note 26. Financial Instruments (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **31 March 2020** | **31 March 2020** | **31 March 2021** | **31 March 2021** |
| **Financial Assets** | **Carrying Amount  £'000** | **Fair Value  £'000** | **Carrying Amount  £'000** | **Fair Value  £'000** |
| Loans and receivables - Investments | 6,969 | 6,969 | 490 | 490 |
| Cash and Cash Equivalents | 38,924 | 38,924 | 24,606 | 24,606 |
| Investments at Fair Value through Profit & Loss | 21,979 | 21,979 | 21,535 | 21,535 |
| Debtors | 36,947 | 36,947 | 63,178 | 63,178 |
|  | **31 March 2020** | **31 March 2020** | **31 March 2021** | **31 March 2021** |
| **Financial Liabilities** | **Carrying Amount  £'000** | **Fair Value  £'000** | **Carrying Amount  £'000** | **Fair Value  £'000** |
| Borrowing | 298,922 | 325,446 | 283,616 | 312,495 |
| Creditors | 71,763 | 71,763 | 81,176 | 81,176 |
| Bank Overdrafts | 0 | 0 | 7,670 | 7,670 |

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

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

## Fair Value Hierarchy and Valuation Techniques

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

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

The fair values can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

## Market rates for investments

* Not applicable - no fixed term investments

## Discount rates for borrowing

* LOBO 1.796% to 2.1962%
* Market Debt 0.81081% to 0.89771%
* PWLB maturity 0.96% to 2.11%
* PWLB annuity 1.1% Temporary Loans 0.18%

## 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.

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

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

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

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

## Credit Risk

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

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

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

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

The full investment strategy for 2019/20 was approved by full Council on 20/02/20 and the 2021/22 strategy was approved on 18/02/21. 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 £16.917m 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 31 March 2021 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.

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Amount at 31 March 2021** | **Historical experience of default** | **Estimated maximum exposure to default and uncollectability** |
|  | **£'000** | **%** | **£'000** |
| Deposits with banks, financial institutions and other local authorities\* | 17,407 | 0.00 | 0 |
| Customers | 27,191 | 27.21 | 7,399 |
| **Total** | **44,598** |  | **7,399** |

|  |  |
| --- | --- |
| \* This is made up of the following: | **Amount at 31 March 2021** |
|  | **£'000** |
| NatWest | 10,200 |
| Svenska Handelsbanken | 1 |
| Lloyds | 11 |
| Santander | 6,701 |
| Barclays | 4 |
| CCLA | 490 |
| **Total** | **17,407** |

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

|  |  |
| --- | --- |
| \* This is made up of the following: | **Amount at 31 March 2020** |
|  | **£'000** |
| NatWest | 25,000 |
| Svenska Handelsbanken | 15,500 |
| Lloyds | 35 |
| CCLA | 6,953 |
| Barclays | 4 |
| **Total** | **47,492** |

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

The Authority does not generally allow credit for customers, such that £19.6m of the £27.2m balance is past its due date for payment. The past amount can be analysed by age as follows:

|  |  |  |
| --- | --- | --- |
|  | **31 March 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Less than three months | 2,298 | 2,856 |
| Three to six months | 2,032 | 2,107 |
| Six months to one year | 2,691 | 3,262 |
| More than one year | 11,333 | 11,375 |
|  | **18,354** | **19,600** |

The Authority’s provision for expected credit loss stood at £7.400m at 31 March 2020 (£2.406m at 31 March 2020). 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.

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

## Liquidity Risk

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Lower Limit** | **Upper Limit** | **Actual**  **31 March 2020** | **Actual**  **31 March 2021** |
|  | **%** | **%** | **%** | **%** |
| Less than one year | 0 | 50 | 3.89 | 1.45 |
| Between one and two years | 0 | 50 | 0.00 | 5.65 |
| Between two and five years | 0 | 50 | 13.62 | 4.36 |
| Between five and ten years | 0 | 50 | 19.45 | 10.91 |
| More than ten years | 0 | 100 | 63.04 | 77.62 |

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

In addition to the fixed rate borrowing the authority has £45m (31 March 2020 £27m) 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 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Less than one year | 41,614 | 57,102 |
| Between one and two years | 53,127 | 19,372 |
| Between two and five years | 42,891 | 51,830 |
| More than five years | 340,632 | 449,507 |
| Total Principal and Interest | **478,264** | **577,811** |

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

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

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | **Actual** |
|  | **Lower Limit** | **Upper Limit** | **31 March 2021** |
|  | **%** | **%** | **%** |
| Less than one year | 0 | 75 | 14.55 |
| Between one and two years | 0 | 50 | 8.93 |
| Between two and five years | 0 | 50 | 18.77 |
| Between five and ten years | 0 | 50 | 24.57 |
| More than ten years | 0 | 100 | 33.18 |

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.

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

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

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

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Borrowing Analysis** | **Fixed or Variable Rate** | **Borrowing as at 31 March 2021** | **Borrowing as at 31 March 2020** |
|  |  | **£'000** | **£'000** |
| Long-Term Borrowing: |  |  |  |
| PWLB Loans (Principal) | Fixed | 123,524 | 123,524 |
| LOBO Loans (Principal) | Variable | 101,800 | 101,800 |
| Other Loans and Accounting Adjustments | Fixed | 39,868 | 39,868 |
| **Total Long-Term Borrowing** |  | **265,192** | **265,192** |
| Short-Term Borrowing: |  |  |  |
| PWLB Loans (Principal) | Fixed | 0 | 5,000 |
| Other Local Authorities | Fixed | 45,000 | 27,000 |
| Other Short-Term Borrowing and Accrued Interest | Fixed | 1,584 | 1,730 |
| **Total Short-Term Borrowing** |  | **46,584** | **33,730** |

Other loans and accounting adjustments (£39.868m) includes an accounting adjustment of £1.488m 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 whether new borrowing taken out should be fixed or variable.

According to this assessment strategy, as at 31 March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

|  |  |  |
| --- | --- | --- |
|  | **31 March 2020** | **31 March 2021** |
|  | **£000s** | **£000s** |
| Increase in interest payable on variable rate borrowing | 280 | 280 |
| Increase in interest receivable on variable rate investments | 188 | 188 |
| Increase in government grant receivable for financing costs |  |  |
| **Impact on Surplus or Deficit on the Provision of Services** | **468** | **468** |
|  |  |  |
|  |  |  |
| 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) | 44,536 | 47,649 |

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

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

## Price Risk

The Authority does not generally invest in equity shares or marketable bonds. It does however hold stock in the form of investments in property funds at a value of £21.535m (2019/20 £21.979m).

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

## Foreign Exchange Risk

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

# Note 28. Capital Expenditure & Capital Financing

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

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

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

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2019/20** |
|  | **£'000** | **£'000** |
| **Opening Capital Financing Requirement** | 269,540 | 323,444 |
| ***Capital Investment*** |  |  |
| Property Plant and Equipment | 73,529 | 28,803 |
| Assets Held for Sale | 106 | 91 |
| Revenue Expenditure Funded from Capital under Statute | 9,619 | 9,888 |
| Long Term Debtors¹ | 0 | 12,892 |
| ***Sources of Finance*** |  |  |
| Capital receipts | (285) | (4,314) |
| Government grants and other contributions | (21,090) | (18,010) |
| ***Sums set aside from revenue*** |  |  |
| Direct revenue contributions | (2,790) | (2,900) |
| Major Repairs Reserve | (3,824) | (3,698) |
| Minimum Revenue Provision | (1,361) | (1,307) |
| **Closing Capital Financing Requirement** | **323,444** | **344,892** |
| **Explanation of movements in year** |  |  |
| Increase in underlying need to borrowing (unsupported by government financial assistance) | 53,904 | 21,447 |
| **Increase/(decrease) in Capital Financing Requirement** | **53,904** | **21,447** |

¹ The long term debtors shown above relate to loans made to a subsidiary of the council for capital purposes.

# Note 29. Leases

## Accounting Policy - Leases

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

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

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

## Accounting Policy - The Authority as Lessee (Finance Leases)

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

Lease payments are apportioned between:

* a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
* a finance charge (debited to the Financing and Investment Income and Expenditure line in the 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 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Other Land & Buildings | 662 | 711 |

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.

# Note 29. Leases (continued)

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

|  |  |  |
| --- | --- | --- |
|  | **31 March 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Vehicles, Plant & Equipment | 1,725 | 1,466 |

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 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Finance lease liabilities (net present value of minimum lease payments): |  |  |
| ● current |  | 276 |
| ● non-current | 1,708 | 1,189 |
| Finance costs payable in future years | 101 | 147 |
| **Minimum Lease Payments** | **1,826** | **1,612** |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Minimum Lease Payments**  **31 March 2020** | **Minimum Lease Payments**  **31 March 2021** | **Finance Lease Payments**  **31 March 2020** | **Finance Lease Payments**  **31 March 2021** |
|  | **£'000** | **£'000** | **£'000** | **£'000** |
| Not later than one year | 296 | 304 | 0 | 270 |
| Later than one year and not later than five years | 1,141 | 1,177 | 0 | 1,004 |
| Later than five years | 389 | 131 | 0 | 222 |
|  | **1,826** | **1,612** | **0** | **1,496** |

# Note 29. Leases (continued)

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

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

The 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 2020** | **31 March 2021** |
|  |  |  |
|  | **£'000** | **£'000** |
| Not later than one year | 758 | 759 |
| Later than one year and not later than five years | 1,440 | 576 |
| Later than five years | 172 | 2,326 |
| **Total** | **2,370** | **3,661** |

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

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2019/20** |
|  | **£'000** | **£'000** |
| Minimum Lease Payments | 949 | 758 |
| Sublease Payments Receivable | (37) | (52) |
|  | **912** | **706** |

# Note 29. Leases (continued)

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

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

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

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

The future minimum lease payments receivable are:

|  |  |  |
| --- | --- | --- |
|  | **31 March 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Not later than one year | 1,948 | 1,581 |
| Later than one year and not later than five years | 4,414 | 4,090 |
| Later than five years | 13,962 | 13,023 |
| **Total** | **20,324** | **18,694** |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20; £0.355m contingent rents were receivable by the Authority (2019/20 £0.370m).

# Note 30. Debtors

The Council’s debtors (net of the provision for expected credit losses) are as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **31 March 2020** | **31 March 2020** | **31 March 2020** |  | **31 March 2021** | **31 March 2021** | **31 March 2021** |
| **Long-Term** | **Short-Term** | **Total** |  | **Long-Term** | **Short-Term** | **Total** |
| **£'000** | **£'000** | **£'000** |  | **£'000** | **£'000** | **£'000** |
| *973* | *44,819* | *45,792* | Trade receivables | 16,093 | 51,747 | 67,840 |
| *0* | *(3,444)* | *(3,444)* | Less impairment allowance | 0 | (9,100) | (9,100) |
| **973** | **41,375** | **42,348** | **Net trade receivables** | **16,093** | **42,647** | **58,740** |
|  |  |  |  |  |  |  |
| **0** | **2,770** | **2,770** | **Prepayments** |  | 2,694 | 2,694 |
|  |  |  |  |  |  |  |
|  |  |  | **Other receivables:** |  |  |  |
| 0 | 31 | 31 | Client Financial Affairs Debtors |  | 31 | 31 |
| 1,420 | 0 | 1,420 | Education Related Debtors | 530 | 0 | 530 |
| 0 | 6 | 6 | Elections Debtors |  | 6 | 6 |
|  |  |  |  |  |  |  |
| *0* | *11,280* | *11,280* | Housing Benefit Debtors |  | 10,713 | 10,713 |
| *0* | *(8,567)* | *(8,567)* | Less impairment allowance |  | (7,955) | (7,955) |
| 0 | 2,713 | 2,713 | Net Housing Benefit Debtors | 0 | 2,758 | 2,758 |
|  |  |  |  |  |  |  |
| *0* | *1,025* | *1,025* | HRA Rent/Service Charge Debtors |  | 1,060 | 1,060 |
| *0* | *(447)* | *(447)* | Less impairment allowance |  | (362) | (362) |
| 0 | 578 | 578 | Net HRA Rent/Service Charge Debtors | 0 | 698 | 698 |
|  |  |  |  |  |  |  |
| *0* | *22,377* | *22,377* | Local Taxation Debtors |  | 45,453 | 45,453 |
| *0* | *(3,433)* | *(3,433)* | Less impairment allowance |  | (10,149) | (10,149) |
| 0 | 18,944 | 18,944 | Net Local Taxation Debtors | 0 | 35,304 | 35,304 |
|  |  |  |  |  |  |  |
| 0 | 386 | 386 | Rechargeable Works Debtors |  | 220 | 220 |
| 0 | 30 | 30 | Schools Debtors |  | 1,051 | 1,051 |
| 0 | 5 | 5 | SOCH Mortgage Debtors |  | 5 | 5 |
| 13 | 15 | 28 | Employee Related Debtors | 17 | 38 | 55 |
| 0 | 4,144 | 4,144 | VAT Debtors |  | 3,129 | 3,129 |
|  |  |  |  |  |  |  |
| **1,433** | **26,852** | **28,285** | **Other receivables** | **547** | **43,240** | **43,787** |
| **2,406** | **70,997** | **73,403** | **Total Debtors** | **16,640** | **88,581** | **105,221** |

# Note 31. Usable Reserves

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Reserve** | **Balance as at  01 April 2019** | **Net Movement in Year** | **Balance as at  31 March 2020** | **Net Movement in Year** | **Balance as at  31 March 2021** | **Purpose of Reserve** |
|  | **£,000** | **£,000** | **£,000** | **£,000** | **£,000** |  |
| General Fund Balance | (9,039) | (4,884) | (13,924) | (8,765) | (22,689) | Resources available to the general fund to meet future unforeseen events |
| Housing Revenue Account Balance | (5,114) | (31) | (5,145) | (250) | (5,395) | Resources available to the housing revenue account to meet future unforeseen events |
| General Fund Earmarked Reserves | (12,988) | 801 | (12,187) | (45,213) | (57,398) | See Note 20 |
| Housing Revenue Account Earmarked Reserves | (1,194) | (407) | (1,601) | 1,295 | (306) | See Note 20 |
| Capital Receipts Reserve | (1,110) | (4,354) | (5,463) | (1,210) | (6,674) | Proceeds of fixed assets and loan repayments available to meet future capital expenditure |
| Major Repairs Reserve | (100) | 100 | 0 | 0 | 0 | Details available resources to carry out capital works on Housing Revenue Account dwellings to maintain a decent standard of accommodation. |
| Capital Grants Unapplied Reserve | (10,988) | (7,776) | (18,764) | (7,152) | (25,916) | Reflects Government grants and contributions received in year to fund capital projects in progress. |
| **Total Usable Reserves** | **(40,532)** | **(16,551)** | **(57,083)** | **(61,296)** | **(118,378)** |  |

## Accounting Policy - Usable Reserves

The Council holds both general fund and housing revenue account reserves as a consequence of income exceeding expenditure, budgeted contributions to reserves or where money has been earmarked for a specific purpose. These reserves are set at a level appropriate to the size of the budget and the level of assessed risk.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves

Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council.

# Note 32. Cash & 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 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Cash held by the Authority | 24 | 49 |
| Bank current accounts | 5,731 | 7,640 |
| Bank overdraft | (7,613) | (7,670) |
| Short-term deposits with financial institutions | 40,540 | 16,917 |
| **Total Cash & Cash Equivalents** | **38,682** | **16,936** |

# Note 33. Creditors

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **31 March 2020** | **31 March 2020** | **31 March 2020** |  | **31 March 2021** | **31 March 2021** | **31 March 2021** |
| **Long-Term** | **Short-Term** | **Total** |  | **Long-Term** | **Short-Term** | **Total** |
| **£'000** | **£'000** | **£'000** |  | **£'000** | **£'000** | **£'000** |
| (486) | (40,293) | (40,780) | Trade payables | (674) | (49,381) | (50,055) |
| 0 | (1,147) | (1,147) | Receipts in Advance | 0 | (745) | (745) |
|  |  |  | Other payables |  |  |  |
| (6) | (1,694) | (1,700) | Employee Related Creditors | 0 | (2,210) | (2,210) |
| 0 | (549) | (549) | HRA Rent/Service Charge Creditors | 0 | (573) | (573) |
| (31,360) | (1,307) | (32,667) | Local Government Reorganisation Creditors | (30,105) | (1,255) | (31,360) |
| 0 | (11,991) | (11,991) | Local Taxation Creditors | 0 | (18,558) | (18,558) |
| 0 | (2) | (2) | Rechargeable Works Creditors | 0 | 0 | 0 |
| 0 | 0 | 0 | SOCH Mortgage Creditors | (16) | 0 | (16) |
| 0 | 0 | 0 | VAT Creditors | 0 | (80) | (80) |
| **(31,852)** | **(56,983)** | **(88,836)** | **Total Creditors** | **(30,795)** | **(72,802)** | **(103,597)** |

# Note 34. Provisions

## Non Domestic Rate (NDR) Appeals Provision

## 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 than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant 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.

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

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

# Note 34. Provisions (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Short Term Insurance Provision** | **Short Term**  **NDR Appeals Provision** | **Short Term**  **Other Provisions** | **Short Term**  **Total** |
|  | **£000s** | **£000s** | **£000s** | **£000s** |
| Balance as at 31 March 2020 | 0 | (2,403) | (138) | (2,541) |
| Amounts used in 2019/20 | 0 | 607 | 0 | 607 |
| Unused amounts reversed in 2019/20 | 0 | 4 | 0 | 4 |
| **Balance as at 31 March 2021** | **0** | **(1,792)** | **(138)** | **(1,930)** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Long Term Insurance Provision** | **Long Term**  **NDR Appeals Provision** | **Long Term**  **Other Provisions** | **Long Term**  **Total** |
|  | **£000s** | **£000s** | **£000s** | **£000s** |
| Balance as at 31 March 2020 | (2,766) | (3,428) | (763) | (6,957) |
| Additional provisions made in 2019/20 | 1,866 | (1,793) | (120) | (47) |
| Amounts used in 2019/20 | (860) | 2,054 | 5 | 1,199 |
| **Balance as at 31 March 2021** | **(1,760)** | **(3,167)** | **(878)** | **(5,806)** |

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

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

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

# Note 35. Pension Schemes Accounted for as Defined Contribution Schemes

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.

## 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 37 to these financial statements.

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

In 2019/20, the Authority paid £3.986m to Teachers Pensions in respect of teachers retirement benefits, representing 23.68% of pensionable pay. The figures for 2019/20 were £3.659m representing 16.48% of pensionable pay for the period 01/04/19 to 31/08/19 when it increased to 23.68%. There were no contributions remaining payable at year end. The contributions due to be paid in the next financial year are estimated to be £4.972m.

Public Health staff employed by the Authority are members of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. The Authority is not able to identify the underlying scheme assets and liabilities for the staff transferred. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.The total contributions for the year 2019/20 came to £0.081m representing 16.88% of the pensionable pay (£0.089m in 2019/20 representing 16.88% of the pensionable pay). The contributions due to be paid in the next financial year are estimated to be £0.069m.

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 37".

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

# Note 36. Unusable Reserves

## Accounting Policy - Unusable Reserves

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

|  |  |  |
| --- | --- | --- |
|  | **31 March 2020** | **31 March 2021** |
|  | **£'000** | **£'000** |
| Revaluation Reserve | (166,189) | (160,208) |
| Pooled Investment Adjustment Account Instruments Revaluation Reserve | 1,020 | 1,465 |
| Capital Adjustment Account | (267,239) | (233,960) |
| Financial Instruments Adjustment Account | (1,251) | (1,298) |
| Deferred Capital Receipts Reserve | (0) | (481) |
| Pensions Reserve | 265,337 | 334,908 |
| Collection Fund Adjustment Account | (3,562) | 23,501 |
| Accumulated Absences Account | 1,557 | 2,155 |
| Dedicated Schools Grant Adjustment Account | 0 | 16,261 |
| **Total Unusable Reserves** | **(170,326)** | **(17,657)** |

## 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.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2019/20** | **2020/21** | **2020/21** |
|  | **£'000** | **£'000** | **£'000** |
| **Balance as at 1 April** | **(166,368)** |  | **(166,189)** |
| Upward revaluation of assets | (46,241) | (26,559) |  |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | 33,874 | 21,675 |  |
| **Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services** | **(12,367)** |  | **(4,884)** |
| Difference between current value depreciation and historical cost depreciation | 7,951 | 7,492 |  |
| Transfer on assets amalgamated during the year | 98 | 170 |  |
| Accumulated gains on assets sold or scrapped | 4,497 | 3,202 |  |
| Amount written off to the Capital Adjustment Account | 12,546 |  | 10,865 |
| **Balance as at 31 March** | **(166,189)** |  | **(160,208)** |

# Note 36. Unusable Reserves (continued)

## Pooled Investment Adjustment Account

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

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

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2020/21** |
|  | **£'000** | **£'000** |
| **Balance as at 1 April** | **275** | **1,020** |
| Financial Instruments held under Fair Value through Profit & Loss Subject to MHCLG Statutory Over-Ride | 745 | 445 |
| **Balance as at 31 March** | **1,020** | **1,465** |

## 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.

# Note 36. Unusable Reserves (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2019/20** | **2019/20** | **2020/21** | **2020/21** |
|  | **£'000** | **£'000** | **£'000** | **£'000** |
| **Balance as at 1 April** |  | **(289,442)** |  | **(267,239)** |
| 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 | 54,444 |  | 56,369 |  |
| ● Revaluation gains on Property, Plant and Equipment | (12,500) |  | (6,662) |  |
| ● Amortisation of Intangible Assets | 760 |  | 520 |  |
| ● Revenue Expenditure funded from Capital Under Statute | 9,619 |  | 9,888 |  |
| ● 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 | 11,628 |  | 14,358 |  |
|  |  | 63,951 |  | 74,472 |
| Adjusting amounts written out of the Revaluation Reserve | (12,546) |  | (10,865) |  |
| Net written out amount of the cost of non-current assets consumed in the year |  | (12,546) |  | (10,865) |
| Capital financing applied in the year: |  |  |  |  |
| ● Use of Capital Receipts Reserve to finance new capital expenditure | (285) |  | (4,314) |  |
| ● Use of the Major Repairs Reserve to finance new capital expenditure | (3,824) |  | (3,698) |  |
| ● Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (14,733) |  | (11,339) |  |
| ● Application of grants to capital financing from the Capital Grants Unapplied Account | (6,357) |  | (6,670) |  |
| ● Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | (1,361) |  | (1,307) |  |
| ● Capital expenditure charged against the General Fund and HRA balances | (2,790) |  | (2,900) |  |
|  |  | (29,350) |  | (30,228) |
| Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement |  | 148 |  | (101) |
| **Balance as at 31 March** |  | **(267,239)** |  | **(233,960)** |

# Note 36. 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 2021 will be charged to the General Fund over the next 30 years.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2019/20** | **2020/21** | **2020/21** |
|  | **£'000** | **£'000** | **£'000** |
| **Balance as at 1 April** | **(1,183)** |  | **(1,251)** |
| Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement | (68) | (47) |  |
| Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | 0 | 0 |  |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | (68) |  | (47) |
| **Balance as at 31 March** | **(1,251)** |  | **(1,298)** |

## 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.

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2020/21** |
|  | **£'000** | **£'000** |
| **Balance as at 1 April** | **(2,897)** | **(0)** |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 0 | (481) |
| Transfer to the Capital Receipts Reserve upon receipt of cash | 2,897 | 0 |
| **Balance as at 31 March** | **0** | **(481)** |

# Note 36. Unusable Reserves (continued)

## Pensions Reserve

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

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2020/21** |
|  | **£'000** | **£'000** |
| **Balance as at 1 April** | 261,303 | 265,337 |
| Remeasurements of the net defined benefit liability/(asset) | (17,418) | 42,063 |
| 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 | 33,578 | 40,062 |
| Employer’s pensions contributions and direct payments to pensioners payable in the year | (12,126) | (12,554) |
| **Balance as at 31 March** | **265,337** | **334,908** |

## 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.

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2020/21** |
|  | **£'000** | **£'000** |
| **Balance as at 1 April** | (2,170) | (3,562) |
| 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 | (1,392) | 27,063 |
| **Balance as at 31 March** | **(3,562)** | **23,501** |

The balance of £3.562m shown above consists of the following component parts:

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2020/21** |
|  | **£'000** | **£'000** |
| Medway Council Tax Surplus | (4,232) | 4,791 |
| Medway Renewable Energy Disregard | (238) | 0 |
| Medway Non-Domestic Rate Deficit | 908 | 18,710 |
| **Balance as at 31 March** | **(3,562)** | **23,501** |

# Note 36. Unusable Reserves (continued)

## Accumulated Absences Account

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2019/20** | **2020/21** | 2020/21 |
|  | **£'000** | **£'000** | **£'000** |
| **Balance as at 1 April** | **1,766** |  | **1,557** |
|  |  |  |  |
| Settlement or cancellation of accrual made at the end of the preceding year | (1,766) | (1,557) |  |
| Amounts accrued at the end of the current year | 1,557 | 2,155 |  |
| 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 | (209) |  | 598 |
| **Balance as at 31 March** | **1,557** |  | **2,155** |

## Dedicated Schools Grant Adjustment Account

The DSG Adjustment Account manages the deficit on Schools Budgets that would otherwise impact on the Earmarked Schools Reserves. Statutory arrangements require that the impact on the General Fund Balances is neutralised by transfers to or from the Account.

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2020/21** |
|  | **£'000** | **£'000** |
| **Balance as at 1 April** | **0** | **0** |
| Opening Balance Adjustment |  | 9,346 |
| **Adjusted Opening Balance as at 1 April** | **0** | **9,346** |
| In year Schools budget deficit debited to the Comprehensive Income and Expenditure Statement and transferred to the DSG Adjustment Accounts in accordance with statutory requirements | 0 | 6,916 |
| **Balance as at 31 March** | **0** | **16,261** |

# Note 37. 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 35 for details of other pensions schemes)

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

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

* The liabilities of the Kent pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
* Liabilities are discounted to their value at current prices, using a discount rate of 2.35%

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

* Service cost comprising:
  + current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  + past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the Business Support Department
  + net interest on the net defined benefit liability/asset, i.e. net interest expense for the Authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit 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.

# Note 37. Defined Benefit Pension Schemes (continued)

## Discretionary Benefits

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

# Note 37. Defined Benefit Pension Schemes (continued)

## Participation in Pension Schemes

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

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

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

As administering authority to the Fund, Kent County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Investment Strategy Statement. 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 2022 and set contributions for the period from 1 April 2023 to 31 March 2026. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

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

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

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

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

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

# Note 37. Defined Benefit Pension Schemes (continued)

## Transactions relating to Post Employment Benefits

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

|  |  |  |
| --- | --- | --- |
|  | **2019/20** | **2019/20** |
|  | **£'000** | **£'000** |
| **Comprehensive Income and Expenditure Statement** |  |  |
| **Cost of Services** |  |  |
| **Service cost comprising:** |  |  |
| ● Current service costs | 23,098 | 32,970 |
| ● Past service costs | 4,924 | 683 |
| ● (gain)/loss from settlements | (874) | (673) |
| **Financing and Investment Income and Expenditure** |  |  |
| Net Interest expense | 6,114 | 6,677 |
| **Administration expenses** | 316 | 405 |
| **Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services** | **33,578** | **40,062** |
| **Remeasurement of the net defined benefit liability comprising:** |  |  |
| ● Return on plan assets in excess of interest | 53,304 | (139,594) |
| ● Actuarial gains and losses arising on changes in demographic assumptions | (13,962) | (8,583) |
| ● Actuarial gains and losses arising on changes in financial assumptions | (68,643) | 201,329 |
| ● Experience (gain) / loss on defined benefit obligation | 7,330 | (11,089) |
| ● Other actuarial (gains)/losses | 4,553 | 0 |
| **Total Remeasurements Recognised in Other Comprehensive Income** | **(17,418)** | **42,063** |
|  |  |  |
| **Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement** | **16,160** | **82,125** |
| **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 | 33,578 | 40,062 |
| **Actual amount charged against the General Fund Balance for pensions in the year:** |  |  |
| Employers’ contributions payable to scheme | (12,126) | (12,554) |
| **Total Movement in Reserves Statement** | **21,452** | **27,508** |

# Note 37. 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 2020** | **Local Government Pension Scheme**  **31 March 2021** |
|  | **£'000** | **£'000** |
| Present value of the defined benefit obligation | (753,328) | (964,506) |
| Fair value of plan assets | 493,019 | 634,561 |
| Sub-total | (260,309) | (329,945) |
| Present value of unfunded obligation | (5,028) | (4,963) |
| **Net liability arising from defined benefit obligation** | **(265,337)** | **(334,908)** |

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

|  |  |  |
| --- | --- | --- |
|  | **Local Government Pension Scheme**  **31 March 2020** | **Local Government Pension Scheme**  **31 March 2021** |
|  | **£'000** | **£'000** |
| Opening fair value of scheme assets | 546,522 | 493,019 |
| Interest income | 13,011 | 7,695 |
| **Remeasurement gain/(loss):** |  |  |
| ● The return on plan assets, excluding the amount included in the net interest expense | (53,304) | 139,594 |
| ● Other actuarial gains/(losses) | (4,553) | 0 |
| Administration expenses | (316) | (405) |
| Contributions from employer including unfunded | 12,126 | 12,554 |
| Contributions from employees into the scheme | 4,036 | 4,233 |
| Benefits paid | (23,605) | (21,586) |
| Settlement prices received/(paid) | (898) | (543) |
| **Closing fair value of scheme assets** | **493,019** | **634,561** |

# Note 37. Defined Benefit Pension Schemes (continued)

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

|  |  |  |
| --- | --- | --- |
|  | **Funded Liabilities: Local Government Pension Scheme 2019/20** | **Funded Liabilities: Local Government Pension Scheme 2020/21** |
|  | **£'000** | **£'000** |
| **Opening balance at 1 April** | **807,825** | **758,356** |
| Current service cost | 23,098 | 32,970 |
| Interest cost | 19,125 | 14,372 |
| Contributions from scheme participants | 4,036 | 4,233 |
| **Remeasurement (gains)/losses:** |  |  |
| ● Actuarial gains and losses arising on changes in demographic assumptions | (13,962) | (8,583) |
| ● Actuarial gains and losses arising on changes in financial assumptions | (68,643) | 201,329 |
| ● Experience loss/(gain) on defined benefit obligation | 7,330 | (11,089) |
| Liabilities extinguished on settlements | (1,772) | (1,216) |
| Liabilities assumed on entity combinations |  |  |
| Estimated benefits paid net of transfers in | (23,146) | (21,146) |
| Past service cost, including curtailments | 4,924 | 683 |
| Unfunded pension payments | (459) | (440) |
| **Closing balance at 31 March** | **758,356** | **969,469** |

# Note 37. Defined Benefit Pension Schemes (continued)

## Local Government Pension Scheme assets comprised:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Period Ended 31 March 2020**  **Quoted prices in active markets** | **Period Ended 31 March 2020**  **Quoted prices not in active markets** | **Period Ended 31 March 2020**  **Total** | **Period Ended 31 March 2020**  **Percentage of total asset** | **Period Ended 31 March 2021**  **Quoted prices in active markets** | **Period Ended 31 March 2021**  **Quoted prices not in active markets** | **Period Ended 31 March 2021**  **Total** | **Period Ended 31 March 2021**  **Percentage of total asset** |
|  | **£'000** | **£'000** | **£'000** | **%** | **£'000** | **£'000** | **£'000** | **%** |
| Equities | 285,458 | 0 | 285,458 | 57.90% | 335,683 | 51,399 | 387,082 | 61.00% |
| Fixed Interest Government Securities | 3,944 | 0 | 3,944 | 0.80% | 3,807 | 0 | 3,807 | 0.60% |
| Corporate Bonds | 64,092 | 0 | 64,092 | 13.00% | 79,320 | 0 | 79,320 | 12.50% |
| Property | 0 | 67,544 | 67,544 | 13.70% | 0 | 65,994 | 65,994 | 10.40% |
| Others: |  |  |  |  |  |  |  |  |
| Cash | 0 | 14,298 | 14,298 | 2.90% | 0 | 31,093 | 31,093 | 4.90% |
| Private Equity | 0 | 12,325 | 12,325 | 2.50% | 0 | 15,229 | 15,229 | 2.40% |
| Infrastructure | 0 | 5,423 | 5,423 | 1.10% | 0 | 6,346 | 6,346 | 1.00% |
| Absolute Return Portfolio | 41,414 | 0 | 41,414 | 8.40% | 45,688 | 0 | 45,688 | 7.20% |
| Derivatives | 0 | (1,479) | (1,479) | (0.30%) |  | 0 | 0 | 0.00% |
| **Total assets** | **394,908** | **98,111** | **493,019** | **100.00%** | **464,499** | **170,062** | **634,561** | **100.00%** |

The funds Actuaries have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2021 is likely to be different from that shown due to estimation techniques.

# Note 37. Defined Benefit Pension Schemes (continued)

## 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 2021, the actuary has rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2020 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 2021 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2021 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumption, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

To calculate the asset share the actuary has rolled forward the assets allocated to the Employer at 31 March 2020 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and our Employees.

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

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

## Impact of McCloud/Sargeant judgement

The results in this note include an allowance to reflect the Court of Appeal judgement in respect of the McCloud and Sargeant cases which relate to age discrimination within the Judicial and Fire Pension schemes, respectively. This allowance was described in the previous accounting period and incorporated into the accounting results as at 31 March 2020. These results, including the allowance, have been rolled forward and remeasured to obtain the accounting results as at 31 March 2021.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. The actuary does not believe there are any material differences between the approach underlying their estimated allowance and the proposed remedy. A more detailed analysis at this stage would require a significant volume of member data which is not yet available. Therefore, they have not included any further adjustment in light of the ongoing consultation in their report.

# Note 37. Defined Benefit Pension Schemes (continued)

## Demographic, Statistical and Financial Assumptions

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

The assumed life expectations from age 65:

|  |  |  |
| --- | --- | --- |
| **Life Expectancy from age 65 (years)** | **Local Government Pension Scheme** | **Local Government Pension Scheme** |
|  | **31 March 2020** | **31 March 2021** |
| **Mortality assumptions:** |  |  |
| **Longevity at 65 for current pensioners** |  |  |
| ● Men | 21.8 | 21.6 |
| ● Women | 23.7 | 23.6 |
| **Longevity at 65 for future pensioners** |  |  |
| ● Men | 23.2 | 22.9 |
| ● Women | 25.2 | 25.1 |

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** | **Local Government Pension Scheme** |
|  | **31 March 2020** | **31 March 2021** |
| Rate of increase in salaries | 2.95% | 3.85% |
| Rate of increase in pensions | 1.95% | 2.85% |
| Rate for discounting scheme liabilities | 2.35% | 2.00% |
| Rate of increase in Consumer Price Index | 1.95% | 2.85% |

These assumptions are set with the reference to market conditions at 31 March 2021.

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

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

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

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.35% p.a. below RPI i.e. 2.85% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts and the duration of the Employer’s liabilities. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority’s proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue.

Salaries are assumed to increase at 1.0% p.a. above CPI in addition to a promotional scale.

# Note 37. Defined Benefit Pension Schemes (continued)

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Sensitivity Analysis** |  | **31 March 2020** | **31 March 2020** | **31 March 2020** | **31 March 2021** | **31 March 2021** | **31 March 2021** |
|  |  | **£000's** | **£000's** | **£000's** | **£000's** | **£000's** | **£000's** |
| **Adjustment to discount rate** |  | **0.10%** | **0.00%** | **(0.10%)** | **0.10%** | **0.00%** | **(0.10%)** |
|  | Present Value of Total obligation | 743,252 | 758,356 | 773,782 | 950,095 | 969,469 | 989,258 |
|  | Projected Service Cost | 21,205 | 21,774 | 22,359 | 33,047 | 34,214 | 35,419 |
|  |  |  |  |  |  |  |  |
| **Adjustment to long term salary increase** |  | **0.10%** | **0.00%** | **(0.10%)** | **0.10%** | **0.00%** | **(0.10%)** |
|  | Present Value of Total obligation | 759,471 | 758,356 | 757,251 | 970,973 | 969,469 | 967,978 |
|  | Projected Service Cost | 21,785 | 21,774 | 21,763 | 34,233 | 34,214 | 34,196 |
|  |  |  |  |  |  |  |  |
| **Adjustment to pension increases and deferred revaluation** |  | **0.10%** | **0.00%** | **(0.10%)** | **0.10%** | **0.00%** | **(0.10%)** |
|  | Present Value of Total obligation | 772,713 | 758,356 | 744,284 | 987,569 | 969,469 | 951,726 |
|  | Projected Service Cost | 22,350 | 21,774 | 21,213 | 35,406 | 34,214 | 33,058 |
|  |  |  |  |  |  |  |  |
| **Adjustment to life expectation assumption** |  | **+ 1 Year** | **None** | **-1 Year** | **+ 1 Year** | **None** | **-1 Year** |
|  | Present Value of Total obligation | 788,122 | 758,356 | 729,778 | 1,012,457 | 969,469 | 928,385 |
|  | Projected Service Cost | 22,443 | 21,774 | 21,124 | 35,638 | 34,214 | 32,841 |

The Authority anticipates that it will pay £12.657m 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.

1. ¹ The 2020/21 opening balance for General Fund has increased by £9.346m, being the transfer of the Dedicated Schools Grant deficit to the Dedicated Schools Grant Adjustment Account within unusable reserves

   ²for a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement [↑](#footnote-ref-2)