



**GOSPORT**  
Borough Council

# **STATEMENT OF ACCOUNTS**

**2018/19**



## **STATEMENT OF ACCOUNTS 2018/19**

<b>CONTENT</b>	<b>PAGE</b>
1 NARRATIVE REPORT	1
2 STATEMENT OF RESPONSIBILITIES	14
3 FINANCIAL STATEMENTS	
1. Comprehensive Income and Expenditure Statement	15
2. Movement in Reserves Statement	16
3. Balance Sheet	17
4. Cash Flow Statement	18
4 NOTES TO THE FINANCIAL STATEMENTS	
1. Accounting Policies	19
2. Accounting Standards issued, not adopted	34
3. Critical Judgements in applying Accounting Policies	34
4. Uncertainties relating to Assumptions and Estimates used	35
5. Events after the Reporting Period	36
6. Other Operating Expenditure	37
7. Financing and Investment Income and Expenditure	37
8. Taxation and Non Specific Grant Income and Expenditure	37
9. Adjustments between Accounting Basis and Funding Basis under Regulations	37
10. Expenditure and Funding Analysis	40
11. Note to the Expenditure and Funding Analysis	41
12. Expenditure and Income Analysed by Nature	42
13. Property, Plant and Equipment and Impairments	43
14. Heritage Assets	47
15. Investment Properties	47
16. Intangible Assets	48
17. Financial Instruments	49
18. Nature and Extent of Risks Arising from Financial Instruments	52
19. Debtors	56
20. Cash and Cash Equivalents	56
21. Creditors	57

22. Provisions	57
23. Agency Services	57
24. Usable Reserves	58
25. Unusable Reserves	60
26. Members Allowances	64
27. Officers Remuneration	64
28. External Audit Costs	65
29. Grant Income	66
30. Related Parties	67
31. Capital Expenditure and Capital Financing	69
32. Leases	70
33. Pensions	72
34. Contingent Liabilities	78
35. Contingent Assets	79
36. Cash Flow Statement Notes	80
37. Certification and authorisation of the Accounts	82
5 SUPPLEMENTARY FINANCIAL STATEMENTS	
1. Housing Revenue Account	83
2. Collection Fund	89
6 ANNUAL GOVERNANCE STATEMENT	94
7 AUDIT OPINION	105
8 GLOSSARY OF TERMS	108

# NARRATIVE REPORT

This narrative report is divided into four sections

1. An overview of Gosport
2. A summary of the financial performance for the year
3. An explanation of the financial statements
4. Outlook and key issues

## 1. GOSPORT AREA AND ORGANISATION OVERVIEW

Gosport is both a town and a borough in Southern Hampshire. It sits on a peninsula, bordered by the Solent channel to the south, Portsmouth Harbour and the City of Portsmouth to the east and Fareham Borough Council to the north and west.

Geographically, Gosport comprises of a relatively small land area with substantial proportions of open space, MOD ownership and conservation areas. Access to the mainland to the north of the Borough is largely governed by the busy A32 corridor and the M27 motorway junction at Fareham.

<b>Key Facts - Area</b>	<i>Hectares</i>	<i>Square Miles</i>
Total area of the Borough	2,750	10.6
Total land area of the Borough	2,530	9.8
Proportion of Open Space		26%
Proportion of land owned by the MOD		21%
Proportion of land covered by conversation areas		10.2%
	<i>Kilometres</i>	<i>Miles</i>
Total length of coastline	39	24.2
Length of coastline that is publically accessible	17.3	10.7

<b>Key Facts - Population</b>	
Population estimate (2017)	82,875
Population density - people per hectare (2016)	32.7
<i>Gosport is one of the most densely populated local authorities in the South East Region</i>	
Proportion of the population under 16 (2016)	18.7%
Proportion of the population over 60 (2016)	24.9%
Ethnicity - white (2011)	94.4%
Ethnicity - non-white (2011)	5.6%
Number of households (2016)	37,296
Average number per household (2016)	2.21

# NARRATIVE REPORT

## Key Facts - Work

Working population (2017)		39,400
Number of people employed in Gosport (2011)		20,283
Number of Gosport residents who work in Gosport (2011)		13,416
Main locations outside the Borough where Gosport residents work (2011)	Fareham	7,047
	Portsmouth	5,820

## Responsibilities

Gosport is classed as a lower tier authority, with main responsibilities that include leisure and culture; waste collection; environmental services; economic prosperity; planning policy, conservation, design and control; and both social and non-social housing. Coast protection is an ongoing concern.

As a housing authority, Gosport is responsible for the management and maintenance of some 3,100 dwellings.

## Political Structure

There are 34 local councillors and, from May 2019, the political structure is

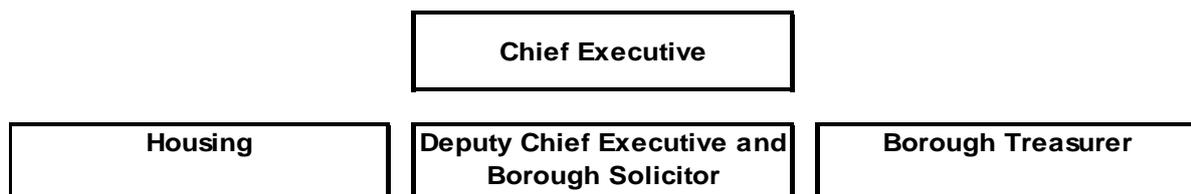
Conservatives	18
Liberal Democrats	14
Labour	2

## Council Management and Staffing

Since, October 2016, Gosport's management has been provided by Portsmouth City Council with the two authorities sharing the Chief Executive, Borough Solicitor & Deputy Chief Executive and Borough Treasurer roles. The shared management arrangement allows for other support and professional expertise as necessary.

The Council's staffing resource comprises circa 200 full time equivalent direct employees, as well as staff supplied by both agencies and Portsmouth City Council.

The Council is organised into three business units with responsibility for both support and frontline services. These sit underneath the Chief Executive.



## The Corporate Plan

Gosport Borough Council's mission statement is to 'build on our strengths to empower and support our communities and ensure the potential of the borough and all of our residents is achieved'.

The Council's core values in achieving this are to be

# NARRATIVE REPORT

- Ambitious
- Supportive
- Collaborative
- Adaptable
- Efficient

The Council has five strategic priorities to focus on to achieve the mission statement

- Raise aspirations
- Enhance the environment
- Empower our residents
- Develop the economy
- Deliver effective services

## 2. SUMMARY OF FINANCIAL PERFORMANCE

### General Fund

The Council's revenue budget for 2018/19 before transfers to or from reserves and including Revenue Contribution to Capital was £10.932 million, the actual net expenditure for the year was £8.912 million giving an under spending of £2.020 million.

The underspend can be briefly explained as follows

1. £1.295 million which has been transferred to earmarked reserves for future use – including:
  - The inter year timing differences in accounting for Business Rates receipts (to the Stability and Resilience Reserve)
  - Community Infrastructure Levy receipts during the year (to Capital Grants Unapplied)
  - Revenue Reserve for Capital – resources released from the policy change in the calculation of the Minimum Revenue Provision ( to the Revenue Reserve for Capital), which is used towards funding the capital programme
  - The balance of the Homelessness Support Grant received in year (to Homelessness Support Reserve)
  - New Burdens Grants for Planning (to Planning Grants Reserve)
2. £0.862 million the underspend arising from operational activities – this has been transferred to the Revenue Financing Reserve. This underspending is principally due to revenue budget carry forward requests to 2019/20 of £0.483 million, as work has been delayed due to capacity, weather and operational issues. The remaining underspend of £0.379 million is spread over a number of services of the Council.

# NARRATIVE REPORT

This table summarises the 2018/19 General Fund outturn, including how it is financed and the main reserves. It is presented in the Council's Budget Book format (which mirrors the Council's decision making structure) as opposed to the statutory reporting format in the following financial statements.

GENERAL FUND - OUTTURN	REVISED 2018/2019 £'000	ACTUAL 2018/2019 £'000	VARIANCE £'000
<b>GENERAL FUND BUDGET</b>			
Community Board	5,888	5,798	(90)
Economic Development Board	946	819	(127)
Policy and Organisation Board	3,598	1,869	(1,729)
<b>TOTAL NET EXPENDITURE</b>	<b>10,432</b>	<b>8,486</b>	<b>(1,946)</b>
<b>REVENUE CONTRIBUTION TO CAPITAL</b>	<b>500</b>	<b>426</b>	<b>(74)</b>
<b>TRANSFER TO/(FROM) RESERVES</b>			
Revenue Financing Reserve	(614)	248	862
Stability and Resilience Reserve	412	466	54
Capital Grants Unapplied (CIL)	-	761	761
Revenue Reserve for Capital	-	132	132
Homelessness Support Grant	-	334	334
Other Earmarked Reserves	-	14	14
<b>BUDGET TOTAL</b>	<b>10,730</b>	<b>10,867</b>	<b>137</b>
<b>FINANCED BY</b>			
<b>Council Tax</b>	<b>(5,814)</b>	<b>(5,814)</b>	<b>-</b>
<b>Government Grants</b>	<b>(1,044)</b>	<b>(1,127)</b>	<b>(83)</b>
<b>Business Rates Retention</b>	<b>(3,872)</b>	<b>(3,926)</b>	<b>(54)</b>
	<b>(10,730)</b>	<b>(10,867)</b>	<b>(137)</b>
# (Red) figures are income & in the variance column indicate an underspending or additional income			

GENERAL FUND - MAIN REVENUE RESERVES	ACTUAL 01-Apr-18 £'000	ACTUAL 31-Mar-19 £'000	VARIANCE £'000
General Fund Working Balance	(890)	(890)	0
Revenue Financing Reserve	(3,856)	(4,104)	(248)
Stability and Resilience Reserve	(1,562)	(2,028)	(466)
Homelessness Support Grant Reserve	(165)	(499)	(334)
Revenue Reserve for Capital	(524)	(656)	(132)

# NARRATIVE REPORT

## Housing Revenue Account

The Housing Revenue Account had a forecast surplus for 2018/19 of £0.852 million with revised revenue account balances totalling £4.946 million at 31 March 2019. The actual surplus was £0.510 million with revenue account balances of £4.604 million being carried forward into 2019/20.

<b>HOUSING REVENUE ACCOUNT - OUTTURN</b>	<b>REVISED 2018/19 £'000</b>	<b>ACTUAL 2018/19 £'000</b>	<b>VARIANCE £'000</b>
Net Surplus to Major Repairs, New Build & Loan Repayment Reserve	(852)	(510)	342
Capital Programme funding from Major Repairs, New Build & Loan Repayment Reserve	0	0	0
	<b>(852)</b>	<b>(510)</b>	<b>342</b>
<i># (Red) figures are income &amp; in the variance column indicate an underspending or additional income</i>			
<b>HRA - REVENUE RESERVES</b>	<b>ACTUAL 01-Apr-18 £'000</b>	<b>ACTUAL 31-Mar-19 £'000</b>	<b>VARIANCE £'000</b>
Revenue Account Balance	(992)	(992)	0
Major Repairs, New Build & Loan Repayment Reserve	(3,102)	(3,612)	(510)
	<b>(4,094)</b>	<b>(4,604)</b>	<b>(510)</b>

# NARRATIVE REPORT

## Capital Programme

A summary of capital expenditure and financing for 2018/19 is shown below. This shows material schemes, additions and enhancements to the council's fixed assets together with scheme slippage into 2019/20.

SCHEME	REVISED 2018/19 £'000	ACTUAL 2018/19 £'000	VARIANCE £'000	SLIPPAGE to 2019/20 £'000
<b>BY BOARD</b>				
Community Board - Housing (HRA)	3,302	3,687	385	-
Community Board - Housing (GF)	1,078	798	(280)	280
Community Board - Non Housing	2,452	638	(1,814)	1,814
Economic Development Board	853	443	(410)	410
Policy & Organisation Board	477	251	(226)	221
	<b>8,162</b>	<b>5,817</b>	<b>(2,345)</b>	<b>2,725</b>
<b>BY MAJOR SCHEME</b>				
Council Dwellings (HRA)	2,700	2,760	60	-
Disabled Facilities	1,078	798	(280)	280
Alver Valley Country Park	700	129	(571)	571
Purchase of Properties (HRA)	602	927	325	-
Daedalus Regeneration	433	291	(142)	142
Coastal Defence Schemes	406	106	(300)	300
Forton Lake Opening Bridge - mechanical and electrical upgrade	378	119	(259)	259
Lee on Solent Splash Pool	276	218	(58)	58
Town Hall Major Repairs including Lift	145	57	(88)	88
Community Space - Manor Way	140	50	(90)	90
Car Park resurfacing & upgrading	110	12	(98)	98
Cockle Pond - Water Circulation Scheme	100	0	(100)	100
Cocklepond Footways Repairs	100	0	(100)	100
IT General Data Protection	100	73	(27)	27
Other IT Schemes	93	98	5	(5)
Public Conveniences refurbishment	90	14	(76)	76
Leesland Road Play Area - Refurbishment	81	0	(81)	81
Digital Strategy (Channel Shift)	75	0	(75)	62
Essential Paving improvements & upgrades	70	0	(70)	70
All other schemes	485	165	(320)	328
	<b>8,162</b>	<b>5,817</b>	<b>(2,345)</b>	<b>2,725</b>
<b>FINANCED BY</b>				
HRA - Major Repairs Reserve	2,700	2,992		
HRA - Revenue & Reserves	689	695		
GF - Capital Receipts	170	151		
GF - Developer Contributions - Open Spaces	462	201		
GF - Other Grants & Contributions	369	156		
GF - Capital Grants - Disabled Facilities	1,078	798		
GF - Revenue & Reserves	1,437	824		
GF - Borrowing	1,257	-		
	<b>8,162</b>	<b>5,817</b>		
<i># (Red) figures in the variance column indicate an underspending</i>				

# NARRATIVE REPORT

## THE FINANCIAL STATEMENTS

The Statement of Accounts sets out the Council's financial position at 31 March 2019 and a summary of its income and expenditure in the year to 31 March 2019. It is, in parts, a complex document which is prescribed by the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2018/19 (the Code) which is underpinned by International Financial Reporting Standards (IFRS). It comprises of core and supplementary statements together with disclosure notes and is subject to external audit. These are summarised over four headings below:

### a. Core financial statements

- **Comprehensive Income and Expenditure Statement (CI&ES)**

This statement records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis in line with the Council's reporting structure and the bottom half includes corporate transactions and funding.

The content shows the service cost in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation and rents. Authorities raise taxation and rents to cover expenditure in accordance with statutory requirements and this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure and Funding Analysis.

- **Movement in Reserves Statement (MIRS)**

This statement summarises the change in the Council's reserves over the year – with the reserves being divided into 'usable reserves' (ie those that can be used to fund expenditure) and 'unusable reserves (ie those which are set aside for specific purposes)

It includes the adjustments needed to show the Council's net expenditure and income in line with statutory requirements as reported to the Council's management and members

- **Balance Sheet**

The Balance Sheet provides a snapshot of the Council's assets, liabilities, cash and reserves at the year end date.

- **Cash Flow Statement**

The Cash Flow Statement shows the reasons for the changes in the Council's cash balances over the year by analysing them over operating, investing and financing activities.

### b. Notes to the financial statements

These provide supporting information and analysis including detail about the Council's accounting policies which underpin the reported figures.

*The Expenditure and Funding Analysis (E&FA) note underpins the CI&ES and the MIRS – the latter reconciling the CI&ES to the Council's statutory funding arrangements. The E&FA shows the reconciling adjustments from the MIRS in more detail against the Council's main reporting structure, as included in the CI&ES, to show the annual change in usable reserves*

# NARRATIVE REPORT

## c. Supplementary financial statements

- Housing Revenue Account (HRA) and notes

The Housing Revenue Account (HRA) reflects the statutory obligation to maintain a separate revenue account for income and expenditure on council housing and related activities in accordance with the Local Government and Housing Act 1989. The notes provide further supporting information.

- Collection Fund and notes

The Collection Fund is the statutory account that billing authorities must maintain separately from the rest of their accounts. It summarises council tax and business rate transactions for the Borough, County Council, Police & Crime Commissioner, Fire & Rescue Authority and Central Government. The notes provide further supporting information.

## d. Important governance statements

- Statement of Responsibilities

This sets out the Council's and the Chief Financial Officer's responsibilities in relation to the administration of the Council's affairs.

- Annual Governance Statement

The Accounts and Audit Regulations 2015 require the Council to conduct a review at least once a year of the effectiveness of its system of internal control, and to include a statement reporting on the review with the Statement of Accounts.

## 3. KEY ISSUES AND OUTLOOK

### Key financial figures included in the statement

- Pensions liability

The Balance Sheet shows an improved position compared to last year's net pension deficit by £2.030 million. The improvement is mainly due to changes in actuarial assumptions in measuring fund liabilities £4.28million offset by additional liabilities £2.25 million, which includes the impact of the supreme court decision regarding discrimination from pension reforms (£1.21 million) . The liability is a volatile figure and has a tendency to vary by several millions from year to year depending on actuarial assumptions and government guidance. The Hampshire Local Government Pension Fund is subject to triennial valuations and employee and employer contributions are adjusted accordingly to ensure a fully funded pension position over the life of the fund. The Council's budget and forward projections fully provide for required pension fund contributions.

31-Mar-18 £'000	31-Mar-19 £'000
<b>(40,650) Net Pension Liability</b>	<b>(38,620)</b>

# NARRATIVE REPORT

- **Borrowing and Cash**

The table below summarises the Council's net borrowing position at the year end. Local Authority treasury management functions are closely regulated and the Council complies with all managerial and reporting guidelines

31-Mar-18 £'000	31-Mar-19 £'000
4,008 Short Term Investments	7,044
7,050 Cash and Cash Equivalents	4,890
(11,347) Short Term Borrowing	(14,588)
(63,000) Long Term Borrowing	(59,000)
<b>(63,289) Net Borrowing position</b>	<b>(61,654)</b>

- **Capital Financing Requirement**

The Council's capital financing requirement (or the underlying need to borrow) is essentially a measure of the outstanding capital expenditure which has not yet been paid for from either revenue or capital resources and is set out below. This is the combined figure for both the general fund and housing revenue account.

31-Mar-18 £'000	31-Mar-19 £'000
<b>81,707 Capital Financing Requirement</b>	<b>81,707</b>

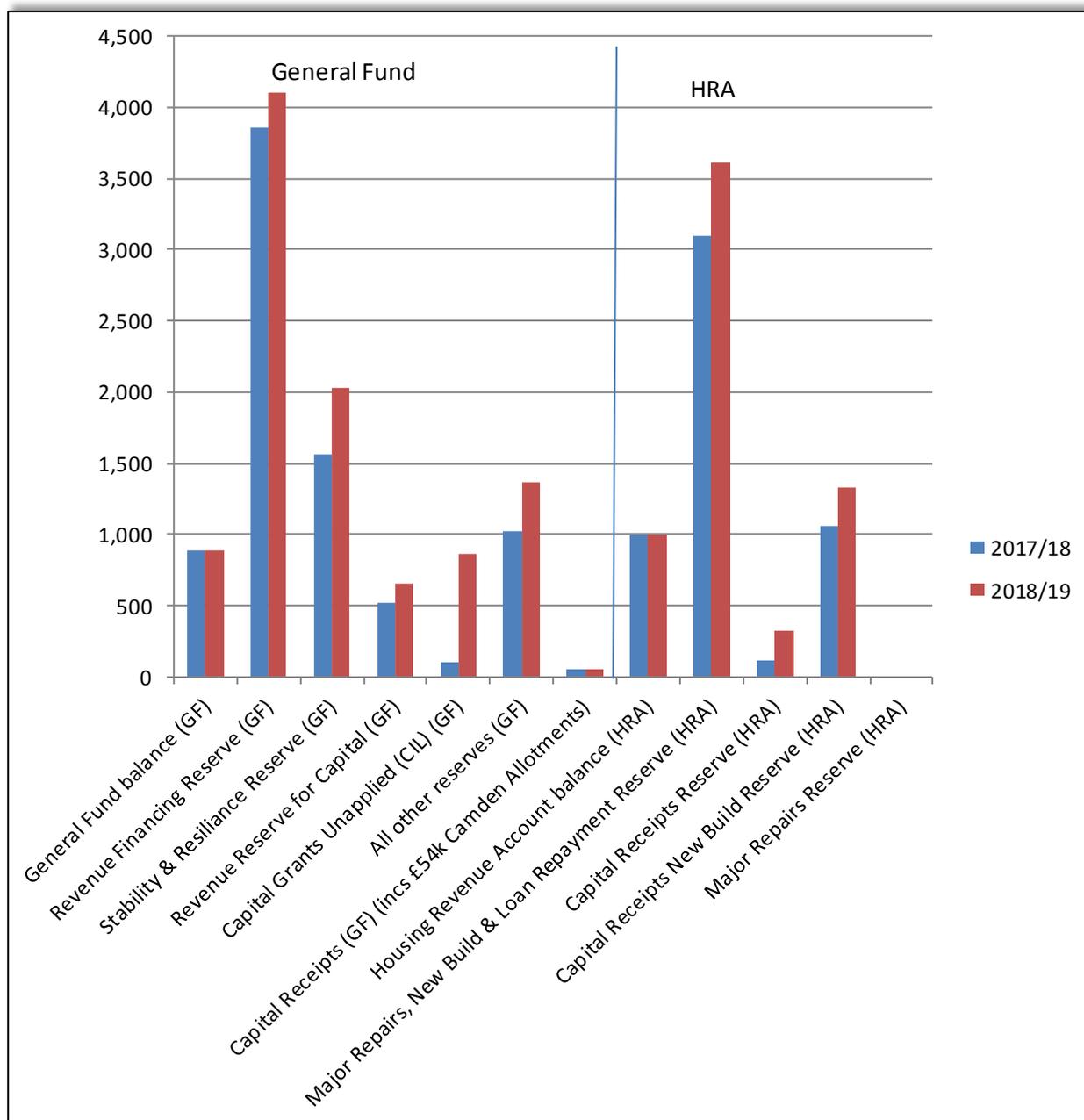
- **Resources**

The council's available reserves at the end of 2018/19 to meet both General Fund and Housing Revenue Account capital and revenue expenditure plans are summarised below:

31-Mar-18 £'000	31-Mar-19 £'000
<b><u>Revenue</u></b>	
(7,331) General Fund (GF)	(8,393)
(4,094) Housing Revenue Account (HRA)	(4,604)
<b><u>Capital</u></b>	
(679) General Fund (GF)	(1,572)
(1,169) Housing Revenue Account (HRA)	(1,655)
<b>(13,273)</b>	<b>(16,224)</b>

# NARRATIVE REPORT

- The Council's year on year balances on available reserves (£'000)**



In addition the Council has £2.40 million of developers' contributions and other grants and contributions available to spend at 31st March 2019 (£2.38million at 31 March 2018).

These are categorised as 'Receipts in Advance – Capital Grants' as they are subject to conditions as to the nature and timescale of their use and could therefore be returnable. The Council manages these sums to mitigate that possibility.

# NARRATIVE REPORT

## Outlook

- **General Fund (GF)**

The Council's overall financial position remains sustainable with adequate levels of reserves.

Two consultation papers to come into effect in 2020/21 have been published by the government

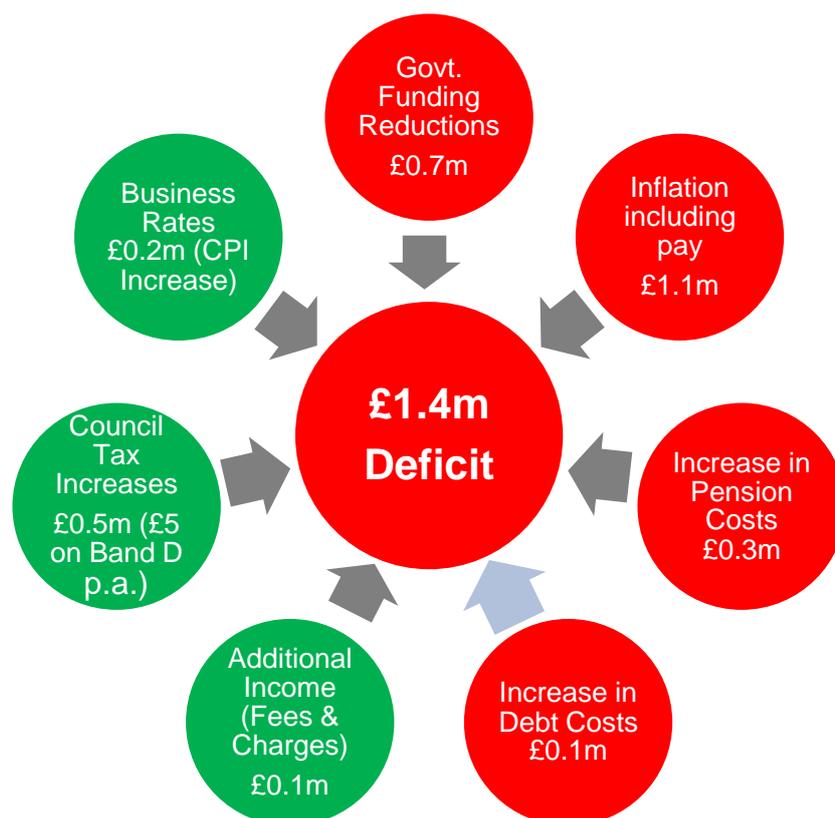
- Fair Funding Review (review of the needs element embedded within the Revenue Support Grant and Business Rates Retention system)
- 75% Business Rates Retention – how the business rate income collected from businesses is distributed between the Government and Council's.

These are important to the Council and is one of the largest risks to future available funding and the Council's assumption is that in the medium term for the period 2020/21 to 2022/23 Government funding will reduce by £0.7million as a result of the government changes referred to above.

Over the past few years, the Council has: undertaken service reviews; achieved staffing reductions; let major contracts for Grounds, Waste and Building Maintenance and entered into shared service arrangements for the Building Control and Environmental Health functions. The difficulty in achieving further savings against projected budget deficits, while at the same time protecting front line services, was a key factor leading to the Portsmouth shared management arrangement in 2016/17.

Looking ahead, and in the absence of firm guidance and information, the position is uncertain.

A new medium term forecast has been completed to cover the period 2020/21 to 2022/23, which shows a savings requirement of £1.4 million by 2022/23 based on maintaining acceptable Council Tax and reserve levels and is summarised below.



# NARRATIVE REPORT

- **Housing Revenue Account (HRA)**

Notable points from the latest HRA Business Plan and budget report include

- Over the 30 year period, the Business Plan is forecast to remain in balance with HRA Reserves at the end of the period amounting to £39 million. It will provide a smooth profile of repairs and maintenance funding at average levels of £7 million per annum, and takes into account key variables relating to rent increases and forecast RTB sales.
- From April 2016, Government policy was that social housing rents were to reduce by 1% per annum for the four years from April 2016 – a total estimated income loss of some £3 million. The Government have now announced that from April 2020 rents will be allowed to increase by CPI plus 1%
- Gross HRA borrowing at 31 March 2019 is £54.8 million. The HRA's capital financing requirement (underlying need to borrow) is £61.8 million and so the HRA is therefore presently under-borrowed by £7.0 million.
- In October 2018 The Government announced the removal of the HRA debt cap. The Council is now able to borrow to meet its social housing new build requirements, subject to prudential principles.
- Decisions on whether to repay or refinance maturing loans are taken as they fall due and are influenced by the latest business plan.
- From 2017/18, the HRA was required to incur an annual depreciation charge in accordance with the Code's 'proper practices' rather than the permitted interim charge based on the indexed Major Repairs Allowance. This may result in a higher depreciation charge which will be considered as necessary when reviewing the HRA revenue and capital budgets.

- **Capital Programme**

The currently approved capital programme covers the four year period from 2018/19 to 2021/22 for both the GF and the HRA and is summarised below.

The programme will be updated following the 2018/19 outturn to incorporate any slippage, re-phasing and under or over spends.

# NARRATIVE REPORT

	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000	Total £'000
<b>CAPITAL BUDGETS BY BOARD</b>					
COMMUNITY BOARD - HOUSING (HRA)	3,302	4,826	4,900	4,900	17,928
COMMUNITY BOARD - HOUSING (GF)	1,078	737	737	737	3,289
COMMUNITY BOARD - NON HOUSING	2,452	1,443	737	1,601	6,233
ECONOMIC DEVELOPMENT BOARD	853	1,811	-	-	2,664
POLICY & ORGANISATION BOARD	477	494	155	235	1,361
	<b>8,162</b>	<b>9,311</b>	<b>6,529</b>	<b>7,473</b>	<b>31,475</b>
<b>FUNDING</b>					
DEPRECIATION, REVENUE AND RESERVES (HRA)	3,302	4,826	4,900	4,900	17,928
EXTERNAL GRANTS AND CONTRIBUTIONS	1,909	1,358	1,247	1,316	5,830
RESERVES AND CAPITAL RECEIPTS	1,492	977			2,469
RESERVES - HRA (TO GF)	202	174	117	997	1,490
BORROWING (GF)	1,257	1,976	265	260	3,758
	<b>8,162</b>	<b>9,311</b>	<b>6,529</b>	<b>7,473</b>	<b>31,475</b>

# STATEMENT OF RESPONSIBILITIES

## **The Authority's responsibilities**

The Authority is required to:

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

Councillor M. Hook  
Chair of Policy and Organisation Board

24<sup>th</sup> July 2019

## **The Chief Finance Officer's responsibilities**

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

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

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

The Chief Finance Officer has also:

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

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31st March 2019.

Mr Chris Ward  
Borough Treasurer, Section 151 officer

24<sup>th</sup> July 2019

# FINANCIAL STATEMENTS

## Comprehensive Income and Expenditure Statement

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

Gross Exp £'000	2017/18		Notes	2018/19		Net Exp £'000
	Gross Income £'000	Net Exp £'000		Gross Exp £'000	Gross Income £'000	
11,415	(5,192)	6,223	Community Board	11,353	(5,220)	6,133
1,148	(205)	943	Economic Development Board	1,016	(192)	824
31,164	(27,005)	4,159	Policy and Organisation Board	31,584	(26,241)	5,343
11,723	(14,870)	(3,147)	Housing Revenue Account	12,436	(14,795)	(2,359)
<b>55,450</b>	<b>(47,272)</b>	<b>8,178</b>	<b>Cost Of Services</b>	<b>56,389</b>	<b>(46,448)</b>	<b>9,941</b>
		3,709	Other Operating Expenditure			3,163
		2,217	Financing and Investment Income and Expenditure			2,701
	(11,480)		Taxation and Non-Specific Grant Income and Expenditure			(11,535)
		<b>2,624</b>	<b>Deficit on Provision of Services</b>			<b>4,270</b>
	(12,205)		Surplus on revaluation of Property, Plant and Equipment assets	25		(7,175)
		170	Actuarial losses / (gains) on pension assets / liabilities	25		(4,280)
	<b>(12,035)</b>		<b>Other Comprehensive (Income)</b>			<b>(11,455)</b>
	<b>(9,411)</b>		<b>Total Comprehensive (Income)</b>			<b>(7,185)</b>

# FINANCIAL STATEMENTS

## Movement in Reserves Statement

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

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2017</b>	<b>(6,105)</b>	<b>(3,454)</b>	<b>(942)</b>	<b>0</b>	<b>(20)</b>	<b>(10,521)</b>	<b>(67,302)</b>	<b>(77,823)</b>
<b>Movement in reserves during 2017/18</b>								
Total Comprehensive Income and Expenditure	0	2,624				2,624	(12,035)	(9,411)
Adjustments between accounting basis & funding basis under regulations (Note 9)	(1,226)	(3,264)	(805)	0	(81)	(5,376)	5,376	0
<b>(Increase)/decrease in 2017/18</b>	<b>(1,226)</b>	<b>(640)</b>	<b>(805)</b>	<b>0</b>	<b>(81)</b>	<b>(2,752)</b>	<b>(6,659)</b>	<b>(9,411)</b>
<b>Balance at 31 March 2018</b>	<b>(7,331)</b>	<b>(4,094)</b>	<b>(1,747)</b>	<b>0</b>	<b>(101)</b>	<b>(13,273)</b>	<b>(73,961)</b>	<b>(87,234)</b>
<b>Balance at 31 March 2018</b>	<b>(7,331)</b>	<b>(4,094)</b>	<b>(1,747)</b>	<b>0</b>	<b>(101)</b>	<b>(13,273)</b>	<b>(73,961)</b>	<b>(87,234)</b>
<b>Movement in reserves during 2018/19</b>								
Total Comprehensive Income and Expenditure	1,455	2,815				4,270	(11,455)	(7,185)
Adjustments between accounting basis & funding basis under regulations (Note 9)	(2,517)	(3,325)	(618)	0	(761)	(7,221)	7,221	0
<b>(Increase)/decrease in 2018/19</b>	<b>(1,062)</b>	<b>(510)</b>	<b>(618)</b>	<b>0</b>	<b>(761)</b>	<b>(2,951)</b>	<b>(4,234)</b>	<b>(7,185)</b>
<b>Balance at 31 March 2019</b>	<b>(8,393)</b>	<b>(4,604)</b>	<b>(2,365)</b>	<b>0</b>	<b>(862)</b>	<b>(16,224)</b>	<b>(78,195)</b>	<b>(94,419)</b>

# FINANCIAL STATEMENTS

## Balance Sheet

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

31-Mar-18 £'000	Notes	31-Mar-19 £'000
183,706 Property, Plant & Equipment	13	186,890
386 Heritage Assets	14	395
6,407 Investment Properties	15	6,089
498 Intangible Assets	16	466
4,819 Long Term Debtors	19	4,796
<b>195,816 Long Term Assets</b>		<b>198,636</b>
4,008 Short Term Investments	17	7,044
5,640 Short Term Debtors	19	6,572
7,050 Cash and Cash Equivalents	20	4,890
<b>16,698 Current Assets</b>		<b>18,506</b>
(11,347) Short Term Borrowing	17	(14,588)
(5,812) Short Term Creditors	21	(5,399)
(1) Short Term Liabilities	32	(1)
(811) Short Term Provisions	22	(1,413)
<b>(17,971) Current Liabilities</b>		<b>(21,401)</b>
(1,102) Long Term Creditors	21	(1,111)
(30) Long Term Provisions	22	(45)
(63,000) Long Term Borrowing	17	(59,000)
(147) Other Long Term Liabilities	32	(146)
(2,380) Receipts in Advance - Capital Grants	29	(2,400)
(40,650) Net Pension Liability	33	(38,620)
<b>(107,309) Long Term Liabilities</b>		<b>(101,322)</b>
<b>87,234 Net Assets</b>		<b>94,419</b>
(13,273) Usable Reserves	24	(16,224)
(73,961) Unusable Reserves	25	(78,195)
<b>(87,234) Total Reserves</b>		<b>(94,419)</b>

# FINANCIAL STATEMENTS

The unaudited Statement was issued on 31 May 2019 and the audited Statement was issued on 24<sup>th</sup> July 2019.

Chris Ward CPFA  
Borough Treasurer,  
31<sup>th</sup> July 2019

## Cash Flow Statement

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

2017/18 £'000	Notes	2018/19 £'000
(2,624) Net surplus or (deficit) on the provision of services		(4,270)
9,750 Adjustments to surplus or deficit on the provision of services for non-cash movements	36	10,742
(2,653) Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	36	(2,875)
<b>4,473</b> Net Cash flows from Operating Activities		<b>3,597</b>
913 Net Cash flows from Investing Activities	36	(5,123)
1,397 Net Cash flows from Financing Activities	36	(634)
<b>6,783</b> Net increase or (decrease) in cash and cash equivalents		<b>(2,160)</b>
267 Cash and cash equivalents at the beginning of the reporting period		7,050
7,050 Cash and cash equivalents at the end of the reporting period		4,890

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

### a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and the Service Reporting Code of Practice 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

### b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with the Council's main bank account.

Cash equivalents are deposits with financial institutions, including money market funds, repayable without penalty within one day for known amounts of cash with insignificant risk of changes in value.

In the cash flow statement, the cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form part of the Council's banking arrangements.

# NOTES TO THE FINANCIAL STATEMENTS

## d) Employee Benefits

### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (i.e. Cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (including flexi time but not time off in lieu which is judged not to be material) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is calculated at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit and charged to the Surplus or Deficit on the Provision of Services. It is then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

### Post-Employment Benefits

The majority of the Council's employees belong to the Local Government Superannuation Scheme (LGPS) administered by Hampshire County Council. Detailed regulations govern rates of contribution and scales of benefit.

The pension scheme is detailed in note 33 to the accounting statements and is accounted for as a defined benefits scheme.

- The liabilities of the LGPS attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – ie 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 earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 2.4% based on the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities.
- Assets of the LGPS attributable to the council are included in the balance sheet at their fair value.

# NOTES TO THE FINANCIAL STATEMENTS

The change in the Council's 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 as a result of a scheme amendment or curtailment 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 Non Distributed Costs
Net interest on the net defined benefit liability (asset) ie the net interest expense for the authority	The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
Remeasurements comprising	
The return on plan assets	Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
Actuarial gains and losses	Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
Employers' contributions payable to scheme	Cash paid as employers' 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 Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

## Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff 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.

# NOTES TO THE FINANCIAL STATEMENTS

## e) Events after the Reporting Period

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

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

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

## f) Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

## g) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

## h) Charges to Revenue for Non-Current Assets

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## i) Council Tax and Non-Domestic Rates (NDR)

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

### Accounting for Council Tax and NDR

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

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

## j) Financial Instruments

Financial instruments can be described as contracts that give rise to a financial asset of one entity and a financial liability of another entity.

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council 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 the borrowings that the Council 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.

### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI). The Council does not have any assets that fall into this class.

# NOTES TO THE FINANCIAL STATEMENTS

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

## 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.

The Council makes car loans, at an interest rate of 2.5%, available to certain employees as part of its recruitment and retention package

## Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets (if considered material) held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

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

## Financial Assets Measured at Fair Value through Profit of Loss

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

The fair value measurements of the financial assets are based on the following techniques:

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

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

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

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

## **k) 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 Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and

# NOTES TO THE FINANCIAL STATEMENTS

- the grants or contributions will be received.

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

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

## Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be used to fund both revenue and capital expenditure.

## **I) Heritage Assets**

The Council's Heritage Assets are held in the Town Hall.

The heritage assets largely comprise items of civic regalia and paintings as well as a mayoral chain and other miscellaneous items. They are all held in support of their primary objective of contributing to knowledge and culture and have cultural and historic associations that make their preservation for future generations important.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules in relation to heritage assets are permitted to be relaxed as detailed, together with a description of the assets held, in Note 14.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment ie. 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 Council's general policies on impairment.

# NOTES TO THE FINANCIAL STATEMENTS

Acquisitions and donations are rare. Where they do occur, acquisitions are recognised at cost and donations are recognised at valuation ascertained in accordance with the Council's policy on valuation of heritage assets.

The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes in the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Heritage assets are considered to have an indefinite life and no depreciation is therefore charged.

There are no intangible heritage assets

## **m) Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (ie software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

## **n) Joint Arrangements**

The Council has a 25% share in the Portchester Crematorium that is disclosed in note 30 to the accounting statement. The Council's share of the assets and liabilities are also disclosed in note 30 as they are not considered of sufficient materiality to warrant inclusion in the Council's Balance Sheet.

## **o) Inventories and Long Term Contracts**

Inventories, where applicable, are included in the Balance Sheet at the lower of cost and net realisable value.

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

# NOTES TO THE FINANCIAL STATEMENTS

## p) Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, 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.

## q) 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 are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### The Council 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 Council 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 Council at the end of the lease period).

# NOTES TO THE FINANCIAL STATEMENTS

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

## *Operating Leases*

Rentals paid under operating leases are charged to the 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 (ie there is a rent-free period at the commencement of the lease).

## The Council as Lessor

### *Finance Leases*

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. [When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve).

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

# NOTES TO THE FINANCIAL STATEMENTS

## Operating Leases

Where the Council 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 (ie 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

## r) Overheads and Support Services

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

## s) 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 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 Council 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 (ie 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 Council does not capitalise borrowing costs incurred whilst assets are under construction.

A de-minimus level of £10,000 has been set below which the initial cost of assets is not capitalised.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance. 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 Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

# NOTES TO THE FINANCIAL STATEMENTS

Where there is no market-based evidence of current 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 have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair 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 Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service).

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

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

## Impairment

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the 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 (ie freehold land) and assets that are not yet available for use (ie assets under construction).

Depreciation is not charged on Community Assets or Garages as it is the Council's view that most of their value is held in land and it is not therefore depreciable.

Depreciation is calculated using the straight-line method, based on the opening balance plus any material movement and assuming a nil residual value, on the following bases:

- Council Dwellings – straight line method over the estimated useful life of the property
- Buildings - straight-line method over the useful life of the property as estimated by the Valuer

# NOTES TO THE FINANCIAL STATEMENTS

- Vehicles, Plant and Equipment - straight line method over the estimated useful life of the asset
- Infrastructure – straight line method over the estimated useful life of the asset

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately in line with the following policy:

Componentisation of an asset or group of assets will be considered where the carrying value of an asset is greater than £800,000, the component is at least 20% of the carrying value of the asset and there is a potentially significant impact on depreciation.

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

## Disposals and Non-Current Assets Held for Sale

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

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the 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 (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## t) Provisions, Contingent Liabilities and Contingent Assets

### Provisions

Provisions are made where an event has taken place that gives the Council 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 but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (ie 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 Council settles the obligation.

The Council maintains a provision for bad debts, MMI Insurance claims and successful business rates appeals.

### Contingent Liabilities

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

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

### Contingent Assets

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

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

## u) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service 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.

# NOTES TO THE FINANCIAL STATEMENTS

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

The Council's main reserves are described further in Notes 24 and 25 to the accounting statements

## v) Revenue Expenditure funded from Capital under Statute

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

## w) Value Added Tax

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

## x) Fair Value Measurement

The Council measures some of its non-financial assets and financial instruments at fair value at the end of the reporting period. 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 Council uses external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

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

- Level 1 - quoted figures in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 - other observable information/data available for the asset or liability.
- Level 3 - other information/data applied to the asset or liability

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Accounting Standards that have been issued but have not yet been adopted

The Code requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards in the 2019/20 Code.

The new standards in the 2019/20 Code that apply from 1 April 2019 are:

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

It is not expected that these new standards will have a material impact on the Council's financial statements.

## 3. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The most significant are:

- **Future funding for local government** – while there is a high degree of uncertainty about future levels of funding for local government, the Council has determined that this uncertainty is not sufficient to provide an indication that the Council's assets might be impaired as a result of a need to close facilities and reduce levels of service provision.
- **Asset classifications** – the Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These are based on the main reason that the council is holding the asset with the classification determining the valuation method to be used.
- **Lease classifications** – the Council has made judgements on whether its lease arrangements are operating leases or finance leases. There is an element of subjectivity in these assessments and de-minimus levels have been applied. The accounting treatment for operating and finance leases is different (see accounting policy on Leases) and may have a significant effect on the accounts.
- **Contractual arrangements** - the Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Joint Arrangement** - The four member authorities of the Portchester Crematorium Joint Committee (PCJC) have made an assessment of the relationship against IFRS11, Joint Arrangements, to determine the appropriate accounting treatment. PCJC decisions take place through majority voting with no one authority having overall control, although each can exercise a significant influence over the PCJC. This joint arrangement means that each member authority has equal 25% voting rights. PCJC is an entity in its own right, with the ability to make binding decisions, employ staff and enter into contracts. Each member has therefore been assessed to be an Associate and is required to reflect its 25% share of the PCJC assets and liabilities in its respective statement of accounts. The Council has made a judgement on the grounds of materiality that group accounts are not required and has therefore disclosed its share of the assets and liabilities as part of the Related Parties disclosure note (Note 30) rather than incorporate them into its Balance Sheet.
- **Potential Liabilities** - the Council has made judgements about the likelihood of potential liabilities and whether any provisions should be made. The judgements are based on the degree of certainty and an assessment of the likely impact. Note 22 refers.
- **Doubtful debts allowances** - the council has made judgements on a prudent level of allowances for doubtful debts. These are based on historical experience of debtor defaults and the current economic climate.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Uncertainties relating to Assumptions and Estimates used

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

The items in the Authority's Balance Sheet at 31 March 2019 for which material assumptions and estimates have been made are:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Business Rates	<p>The introduction of Business Rates Retention from 1 April 2013 has placed a significant risk for shortfalls in business rate funding onto the Council and precepting authorities. This is particularly true for factors outside of the Council's direct control such as rating appeals.</p> <p>A provision is held in the Collection Fund for the estimated total value of rating appeals that may require refunding but have not yet been formally agreed by the Valuation Office.</p>	<p>At 31 March 2019, the Council's share of the total provision of £3.440 million (£1.989 million in 2017/18) is £1.376 million (£0.796 million in 2017/18).</p> <p>The actual cost of appeals – whether above or below the provision - will impact on retained business rate income.</p>
Property, Plant and Equipment	<p>Assets are depreciated over useful lives that are dependent on assumptions about individual assets service delivery and level of repairs and maintenance. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance which may bring into doubt the useful lives assigned to assets.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £75,000 for every year that useful lives had to be reduced</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pensions liability for funded LGPS benefits of changes in individual assumptions can be measured and a sensitivity analysis is included in note 33 (ie the projected service cost is estimated to decrease by £70,000 for a 1 year increase in the 2018/19 mortality rate assumption)</p> <p>The assumptions interact in complex ways. During 2018/19, the Authority's actuaries</p>

# NOTES TO THE FINANCIAL STATEMENTS

		advised that the net pension's liability had decreased by £2.00 million – made up of actuarial remeasurements which decreased the liability by £4.28 million and additional net in year liabilities of £2.28 million .
Doubtful Debt Allowances	The Council has made allowances for doubtful debts of £3.713 million in 2018/19 (£3.714 million in 2017/18) based on what it believes to be a prudent but realistic level.	If debt collection rates were to deteriorate or improve, a 5% change in the General Fund allowances would require an adjustment to the allowance of £186,000 (£186,000 in 2017/18).
Fair Value Measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), then fair value is measured using valuation techniques, which, where possible, are based on observable data. Where this is not possible then judgement is required in establishing fair values – including comparison with market transactions of similar properties, Depreciated Replacement Cost (DRC), cash flow analysis etc.	Information about the valuation techniques and inputs used in determining the fair value of the Council's Investment Properties and Financial Instruments are disclosed in notes 15 and 17 to the financial statements.  The judgements and unobservable inputs used include considerations of uncertainty and risk and changes in these assumptions and inputs could affect the fair value of the authority's assets and liabilities

## 5. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Borough Treasurer on 24<sup>th</sup> July 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

On the 27<sup>th</sup> June 2019 the Supreme Court ruled that the 2015 changes to the Firefighters' and Judges' pension schemes had discriminated against younger employees (known as the McCloud Judgement). It is reasonable to assume that the Government will seek a remedy for all public schemes and this will include the Hampshire Pension Fund. It is estimated the effect of the ruling will increase the Council's pension fund liabilities by £1.12million at 31<sup>st</sup> March 2019. The accounts have been adjusted to reflect this event.

# NOTES TO THE FINANCIAL STATEMENTS

## 6. Other Operating Expenditure

2017/18 £'000	2018/19 £'000
282 Payments to the Government Housing Capital Receipts Pool	278
3,427 (Gain) or Loss on the disposal of non-current assets	2,885
<b>3,709</b>	<b>3,163</b>

## 7. Financing and Investment Income and Expenditure

2017/18 £'000	2018/19 £'000
2,099 Interest payable and similar charges	2,035
960 Pension interest on net defined benefit liability	1,040
(305) Interest receivable and similar income	(323)
(537) Net income and expenditure in relation to investment properties and changes in their fair value	(51)
<b>2,217</b>	<b>2,701</b>

## 8. Taxation and Non Specific Grant Income and Expenditure

2017/18 £'000	2018/19 £'000
(5,667) Council Tax Income	(5,841)
(2,695) Retained Business Rates	(2,482)
(2,764) Non-Ringfenced Government Grants (Note 29)	(2,855)
(354) Capital Grants and Contributions (Note 29)	(357)
<b>(11,480)</b>	<b>(11,535)</b>

## 9. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The Council's reserves against which the adjustments are made are described in Notes 24 and 25

# NOTES TO THE FINANCIAL STATEMENTS

2018/19	Usable Reserves				
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£'000	£'000	£'000	£'000	£'000
<b>Adjustments to Revenue Resources</b>					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transfers to or (from) the Pensions Reserve)	(1,685)	(565)			
Council Tax and Business Rates (transfers to or (from) the Collection Fund adjustment account)	(598)				
Holiday pay (transferred to the Accumulated Absences Reserve)	(5)	0			
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(3,100)	(7,048)			
<b>Total Adjustments to Revenue Resources</b>	<b>(5,388)</b>	<b>(7,613)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve		1,288	(1,288)		
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)		(18)	18		
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)		(278)	278		
Posting of HRA resources from revenue to the Major Repairs Reserve		2,992		(3,000)	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)					
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	824	304			
Transfers to / (from) Capital Reserves	893		(132)		(761)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>1,717</b>	<b>4,288</b>	<b>(1,124)</b>	<b>(3,000)</b>	<b>(761)</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts Reserve to finance capital expenditure			543		
Use of the Major Repairs Reserve to finance capital expenditure				3,000	
Application of capital grants to finance capital expenditure	1,154				
Cash payments in relation to deferred capital receipts			(37)		
<b>Total Adjustments to Capital Resources</b>	<b>1,154</b>	<b>0</b>	<b>506</b>	<b>3,000</b>	<b>0</b>
<b>Total Adjustments</b>	<b>(2,517)</b>	<b>(3,325)</b>	<b>(618)</b>	<b>0</b>	<b>(761)</b>

# NOTES TO THE FINANCIAL STATEMENTS

2017/18	Usable Reserves				
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000
<b>Adjustments to Revenue Resources</b>					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transfers to or (from) the Pensions Reserve)	(804)	(276)			
Council Tax and Business Rates (transfers to or (from) the Collection Fund adjustment account)	213				
Holiday pay (transferred to the Accumulated Absences Reserve)	8	(1)			
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)	(2,656)	(7,438)			
<b>Total Adjustments to Revenue Resources</b>	<b>(3,239)</b>	<b>(7,715)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	300	1,192	(1,492)		
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(6)	(18)	24		
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)		(282)	282		
Posting of HRA resources from revenue to the Major Repairs Reserve		2,876		(2,876)	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	2				
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)		274			
Transfers to Capital Reserves	605		(524)		(81)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>901</b>	<b>4,042</b>	<b>(1,710)</b>	<b>(2,876)</b>	<b>(81)</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts Reserve to finance capital expenditure			1,212		
Use of the Major Repairs Reserve to finance capital expenditure				2,876	
Application of capital grants to finance capital expenditure	1,112				
Cash payments in relation to deferred capital receipts			(307)		
<b>Total Adjustments to Capital Resources</b>	<b>1,112</b>	<b>0</b>	<b>905</b>	<b>2,876</b>	<b>0</b>
<b>Total Adjustments</b>	<b>(1,226)</b>	<b>(3,673)</b>	<b>(805)</b>	<b>0</b>	<b>(81)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 10. Expenditure and Funding Analysis

This note 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 boards. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement

Net Expenditure chargeable to the GF & HRA Balances £'000	2017/18		Net Expenditure in the Comprehensive Income & Expenditure Statement £'000		2018/19		Net Expenditure in the Comprehensive Income & Expenditure Statement £'000
	Adjustments between Funding & Accounting Basis £'000				Net Expenditure chargeable to the GF & HRA Balances £'000	Adjustments between Funding & Accounting Basis £'000	
5,879	(344)		6,223	Community Board	4,811	(1,322)	6,133
1,058	115		943	Economic Development Board	610	(214)	824
2,011	(2,148)		4,159	Policy and Organisation Board	4,988	(356)	5,344
(1,049)	2,098		(3,147)	Housing Revenue Account	(2,369)	(9)	(2,360)
<b>7,899</b>	<b>(279)</b>		<b>8,178</b>	<b>Cost Of Services</b>	<b>8,040</b>	<b>(1,901)</b>	<b>9,941</b>
(10,779)	(5,225)		(5,554)	Other Income and Expenditure	(10,505)	(4,834)	(5,671)
<b>(2,880)</b>	<b>(5,504)</b>		<b>2,624</b>	<b>(Surplus) or Deficit</b>	<b>(2,465)</b>	<b>(6,735)</b>	<b>4,270</b>
(9,579)				Opening General Fund and HRA Balance	(11,526)		
(2,880)				Less / Plus Surplus or Deficit on General Fund and HRA Balance in Year	(2,465)		
933				Less capital funding from HRA Revenue Balances b/fwd and Transfer to Revenue Reserve for Capital	132		
<b>(11,526)</b>				Closing General Fund and HRA Balance at 31 March #	<b>(13,859)</b>		

# for a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement and Note 24

# NOTES TO THE FINANCIAL STATEMENTS

## 11. Note to the Expenditure and Funding Analysis

This note provides a further analysis of the reconciling adjustments shown in the Expenditure and Funding Analysis that convert the Code based presentation in the Comprehensive Income and Expenditure Statement to the Council reporting structure presentation and

Adjustments between Funding and Accounting Basis 2018/19	Adjustments for Capital Purposes £'000	Net change for the Pensions Adjustments £'000	Other Differences £'000	Total Adjustments £'000
Community Board	(966)	-	(356)	(1,322)
Economic Development Board	(210)	-	(4)	(214)
Policy and Organisation Board	(1,112)	(906)	1,662	(356)
Housing Revenue Account	295	(304)	0	(9)
<b>Net Cost Of Services</b>	<b>(1,993)</b>	<b>(1,210)</b>	<b>1,302</b>	<b>(1,901)</b>
Other income & expenditure from the Expenditure & Funding Analysis	(1,889)	(1,040)	(1,905)	(4,834)
<b>Difference between the General Fund surplus or deficit &amp; the Comprehensive Income &amp; Expenditure Statement surplus or deficit on the provision of services</b>	<b>(3,882)</b>	<b>(2,250)</b>	<b>(603)</b>	<b>(6,735)</b>

Adjustments between Funding and Accounting Basis 2017/18	Adjustments for Capital Purposes £'000	Net change for the Pensions Adjustments £'000	Other Differences £'000	Total Adjustments £'000
Community Board	-	-	(344)	(344)
Economic Development Board	-	-	115	115
Policy and Organisation Board	(2,052)	(71)	(25)	(2,148)
Housing Revenue Account	274	(49)	1,873	2,098
<b>Net Cost Of Services</b>	<b>(1,778)</b>	<b>(120)</b>	<b>1,619</b>	<b>(279)</b>
Other income & expenditure from the Expenditure & Funding Analysis	(2,868)	(960)	(1,397)	(5,225)
<b>Difference between the General Fund surplus or deficit &amp; the Comprehensive Income &amp; Expenditure Statement surplus or deficit on the provision of services</b>	<b>(4,646)</b>	<b>(1,080)</b>	<b>222</b>	<b>(5,504)</b>

# NOTES TO THE FINANCIAL STATEMENTS

**Adjustments for Capital Purposes** – this column adds in depreciation and impairment and revaluation gains and losses in the service line, Minimum Revenue Provision; Refcus expenditure and grant income included in services and for

- **Other operating expenditure** – gain or loss on disposal of capital assets including adjustments for income and asset derecognition; payments to the Government’s Housing Capital Receipts Pool
- **Financing and investment income and expenditure** – investment property changes in value
- **Taxation and non-specific grant income and expenditure** – capital grants applied to funding the capital programme

**Net Change for the Pensions Adjustments** – adjustment for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

**Other Differences** - include

- **Financing and investment income and expenditure** – interest and similar items paid and received; investment property expenditure and income
- **Taxation and non-specific grant income and expenditure** - the difference between what is chargeable under statutory regulations for Council Tax and Business Rates 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.

## 12. Expenditure and Income Analysed by Nature

The Council’s surplus or deficit on the provision of services from the Comprehensive Income and Expenditure Statement may also be shown by the type of expenditure or income as below

2017/18 £'000	2018/19 £'000
1,194 Employees ( <i>excludes Business Unit staff</i> )	1,297
5,204 Premises	5,465
25 Transport	24
3,725 Supplies & Services	3,500
4,616 Third Party Payments ( <i>includes major contracts</i> )	4,728
26,298 Transfer Payments ( <i>includes Benefit payments</i> )	25,308
10,408 Support Services ( <i>see note below #</i> )	11,872
11,065 Depreciation, amortisation, impairment	10,674
1,643 Capital/Financing ( <i>includes interest, MRP</i> )	2,043
(4,546) Fees & Charges ( <i>see analysis below</i> )	(5,510)
(57,007) Non Fees & Charges ( <i>see analysis below</i> )	(55,131)
<b>2,624 Deficit on Provision of Services</b>	<b>4,270</b>

# Support service costs are the recharges to services (both General Fund and Housing Revenue Account) from the Council’s administrative business units. The gross cost of those services (ie including their share of apportioned administration and overheads) is £12.2 million in 2018/19 (£12.1 million in 2017/18). The total employee related costs included are £8.3 million and £8.3 million respectively.

# NOTES TO THE FINANCIAL STATEMENTS

Income can be further analysed over the following headings

2017/18 £'000	2018/19 £'000
<b>Fees &amp; Charges (see segmental analysis below)</b>	
(434) Cust & Client Receipts - Sales	(250)
(2,128) Cust & Client Receipts - Rents	(1,944)
(1,985) Cust & Client Receipts - Fees & Charges	(3,316)
<b>Non Fees &amp; Charges</b>	
(31,256) Government Grants ( <i>includes Business Rates, Revenue Support Grant &amp; Benefits Subsidy payments</i> )	(30,554)
(2,348) Other Grants, Reimbursements & Contributions ( <i>a broad range of service grants &amp; contributions, including Business Rates Cost of Collection</i> )	(2,578)
(2,201) Interest ( <i>includes interest reimbursed by the HRA to the GF</i> )	(2,222)
(6,151) Taxation & Non Specific Grants ( <i>includes Council Tax precept</i> )	(5,453)
(14,861) HRA - income ( <i>includes Benefits rental income</i> )	(14,234)
(188) Other	(90)
<b>(61,553)</b>	<b>(60,641)</b>
<b>Fees &amp; Charges by reporting segment</b>	
(3,831) Community Board	(3,654)
(192) Economic Development Board	(610)
(516) Policy and Organisation Board	(758)
(8) Housing Revenue Account	(488)
<b>(4,547)</b>	<b>(5,510)</b>

## 13. Property, Plant and Equipment and Impairments

### Depreciation

The table below summarises the methods of depreciation used for the Council's assets. In line with the CIPFA Code of Practice, land and investment properties are not depreciated.

Asset	Depreciation Method
Council Dwellings	Straight line method over the estimated useful life of the asset
Other Land & Buildings (Operational Property and Garages)	Straight line method over the estimated useful life of the asset Garages are not depreciated as it is the Council's view that most of the value is in the land
Infrastructure	Straight line method over the estimated useful life of the asset
Community Assets	No charge – it is the Council's view that most of the value of Community Assets is held in land and is not therefore depreciable

# NOTES TO THE FINANCIAL STATEMENTS

Movement in Plant, Property and Equipment for 2018/19	Council Dwellings	Land & Buildings	Vehicles, Plant & Equipment	Infrastructure	Community Assets	Surplus Assets	Assets Under Construction	Total Plant, Property & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>								
At 1 April 2018	144,189	26,847	3,586	13,238	4,286	208	348	192,702
Additions	3,687	85	247		60		794	4,873
Revaluation increases/(decreases) to RR	3,377	56						3,433
Revaluation increases/(decreases) to SDPS		(403)				0		(403)
De-recognition - Disposals	(1,289)	0	0					(1,289)
De-recognition - Other	(2,761)	(115)	0					(2,876)
Assets reclassified		0	0		39	0	(39)	0
<b>At 31 March 2019</b>	<b>147,203</b>	<b>26,470</b>	<b>3,833</b>	<b>13,238</b>	<b>4,385</b>	<b>208</b>	<b>1,103</b>	<b>196,440</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1 April 2018	0	(436)	(2,694)	(5,866)	0	0	0	(8,996)
Depreciation Charge	(2,992)	(771)	(184)	(349)				(4,296)
Depreciation & Impairment written out to RR	2,992	741						3,733
Impairment losses/(reversals) to RR			0					0
Impairment losses/(reversals) to SDPS			0					0
De-recognition - Disposals								0
De-recognition - Other		9						9
Assets reclassified								0
<b>At 31 March 2019</b>	<b>0</b>	<b>(457)</b>	<b>(2,878)</b>	<b>(6,215)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(9,550)</b>
<b>Net Book Value</b>								
<b>At 31 March 2019</b>	<b>147,203</b>	<b>26,013</b>	<b>955</b>	<b>7,023</b>	<b>4,385</b>	<b>208</b>	<b>1,103</b>	<b>186,890</b>

# NOTES TO THE FINANCIAL STATEMENTS

Movement in Plant, Property and Equipment for 2017/18	Council Dwellings	Land & Buildings	Vehicles, Plant & Equipment	Infrastructure	Community Assets	Surplus Assets	Assets Under Construction	Total Plant, Property & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>								
At 1 April 2017	138,401	24,472	3,214	13,238	3,801	15	741	183,882
Additions	4,018	1,460	369		467		155	6,469
Revaluation increases/(decreases) to RR	6,415	(523)						5,892
Revaluation increases/(decreases) to SDPS		(364)				(292)		(656)
De-recognition - Disposals	(1,210)	(13)	0					(1,223)
De-recognition - Other	(3,435)	(251)	(11)					(3,697)
Assets reclassified		2,066	14		18	485	(548)	2,035
<b>At 31 March 2017</b>	<b>144,189</b>	<b>26,847</b>	<b>3,586</b>	<b>13,238</b>	<b>4,286</b>	<b>208</b>	<b>348</b>	<b>192,702</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1 April 2017	(2,443)	(778)	(2,525)	(5,517)	0	0	0	(11,263)
Depreciation Charge	(2,876)	(713)	(173)	(349)				(4,111)
Depreciation & Impairment written out to RR	5,236	1,055						6,291
De-recognition - Disposals	19							19
De-recognition - Other	64		4					68
Assets reclassified								0
<b>At 31 March 2018</b>	<b>0</b>	<b>(436)</b>	<b>(2,694)</b>	<b>(5,866)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(8,996)</b>
<b>Net Book Value</b>								
<b>At 31 March 2018</b>	<b>144,189</b>	<b>26,411</b>	<b>892</b>	<b>7,372</b>	<b>4,286</b>	<b>208</b>	<b>348</b>	<b>183,706</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Capital Commitments

Significant commitments for future expenditure at 31 March 2019 include:

2017/18 £'000	2018/19 £'000
297 Disabled Facilities Grants	233
62 Gosport Leisure Park (Ice Rink)	-
40 Alver Valley Country Park	269
- Lee on Solent Splash Park	298
- Forton Lake Bridge	264
<b>399</b>	<b>1,064</b>

## Revaluations

The table below shows the progress of the Council's programme of fixed asset valuations in line with the valuation methods set out in the Statement of Accounting Policies. Valuations are carried out for Council Dwellings and General Fund properties by Savills (UK) Ltd and Capita Ltd respectively. The valuations are gross balance sheet value before depreciation.

	Historical £'000	Fair Value - revalued when indicated				Total £'000
		2018/19 £'000	2017/18 £'000	2016/17 £'000	2015/16 £'000	
Property, Plant & Equipment						
Council Dwellings	-	147,203	-	-	-	147,203
Operational Property	-	11,479	13,966	-	-	25,445
Garages	-	1,025	-	-	-	1,025
Equipment	3,833	-	-	-	-	3,833
Infrastructure	13,238	-	-	-	-	13,238
Community Assets	4,385	-	-	-	-	4,385
Surplus Assets	-	-	193	15	-	208
Assets under Construction	1,103	-	-	-	-	1,103
	<b>22,559</b>	<b>159,707</b>	<b>14,159</b>	<b>15</b>	<b>0</b>	<b>196,440</b>

## Impairments

There were no general impairments identified in 2018/19 or 2017/18.

Any revaluation gains or losses for those assets that were reported on by the Council's valuers for 2018/19 have been reflected in the Revaluation Reserve or the Capital Adjustment Account (the latter through the Comprehensive Income and Expenditure Statement) as appropriate.

## Assets Held For Sale

The Council does not have any assets that meet the Code definition of Assets Held for Sale.

# NOTES TO THE FINANCIAL STATEMENTS

## 14. Heritage Assets

Movement of the carrying value of Heritage Assets held by the Authority

	Civic Regalia inc Mayoral Chain £'000	Paintings £'000	Other £'000	Total £'000
<b>Cost or Valuation</b>				
<b>31-Mar-18</b>	<b>260</b>	<b>114</b>	<b>12</b>	<b>386</b>
Revaluations		3	6	9
<b>31-Mar-19</b>	<b>260</b>	<b>117</b>	<b>18</b>	<b>395</b>

The Council's Heritage Assets are held by the Council in the Town Hall and are accounted for and valued as follows:

- Civic Regalia – annually updated insurance valuation
- Mayoral Chain and Badge – annually updated insurance valuation
- Paintings and Prints – a collection of 64 paintings and prints located throughout the Town Hall - annually updated insurance valuation
- Other Items – include a plaster cast of Nelson and D Day plaque at Stokes Bay are held at historic cost

The existing inventory of items remains unchanged for 2018/19 and the insurance cover has been re-evaluated.

The Council's Heritage Assets are considered to have an indefinite life and no depreciation is therefore charged.

In addition to the Council's heritage assets held in the Town Hall and included in this statement of accounts, a Gosport Museum collection is also held by the Hampshire County Council. Objects in the collection that were accessioned before 1 April 1991 are owned by Gosport Borough Council and are on loan to Hampshire County Council. These objects are now part of the Temporary Collection of items listed and detailed in the Hampshire County Council Accessions Register, which from 1 November 2014, the Commencement Date of the Hampshire Cultural Trust, are on loan from Hampshire County Council to the Trust. The majority of these objects are located in the stores or are on display at the Gosport Discovery Centre and some items are held separately in specialised storage conditions at Hampshire County Council premises outside of Gosport. The objects accessioned after this date are owned by Hampshire County Council. No total valuation exists for this collection which is covered by the County Council's insurance arrangements.

## 15. 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.

# NOTES TO THE FINANCIAL STATEMENTS

2017/18 £'000	2018/19 £'000
443 Direct operating expenses arising from investment property	72
(493) Rental income from investment property	(478)
<b>(50) Net gain</b>	<b>(406)</b>

## Fair Value Hierarchy

All the Council's investment properties have been value assessed as Level 3 on the fair value hierarchy for valuation purposes (see Note 1 Accounting Policy (x) for an explanation of the fair value levels).

## Valuation Techniques used to determine Level 3 Fair Values for Investment Property

Desktop valuations of the Councils investment property portfolio. The properties have not been inspected nor have any leases or other tenancy information been reviewed. Reliance has been placed on copies of previous valuations, spreadsheet tenancy schedules and interviews with Council staff.

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 Council's investment property has been valued as at 31 March 2019 by Capita Ltd in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The following table summarises the movement in the fair value of investment properties over the year.

2017/18 £'000	2018/19 £'000
7,876 Balance at the start of the year	6,407
97 Subsequent expenditure	35
486 Net gains or (losses) from fair value adjustments	(353)
(2,052) Transfers to or from Property, Plant and Equipment	-
<b>6,407 Balance at the end of the year</b>	<b>6,089</b>

## 16. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. Intangible assets primarily comprise purchased licenses and software.

The carrying amount of intangible assets is based on historic cost and is amortised on a straight-line basis on estimated lives of up to 10 years. The amortisation of £107,524 charged

# NOTES TO THE FINANCIAL STATEMENTS

to revenue in 2018/19 (£113,580 in 2017/18) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

2017/18 £'000	2018/19 £'000
Balance at the start of the year	
1,723 Gross carrying amount	1,678
(1,140) Accumulated amortisation	(1,180)
<b>583</b> Net carrying amount at the start of the year	<b>498</b>
74 Purchases	76
(136) Derecognition - gross carrying amount	-
74 Derecognition - amortisation	-
17 Transfer from Assets Under Construction	-
(114) Amortisation for the year	(108)
<b>498</b> Net carrying amount at the end of the year	<b>466</b>
Comprising	
1,678 Gross carrying amount	1,754
(1,180) Accumulated amortisation	(1,288)

## 17. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

The carrying value and classification of the Council's Financial Instruments has been updated following the adoption of IFRS9 (previously they followed IAS39). The Council Money Market funds have been reclassified from available for sale (fair value through OCI) to fair value through Profit & Loss, there are no remeasurement impacts arising from this classification change.

The following categories of financial instruments are carried in the Balance Sheet.

# NOTES TO THE FINANCIAL STATEMENTS

31-Mar-18		31-Mar-19	
Long Term	Current	Long Term	Current
£'000	£'000	£'000	£'000
<b>Financial Liabilities</b>			
(63,000)	(3,248)	(59,000)	(4,000)
-	(96)	-	(74)
-	(8,000)	-	(10,500)
-	(3)	-	(14)
-	-	-	(293)
(63,000)	(11,347)	(59,000)	(14,881)
-	(1,404)	-	(1,598)
<b>(63,000)</b>	<b>(12,751)</b>	<b>(59,000)</b>	<b>(16,479)</b>
All borrowing is at fixed rates and is shown at amortised cost			
<b>Financial Assets</b>			
-	4,008	-	7,044
Cash and Cash Equivalents			
-	144	-	23
-	6,906	-	5,160
Debtors at amortised cost			
60	23	73	2
4,728	34	4,690	36
-	2,009	-	2,577
<b>4,788</b>	<b>13,124</b>	<b>4,763</b>	<b>14,842</b>
<b>** Bank Overdraft is netted of cash and cash equivalents in the balance sheet</b>			

## Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

31-Mar-18	31-Mar-19
£'000	£'000
<b>Financial Liabilities:</b>	
2,099	2,035
<b>Financial Assets:</b>	
(78)	(99)
(227)	(224)
<b>1,794</b>	<b>1,712</b>
Included in the Surplus or Deficit on the Provision of Services	

## Financial Instruments – Fair Values

Financial assets and financial liabilities represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

# NOTES TO THE FINANCIAL STATEMENTS

- Loans borrowed by the Council have been valued by discounting the remaining contractual cash flows over the remaining life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.
- The fair value of finance lease assets have been calculated by discounting the contractual cash flows at an estimate of an appropriate corporate bond yield reflecting the creditworthiness of the lessor.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

31-Mar-18				31-Mar-19	
Carrying Amount	Fair Value		Fair Value Level	Carrying Amount	Fair Value
£'000	£'000			£'000	£'000
		<b>Financial Liabilities held at amortised cost</b>			
(66,344)	(79,834)	PWLB Loans (Long and Short Term)	2	(63,074)	(75,676)
<b>(66,344)</b>	<b>(79,834)</b>	<b>Total Financial Liabilities</b>		<b>(63,074)</b>	<b>(75,676)</b>
(9,404)		<b>Liabilities for which fair value is not disclosed</b>		(12,112)	
<b>(75,748)</b>		<b>Total Financial Liabilities</b>		<b>(75,186)</b>	
		<u>Recorded on the balance sheet as</u>			
(63,000)		Long Term Borrowing		(59,000)	
		Bank Overdraft		(293)	
(11,347)		Short Term Borrowing		(14,881)	
(1,404)		Short Term Creditors		(1,598)	
<b>(75,751)</b>		<b>Total Financial Liabilities</b>		<b>(75,772)</b>	

# NOTES TO THE FINANCIAL STATEMENTS

31-Mar-18				31-Mar-19	
Carrying Amount	Fair Value		Fair Value Level	Carrying Amount	Fair Value
£'000	£'000			£'000	£'000
<b><u>Financial Assets held at amortised cost</u></b>					
4,728	3,610	Long Term Lease receivables	3	4,690	3,810
60	60	Long Term Staff Loans (Car, Bike and Bus Pass)	3	73	73
4,788	3,670	Total		4,763	3,883
13,181		<b><u>Assets for which fair value is not disclosed</u></b>	*	14,842	
<b>17,969</b>		<b>Total Financial Assets</b>		<b>19,605</b>	
<u>Recorded on the balance sheet as:</u>					
4,788		Long Term Debtors		4,763	
2,123		Short Term Debtors	*	2,615	
4,008		Short Term Investments	*	7,044	
7,050		Cash and Cash Equivalents	*	5,183	
<b>17,969</b>		<b>Total Financial Assets</b>		<b>19,605</b>	

\* The fair value of short-term financial liabilities/assets including trade payables/receivables is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is high than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is lower than the current rates available for similar loans as at the Balance Sheet date.

The fair value of financial assets held at amortised cost is lower than their balance sheet carrying amount because the interest rate on similar financial transactions is now higher than that obtained when the financial transaction was originally made.

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

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The Councils activities expose it to a variety of financial risks. The key risks are:

- *Credit Risk*: The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.

# NOTES TO THE FINANCIAL STATEMENTS

- *Liquidity Risk:* The possibility that the Council might not have the cash available to make contracted payments on time.
- *Market Risk:* The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

## Credit Risk

**Treasury Investments:** The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government and other local authorities. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £3million is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks and building societies a smaller limit of £2million applies. The Council also sets limits on investments in certain worldwide geographical areas.

The table below summarises the credit risk exposures of the Council's short term treasury investment portfolio at 31<sup>st</sup> March by credit rating (includes investments categorised as cash and cash equivalents).

Credit Rating	2017/18 £'000	2018/19 £'000
A	1,000	2,000
Unrated Local Authorities	3,000	5,000
<b>Total</b>	<b>4,000</b>	<b>7,000</b>
Credit risk not applicable *	6,906	5,160
<b>Total Investments</b>	<b>10,906</b>	<b>12,160</b>

\* Credit risk is not applicable to Money Market Funds where the Council has no contractual right to receive any sum of money

Loss allowances on treasury investments have been calculated by reference to historical default data published by credit rating agencies adjusted for current and forecast economic conditions; these allowances are not significant and have not been included within the accounts on grounds of materiality.

**Lease Receivables:** The Council's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

**Trade Receivables:** The following analysis summarises the council's potential maximum exposure to credit risk based on experience of default and future collectability. (the Council's debtors include Council Tax, Business Rates and Housing Benefits. These are all statutory debts for which the Council is the responsible body and cannot influence who the counterparties are. Statutory debts are not classed as financial instruments).

# NOTES TO THE FINANCIAL STATEMENTS

	Note	Amount at 31 March 2019	Historical experience of default	Adjustment for market conditions at 31 March 2019	Estimated maximum exposure to default
		£'000	%	%	£
General debtors	a	103	83%	83%	86
Housing rents	a	1,618	52%	52%	840
Other	a	856	0%	0%	0
In addition to the above Financial Instruments the Council is exposed to risk arising from non payment of statutory Housing Benefit debt and costs associated with Council Tax and Business Rates collection. The risks are shown below					
Overpaid Housing Benefits		2,739	90%	90%	2,465
Costs associated with Council Tax and Business Rates Collection		779	41%	41%	322
(a) The council does not generally allow credit for customers and the estimated risks are covered by doubtful debt allowances which derive from aged debt analysis, historical experience and assessment of future collectability.					

## Liquidity Risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loan maturities within approved parameters set out in the Council's approved treasury and investment strategies.

The maturity analysis of financial liabilities is as follows:

# NOTES TO THE FINANCIAL STATEMENTS

<b>Maturity Structure of Fixed Borrowings i.e. greater than 12 months (excluding accrued interest)</b>					
<b>31-Mar-18</b>		<b>2018/19 Approved Limits</b>		<b>31-Mar-19</b>	
<b>Amount</b>	<b>Maturing within:-</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Amount</b>	
<b>£'000</b>		<b>%</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
3,248	Up to 1 year	6%	24%	4,000	6.0%
4,000	Over 1 but not over 2 years	3%	21%	5,000	8.0%
11,000	Over 2 but not over 5 years	13%	30%	9,000	14.0%
17,000	Over 5 but not over 10 years	22%	27%	14,000	22.0%
	- Over 10 but not over 15 years	40%	42%	-	-
	- Over 15 but not over 20 years	40%	42%	-	-
	- Over 20 but not over 25 years	40%	42%	-	-
	- Over 25 but not over 30 years	40%	42%	-	-
	- Over 30 but not over 35 years	40%	42%	-	-
	- Over 35 but not over 40 years	40%	42%	-	-
31,000	Over 40 but not over 45 years	40%	42%	31,000	50.0%
	- Over 45 years	40%	42%	-	-
<b>66,248</b>				<b>63,000</b>	<b>100.0%</b>

## Market Risk

**Interest Rate Risk** – The Council is exposed to interest rate movements on its borrowings and investments. Movement in interest rates can have a complex impact on the Council, for instance, a rise in interest rates would have the following effects

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances)
- Investments at variable rates – the interest income credited 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 on the balance sheet, 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 would be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council'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.

The Council's Treasury Management Strategy currently includes as a source of borrowing the use of internal funds. The cash held in these funds can be used short term to fund capital expenditure or the repayment of debt, thus delaying the need to borrow externally and reducing the Council's overall interest cost.

# NOTES TO THE FINANCIAL STATEMENTS

If all interest rates in 2017/18 had been 1% higher (with all other variables constant) the financial effect would have been £126,100 (2017/18 £139,730) additional interest receivable on variable rate investments. There were no significant variable rate borrowings during 2018/19 or 2017/18.

## 19. Debtors

### Long Term Debtors

31-Mar-18 £'000	31-Mar-19 £'000
4,819 Other entities and individuals	4,796
<b>4,819</b>	<b>4,796</b>

### Short Term Debtors (net of allowances for doubtful debts)

31-Mar-18 £'000	31-Mar-19 £'000
950 Central Government bodies	1,613
2,020 Other Local Authorities	1,706
2,670 Other entities and individuals	3,253
<b>5,640</b>	<b>6,572</b>

## 20. Cash and Cash Equivalents

31-Mar-18 £'000	31-Mar-19 £'000
6,906 Money Market Funds	5,160
48 Cash imprests / cash in hand	23
96 Cash at bank / (Overdraft) [Grouped accounts]	(293)
<b>7,050</b>	<b>4,890</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Creditors

### Long Term Creditors

31-Mar-18 £'000		31-Mar-19 £'000
(1,102)	Other entities and individuals	(1,111)
<b>(1,102)</b>		<b>(1,111)</b>

### Short Term Creditors

31-Mar-18 £'000		31-Mar-19 £'000
(2,688)	Central Government bodies	(2,430)
(1,094)	Other Local Authorities	(908)
(2,030)	Other entities and individuals	(2,061)
<b>(5,812)</b>		<b>(5,399)</b>

## 22. Provisions

	Short Term (S) Long Term (L)	Balance 01-Apr-18 £'000	< ----- 2018/19 ----- > Additional provisions made £'000	Amounts used £'000	Unused amounts reversed £'000	Balance 31-Mar-19 £'000
Business Rates Appeals	S	(796)	(664)	25	59	(1,376)
MMI Scheme of Arrangement	S	(15)	(22)			(37)
MMI Scheme of Arrangement	L	(30)	(15)			(45)
		<b>(841)</b>	<b>(701)</b>	<b>25</b>	<b>59</b>	<b>(1,458)</b>

The provision for Business Rates valuation appeals is required by Business Rates Retention funding system - the Council's share of the total provision of £3.440 million is £1.376 million. An allowance for doubtful debts is included within Note 19.

## 23. Agency Services

A contribution is paid by the County Council towards grasscutting (environmental maintenance) and this is summarised below.

31-Mar-18 £'000		31-Mar-19 £'000
88	Grasscutting	151
(68)	Hampshire County Council contribution	(71)
<b>20</b>		<b>80</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 24. Usable Reserves

Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations.

**The Council's main reserves are described below:**

### **Revenue - General Fund**

#### **General Fund balance**

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the balance. It is effectively a working balance for both unforeseen events and fluctuating income streams. It may not be used to fund HRA services.

#### **Revenue Financing Reserve**

A reserve available for general use, although it is particularly targeted at ensuring that fluctuations in annual maintenance requirements can be met, underwriting uninsured risks and funding spend-to-save revenue and capital initiatives

#### **Stability and Resilience Reserve**

To cover the risk and volatility arising from the introduction of the Business Rate Retention and Council Tax Support Schemes together with the uncertainties in future levels of Revenue Support Grant.

#### **Other Usable Reserves**

Represent earmarked sums for contributing to specific service revenue expenditure includes commuted sums, major contract reserves and safety and housing related grants

### **Revenue - Housing Revenue Account**

#### **HRA 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. It provides a working balance for Housing services and for unforeseen events.

#### **Major Repairs, New Build and Loan Repayment Reserve**

The reserve created to provide funding as described in the title.

### **Capital – General Fund**

The Capital Receipts reserve holds proceeds from land and other asset disposals and may only be utilised to fund capital expenditure. The balance of £54,000 is the residual receipt from the sale of Camden Allotments which must be applied in accordance with the provisions of Section 32 of the Smallholdings and Allotments Act 1908.

### **Capital – Housing Revenue Account**

Capital reserves from retained right to buy receipts which are to be used for the repayment of debt or new capital financing and the construction of new affordable housing.

#### **Major Repairs Reserve**

The Council 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 any capital resources that have yet to be applied at the year-end

# NOTES TO THE FINANCIAL STATEMENTS

The detailed balances and movements on usable reserves are shown below:

	2017/18				2018/19		
	01-Apr-17	Transfers In	Transfers Out	31-Mar-18	Transfers In	Transfers Out	31-Mar-19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Revenue</b>							
<b>General Fund Balance</b>	<b>(890)</b>			<b>(890)</b>			<b>(890)</b>
<b>Earmarked General Fund Reserves</b>							
Revenue Financing Reserve	(3,289)	(567)		(3,856)	(248)		(4,104)
Stability & Resilience Reserve	(1,135)	(569)	142	(1,562)	(466)		(2,028)
Cherque Farm Open Space	(218)		19	(199)		20	(179)
Supporting Troubled Families	(97)			(97)	(9)		(106)
Housing Renewal Grant	(9)			(9)			(9)
Priddys Play Area Maintenance	(56)		7	(49)		6	(43)
Building Control Partnership	(81)	(16)		(97)			(97)
Community Safety Partnership	(46)	(9)	7	(48)	(17)		(65)
Preventing Repossessions	(14)			(14)			(14)
High Street Innovations	(23)			(23)			(23)
Open Spaces Maintenance	(26)		3	(23)		3	(20)
Bus Shelter Maintenance	(30)			(30)			(30)
Business Growth Incentive Grant	(22)			(22)			(22)
Urbaser Contract Reserve	(99)	(3)		(102)		2	(100)
Sodexo Contract Reserve	(10)		9	(1)		1	0
Royan Twinning Fund	(9)		1	(8)		1	(7)
Cherque Farm Land Transfer	(6)			(6)			(6)
Healthy Homes	(33)	(24)	33	(24)		1	(23)
CCTV Monitoring	(8)			(8)		1	(7)
Education Fund	(4)			(4)			(4)
Hermitage Wildlife Garden	-	(10)		(10)		2	(8)
Benefits DWP External Funding	-	(49)		(49)	(22)	49	(22)
Homeless Support Grant Reserve	-	(165)		(165)	(334)		(499)
Planning DCLG Grants Reserve	-	(35)		(35)	(34)		(69)
EU Exit Preparation	-			-	(18)		(18)
	<b>(5,215)</b>	<b>(1,447)</b>	<b>221</b>	<b>(6,441)</b>	<b>(1,148)</b>	<b>86</b>	<b>(7,503)</b>
<b>Housing Revenue Account</b>							
Housing Revenue Account	(992)			(992)			(992)
Major Repairs, New Build & Loan Repayment Reserve	(2,462)	(1,049)	409	(3,102)	(510)		(3,612)
	<b>(3,454)</b>	<b>(1,049)</b>	<b>409</b>	<b>(4,094)</b>	<b>(510)</b>	<b>0</b>	<b>(4,604)</b>
<b>Capital</b>							
Capital Receipts Reserve (GF)	(91)	(608)	645	(54)	(36)	36	(54)
Revenue Reserve for Capital (GF)	-	(524)		(524)	(531)	399	(656)
Capital Receipts Reserve (HRA)	(100)	(713)	699	(114)	(733)	525	(322)
Capital Receipts New Build (HRA)	(751)	(479)	175	(1,055)	(556)	278	(1,333)
Major Repairs Reserve (HRA)	-	(2,876)	2,876	-			-
Capital Grants Unapplied (CIL)	(20)	(81)		(101)	(761)		(862)
	<b>(962)</b>	<b>(5,281)</b>	<b>4,395</b>	<b>(1,848)</b>	<b>(2,617)</b>	<b>1,238</b>	<b>(3,227)</b>
<b>Total Usable Reserves</b>	<b>(10,521)</b>	<b>(7,777)</b>	<b>5,025</b>	<b>(13,273)</b>	<b>(4,275)</b>	<b>1,324</b>	<b>(16,224)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Unusable Reserves

31-Mar-18 £'000		31-Mar-19 £'000
(49,586)	Revaluation Reserve	(56,625)
(59,704)	Capital Adjustment Account	(55,509)
(4,763)	Deferred Capital Receipts Reserve	(4,726)
40,650	Net Pension Reserve	38,620
(659)	Collection Fund Adjustment Account	(61)
101	Accumulated Absences Account	106
<b>(73,961)</b>		<b>(78,195)</b>

### Revaluation Reserve

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

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

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

2017/18 £'000		2018/19 £'000
(37,673)	Balance at 1 April	(49,586)
(13,346)	Upward revaluation of assets	(8,858)
1,141	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	1,683
(12,205)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(7,175)
292	Difference between fair value depreciation and historical cost depreciation	136
292	Amount written off to the Capital Adjustment Account	136
<b>(49,586)</b>	<b>Balance at 31 March</b>	<b>(56,625)</b>

### 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 fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent costs.

# NOTES TO THE FINANCIAL STATEMENTS

The Account contains accumulated gains and losses on investment properties and any gains recognised on any 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.

2017/18 £'000	2018/19 £'000
<b>(63,621)</b> Balance at 1 April	<b>(59,704)</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
4,111 Charges for depreciation, impairment of noncurrent assets	4,294
656 Revaluation losses on Property, Plant and Equipment	403
113 Amortisation of intangible assets	108
806 Revenue expenditure funded from capital under statute	833
4,895 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	4,156
<b>10,581</b>	<b>9,794</b>
<b>(292)</b> Adjusting amounts written out of the Revaluation Reserve	<b>(136)</b>
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>9,658</b>
<b>10,289</b>	<b>9,658</b>
Capital financing applied in the year:	
<b>(1,212)</b> Use of the Capital Receipts Reserve to finance new capital expenditure and reduce CFR	<b>(543)</b>
<b>(2,876)</b> Use of the Major Repairs Reserve to finance new capital expenditure	<b>(2,992)</b>
<b>(705)</b> Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	<b>(302)</b>
<b>(407)</b> Application of grants to capital financing from the Capital Grants Unapplied Account	<b>(852)</b>
<b>(2)</b> Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	0
<b>(683)</b> Capital expenditure charged against the General Fund and HRA balances	<b>(1,128)</b>
<b>(5,885)</b>	<b>(5,817)</b>
<b>(487)</b> Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	<b>354</b>
<b>(59,704)</b> Balance at 31 March	<b>(55,509)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Deferred Capital Receipts Reserve

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

2017/18 £'000	2018/19 £'000
(5,070) Balance at 1 April	(4,763)
307 Transfer to the Capital Receipts Reserve upon receipt of cash	37
<b>(4,763) Balance at 31 March</b>	<b>(4,726)</b>

## Pensions Reserve

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

2017/18 £'000	2018/19 £'000
39,400 Balance at 1 April	40,650
170 Remeasurements of the net defined benefit liability/(asset)	(4,280)
2,830 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	4,000
(1,750) Employer's pensions contributions and direct payments to pensioners payable in the year	(1,750)
<b>40,650 Balance at 31 March</b>	<b>38,620</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Collection Fund Adjustment Account

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

2017/18 £'000	2018/19 £'000
(446) Balance at 1 April	(659)
(213) 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	
	598
<b>(659) Balance at 31 March</b>	<b>(61)</b>

## Accumulated Absences Account

The Accumulated Absences 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 ie 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.

2017/18 £'000	2018/19 £'000
108 Balance at 1 April	101
(108) Settlement or cancellation of accrual made at the end of the preceding year	(101)
101 Amounts accrued at the end of the current year	106
<b>101 Balance at 31 March</b>	<b>106</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 26. Members' Allowances

The following amounts were paid to members during the year. A detailed breakdown is on the Council's website at <http://www.gosport.gov.uk/sections/democratic-services/members-allowances/>

2017/18 £'000	2018/19 £'000
245 Allowances	251
2 Expenses	1
<b>247</b>	<b>252</b>

## 27. Officers Remuneration

Number of employees 2017/18	Left during 2017/18	The number of employees (excluding senior officers which are disclosed individually in separate tables) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were: Remuneration band	Number of employees 2018/19	Left during 2018/19
3	-	£50,000 - £54,999	5	-
3	1	£55,000 - £59,999	1	-
2	1	£60,000 - £64,999	1	-
2	1	£65,000 - £69,999	2	-
-	-	£70,000 - £74,999	-	-
-	-	£75,000 - £79,999	-	-
1	1	£80,000 - £84,999	-	-

## Exit Packages

Exit package cost band (including special repayments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£0 - £20,000	4	0	0	0	4	0	44	0
£20,001 - £40,000	1	0	0	0	1	0	35	0
£40,001 - £60,000	1	0	0	0	1	0	47	0
£60,001 - £80,000	1	0	0	0	1	0	62	0
	<b>7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>0</b>	<b>188</b>	<b>0</b>

# NOTES TO THE FINANCIAL STATEMENTS

## SENIOR OFFICER EMOLUMENTS (Salaries more than £50,000 but less than £150,000 per year)

The roles of the Chief Executive, Borough Solicitor and Deputy Chief Executive and Borough Treasurer are, fulfilled (from 1<sup>st</sup> October 2016) by Portsmouth City Council under a shared management arrangement. The remuneration details of the equivalent posts are disclosed in full by Portsmouth City Council at <https://www.portsmouth.gov.uk/ext/the-council/transparency/transparency-agenda.aspx>

The amount recharged to Gosport Borough Council relating to these posts is set out below.

2017/18 £000's	2018/19 £000's
67 Chief Executive	67
53 Borough Solicitor & Deputy Chief Executive	53
48 Borough Treasurer	48
<b>168</b>	<b>168</b>

## 28. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts and certification of grant claims provided by the Council's external auditors.

2017/18 £'000	2018/19 £'000
Fee payable to Ernst & Young with regard to external audit services carried out by appointed auditors	
53 External audit services	41
13 Certification of grant claims and returns	-
<b>66</b>	<b>41</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 29. Grant Income

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

2017/18 £'000	Grant Income	2018/19 £'000
<b>Included in Taxation and Non Specific Grant Income</b>		
<u>Non-Ringfenced Government Grants</u>		
Department for Communities and Local Government:		
(612)	Revenue Support Grant	(264)
(779)	New Homes Bonus Grant	(391)
(177)	New Burdens Grants - various	(184)
(663)	Autumn Statement Measures - Business Rate Relief Grants	(819)
(24)	Transition Grant	-
Department for Work and Pensions		
(424)	HB / CTB Administration	(397)
(85)	<u>Community Infrastructure Levy</u>	(800)
<b>(2,764)</b>		<b>(2,855)</b>
<u>Capital Grants and Contributions</u>		
(105)	Developers Contributions - Open Spaces	(201)
(150)	Sports England - BMX Track	-
(55)	Contractor Contributions - Bridgemary Skate Park	-
(37)	Local Enterprise Partnership - Daedalus Regeneration	-
(7)	Developer Contribution - Priddys Play Area	-
-	Hampshire County Council - Alver Valley	(50)
-	Coast Protection	(106)
<b>(354)</b>		<b>(357)</b>
<b>Service Specific Revenue Grants and Contributions (included in cost of services)</b>		
<u>Department for Work and Pensions</u>		
(26,094)	HB / CTB Subsidy	(25,388)
<u>Environment Agency</u>		
(407)	Coast Protection	-
<u>Department for Communities and Local Government</u>		
(350)	Disabled Facilities Grant	(798)
(78)	NNDR Cost of Collection	(78)
(15)	Natural England Grant	-
(596)	Homelessness Prevention Grants	(656)
-	Historic England Grant	(47)
-	One Public Estate (studies / option appraisals)	(28)
<u>Cabinet Office</u>		
-	Elections / Register of Electors Grants	(55)
<b>(27,540)</b>		<b>(27,050)</b>

### Receipts in Advance – Capital Grants

In addition, the Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them which could require their return to the giver – a possibility that the Council seeks to mitigate by pro-actively managing the monies held. An analysis of these sums is shown below.

# NOTES TO THE FINANCIAL STATEMENTS

2017/18 £'000	2018/19 £'000
<b>Receipts in Advance - Capital Grants</b>	
(10) Affordable Housing	(10)
(1,104) Open Spaces and Play Areas	(960)
(615) Transport Contributions	(623)
(651) Other grants and contributions	(807)
<b>(2,380)</b>	<b>(2,400)</b>

## 30. Related Parties

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

### Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides significant funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (ie council tax bills, housing benefits). Grants received from government departments are included in Note 29.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 26. There were no other related party transactions during the year

### Officers

There were no related party transactions during the year by officers of the Council.

### Gosport and Fareham Building Control Partnership

The Partnership provides building control services on behalf of Gosport Borough Council, Fareham Borough Council and Portsmouth City Council; it has been in operation since 2003 and was expanded to include Portsmouth City Council from May 2015. During 2018/19, the Partnership charged Gosport Borough Council £113,594 (£100,498 in 2017/18) for statutory building control services. The Partnership has a policy of dividing generated surpluses between authorities based on fee generating work from each Authority. At the 31 March 2019, the balance of retained surplus for future investment in the service held by Gosport Borough Council was £91,327 (£97,245 in 2017/18), £149,478 (£162,202 in 2017/18) by Fareham Borough Council and £49,066 (£60,015 in 2017/18) by Portsmouth City Council.

### Gosport and Fareham Environmental Services Partnership

The Gosport and Fareham Environmental Health Partnership provides environmental health services to both Fareham and Gosport Borough Council. The Partnership has been in operation since 2014. During 2018/19, the Partnership charged Gosport Borough Council £616,629 for statutory environmental health services (£745,852 in 2017/18). The Partnership has a policy of sharing expenditure (excluding internal recharges) on a 50/50 basis. All income is retained by the relevant authority.

### Portchester Crematorium

The crematorium is a joint arrangement managed by the Council along with 3 neighbouring authorities through the Portchester Crematorium Joint Committee. The four constituent authorities: Gosport Borough Council, Fareham Borough Council, Havant Borough Council and Portsmouth City Council are equally represented – each having a 25% share. Further

# NOTES TO THE FINANCIAL STATEMENTS

information can be obtained from: The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham.

During 2018/19 the Council received £150,000 (£145,000 in 2017/18) from the Joint Committee being its share of the distributable surpluses. The Council's 25% share of the crematorium's assets, liabilities, income and expenditure for 2018/19 are shown below

2017/18 £'000	2018/19 £'000
<b>Portchester Crematorium - Gosport share (25%)</b>	
1,568 Long Term Assets	1,511
643 Current Assets	674
(15) Current Liabilities	(17)
(205) Long Term Liabilities	(193)
(627) Usable Reserves	(657)
(1,364) Unusable Reserves	(1,318)
<b>0</b>	<b>0</b>
(523) Income	(504)
400 Expenditure	503

## Portsmouth Harbour Renaissance Ltd

The Council is one of three equal shareholders in Portsmouth Harbour Renaissance Ltd. Portsmouth Harbour Renaissance Ltd. does not operate independently, generate surpluses or own assets. It is merely an interface between the project partners (shareholders) and the Millennium Commission; collating the expenditure of the partners, submitting the claims, receiving and distributing the grant. Any administrative costs are charged to the partners quarterly. The accounts of PHR are audited independently and are available from Portsmouth City Council.

## Other Public Bodies

Subject to a common control by central government, transactions with other public bodies are shown below:

2017/18 £'000		2018/19 £'000
31,237 Hampshire County Council		33,230
4,369 Hampshire Police & Crime Commissioners	Business Rates (excluding Hampshire Police & Crime Commissioners) and Council Tax precepts	4,707
1,832 Hampshire Fire & Rescue Authority		1,897
1,750 Hampshire County Council	Pension Fund payments	1,750
986 Building Control & Environmental Services	Payments to Fareham Borough Council	968
(505) Partnerships	Income from Fareham Borough Council	(444)
(57) Internal Audit Partnership	Income from Test Valley Borough Council	(25)

## Portsmouth City Council – Shared Management arrangements

In June 2016, the Council approved entering into a shared management arrangement with Portsmouth City Council (PCC). This encompasses the following posts and functions: Chief Executive; Borough Treasurer; Borough Solicitor; Housing Services; Personnel and Pay and Central Services and other services as required.

# NOTES TO THE FINANCIAL STATEMENTS

During 2018/19, the Council paid PCC £866,522 (£744,593 in 2017/18). There is no political merger and the two Councils remain distinct and separate entities, the collaboration is at officer level only.

## 31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of any assets acquired under finance leases contracts), 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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the table below.

2017/18 £'000	2018/19 £'000
<b>80,145</b>	<b>81,707</b>
<u>Capital Investment</u>	
6,469 Plant, Property & Equipment	4,873
97 Investment Properties	35
74 Intangible Assets	76
806 Revenue Expenditure funded from Capital under Statute	833
<u>Sources of Finance</u>	
(1,180) Capital Receipts	(543)
(1,112) Government Grants & Other Contributions	(1,154)
(3,559) GF and HRA Revenue and Reserves including Major Repairs Reserve	(4,120)
<u>Other Adjustments</u>	
(31) Finance lease principal repayments and liabilities	0
(2) Sums set aside from Revenue (including Minimum and Voluntary Repayments of Principal)	0
<b>81,707</b>	<b>81,707</b>
<b>Explanation of Movements in year</b>	
1,595 Increase in underlying need to borrow (unsupported)	0
(33) (Decrease) in underlying need to borrow due to MRP, VRP and lease payments	0
<b>1,562</b>	<b>0</b>
<b>(Decrease) / Increase in Capital Financing Requirement</b>	

# NOTES TO THE FINANCIAL STATEMENTS

## Revenue Expenditure Funded From Capital under Statute

Revenue expenditure funded from capital under statute represents capital expenditure that does not result in the creation of an asset. Movements on revenue expenditure funded from capital under statute during the year were as follows

	Balance at 1 April £'000	Expenditure £'000	Charged to Revenue £'000	Balance at 31 March £'000
Housing Grants	-	798	(798)	-
Other Capital Schemes	-	35	(35)	-
<b>Total 2018/19</b>	-	<b>833</b>	<b>(833)</b>	-
<b>Total 2017/18</b>	-	<b>806</b>	<b>(806)</b>	-

## 32. Leases

### Council as Lessee

#### Finance Leases

The Council does not currently have any items held under finance leases.

#### Operating Leases

The Council has lease arrangements for vehicles and data link lines. The Council also uses a number of properties for temporary accommodation for its clients under short term licence arrangements.

The future estimated minimum lease payments are:

	31-Mar-18 £'000	31-Mar-19 £'000
Not later than one year	1,324	1,324
Later than one year and not later than five years	49	49
Later than five years	7	7
	<b>1,380</b>	<b>1,380</b>

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

	31-Mar-18 £'000	31-Mar-19 £'000
Minimum lease payments	1,291	1,120
	<b>1,291</b>	<b>1,120</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Council as Lessor

### Finance Leases

The Council has entered into a finance lease for the Gosport Ferry Landing Stage over a term of 50 years. The Landing Stage opened on 27 June 2011.

	31-Mar-18 £'000	31-Mar-19 £'000
Finance lease debtor		
current	34	36
non current	4,728	4,690
Unearned finance income	6,480	6,255
Gross investment in the lease	11,242	10,981

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

	Gross Investment in the Lease		Finance Lease payments	
	31-Mar-18 £'000	31-Mar-19 £'000	31-Mar-18 £'000	31-Mar-19 £'000
Not later than one year	260	260	260	260
Later than one year, not later than five years	1,040	1,040	1,040	1,040
Later than five years	9,942	9,682	9,942	9,681
	11,242	10,982	11,242	10,981

### Operating Leases

The Council leases out land and property under operating leases primarily for:

- the provision of community services
- economic development purposes
- the lease of the seabed and dolphins for the ferry landing stage

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31-Mar-18 £'000	31-Mar-19 £'000
Not later than one year	617	631
Later than one year and not later than five years	2,469	2,549
Later than five years	15,336	15,969
	18,422	19,149

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.

During 2015/16, the Council received a premium payment of £150,000 in respect of a revision to one of these leases. This is being credited to the Cost of Services over the life of the lease and is included in the balance sheet as deferred income as follows.

	31-Mar-18 £'000	31-Mar-19 £'000
Not later than one year	1	1
Later than one year and not later than five years	4	4
Later than five years	143	142
	148	147

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Pensions

### Introduction

**Funded** - the disclosures below relate to the funded liabilities within the Hampshire County Council Pension Fund (the 'Fund') which is part of the Local Government Pension Scheme (the 'LGPS'). The LGPS is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'.

**Unfunded** - the unfunded pension arrangements established by Gosport Borough Council relate to termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS. No Pension Fund exists to meet these benefits

### Funding / Governance Arrangements of the LGPS

The funded nature of the LGPS requires Gosport Borough Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement. The last actuarial valuation was at 31 March 2016 and the contributions to be paid until 31 March 2020 resulting from that valuation are set out in the Fund's Rates and Adjustment Certificate.

The Fund Administering Authority, Hampshire County Council, is responsible for the governance of the Fund.

### Risks associated with the Fund in relation to accounting

**Asset volatility** - the liabilities used for accounting purposes are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield this will create a deficit in the accounts. The Fund holds a significant proportion of growth assets which while expected to outperform corporate bonds in the long term creates volatility and risk in the short term in relation to the accounting figures.

**Changes in Bond Yield** - a decrease in corporate bond yields will increase the value placed on the liabilities for accounting purposes although this will be marginally offset by the increase in the assets as a result.

**Inflation Risk** - the majority of the pension liabilities are linked to either pay or price inflation. Higher inflation expectations will lead to a higher liability value. The assets are either unaffected or loosely correlated with inflation meaning that an increase in inflation will increase the deficit.

**Life expectancy** - the majority of the Fund's obligations are to provide benefits for the life of the member following retirement, so increases in life expectancy will result in an increase in the liabilities.

**Exiting employers** - employers who leave the Fund (or their guarantor) may have to make an exit payment to meet any shortfall in assets against their pension liabilities. If the employer (or guarantor) is not able to meet this exit payment the liability may in certain circumstances fall on other employers in the Fund. Further, the assets at exit in respect of 'orphan liabilities' may, in retrospect, not be sufficient to meet the liabilities. This risk may fall on other employers. 'Orphan liabilities' are currently a small proportion of the overall liabilities in the Fund.

# NOTES TO THE FINANCIAL STATEMENTS

## Fund Actuaries

The reported figures and disclosure notes below are predominantly supplied by AON Hewitt Limited, the independent actuaries to the Fund.

## Estimated employer contributions for the year ending 31 March 2020

**Funded** - £1.82m, additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

**Unfunded** - £0.19m directly to beneficiaries

## Assumptions

The latest actuarial valuation of Gosport Borough Council's funded liabilities and unfunded LGPS benefits took place as at 31 March 2016 and 31 March 2017 respectively. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were

2017/18	Key assumptions (% per annum)	2018/19
	<b><u>Funded</u></b>	
2.6%	Discount rate	2.4%
3.2%	RPI Inflation	3.3%
2.1%	CPI Inflation	2.2%
2.1%	Pension increases	2.2%
2.1%	Pension accounts revaluation rate	2.2%
3.6%	Salary increases	3.7%
	<b><u>Unfunded</u></b>	
2.6%	Discount rate	2.4%
3.2%	RPI Inflation	3.3%
2.1%	CPI Inflation	2.2%
2.1%	Pension increases	2.2%

2017/18	Assumed life expectancy at age 65	2018/19
	<b><u>Males</u></b>	
24.1	Member aged 65 at accounting date	23.3
26.2	Member aged 45 at accounting date	24.9
	<b><u>Females</u></b>	
27.2	Member aged 65 at accounting date	26.1
29.4	Member aged 45 at accounting date	27.8

# NOTES TO THE FINANCIAL STATEMENTS

## Transactions Relating to Post-Employment Benefits

The cost of retirement benefits in the reported cost of services is recognised when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made 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 in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year

2017/18		Transactions relating to Post-employment Benefits	2018/19	
Funded £'000	Unfunded £'000		Funded £'000	Unfunded £'000
		<b><u>Comprehensive Income and Expenditure Statement</u></b>		
		<b>Cost of Services</b>		
1,790		Current service costs #	1,840	
80		Past service costs	1,120	
-		Settlement cost	-	
		<b>Financing and Investment Income and Expenditure</b>		
890	70	Interest on net defined benefit liability	970	70
<b>2,760</b>	<b>70</b>	<b>Pension expense recognised in the Surplus or Deficit on the Provision of Services</b>	<b>3,930</b>	<b>70</b>
		<b>Remeasurements of the Net Defined Liability, comprising</b>		
(370)		- Return on plan assets (in excess of) / below that recognised in net interest	(5,410)	-
(130)	(10)	Actuarial (gains) / losses due to change in financial assumptions	5,690	60
-		- Actuarial (gains) / losses due to changes in demographic assumptions	(4,720)	(110)
650	30	Actuarial (gains) / losses due to liability experience	200	10
<b>150</b>	<b>20</b>	<b>Total amount recognised in Other Comprehensive Income and Expenditure</b>	<b>(4,240)</b>	<b>(40)</b>
<b>2,910</b>	<b>90</b>	<b>Total included in Comprehensive Income and Expenditure Statement</b>	<b>(310)</b>	<b>30</b>
		<b><u>Movement in Reserves Statement</u></b>		
(2,760)	(70)	Reversal of charges made for retirement benefits	(3,930)	(70)
1,560	190	Inclusion of employers contributions payable	1,570	180
<b>(1,200)</b>	<b>120</b>	<b>Total included in Movement in Reserves Statement</b>	<b>(2,360)</b>	<b>110</b>
20		# Allowance for administration expenses included in current service cost	20	

# NOTES TO THE FINANCIAL STATEMENTS

2017/18 £'000	2018/19 £'000
<b>Employers contributions paid to Pension Fund</b>	
1,430 Normal Funded Contributions	1,570
130 Lump Sums for Early Retirements	-
<b>Employers contributions paid to Pensioners</b>	
190 Discretionary / Unfunded Added Years	180
<b>1,750</b>	<b>1,750</b>

## Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Council's obligation in respect of the LGPS is as follows

31-Mar-18 £m	Reconciliation to Balance Sheet	31-Mar-19 £m
<b>Funded</b>		
76.09	Fair value of assets	81.59
(114.02)	Present value of funded defined benefit obligation	(117.64)
(37.93)	Funded status	(36.05)
-	- Impact of minimum funding requirement/asset ceiling	-
(37.93)	Pension liability recognised on the Balance Sheet	(36.05)
The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:		
30%	Active members	30%
13%	Deferred Pensioners	13%
57%	Pensioners	57%
<b>Unfunded</b>		
(2.72)	Present value of defined benefit obligation	(2.57)
(2.72)	Pension liability recognised on the Balance Sheet	(2.57)
(40.65)	<b>Total</b>	(38.62)

## Assets

The assets allocated to the Employer in the Fund are notional and are assumed to be invested in line with the investments of the Fund for the purposes of calculating the return to be applied to those notional assets over the accounting period. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employer's liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole (based on data supplied by the Administering Authority) is shown in the disclosures.

# NOTES TO THE FINANCIAL STATEMENTS

The Administering Authority may invest a small proportion of the Fund's investments in the assets of some of the employers participating in the Fund if it forms part of their balanced investment strategy.

31-Mar-18		Asset allocation	31-Mar-19			
Quoted	Unquoted		Quoted	Unquoted		
		<b>Total</b>		<b>Total</b>		
58.5%	4.1%	62.6%	Equities	54.0%	6.4%	60.4%
0.7%	6.3%	7.0%	Property	0.7%	6.9%	7.6%
23.5%	0.2%	23.7%	Government Bonds	22.6%	0.1%	22.7%
1.0%	0.0%	1.0%	Corporate Bonds	1.1%	4.1%	5.2%
2.6%	0.0%	2.6%	Cash	2.3%	0.0%	2.3%
0.2%	2.9%	3.1%	Other	0.1%	1.7%	1.8%
<b>86.5%</b>	<b>13.5%</b>	<b>100.0%</b>	<b>Total</b>	<b>80.8%</b>	<b>19.2%</b>	<b>100.0%</b>

## Movement in the present value of Pension Fund Obligations

2017/18 £m	Changes to the present value of the defined benefit obligation	2018/19 £m
	<b>Funded</b>	
112.22	Opening defined benefit obligation	114.02
1.79	Current service cost	1.84
2.76	Interest expense on defined benefit obligation	2.92
0.37	Contributions by participants	0.37
(0.13)	Actuarial (gains)/losses due to change in financial assumptions	5.69
0.00	Actuarial (gains)/losses due to changes in demographic assumptions	(4.72)
0.65	Actuarial (gains)/losses due to liability experience	0.20
(3.72)	Net benefits paid out	(3.80)
0.08	Past service cost	1.12
-	- Settlements	-
<b>114.02</b>	<b>Closing defined benefit obligation</b>	<b>117.64</b>
	<b>Unfunded</b>	
2.82	Opening defined benefit obligation	2.72
0.00	Current service cost	0.00
0.07	Interest expense on defined benefit obligation	0.07
(0.01)	Actuarial (gains)/losses due to change in financial assumptions	0.06
-	Actuarial (gains)/losses due to changes in demographic assumptions	(0.11)
0.03	Actuarial (gains)/losses due to liability experience	0.01
(0.19)	Net benefits paid out	(0.18)
<b>2.72</b>	<b>Closing defined benefit obligation</b>	<b>2.57</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Movement in the fair value of Pension Fund Assets

2017/18 £m	Changes to the fair value of assets	2018/19 £m
	<b>Funded</b>	
75.64	Opening fair value of assets	76.09
1.87	Interest income on assets	1.95
0.37	Remeasurement gains/(losses) on assets	5.41
1.56	Contributions by the employer	1.57
0.37	Contributions by participants	0.37
(3.72)	Net benefits paid out #	(3.80)
0.00	Settlements	0.00
<b>76.09</b>	<b>Closing fair value of assets</b>	<b>81.59</b>
# The 'Net benefits paid out' figure includes an allowance for expenses of £0.02m		
	<b>Unfunded</b>	
0.19	Contributions by the employer	0.19
(0.19)	Net benefits paid out	(0.19)
<b>0.00</b>	<b>Closing fair value of assets</b>	<b>0.00</b>

## Actual return on Scheme Assets

2017/18 £m	Actual return on assets	2018/19 £m
1.87	Interest income on assets	1.95
0.37	Remeasurement gain/(loss) on assets	5.41
<b>2.24</b>	<b>Actual return on assets</b>	<b>7.36</b>

## Sensitivity Analysis

The results shown in this report are sensitive to the assumptions used.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2019 and the projected service cost for the year ending 31 March 2020 is set out below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised on page 73.

Sensitivity of unfunded benefits is not included on materiality grounds.

# NOTES TO THE FINANCIAL STATEMENTS

<b>Sensitivity analysis for funded LGPS benefits</b>			
<b>Discount rate assumption</b>			
<b>Adjustment to discount rate</b>	<b>+0.1% pa</b>	<b>Base figure</b>	<b>-0.1% pa</b>
Present value of total obligation (£m's)	115.63	117.64	119.68
% change in present value of total obligation	-1.7%		1.7%
Projected service cost (£m's)	1.89	1.95	2.01
Approximate % change in projected service cost	-2.8%		2.9%
<b>Rate of general increase in salaries</b>			
<b>Adjustment to salary increase rate</b>	<b>+0.1% pa</b>	<b>Base figure</b>	<b>-0.1% pa</b>
Present value of total obligation (£m's)	117.98	117.64	117.31
% change in present value of total obligation	0.3%		-0.3%
Projected service cost (£m's)	1.95	1.95	1.95
Approximate % change in projected service cost	0.0%		0.0%
<b>Rate of increase to pensions in payment and deferred pensions assumption and rate of revaluation of pension fund accounts</b>			
<b>Adjustment to pension increase rate</b>	<b>+0.1% pa</b>	<b>Base figure</b>	<b>-0.1% pa</b>
Present value of total obligation (£m's)	119.34	117.64	115.97
% change in present value of total obligation	1.4%		-1.4%
Projected service cost (£m's)	2.01	1.95	1.89
Approximate % change in projected service cost	2.9%		-2.8%
<b>Post retirement mortality assumption</b>			
<b>Adjustment to mortality age rate assumption #</b>	<b>-1 year</b>	<b>Base figure</b>	<b>+1 year</b>
Present value of total obligation (£m's)	121.37	117.64	113.93
% change in present value of total obligation	3.2%		-3.2%
Projected service cost (£m's)	2.02	1.95	1.88
Approximate % change in projected service cost	3.8%		-3.8%
# A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them			

## 34. Contingent Liabilities

### ▪ Browndown Tip

The Council's officers are of the opinion that the Council could have substantial liabilities under the provisions of the Environmental Protection Act 1990 as a class B person namely the current owner / occupier of the land. The extent of the liability depends on the contamination, whether a class A person (one who caused or knowingly permitted the contamination) can be identified and the future use of the land.

### ▪ Alver Valley Country Park

The Council owns land and has a 999 year lease of other land within the Country Park which was formally a gravel extraction quarry reclaimed as a landfill site. The land is, in parts, known to be filled with both inert material and domestic waste. The Council may have cost liabilities in respect of discharges of gas or contaminated water.

# NOTES TO THE FINANCIAL STATEMENTS

## 35. Contingent Assets

- **Landing Stage**

The new Gosport Ferry Terminal opened on 27 June 2011. Final works and contract sums remain to be completed at 31 March 2019 and discussions regarding final payments and retentions will be concluded at the end of the defects period.

- **Priddys Hard Profit Share**

In 2009/10 the Portsmouth Naval Base Property Trust purchased the Priddys Hard Heritage Area, including the Explosion Museum, from the Council. Under the terms of the agreement the Council would receive a share of profits that may arise from future developments.

# NOTES TO THE FINANCIAL STATEMENTS

## 36. Cash Flow Statement – notes

2017/18 £'000	Adjustments to surplus or deficit on the provision of services for non-cash movements	2018/19 £'000
4,112	Depreciation and Impairments	4,154
656	Impairment and Downward Valuations	543
112	Amortisation	108
922	Increase/(Decrease) in Creditors	(429)
(1,212)	(Increase)/Decrease in Debtors	(1,011)
1,080	Movement in Pension Liability	2,250
4,895	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	4,156
(815)	Other non-cash items charged to the net surplus or deficit on the provision of services	971
<b>9,750</b>	<b>Net cash flow</b>	<b>10,742</b>

2017/18 £'000's	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	2018/19 £'000
(1,460)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(1,289)
(1,193)	Capital Grants credited to the surplus/deficit on the provision of services	(1,586)
<b>(2,653)</b>		<b>(2,875)</b>

2017/18 £'000	Net Cash Flow from Investing Activities	2018/19 £'000
(6,299)	Purchase of property, plant and equipment, investment property and intangible assets	(5,130)
(15,500)	Purchase of short-term and long-term investments	(13,000)
1,767	Proceeds from the sale of property, plant and equipment, investment property, intangible assets (including deferred capital receipts)	1,326
19,500	Proceeds from short-term and long-term investments	10,000
1,445	Other receipts from investing activities	1,681
<b>913</b>	<b>Net cash outflow from investing activities</b>	<b>(5,123)</b>

2017/18 £'000	Net Cash Flow from Financing Activities	2018/19 £'000
8,000	Cash receipts of short and long-term borrowing	10,500
	Cash payments for the reduction of outstanding liabilities relating to finance leases	
(6,242)	Repayments of short and long-term borrowing	(11,249)
(361)	Billing Authorities - Council Tax and NNDR adjustments	115
<b>1,397</b>	<b>Net cash (inflow) / outflow from financing activities</b>	<b>(634)</b>

# NOTES TO THE FINANCIAL STATEMENTS

2017/18 £'000	The cash flows for operating activities include the following items:	2018/19 £'000
321	Interest Received	287
<u>(2,111)</u>	Interest Paid	<u>(2,045)</u>
<b><u>(1,790)</u></b>	<b>Net cash outflow from Interest and Dividends</b>	<b><u>(1,758)</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

## 37. Certification and authorisation of the Accounts

Statement of Accounts – unaudited draft authorised for issue

Signed

Date 31 May 2019

C. WARD

Borough Treasurer, Section 151 officer

Statement of Accounts – audited statement authorised for issue

Signed

Date 24 July 2019

C. WARD

Borough Treasurer, Section 151 officer

Statement of Accounts – audited and approved by Policy and Organisation Board

Signed

Date 24 July 2019

COUNCILLOR M. HOOK

Leader of the Council

Statement of Accounts – approved by Policy and Organisation Board and authorised for publication

Signed

Date 24 July 2019

C. WARD

Borough Treasurer, Section 151 officer

# SUPPLEMENTARY FINANCIAL STATEMENTS

## HRA INCOME AND EXPENDITURE STATEMENT

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

2017/18 £'000	HRA INCOME AND EXPENDITURE STATEMENT	2018/19 £'000	2018/19 £'000
	<b>EXPENDITURE</b>		
4,631	Repairs & maintenance	4,739	
3,735	Supervision & management	3,974	
259	Rents, rates, taxes & other charges	527	
2,876	Depreciation, impairment and revaluation losses of non current assets	3,000	
39	Debt management costs	41	
62	Movement in the allowance for bad or doubtful debts	25	
<b>11,602</b>	<b>TOTAL EXPENDITURE</b>		<b>12,306</b>
	<b>INCOME</b>		
(14,077)	Dwelling rents	(13,956)	
(251)	Non dwelling rents	(279)	
(501)	Charges for services and facilities	(514)	
<b>(14,829)</b>	<b>TOTAL INCOME</b>		<b>(14,749)</b>
<b>(3,227)</b>	<b>NET INCOME OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b>		<b>(2,443)</b>
80	HRA Services' share of Corporate and Democratic Core		83
<b>(3,147)</b>	<b>NET INCOME FOR HRA SERVICES</b>		<b>(2,360)</b>
	<b>HRA SHARE OF THE OPERATING INCOME AND EXPENDITURE INCLUDED IN THE WHOLE AUTHORITY COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b>		
3,388	(Gain)/Loss on the disposal of HRA non-current assets		2,778
282	Payments to the Governments Housing Capital Receipts Pool		278
1,892	Interest payable and similar charges		1,903
(18)	Interest and investment income		(45)
227	Pension interest on net defined benefit liability		261
<b>2,624</b>	<b>(SURPLUS) / DEFICIT FOR THE YEAR ON HRA SERVICES</b>		<b>2,815</b>

# SUPPLEMENTARY FINANCIAL STATEMENTS

2017/18 £'000	MOVEMENT ON THE HRA STATEMENT	2018/19 £'000	2018/19 £'000
(992)	Balance on the HRA at the end of the previous year		(992)
2,624	Surplus / deficit for the year on the HRA Income and Expenditure Account	2,815	
(3,673)	Adjustments between accounting basis and funding basis under regulations (detailed below)	(3,325)	
(1,049)	Net increase before transfers to reserves		(510)
1,049	Transfers to Reserves		510
0	Increase in year on HRA		0
(992)	Balance on the HRA at the end of the current year		(992)

ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASES UNDER REGULATIONS			
2017/18 £'000		2018/19 £'000	2018/19 £'000
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>		
(3,388)	Gain/(Loss) on the disposal of HRA Non-Current Assets	(2,778)	
(282)	Contributions from the Capital Receipts Reserve to finance payments to the Governments Housing Capital Receipts Pool	(278)	
274	Capital Expenditure funded by the HRA	304	
(1)	Net charges to Accumulated Absences Account	0	
(669)	Net charges made for retirement benefits in accordance with IAS19	(1,006)	
2,876	Depreciation transfer to Major Repairs Reserve	2,992	
(2,876)	Depreciation transfer from Capital Adjustment Account	(3,000)	
(4,066)			(3,766)
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
393	Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners	441	
393			441
(3,673)	<b>Net additional amount required by statute to be credited to the HRA Balance for the year</b>		(3,325)

# SUPPLEMENTARY FINANCIAL STATEMENTS

## NOTES TO THE HOUSING REVENUE ACCOUNT (HRA)

### 1. Local Government and Housing Act 1989

The Housing Revenue Account reflects a statutory obligation to maintain a separate revenue account for the provision of local authority housing in accordance with the Local Government and Housing Act 1989. It includes the credit and debit items to be taken into account in determining the surplus or deficit on the HRA for the year.

### 2. Value of Housing Revenue Account Property

This analysis shows the net value and number of types of dwelling within the HRA. Council dwellings are valued at their Economic Use Value for Social Housing.

31-Mar-18			31-Mar-19	
Number	Value £'000		Number	Value £'000
<b>Operational Assets</b>				
2,944	138,784	Standard Dwellings	2,935	140,748
182	5,405	Sheltered Housing	182	5,430
502	1,025	Garages and Parking Spaces	502	1,025
5	62	Operational Property	5	53
1	33	Community Asset	1	33
<b>3,634</b>	<b>145,309</b>		<b>3,625</b>	<b>147,289</b>

The HRA asset base is valued annually – the 2018/19 stock valuation has been carried out by Savills (UK) Ltd on behalf of the Council and has been guided by the 'Stock Valuation for Resource Accounting: Guidance for Valuers – 2016' published by the Department for Communities and Local Government in November 2016. The housing stock for 2018/19 has been valued at 1 April 2019.

The table below shows the vacant possession value of dwellings within the HRA, this being the value as if they were sold on the open market with vacant possession and free from any legal or regulatory tenancies. The difference between the vacant possession value and the balance sheet value represents the economic cost of providing Council Housing at less than market rents.

31-Mar-18 £'000		31-Mar-19 £'000
435,911	Dwellings	441,694
1,025	Other Land & Buildings	1,025
<b>436,936</b>		<b>442,719</b>

# SUPPLEMENTARY FINANCIAL STATEMENTS

## 3. Housing Stock

The Council's housing stock, including shared ownership properties, was made up as follows:

<b>31-Mar-18</b>	<b>31-Mar-19</b>
<b><u>Numbers</u></b>	
1,263 Houses	1,256
428 Bungalows	427
1,435 Flats	1,434
<b>3,126</b>	<b>3,117</b>
<b><u>Analysis of bedroom type</u></b>	
1,545 1 bedroom	1,541
542 2 bedroom	542
955 3 bedroom	951
84 4 or more bedrooms	83
<b>3,126</b>	<b>3,117</b>
<b><u>Analysis of stock by age</u></b>	
260 Pre 1945	258
1,281 1945 - 1964	1,275
623 1965 - 1974	621
962 1974 onwards	963
<b>3,126</b>	<b>3,117</b>

## 4. Major Repairs Reserve

The major repairs reserve is restricted to being applied towards new capital expenditure, the repayment of HRA debt and meeting liabilities under credit arrangements.

<b>2017/18</b>	<b>2018/19</b>
<b>£'000</b>	<b>£'000</b>
0 Balance at 1 April	0
2,876 HRA Depreciation	3,000
(2,876) HRA Capital Financed	(3,000)
<b>0 Balance at 31 March</b>	<b>0</b>

## 5. Housing Repairs

<b>2017/18</b>	<b>2018/19</b>
<b>£'000</b>	<b>£'000</b>
7,463 Expenditure on Repairs	7,498
3,851 Of which planned	3,707
51.6% % of Planned / Response	49.4%

£2.760 million of the 2018/19 expenditure (£3.434 million in 2017/18) on repairs was capital expenditure. The main categories of expenditure were overcladding, disabled adaptations, sheltered scheme improvements, kitchens, bathrooms and central heating installations.

# SUPPLEMENTARY FINANCIAL STATEMENTS

## 6. Capital Expenditure

2017/18 £'000	2018/19 £'000
3,434 HRA Properties - capital repairs & maintenance	2,760
584 Purchase of Properties	927
<b>4,018</b>	<b>3,687</b>

## 7. Capital Financing

2017/18 £'000	2018/19 £'000
2,876 Major Repairs Reserve	2,992
274 Revenue Contribution	303
459 Capital Receipts Reserves	392
409 Revenue Reserves	0
<b>4,018</b>	<b>3,687</b>

## 8. Capital Receipts

Capital receipts from the sale of housing revenue account property in the year were as follows:

2017/18 £'000	2018/19 £'000
1,192 Right to Buy sales	1,289
<b>1,192</b>	<b>1,289</b>

## 9. Depreciation and Impairments of Assets

Depreciation charges for Council Dwellings are shown below.

There was no revaluation loss or impairment charge to the HRA in respect of reductions in the value the Council's housing stock which could not be offset against a Revaluation Reserve balance in either 2018/19 or 2019/20

2017/18 £'000	2018/19 £'000
2,876 Depreciation of Council Dwellings	2,992
<b>2,876</b>	<b>2,992</b>

# SUPPLEMENTARY FINANCIAL STATEMENTS

## 10. Rent Arrears

2017/18 £'000	2018/19 £'000
216 Current Tenants	228
61 Former Tenants	100
0 Garages	0
<b>277</b> Total Rent Arrears	<b>328</b>
(14,261) Gross Rent Income	(14,144)
1.9% Arrears as a % of Gross Rent Income	2.3%

The bad debt provision for all HRA debts at 31 March 2019 is £318,000 (£293,100 at 31 March 2018)

## 11. Pensions

The following transactions have been included in the HRA Income and Expenditure Statement and the Adjustments between Accounting and Funding bases under Regulations to the HRA Balance with no net residual cost to the HRA.

2017/18 £'000	2018/19 £'000
<b>Net Cost of Services</b>	
49 Current service costs and past service costs	22
<b>Surplus or (Deficit) for the year on HRA Services</b>	
227 Pension interest on net defined benefit liability	261
<b>Statement of Movement on the HRA Balance</b>	
(669) Reversal of net charges made for retirement benefits in accordance with IAS19	(724)
<b>Actual amount charged against Rents</b>	
393 Employers' contributions payable to scheme	441

# SUPPLEMENTARY FINANCIAL STATEMENTS

COLLECTION FUND			
2017/18 £'000	-----2018/19-----		
	£'000	£'000	£'000
	Business Rates	Council Tax	Total
<b>INCOME</b>			
(42,085) Council Tax	-	(44,647)	(44,647)
(15,385) Income collectable from Business Ratepayers	(16,107)	-	(16,107)
<b>(57,470)</b>	<b>(16,107)</b>	<b>(44,647)</b>	<b>(60,754)</b>
<b>EXPENDITURE</b>			
<b>Apportionment of Previous Year Estimated Collection Fund Surplus / (Deficit)</b>			
595 Central Government	180	-	180
531 Gosport Borough Council	144	-	144
393 Hampshire County Council	32	-	32
42 Hampshire Police and Crime Commissioners	-	-	-
29 Hampshire Fire and Rescue Authority	4	-	4
<b>Precepts, Shares and Demands</b>			
7,291 Central Government	7,638	-	7,638
11,453 Gosport Borough Council	6,110	5,814	11,924
31,237 Hampshire County Council	1,375	31,855	33,230
4,369 Hampshire Police and Crime Commissioners	-	4,707	4,707
1,832 Hampshire Fire and Rescue Authority	153	1,744	1,897
<b>57,772</b>	<b>15,636</b>	<b>44,120</b>	<b>59,756</b>
<b>Charges to the Collection Fund</b>			
575 Write off of uncollectable amounts	50	53	103
(423) Increase / (Decrease) in Bad Debt Provisions	8	268	276
(790) Increase / (Decrease) in Provision for Appeals	1,451	-	1,451
78 Cost of collection	79	-	79
234 Transitional protection payments	145	-	145
<b>(326)</b>	<b>1,733</b>	<b>321</b>	<b>2,054</b>
<b>57,446 TOTAL EXPENDITURE</b>	<b>17,369</b>	<b>44,441</b>	<b>61,810</b>
<b>(24) (Surplus) / Deficit arising during the year</b>	<b>1,262</b>	<b>(206)</b>	<b>1,056</b>
<b>MOVEMENTS ON THE COLLECTION FUND</b>			
(1,247) (Surplus) / Deficit at 1 April	(1,029)	(242)	(1,271)
(24) (Surplus) / Deficit for the year	1,262	(206)	1,056
<b>(1,271) (Surplus) / Deficit at 31 March</b>	<b>233</b>	<b>(448)</b>	<b>(215)</b>

# SUPPLEMENTARY FINANCIAL STATEMENTS

## NOTES TO THE COLLECTION FUND

### 1. The Collection Fund

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

### 2. Council Tax

Council Tax income is calculated by estimating the amount of income required from the Collection Fund for Hampshire County Council, Hampshire Fire and Rescue Authority, the Police and Crime Commissioners for Hampshire and Gosport Borough Council. This is then divided by the tax base and multiplied by the ratio shown below to give the council tax for each band of property.

The Council's tax base is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings, calculated as follows:

Band	Estimated	Ratio Equivalent	Band D
	Number of Taxable Properties after Discounts		Dwellings
Disabled	7.60	5/9	4.2
A	3,767.10	6/9	2,511.4
B	10,141.20	7/9	7,887.6
C	7,598.90	8/9	6,754.6
D	4,416.50	9/9	4,416.5
E	1,791.20	11/9	2,189.2
F	1,278.10	13/9	1,846.2
G	290.00	15/9	483.3
H	13.30	18/9	26.5
			26,119.5
	Plus MOD contributions in lieu		797.2
	Less allowance for losses on collection		(391.8)
	<b>Tax Base for 2018/19</b>		<b>26,524.9</b>
	Tax base for 2017/18		26,409.7

The Band D Council Tax for a Gosport property in 2018/19 was £219.19 (£212.81 in 2017/18)

#### Distribution of the Council Tax surplus or deficit

Council tax is set before the start of financial year on the basis of estimates that would result in the Collection Fund balancing to zero. Inevitable changes in yield and assumptions about

# SUPPLEMENTARY FINANCIAL STATEMENTS

collectability, including variations in the tax base, during the year cause a surplus or deficit to arise on the fund at year end.

For Council Tax, the year-end surplus or deficit on the Collection Fund is distributed between billing and precepting authorities on the basis of estimates of the year-end balance made by the preceding 15 January.

Estimated 2017/18 (surplus) / deficit (shared with preceptors 2018/19) £'000	Actual 31- Mar -18 £'000	Council Tax	Estimated 2018/19 (surplus) / deficit (shared with preceptors 2019/20) £'000	Actual 31- Mar -19 £'000
0	(174)	Hampshire County Council	(274)	(323)
0	(10)	Hampshire Fire & Rescue Authority	(15)	(18)
0	(26)	Hampshire Police and Crime Commissioners	(41)	(48)
0	(32)	Gosport Borough Council	(50)	(59)
<b>0</b>	<b>(242)</b>		<b>(380)</b>	<b>(448)</b>

The difference between the estimated surplus for 2018/19 and the actual surplus will be shared with preceptors in 2020/21.

### 3. Non-Domestic Rates (NDR)

From 1 April 2013, the national system of redistributing centrally pooled business rates to Local Authorities was replaced by a new system of Business Rates Retention whereby a proportion of the business rates collected is retained locally by billing and precepting authorities and the balance is paid over to central government.

There is, therefore, the potential reward of additional income from an enhanced business rates base in the Borough. However, there is also the increased financial risk due to non-collection and the volatility of the NDR tax base – particularly due to factors outside of the Council's control such as successful rating appeals to the Valuation Office which may be backdated.

Non-Domestic or business rates are levied on businesses by reference to their rateable value multiplied by the NDR multiplier for the year which is set nationally by central government. The government has undertaken a Business Rates revaluation exercise that came into effect on the 1st April 2017, at revaluation all properties are given a new rateable value and the NDR multiplier is revised

The NDR multiplier for the year was 49.3p pence (47.9p in 2017/18). The total non-domestic rateable value at the year-end was £42,476,155 (£42,972,935 in 2017/18).

Business Rates collected are then apportioned by shares to the following bodies as set out in legislation.

Central Government	50%
Gosport Borough Council	40%
Hampshire County Council	9%
Hampshire Fire and Rescue Authority	1%

# SUPPLEMENTARY FINANCIAL STATEMENTS

## Distribution of the Non Domestic Rates surplus or deficit

Estimates for business rates to be collected in the following financial year are required to be made in the January before the year starts. As with Council Tax, there will be differences between the estimated and actual business rates collected leading to a Non-Domestic Rates surplus or deficit position within the Collection Fund at the year end. The year-end surplus or deficit on the Collection Fund is distributed between billing authority, precepting authorities and central government on the basis of estimates of the year-end balance made by the preceding 31 January.

This is then apportioned to the relevant precepting authorities, including the government, in the proportions set out above.

Estimated 2017/18 (surplus) / deficit (shared with preceptors 2018/19) £'000		Actual 31- Mar -18 £'000	Business Rates	Estimated 2018/19 (surplus) / deficit (shared with preceptors 2019/20) £'000		Actual 31- Mar -19 £'000
(180)	(515)		Government	73	117	
(32)	(92)		Hampshire County Council	13	21	
(3)	(10)		Hampshire Fire & Rescue Authority	2	2	
(144)	(412)		Gosport Borough Council	58	93	
<b>(359)</b>	<b>(1,029)</b>			<b>146</b>	<b>233</b>	

The difference between the estimated surplus for 2018/19 and the actual will be shared with preceptors and central government in 2020/21.

#### 4. Accounting for the Collection Fund balance

The Code requires that the Council Tax and National Domestic Rating Income included in the Comprehensive Income and Expenditure Account is the accrued income for the year rather than the amount included under regulations comprising for

- Council Tax - the approved annual precept plus or minus the estimate of the Collection Fund surplus or deficit made at the previous 15 January
- National Non-Domestic Rates - the relevant share of the estimated business rates to be collected as included within Council's approved budget plus or minus the estimate of the Collection Fund surplus or deficit made at the previous 31 January.

The difference between the accrued amount and the amount required to be included under regulations is adjusted through the Collection Fund Adjustment Account and as a reconciling item in the Movement in Reserves Statement.

The Code recognises that the collection of Council Tax and National Non-Domestic Rates is in substance an agency arrangement with the cash collected by the billing authority belonging proportionately to the billing authority, major preceptors and bodies receiving a share of the NDR. There is therefore a debtor / creditor position between the billing authority, major preceptors and bodies receiving a share of the Council Tax and NDR at the year end and this position is recognised in their respective balance sheets.

The following Collection Fund balances relating to Gosport Borough Council are included in the Council's balance sheet.

# SUPPLEMENTARY FINANCIAL STATEMENTS

-----31-Mar-18-----			-----31-Mar-19-----		
£'000	£'000	£'000	£'000	£'000	£'000
Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
<b><u>Debtors</u></b>					
	1,190	1,190		1,212	1,212
	65	65		66	66
	176	176			
				201	201
52	338	390	41	373	414
<b><u>Creditors</u></b>					
(274)		(274)	(298)		(298)
(30)		(30)	(33)		(33)
(64)	(89)	(153)	(85)	(93)	(178)
(1,524)		(1,524)	(1,659)		(1,659)
<b><u>Provisions</u></b>					
(796)		(796)	(1,376)		(1,376)
<b><u>Unusable Reserves</u></b>					
(412)	(32)	(444)			
			93	(60)	33
<b>(3,048)</b>	<b>1,648</b>	<b>(1,400)</b>	<b>(3,317)</b>	<b>1,699</b>	<b>(1,618)</b>

*The Council's Unusable Reserves figures above exclude the Enterprise Zone £96,000 credit (£215,000 credit in 2017/18)*

# ANNUAL GOVERNANCE STATEMENT

## GOSPORT BOROUGH COUNCIL

### ANNUAL GOVERNANCE STATEMENT 2018/19

#### **Scope of responsibility**

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

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

This statement explains how Gosport Borough Council has complied with the Code and also meets the requirements of Regulation 6 of the Accounts and Audit Regulations 2015.

#### **The purpose of the governance framework**

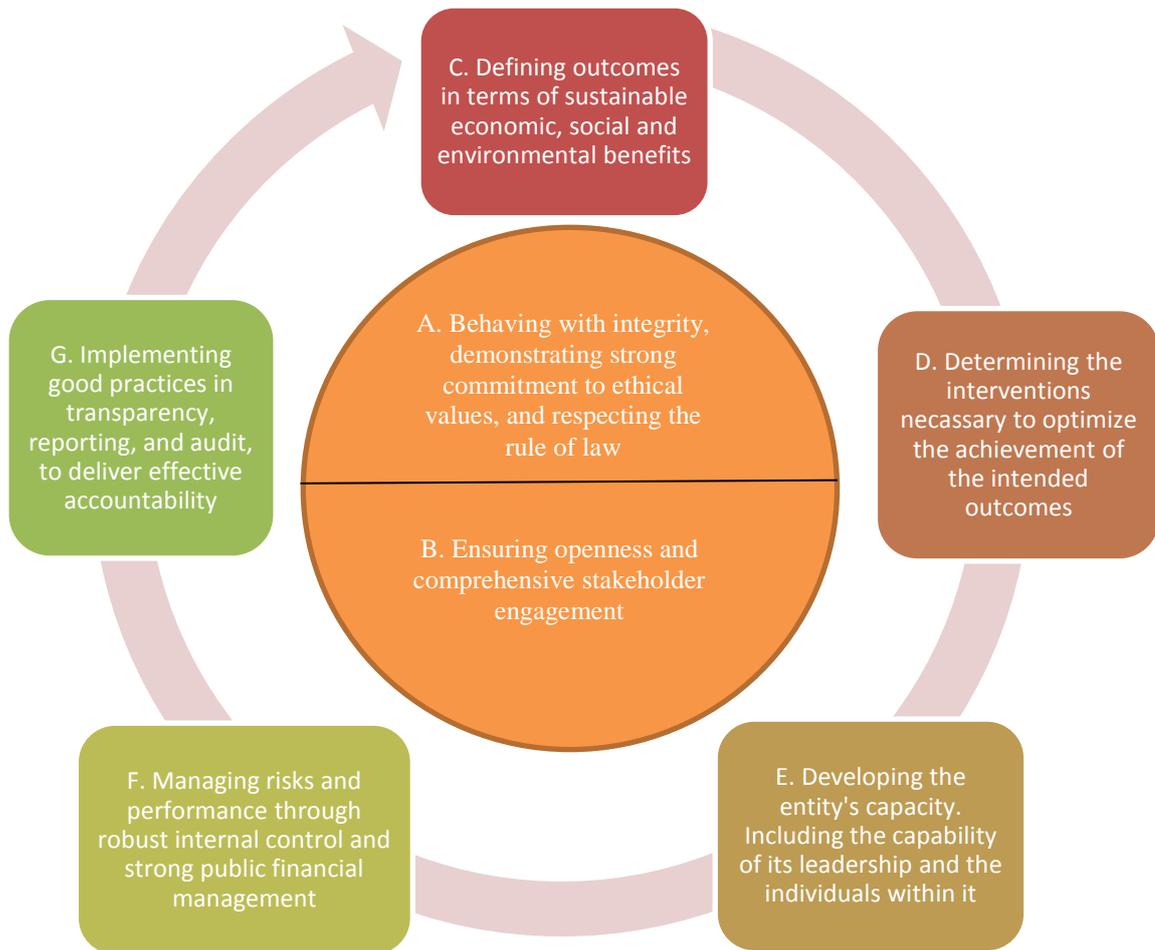
The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives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

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

#### **The governance framework**

Gosport Borough Council's Governance Framework derives from the updated 2016 publication 'Delivering Good Governance in Local Government'. The Framework identified 7 principles that should underpin the governance arrangements in a Local Authority.

# ANNUAL GOVERNANCE STATEMENT



Each principle will be outlined below and how the council meets them:

## **C. Defining outcomes in terms of sustainable economic, social, and environmental benefits & D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

The Council's plan on a page sets out Gosport Borough Council's mission and core values (ambitious, supportive, collaborative, adaptable and efficient). The Plan also identifies the Council's strategic priorities (raise aspirations, enhance the environment, develop the economy, empower our residents and deliver effective services which are based on a combination of factors including what matters most to local people, national priorities set by the Government and the challenges from Gosport's changing social, economic and environmental context. The Council continues to keep its plan relevant and up to date with periodic reviews, the plan has been developed through engagement with both the Leadership Team and officers of the Authority.

The Council also have a Local Plan 2011-2029. The Local Plan sets out the Council's proposals for the development and use of land from 2011 – 2029, and forms the basis for dealing with planning applications. Background to the process the Local Plan has gone through several stages to adoption and was supported by an evidence base and a Sustainability Appraisal. In accordance with Government guidance the Council is required to keep its Local Plan up to date. The Council has now started to prepare a [revised](#) Local Plan to cover the period to 2036.

# ANNUAL GOVERNANCE STATEMENT

The council also maintains a Medium Term Financial Strategy (MTFS) which is designed to meet the overall aim

"In year" expenditure matches "in year" income over the medium term whilst providing sustainable high quality public services and improving the overall prosperity of residents and businesses.

All proposals and opportunities arising from this strategy contribute towards meeting the necessary future savings required whilst providing sustainable high quality public services and improving the overall prosperity of residents and businesses

The Council's Mission statement:

**"Build on our strengths to empower and support our communications and ensure the potential of the borough and all of our residents is achieved"**

The Council has continued to evolve its approach to performance management by promoting a transparent and open performance culture amongst Section Heads, who are responsible for managing performance on a day-to-day basis. Whilst in transition, key outcome based performance management measurements have been retained whilst new and relevant measures are being further developed. Section Heads are accountable for performance to the council's senior management and to elected members.

The Council maintains an objective and professional relationship with their appointed external auditors (Ernst & Young LLP) and statutory inspectors, as evidenced by the various reports being presented to the Standards and Governance Committee (available on the Council's website). The Council uses the evidence and recommendations contained in those reviews to support performance improvement and risk management.

The Financial Procedure Rules and Contract Procedure Rules are under constant review and these are, incorporated in the Council's Constitution.

Risk management is monitored by the Corporate Governance Group that was formed this year. The Group is made up of all the Statutory officers, the Head of Environmental Health (shared with Fareham BC), the Head of Policy and Community Safety and the Head of Internal Audit. It meets quarterly and monitors all governance matters across the Council.

Risk management is still in the process of change and the use of Pentana has ceased. Section Heads will be required to create their own risk registers which will then be strategically analysed by the monitoring officer, to determine the corporate strategic risks. These risks will then be analysed in more detail by senior management to ensure suitable mitigating/controlling actions are in place or in the process of being put in place

## **A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

The Constitution sets out how the Borough Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.

A report on Governance was taken to Council in May 2016 to review the arrangements for the discharge of the Council's Functions and proposed changes to the Boards and Committees. The composition remains unchanged for 2018/19:

# ANNUAL GOVERNANCE STATEMENT

## Composition of Boards

The following is the composition of the Boards:-

Board/Sub Board	Number of Members
Policy and Organisation Board	13*
Community Board	15
Economic Development Board	15
Regulatory Board	13
Standards and Governance Committee	12*
Licensing Sub Board	3
Licensing (General Applications) Sub Board	5

Decisions are made by Boards and Sub-Boards of the Council with the following having the responsibility for the majority of decision making:

*Council*

*Policy and Organisation Board*

*Community Board*

*Economic Development Board*

*Regulatory Board (Licensing Sub-Boards)*

\*There are 2 vacancies, left by the recent death of a Councillor, on Standards and Governance (S&G) and Policy and Organisation (P&O). The Authority will only appoint 12 Members to P&O and 11 to S&G in May 2019.

The by-election is the 30 May and these vacancies will be appointed afterwards, at Council in July 2019.

As the Regulatory Board deals only with planning applications and the Licensing Sub-Boards with Licensing matters the law does not allow their work to be scrutinised by other Councillors. This is because the decisions made by these Boards are already subject to an appeal process, either through an independent inspector or the courts.

In addition to the Boards, there is also a Standards and Governance Committee in place to promote and maintain the highest standards of conduct by members and officers of the Council. Additionally, an Assessment Committee comprising three Councillors of the Standards and Governance Committee have delegated powers to determine allegations of failure to comply with the Council's Code of Conduct, in accordance with the Council's arrangements for dealing with such allegations.

Officers give advice, implement decisions and manage the day-to-day delivery of its services. Some officers have specific duties to ensure that the Council acts within the law and uses its resources wisely. A code of practice governs the relationship between officers and members of the Council. In certain circumstances, senior and other officers of the Council can make decisions under delegated authority, as detailed in the Borough's Constitution.

# ANNUAL GOVERNANCE STATEMENT

The Council Management Team (CMT) meets periodically to develop policy and strategic issues commensurate with the Council's strategic priorities. Members of CMT meet collectively (via the Leadership Team) and individually with the Leader of the Council and other leading members of the Administration to consider new policies and strategies as well as managing, monitoring and reviewing existing policy and strategy. The Leader holds frequent meetings with the Chief Executive Officer to review progress in achieving the Council's strategic priorities for action, performance management and forward planning for major issues and projects.

Information that would be of benefit to other members of the Council staff is disseminated through regular meetings between Line Managers and the relevant Senior Manager, and then through to the rest of the Council via periodic section meetings.

Information on policy, priorities, procedures and current issues is also disseminated to all staff through the Chief Executive (email) and staffroom (email) communications at least monthly. Examples included Council bicycle for use, Reducing waste survey (HCC), time recording system changes, changes to recruitment and advertising vacancies, drivers annual checks reminder, new HR and Payroll system service from 01.04.18, Safeguarding updates and GDPR updates and reminder of mandatory on-line training.

The Council has also adopted a number of codes and protocols that will govern both member and officer activities. These include:

- Code of Conduct for Members of Gosport Borough Council
- Code of Conduct for the Guidance of Employees
- Code of Conduct for Councillors in the Regulatory Process (updated)
- Protocol for Councillor/Officer Relationships (updated)
- Anti-Fraud and Corruption Policy (including Bribery)
- Whistle Blowing Policy

It is the shared responsibility of the Chief Officers [primarily the Monitoring Officer, Chief Executive and Borough Treasurer] and the Human Resource section to ensure compliance with established policies, procedures, laws and regulations. Issues of conduct and governance must often be considered by the Standards and Governance Committee, in which case a report and recommendations are prepared by the Monitoring Officer. All posts within the authority have a detailed job specification and training needs are identified on an on-going basis and also through the Personal Development Scheme.

## **F. Managing risks and performance through robust internal control and strong public financial management**

### **G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability**

The financial management of the Authority is conducted in accordance with the financial rules set out in the Constitution and underpinned with Financial Procedure Rules. The Council has designated the Borough Treasurer as Chief Finance Officer complying with the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010) requiring the Chief Finance Officer to report directly to the Chief Executive and to be a member of the 'Management Team'.

#### **Internal Audit Annual Opinion 2018/19 - Substantial Assurance\***

Based on judgement made since I have been in post (November 2018) and the results of the External Public Sector Internal Audit Standards (PSIAS) Assessment (February 2019) (detail can be found below), as the Interim Chief Internal Auditor, I am able to provide a qualified opinion on the effectiveness of the control framework and governance processes at Gosport Borough Council.

# ANNUAL GOVERNANCE STATEMENT

The results of the audits undertaken in 2018/19 have resulted in 90% achieving a Strong or Good opinion on the control of risks.

No Assurance

Limited Assurance

**Substantial Assurance**

Full Assurance

Based on these results **only**, I am able to provide Substantial Assurance on the effectiveness of the control framework and governance processes at Gosport Borough Council. This opinion is qualified as a result of the PSIAS assessment which highlighted 8 areas of non-compliance as they impact upon the Annual Audit Opinion in the following ways:

- Assurance mapping has not occurred and therefore the opinion is based solely on the Internal Audit work. Any additional assurances from external bodies have not been mapped and therefore cannot contribute to the opinion.
- It is not possible to provide assurance that a strategic framework (both the strategy and charter, which are mandatory, were deemed inadequate) is in place to deliver an effective Internal Audit Service.
- Resources including skills required have not been aligned to the needs of the Authority.
- Concerns were raised regarding the completeness and methodology of the Audit Universe. Therefore no assurance can be placed that the composition of the 2018/19 Audit Plan was sufficiently risk based and therefore contained sufficient scope of the Authority's key risks.

An action plan has been put in place to resolve the non-conformance identified within the PSIAS with a re-assessment scheduled for February 2020.

Internal Audit will continue to work with Section Heads, the Deputy Chief Executive and the Chief Executive to improve on specific areas of control, risk management and governance weaknesses.

Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2018/19 may affect that year's work for External Audit. It may also inform their work for 2019/20 and where they consider there are weaknesses in control that could materially affect the accounts they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.

## **Public Sector Internal Audit Standards (PSIAS) External Assessment**

### *Introduction*

The Public Sector Internal Audit Standards, updated April 2017, state that "A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector."

The Relevant Internal Audit Standard Setters (RIASS) (as recognised by the Account and Audit Regulations) for local government across the UK, is the Chartered Institute of Public Finance and Accountancy (Cipfa).

These common set of Public Sector Internal Audit Standards (PSIAS) encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).

### *Scope*

The scope of the review was agreed with the Monitoring Officer, s151 Officer and the chair of the Standards and Governance Committee and was as follows:

Evidence that the Internal Audit complies with current Public Sector Internal Audit Standards, including the Code of Ethics; by evaluating:

- Relevant documentation
- Discussions with the Chair of the Standards and Governance Committee, Senior Management (including the CX, s151 and Monitoring Officer), external audit and members of the Internal Audit Staff

# ANNUAL GOVERNANCE STATEMENT

## *Findings*

Of the 50 Standards and Elements 1 is not applicable and

- 35 are evaluated as generally conform
- 7 are evaluated as partially conform – Standards 1220, 1311, 2030, 2110, 2120, 2130, 2210
- 7 are evaluated as non-conform - Standards 1310,1320,1321,1322, 2040, 2430, 2431

Further detail on the areas of partial and non-conformance can be found within the full External Assessment which was presented to the Standards and Governance Committee in April 2019. An action plan has been devised and progress against the action plan will be reported to the Standards and Governance Committee throughout the year 2019/20.

## *Conclusion*

Until the key areas are addressed, the Service cannot demonstrate that it is operating as effectively as it should be and cannot claim to conform with the Public Sector Internal Audit Standards. Furthermore the key areas of non-conformance and the actions to address them should be considered for inclusion in the Annual Governance Statement, as required by Standard 1322

## **Board Structure**

As the Council chose to adopt ‘alternative arrangements’ following publication of the Local Government Act 2000, a Board/Committee structure is in place and each party is represented proportionally on each Board and Committee according to the number of seats held. Consequently the Council enjoys a high level of transparency when it comes to decision making and any Member of the Council is afforded the right to sit on the Boards if they are nominated for such a position at the commencement of the Municipal Year.

The Standards and Governance Committee promotes, monitors and enforces probity and high ethical standards amongst the Members, as well as providing a vessel for audit, risk and compliance issues to be considered. All Governance reviews and the results of audits are considered by the Standards and Governance Committee.

All decision making reports are structured and the contents demonstrate all relevant information in order to reach an informed decision.

## **E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it**

A designated Members’ Portal covers a wide range of useful materials and guidance information is available for Members and staff to view on the intranet system. This resource enables the Council to better provide for Members the opportunity to locate important stored information and data. Within the Portal is the Members’ Information Pack which provides Members with detailed corporate, strategic and financial information as well as relevant policies and other useful information such as floor plans and complaints guidance.

New Members are provided with an induction training programme to prepare them for their new role, commencing with an induction evening hosted by the Chief Executive, Borough Solicitor and Borough Treasurer that covers topics such as the role of the councillor, finance, standards, code of conduct and major projects. Briefings such as those on planning and licensing issues are held throughout the year to correlate with the Board cycle.

There is a wide range of further training opportunities available to Members to increase their knowledge base from skills development (e.g. charring skills, dealing with challenging people and media and image) to need-to-

# ANNUAL GOVERNANCE STATEMENT

know subjects (e.g. Code of Conduct, planning local government finance) detailed in the ‘ Training Opportunities for Members’ booklet within the Members Information Pack. One Councillor from the Standards and Governance Committee attended (Oct 2017) a joint CIPFA/LGA Anti-Fraud and Corruption training and awareness session in Basingstoke.

All Officers receive annual personal development reviews where matters such as corporate issues, performance, both individual and team, individual action plans developed and training needs are discussed and agreed. There are also mandatory in-house on-line training packages monitored by Human Resources (HR), continued professional development schemes for some individual officers and ad-hoc professional training course and webinars. The established link with Portsmouth CC has also allowed all GBC staff access to key training material from their intranet and has added resilience to the support available. All newly appointed officers are provided with an induction (monitored by HR) when they begin employment with the Council.

## **B. Ensuring openness and comprehensive stakeholder engagement**

Local government is accountable and transparent in a number of ways. Elected local authority members are democratically accountable to their local area and this gives them a clear leadership role in building sustainable communities. All members must account to their communities for the decisions they have taken and the rationale behind those decisions. All authorities are subject to external review through the external audit of their financial statements. They are required to publish their financial statements. Many are subject to national standards and targets. Their budgets are effectively subject to significant influence and overview by government, which has powers to intervene. Both members and officers are subject to codes of conduct. Additionally, where maladministration may have occurred, an aggrieved person may appeal either through their local councillor or directly to the Ombudsman.

The Council makes decisions at public meetings of its Boards and Committee. Members of the public are able to address the Council’s Boards and Committees using the Council’s process for public questions and deputations available in the Council’s Constitution and on the Council’s website.

The Council frequently consults residents both where there is a legal duty to consult and also on matters of particular interest including, but not limited to planned developments within the Borough.

The Council has a corporate complaints process should members of the public be unhappy with the service they have received from the Council. The process has three stages including consideration by line managers and an independent manager. Complaints to the Local Government Ombudsman will not be considered until any complaint has been through this complaints process.

The Council complies with the Freedom of Information Act (2000) and requests can be submitted electronically or in person to be considered by the service unit concerned within 20 working days.

## **Review of effectiveness**

Gosport Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit’s annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

# ANNUAL GOVERNANCE STATEMENT

1. The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes.
2. Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager. The report includes recommendations for improvements that are included within an action plan (and are graded as critical, essential, important & advisory) and requires agreement or rejection by service managers. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months.
3. An Internal Audit Annual Report is taken to the Standards & Governance Committee (as per the Accounts and Audit Regulations 2015) and this provides the overall opinion on the Councils internal control environment.

The Standards & Governance Committee also received Internal Audit monitoring reports throughout 2018/19.

The Council entered into an arrangement with Portsmouth City Council for shared Senior Management primarily as a means to address the future financial challenges faced by the Council. The roles and responsibilities of the shared posts will continue to include those relating to the Governance of this Council in accordance to the policies and procedures of this Council.

The shared Management arrangement has brought costs savings (through the reduction in the cost of Senior Management) and improved operational resilience with the ability to call on resources and expertise from Portsmouth City Council which otherwise were not readily available.

The Senior Management Team have been charged by the Administration to review the effectiveness of all of the Council's activities on a continuous basis. Service reviews have been conducted across the Council focused on ensuring that customer demands are met, processes are effective, and that services have adequate capacity and resilience.

## **Significant governance issues**

The following governance issues have been identified as a result of the review of arrangements and by the work of external and internal audit in 2018/19.

NO	YEAR RAISED	GOVERNANCE ISSUE	SOURCE	ACTION	PROGRESS TO DATE	RESPONSIBLE OFFICER
1	2017/18	Embedding new performance & risk management arrangements as a consequence of the Plan on a Page and review of the Risk and Performance Management Framework.	Chief Executive	The Council has continued to evolve its approach to performance management by promoting a transparent and open performance culture amongst Section Heads.	Risk Management process has been drafted and is due to be presented to Standards and Governance Committee in June 2019	Chief Internal Auditor

# ANNUAL GOVERNANCE STATEMENT

NO	YEAR RAISED	GOVERNANCE ISSUE	SOURCE	ACTION	PROGRESS TO DATE	RESPONSIBLE OFFICER
2	2017/18	A reducing workforce.	Chief Executive	Delivery of the Medium Term Financial Plan and its focus on avoidance to cuts through income generation, strategic partnerships and genuine efficiencies.	The Council has delivered balance budget for the past 2 years without the need to draw on Reserves.	Borough Treasurer
3	2017/18	To continue to identify efficiencies within the Council's operations to ensure continued value for money	Chief Executive	Ensure Service Reviews do not compromise core service delivery and resilience in favour of financial savings.	The strategic partnership with Portsmouth City Council has generated savings of £1m. The ability to access the capacity of Portsmouth City Council has enabled efficiencies to be made without compromising sustainable service delivery	Chief Executive, Borough Solicitor and Borough Treasurer
4	2017/18	Preparation for the new General Data Protection Regulation (GDPR) to ensure full compliance.	Data Protection Officer	A small group of officers reviewed the requirements of the new Regulation and made all staff and Members aware of the new principles in advance of the deadline (25 <sup>th</sup> May 2018).	Complete	Deputy Chief Executive
5	2018/19	Internal Audit Service not compliant with Public Sector Internal Audit	Chief Internal Auditor	Implement the proposed actions to rectify the non-conformance highlighted as part		Chief Internal Auditor

# ANNUAL GOVERNANCE STATEMENT

NO	YEAR RAISED	GOVERNANCE ISSUE	SOURCE	ACTION	PROGRESS TO DATE	RESPONSIBLE OFFICER
		Standards (PSIAS)		of the PSIAS assessment		
6	2018/19	Lack of Counter Fraud framework and resource	Chief Internal Auditor	Key Fraud areas to be evaluated and determination made on the required provision		Chief Internal Auditor
7	2018/19	Departure of officer resulting in Statutory roles being vacant.	Chief Executive	Personnel arrangements to fill vacant statutory roles to be put forward to Full Council		Chief Executive
8	2018/19	Complaints against Councillors Procedure requires revision	Chief Executive	Revise the complaints against Councillors procedure. Revisions to be considered by Full Council.		Chief Executive

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed .....

.....

**Leader of the Council**

**Chief Executive**

# AUDIT OPINION

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GOSPORT BOROUGH COUNCIL

### Opinion

We have audited the financial statements of Gosport Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014 . The financial statements comprise the:

- Comprehensive Income and Expenditure Statement;
- Movement in Reserves Statement;
- Balance Sheet;
- Cash Flow Statement;
- and the related notes 1 to 37;
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 11;
- Collection Fund and related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Gosport Borough Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Gosport Borough Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01 , and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

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

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

### Other information

The other information comprises the information included in the Statement of Accounts 2018/19 other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

# AUDIT OPINION

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

We have nothing to report in this regard.

## **Opinion on other matters prescribed by the Local Audit and Accountability Act 2014**

### **Arrangements to secure economy, efficiency and effectiveness in the use of resources**

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017 , we are satisfied that , in all significant respects , Gosport Borough Council put in place proper arrangements to secure economy , efficiency and effectiveness in its use of resources for the year ended 31 March 2019 .

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council ;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 ;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 ;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 ; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 .

We have nothing to report in these respects.

### **Responsibility of the Chief Finance Officer**

As explained more fully in the Statement of the Responsibilities set out on page 14, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements , in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 , and for being satisfied that they give a true and fair view.

In preparing the financial statements , the Chief Finance Officer is responsible for assessing the Authority 's ability to continue as a going concern, disclosing , as applicable , matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations , or have no realistic alternative but to do so.

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

# AUDIT OPINION

opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether Gosport Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Gosport Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

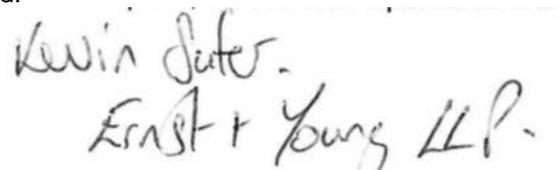
We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects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

## **Certificate**

We certify that we have completed the audit of the accounts of Gosport Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

## **Use of our report**

This report is made solely to the members of Gosport Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report or the opinions we have formed.



Kevin Suter.  
Ernst & Young LLP.

Kevin Suter (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Southampton  
31 July 2019

# GLOSSARY OF TERMS

## GLOSSARY OF TERMS

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts
Accounting Policies	The principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are to be reflected in financial statements. Include <ul style="list-style-type: none"> <li>▪ recognising</li> <li>▪ selecting measurement bases</li> <li>▪ inclusion of assets, liabilities, gains, losses and changes to reserves</li> </ul>
Accruals	The recognition of income and expenditure as it is earned or incurred, as opposed to when cash is received or paid.
Agency Services	Services performed by or for another authority or public body, where the principal (the authority responsible for the service) reimburses the agent (the authority doing the work) for the cost of the work carried out
Actuary	An expert on pension scheme assets and liabilities
Actuarial Gains & Losses	Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because: <ul style="list-style-type: none"> <li>• events have not coincided with the actuarial assumptions made for the last valuation</li> <li>• the actuarial assumptions have changed</li> </ul>
Asset	Something the Council owns that has a value ie premises, property, vehicles, equipment, cash or a debt
Authorised Limit	This represents the legislative limit on the Council's external debt under the Local Government Act 2003
Balance Sheet	A statement of the recorded assets, liabilities and other balances at the end of an accounting period
Billing Authority	A local authority empowered to collect Council Tax and Business Rates, and manage the collection fund, on behalf of itself, local authorities in its area and the government
Budget	A financial statement that expresses the Council's service delivery plans and capital programme in monetary terms
Capital Adjustment Account	The Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute). The balance on the account thus represents timing differences between the amount of the historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements.
Capital Expenditure	Expenditure on the acquisition of a non-current asset or, expenditure which adds to and not merely maintains the value of an existing non-current asset. The asset may not be owned by the authority. Expenditure that does not fall within this definition must be charged to a revenue account.
Capital Financing Charges	The annual charge to the revenue account in respect of interest and principal repayments and payments of borrowed money, together with leasing rentals
Capital Receipts	Income from the sale of fixed assets. Capital receipts cannot be used to fund revenue services.
Collection Fund	The separate fund, administered by billing authorities, recording the expenditure and income relating to Council Tax and Non Domestic Rates
Community Assets	Fixed Assets that the Council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. ie Parks

# GLOSSARY OF TERMS

Componentisation	The identification and recording of the components of an asset in order to more accurately charge depreciation - includes the separate identification and derecognition of components as they are replaced.
Contingency	Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income, and to provide for inflation where this is not included in individual budgets
Contingent Liabilities or Assets	Amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's accounts
Council Tax	The main source of local taxation to Local Authorities. Council Tax is levied on households within its area by the Billing Authority and the proceeds are paid into its Collection Fund for distribution to precepting Authorities and for use by its own General Fund
Council Tax Requirement	The estimated revenue expenditure on General Fund services that needs to be financed from Council Tax after deducting income from fees and charges, grants and any funding from reserves
Creditors	Amounts owed by the Council for goods and services received, but not paid for at the end of the financial year
Debtors	Amounts owed to the Council for work or services rendered but not paid for by the end of the financial year.
Deferred Liabilities	Liabilities payable beyond the next year at some point in the future or paid off by an annual sum over a period of time
Deferred Capital Receipts	Amounts from the sale of assets, which will be received in the future or in instalments over agreed periods of time
Depreciation	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset
Derecognition	Assets are removed from the Balance Sheet in total or in part when disposed of - whether by sale, demolition, abandonment, obsolescence, replacement etc Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.
Discounts	Discounts represent the outstanding discount received on the premature repayment of Public Works Loan Board loans. In line with the Code, gains arising from the repurchase or early settlement of borrowing are written back to revenue – but where the repurchase or borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains are recognised over the life of the replacement loan.
Expenditure	Amounts paid by the authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for
Exceptional Items	Material items deriving from events or transactions that fall within the ordinary activities of the Authority, but which need to be separately disclosed by virtue of their size and/ or incidence to give a fair presentation of the accounts.
Fair Value	Fair value is the price at which an asset could be exchanged in an arm's length transaction between knowledgeable willing parties
Finance Lease	A finance lease is a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee
Financial Instruments	Any item that will cause the Council to receive or pay money. Generally considered to be treasury management related but also include certain debtors and creditors but not with a statutory basis
Fixed Assets	Tangible or intangible assets that yield benefit to the Council for more than one year. Generally, further classified into Property, Plant and Equipment; Heritage Assets; Investment Property and Intangible Assets. Also known as Long Term or Non- Current Assets
Financial Regulations	The written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set

# GLOSSARY OF TERMS

	out rules on accounting, audit, administrative and budgeting procedures
General Fund	The main revenue fund of the Council, it includes income and expenditure on the Council's day to day activities – excluding those of the Housing Revenue Account
Group Accounts	Group Accounts consolidate the financial results of the Council, any of its subsidiaries and/or associates. The Council is not required to produce these due to materiality.
Heritage Assets	Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture
Housing Benefit	This is an allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Authority's own tenants are known as rent rebate and that paid to private tenants as rent allowances.
Housing Revenue Account (HRA)	Local Authorities are required to maintain a separate account - the HRA which sets out the income from and expenditure on the provision of council housing.
Impairment	A reduction in the value of a non-current asset below its carrying amount in the balance sheet. At the end of each reporting period, an assessment of assets must take place to identify any potential impairments
Infrastructure Assets	Fixed Assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Ie footpaths, bridges, coast protection works
International Financial Reporting Standards (IFRS)	Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.
Income	Amounts due to the Authority for goods supplied or services rendered of either a capital or revenue nature. This does not necessarily involve cash being received since income is deemed to have been earned once the goods or services have been supplied even if cash has not been received
Intangible Assets	Assets that do not have a physical form ie software and licences
Investment Properties	Properties that are held solely for appreciation or income generation
Leases - General	Where a rental is paid for the use of an asset for a specified period of time. There are two forms of lease – finance and operating. The lessor leases the asset to the lessee. The Council is both lessee and lessor
Leases - Finance Lease	A lease or lease type arrangement whereby the risks and rewards of ownership are considered to be borne by the lessee and therefore the asset concerned is included on the lessee's balance sheet
Lease - Operating Lease	Any lease or lease type arrangement which is not a finance lease. The assets concerned remain on the lessors balance sheet and the payments or income are dealt with as revenue income or expenditure
Liabilities	Amounts due to individuals or organisations payable at some time in the future. Current liabilities are usually payable within one year of the balance sheet date
Major Repairs Allowance (MRA)	The MRA was a government grant for capital expenditure to maintain the housing stock to a good standard. After a transition period that ended in 2016/17, it was dropped in favour of fully componentised depreciation accounting
Major Repairs Reserve (MRR)	This reserve is restricted to being applied towards new capital expenditure, the repayment of HRA debt and meeting liabilities under credit arrangements
Minimum Revenue Provision (MRP)	The minimum amount that the council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes

# GLOSSARY OF TERMS

National Non Domestic Rates (NNDR) (also known as Business Rates)	Effective from 1 April 2013, the Business Rates Retention enables a proportion of the Business Rates collected to be retained locally by billing and precepting authorities with the balance being paid over to central government. There is therefore the potential reward of additional income or indeed reduced income, subject to the safety net. The scheme is subject to centrally set targets and thresholds as well as a complex system of tariffs, top-ups, safety nets and levies.
Net Book Value (NBV)	The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation
Operational Boundary	This reflects the maximum anticipated level of external debt consistent with budgets and forecast cash flows.
Pension - Current Service Cost	The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period. ie the pension benefits “earned” by employees in the current year’s employment net of contributions paid
Pension - Past service costs	The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years
Pension - Interest on the Net Defined Benefit Liability (Asset),	The change during the period in the net defined benefit liability (asset) that arises from the passage of time - calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
Pension - 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
Pension - Past Service Cost	Discretionary benefits awarded on early retirement are treated as past service costs
Pension – Strain on Pension Fund Contribution	Pension strain is a concept for the management of the pension fund finances arising from an employee retiring early, without actuarial reduction of pension. This causes lost contribution income and creates an interest cost arising from the associated earlier, increased cash flow
Pension - Curtailment	Curtailements show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year
Precepts	The method by which a non-charging authority obtains the income it requires by making a levy on the appropriate charging or billing authorities. Billing authorities, such as Gosport, will themselves precept on the Collection Fund to obtain their own income.
Prior Period Adjustments	These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors
Provision	An amount held in a reserve for a liability of uncertain timing or amount
Public Works Loan Board (PWLB)	An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities
Related Parties	Related parties are Central Government, other Local Authorities, precepting and levying bodies, any subsidiary and associated companies, elected members, all senior officers and the Pension Fund. For individuals, related parties includes members of the close family, or the same household; and partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.
Revaluation Reserve	The Reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).
Revenue Contribution	The method of financing capital expenditure directly from revenue

# GLOSSARY OF TERMS

Revenue Expenditure	Expenditure incurred on the day to day running of the Council. This includes employee costs, general running expenses and capital financing costs
Revenue Support Grant	A central government grant paid each year as a general contribution towards the cost of the Council's services
Service Reporting Code of Practice (SeRCOP)	Prepared and published by CIPFA , the Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP). It is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SeRCOP establishes proper practices with regard to consistent financial reporting for services and in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.
The Code	The CIPFA Code of Practice which is based on and compliant with International Financial Reporting Standards (IFRS) and which governs the preparation of the Council's financial statements
Treasury Management	This is the process by which the Council controls its cash flow and its borrowing and lending activities
Treasury Management Strategy (TMS)	A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council
Usable Reserves	Reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure)
Unsupported (Prudential) Borrowing	This is borrowing for which no financial support is provided by Central Government. The borrowing costs are met from current revenue budgets
Unusable Reserves	Reserves that are not used to provide services - but that represent <ul style="list-style-type: none"> <li>▪ unrealised gains and losses (ie where amounts would only become available to provide services if the assets are sold) and</li> <li>▪ timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' (ie depreciation)</li> </ul>