



GOSPORT
Borough Council

STATEMENT OF ACCOUNTS

2017/18

STATEMENT OF ACCOUNTS 2017/18

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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.

| Key Facts - Area | <i>Hectares</i> | <i>Square</i> |
|---|-------------------|---------------|
| | | <i>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 |

| Key Facts - Population | |
|--|--------|
| 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 |

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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 2018, the political structure is

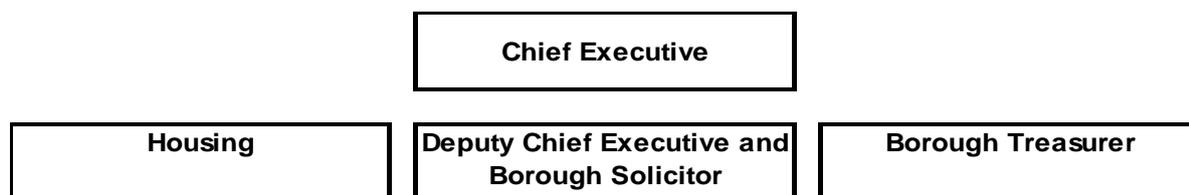
| | |
|-------------------|----|
| Conservatives | 18 |
| Liberal Democrats | 14 |
| Labour | 2 |

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

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- 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 2017/18 before transfers to or from reserves was £10.163 million, the actual net expenditure for the year was £8.980 million giving an under spending of £1.183 million.

The underspend mainly comprises of two parts

1. £0.663 million which has been transferred to 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)
 - The first transfer to reserves following the reported policy change in the calculation of the Minimum Revenue Provision (to the Revenue Reserve for Capital)
 - The balance of the Homelessness Support Grant received in year (to Homelessness Support Reserve)
 - New Burdens Grants for Planning (to Planning Grants Reserve)
2. £0.507 million arising from operational budgets – this has been transferred to the Revenue Financing Reserve. This underspending is principally due to revenue budget carry forwards of £0.345 million owing to capacity, weather and operational issues

This table summarises the 2017/18 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.

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| GENERAL FUND - OUTTURN | REVISED 2017/2018 £'000 | ACTUAL 2017/2018 £'000 | VARIANCE £'000 |
|---|-------------------------------|------------------------------|-------------------|
| GENERAL FUND BUDGET | | | |
| Community Board | 5,620 | 5,847 | 227 |
| Economic Development Board | 840 | 1,058 | 218 |
| Policy and Organisation Board | 3,703 | 2,075 | (1,628) |
| TOTAL NET EXPENDITURE | 10,163 | 8,980 | (1,183) |
| TRANSFER TO/(FROM) RESERVES | | | |
| Revenue Financing Reserve | 60 | 567 | 507 |
| Stability and Resilience Reserve | 569 | 427 | (142) |
| Capital Grants Unapplied (CIL) | - | 81 | 81 |
| Revenue Reserve for Capital | - | 524 | 524 |
| Other Earmarked Reserves | - | 200 | 200 |
| BUDGET TOTAL | 10,792 | 10,779 | (13) |
| FINANCED BY | | | |
| Council Tax | (5,675) | (5,675) | - |
| Government Grants | (1,839) | (1,968) | (129) |
| Business Rates Retention | (3,278) | (3,136) | 142 |
| | (10,792) | (10,779) | 13 |
| <i># (Red) figures are income & in the variance column indicate an underspending or additional income</i> | | | |

| GENERAL FUND - MAIN REVENUE RESERVES | ACTUAL 01-Apr-17 £'000 | ACTUAL 31-Mar-18 £'000 | VARIANCE £'000 |
|--------------------------------------|------------------------------|------------------------------|-------------------|
| General Fund Working Balance | (890) | (890) | 0 |
| Revenue Financing Reserve | (3,289) | (3,856) | (567) |
| Stability and Resilience Reserve | (1,135) | (1,562) | (427) |
| Capital Grants Unapplied (CIL) | (20) | (101) | (81) |

Housing Revenue Account

The Housing Revenue Account had a forecast surplus for 2017/18 of £0.919 million with revised revenue account balances totalling £4.009 million at 31 March 2018. The actual surplus was £1.049 million with revenue account balances of £4.094 million being carried forward into 2018/19.

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| HOUSING REVENUE ACCOUNT - OUTTURN | REVISED 2017/18 £'000 | ACTUAL 2017/18 £'000 | VARIANCE £'000 |
|---|------------------------------|------------------------------|-------------------|
| Net Surplus to Major Repairs, New Build & Loan Repayment Reserve | (919) | (1,049) | (130) |
| Capital Programme funding from Major Repairs, New Build & Loan Repayment Reserve | 364 | 409 | 45 |
| | <u>(555)</u> | <u>(640)</u> | <u>(85)</u> |
| <i># (Red) figures are income & in the variance column indicate an underspending or additional income</i> | | | |
| HRA - REVENUE RESERVES | ACTUAL 01-Apr-17 £'000 | ACTUAL 31-Mar-18 £'000 | VARIANCE £'000 |
| Revenue Account Balance | (992) | (992) | 0 |
| Major Repairs, New Build & Loan Repayment Reserve | (2,462) | (3,102) | (640) |
| | <u>(3,454)</u> | <u>(4,094)</u> | <u>(640)</u> |

Capital Programme

A summary of capital expenditure and financing for 2017/18 is shown below. This shows material schemes, additions and enhancements to the council's fixed assets together with scheme slippage into 2018/19.

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| SCHEME | REVISED 2017/18 £'000 | ACTUAL 2017/18 £'000 | VARIANCE £'000 | SLIPPAGE to 2018/19 £'000 |
|--|-----------------------------|----------------------------|-------------------|---------------------------------|
| BY BOARD | | | | |
| Community Board - Housing (HRA) | 3,670 | 4,018 | 348 | 0 |
| Community Board - Housing (GF) | 916 | 350 | (566) | (638) |
| Community Board - Non Housing | 3,770 | 2,740 | (1,030) | (1,203) |
| Economic Development Board | 473 | 111 | (362) | (362) |
| Policy & Organisation Board | 417 | 227 | (190) | (200) |
| | 9,246 | 7,446 | (1,800) | (2,403) |
| BY MAJOR SCHEME | | | | |
| Council Dwellings (HRA) | 3,150 | 3,434 | 284 | 0 |
| Leisure Centre extension | 1,182 | 1,185 | 3 | 0 |
| Disabled Facilities | 916 | 350 | (566) | (638) |
| Alver Valley Country Park | 604 | 424 | (180) | (180) |
| Purchase of Properties (HRA) | 520 | 584 | 64 | 0 |
| Forton Lake Opening Bridge - mechanical and electrical upgrade | 246 | 7 | (239) | (239) |
| Car Park resurfacing & upgrading | 215 | 145 | (70) | (70) |
| Provide Lighting to Pathways within Leisure Parks, Gardens & Open Spaces | 167 | 5 | (162) | (162) |
| Daedalus Regeneration | 150 | 76 | (74) | (74) |
| Gosport BMX National Centre | 147 | 165 | 18 | 0 |
| Bridgemary Skate Park | 140 | 146 | 6 | 0 |
| Town Hall Major Repairs including Lift | 125 | 85 | (40) | (48) |
| Cockle Pond - Water Circulation Scheme | 100 | 0 | (100) | (100) |
| Cocklepond Footways Repairs | 100 | 0 | (100) | (100) |
| Community Space - Manor Way | 100 | 4 | (96) | (96) |
| IT Data Protection Upgrades | 100 | 0 | (100) | (100) |
| Crown House - conversion to two flats | 89 | 97 | 8 | (2) |
| Public Conveniences refurbishment | 80 | 20 | (60) | (60) |
| Essential Paving improvements & upgrades | 70 | 0 | (70) | (70) |
| Allotments - Japanese Knotweed | 65 | 10 | (55) | (55) |
| All other schemes | 980 | 709 | (271) | (409) |
| | 9,246 | 7,446 | (1,800) | (2,403) |
| FINANCED BY | | | | |
| HRA - Major Repairs Reserve | 2,500 | 2,876 | | |
| HRA - Revenue & Reserves | 1,196 | 1,142 | | |
| GF - Capital Receipts | 982 | 721 | | |
| GF - Developer Contributions - Open Spaces | 307 | 105 | | |
| GF - Other Grants & Contributions | 585 | 657 | | |
| GF - Capital Grants - Disabled Facilities | 916 | 350 | | |
| GF - Reserves | 170 | 0 | | |
| GF - Borrowing | 2,590 | 1,595 | | |
| | 9,246 | 7,446 | | |

NARRATIVE REPORT

3. THE FINANCIAL STATEMENTS

The Statement of Accounts sets out the Council's financial position at 31 March 2018 and a summary of its income and expenditure in the year to 31 March 2018. 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 2017/18 (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. There are four 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. There are 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

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c. There are two 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. There are two 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.

4. KEY ISSUES AND OUTLOOK

Key financial figures included in the statement

- Pensions liability

The Balance Sheet shows a poorer position compared to last year's net pension deficit by £1.25 million mainly due to changes in actuarial assumptions in measuring fund liabilities. 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-17 £'000 | 31-Mar-18 £'000 |
|--------------------------------|--------------------|
| (39,400) Net Pension Liability | (40,650) |

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- **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-17 £'000 | 31-Mar-18 £'000 |
|--|----------------------------------|
| 8,024 Short Term Investments | 4,008 |
| 267 Cash and Cash Equivalents | 7,050 |
| (6,352) Short Term Borrowing | (11,347) |
| (66,249) Long Term Borrowing | (63,000) |
| (64,310) Net Borrowing position | (63,289) |

- **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-17 £'000 | 31-Mar-18 £'000 |
|---|----------------------------------|
| 80,145 Capital Financing Requirement | 81,707 |

- **Resources**

The council's available reserves at the end of 2017/18 to meet both capital and revenue expenditure plans and other financial commitments are:

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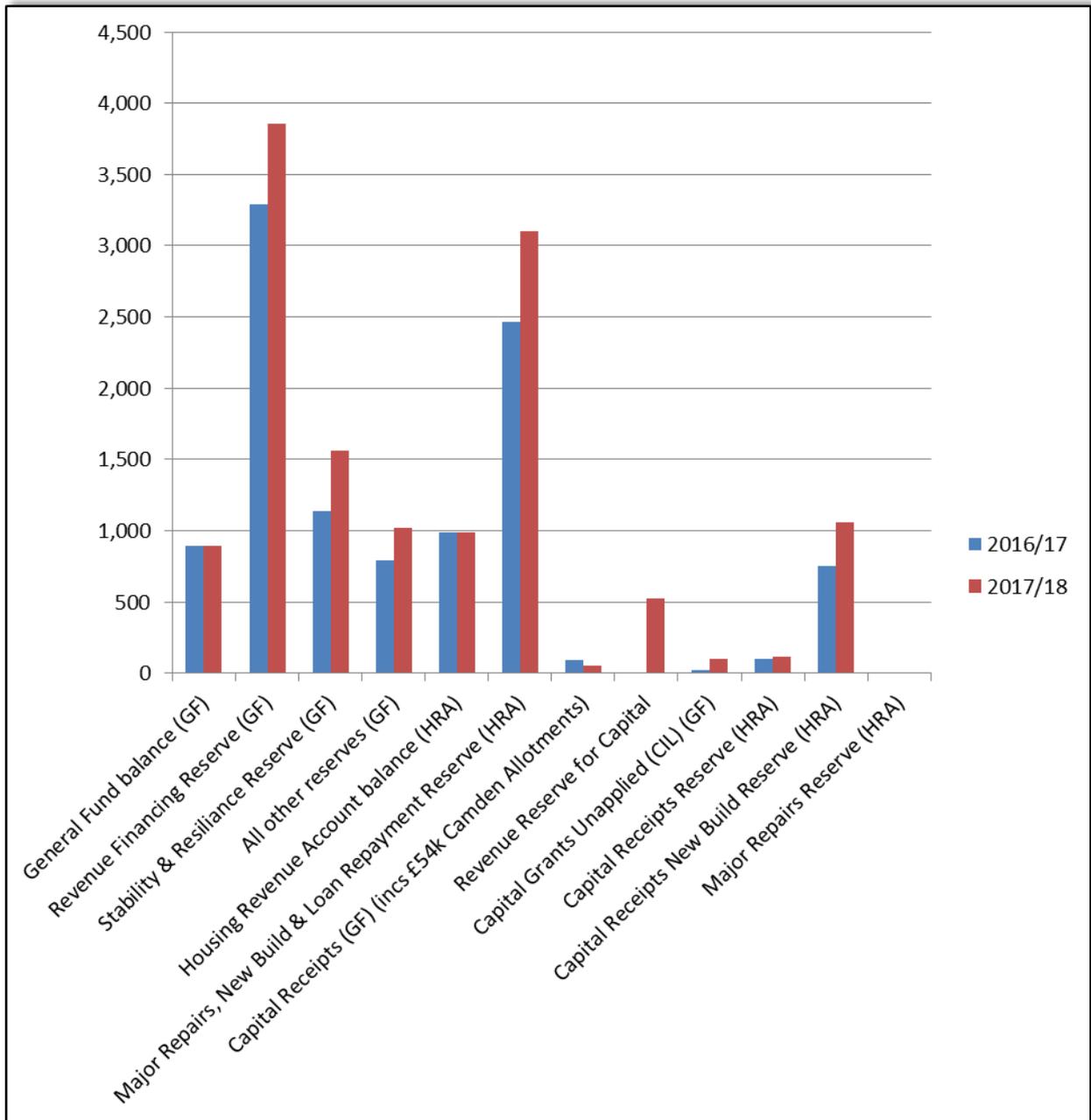
| 31-Mar-17 £'000 | | 31-Mar-18 £'000 |
|--------------------|---|--------------------|
| | Revenue | |
| | General Fund (GF) | |
| (890) | General Fund balance | (890) |
| (3,289) | Revenue Financing Reserve | (3,856) |
| (1,135) | Stability and Resilience Reserve | (1,562) |
| (791) | Other | (1,023) |
| | Housing Revenue Account (HRA) | |
| (992) | Housing Revenue Account balance | (992) |
| (2,462) | Major Repairs, New Build & Loan Repayment Reserve | (3,102) |
| | Capital | |
| | General Fund (GF) | |
| (91) | Capital Receipts (31 March 2018 is £54k from Camden Allotments) | (54) |
| | - Revenue Reserve for Capital | (524) |
| (20) | Capital Grants Unapplied (CIL) | (101) |
| | Housing Revenue Account (HRA) | |
| (100) | Capital Receipts Reserve | (114) |
| (751) | Capital Receipts New Build | (1,055) |
| | - Major Repairs Reserve | - |
| (10,521) | | (13,273) |

The retrospective change in the Minimum Revenue Provision policy (approved at Council 29 March 2017) resulted in a reduced annual charge and an agreed prior overprovision. The overprovision is being prudently released to create a new 'Revenue Reserve for Capital'. The first contribution in 2017/18 is £524,000. The use of the overprovision will be primarily to support initiatives aimed at improving the Council's longer term financial position either through cost reduction, additional income or increases in the Council's funding base.

Additionally, the council also has £2.380 million at 31 March 2018 (£1.856 million at 31 March 2017) of, principally, developers' contributions that are available to spend. 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.

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



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Outlook

- **General Fund (GF)**

The Council's overall financial position remains stable and a balanced budget has been set for 2018/19.

The Local Government Finance Settlement for 2018/19, published in December 2017, confirmed the phasing out of the Revenue Support Grant by 2019/20 as well as the Government's intention to further devolve Business Rate revenues from 2020/21. The government's fair funding review and changes to the business rates retention system will have fundamental implications for the distribution of funding across local government. .

The Government's intention is that these measures should be fiscally neutral to central government (so additional responsibilities may flow to Local Government) and that they should also address the differing needs and resources between both different authority tiers and individual authorities.

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 in 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. The Council's present budgetary projection shows a savings requirement of £0.8 million by 2021/22 based on maintaining acceptable Council Tax and reserve levels

- **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 £30 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 the High Value voids levy described below
- 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%
- The sale of high value assets ('the High Value Voids Levy'), included in the Housing and Planning Bill 2016 has been postponed for 2018/19 which enabled an increase in the capital investment in HRA stock.
- It is not known what will happen after this further one year scheme postponement. The potential levy cost is in excess of £2 million per annum and this would ultimately need to be financed from the sale of high value void properties. The Council's business plan model includes for payment of the levy from 2020/21.
- Gross HRA borrowing at 31 March 2018 is £57.2 million. The HRA's capital financing requirement (underlying need to borrow) is £61.9 million and so the HRA is therefore presently underborrowed by some £4.7 million. The HRA's maximum permissible CFR is £63.1 million (this is the Government prescribed debt limit or 'debt cap').

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- Decisions on whether to repay or refinance maturing loans are taken as they fall due and are influenced by, for example, the high value voids levy and the latest business plan.
- From 2017/18, the HRA is 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 2017/18 to 2020/21 for both the GF and the HRA and is summarised below.

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

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | Total |
|--|--------------|--------------|--------------|--------------|---------------|
| | £,000 | £,000 | £,000 | £,000 | £'000 |
| CAPITAL BUDGETS BY BOARD | | | | | |
| COMMUNITY BOARD - HOUSING (HRA) | 3,670 | 4,130 | 3,640 | 3,400 | 14,840 |
| COMMUNITY BOARD - HOUSING (GF) | 916 | 677 | 677 | 677 | 2,947 |
| COMMUNITY BOARD - NON HOUSING | 3,770 | 1,151 | 2,066 | 1,587 | 8,574 |
| ECONOMIC DEVELOPMENT BOARD | 473 | 1,148 | 1,000 | 0 | 2,621 |
| POLICY & ORGANISATION BOARD | 417 | 421 | 230 | 205 | 1,273 |
| | 9,246 | 7,527 | 7,613 | 5,869 | 30,255 |
| FUNDING | | | | | |
| DEPRECIATION, REVENUE AND RESERVES (HRA) | 3,670 | 4,130 | 3,640 | 3,400 | 14,840 |
| EXTERNAL GRANTS AND CONTRIBUTIONS | 1,808 | 967 | 2,203 | 1,585 | 6,564 |
| RESERVES AND CAPITAL RECEIPTS (GF) | 1,151 | 1,020 | 116 | 117 | 2,405 |
| RESERVES - HRA (TO GF PROGRAMME) | 26 | 25 | 357 | 497 | 905 |
| BORROWING (GF) | 2,590 | 1,385 | 1,297 | 270 | 5,542 |
| | 9,246 | 7,527 | 7,613 | 5,869 | 30,255 |

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

25 July 2018

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 2018.

Mr Chris Ward
Borough Treasurer, Section 151 officer

25 July 2018

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.

| 2016/17 | | | Notes | 2017/18 | | |
|---------------|-----------------|--------------|--|---------------|-----------------|-----------------|
| Gross Exp | Gross Income | Net Exp | | Gross Exp | Gross Income | Net Exp |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| 11,595 | (5,410) | 6,185 | Community Board | 11,415 | (5,192) | 6,223 |
| 769 | (170) | 599 | Economic Development Board | 1,148 | (205) | 943 |
| 34,240 | (28,948) | 5,292 | Policy and Organisation Board | 31,164 | (27,005) | 4,159 |
| 11,597 | (14,742) | (3,145) | Housing Revenue Account | 11,723 | (14,870) | (3,147) |
| 58,201 | (49,270) | 8,931 | Cost Of Services | 55,450 | (47,272) | 8,178 |
| | | 560 | Other Operating Expenditure | | | 3,709 |
| | | 2,802 | Financing and Investment Income and Expenditure | | | 2,217 |
| | (11,648) | | Taxation and Non-Specific Grant Income and Expenditure | | | (11,480) |
| | | 645 | Deficit on Provision of Services | | | 2,624 |
| | (18,690) | | Surplus on revaluation of Property, Plant and Equipment assets | | | (12,205) |
| | | 2,800 | Actuarial losses / (gains) on pension assets / liabilities | | | 170 |
| | (15,890) | | Other Comprehensive (Income) | | | (12,035) |
| | (15,245) | | Total Comprehensive (Income) | | | (9,411) |

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 |
|---|---------------------------------|---------------------------------------|--|----------------------------------|-------------------------------------|----------------------------------|------------------------------|-------------------------------------|
| Balance at 31 March 2016 | (6,125) | (3,984) | (1,181) | 0 | 0 | (11,290) | (51,288) | (62,578) |
| Movement in reserves during 2016/17 | | | | | | | | |
| Total Comprehensive Income and Expenditure | 1,429 | (784) | | | | 645 | (15,890) | (15,245) |
| Adjustments between accounting basis & funding basis under regulations (Note 9) | (1,409) | 1,314 | 239 | 0 | (20) | 124 | (124) | 0 |
| (Increase)/decrease in 2016/17 | 20 | 530 | 239 | 0 | (20) | 769 | (16,014) | (15,245) |
| Balance at 31 March 2017 | (6,105) | (3,454) | (942) | 0 | (20) | (10,521) | (67,302) | (77,823) |
| | | | | | | | | |
| Balance at 31 March 2017 | (6,105) | (3,454) | (942) | 0 | (20) | (10,521) | (67,302) | (77,823) |
| Movement in reserves during 2017/18 | | | | | | | | |
| 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 |
| (Increase)/decrease in 2017/18 | (1,226) | (640) | (805) | 0 | (81) | (2,752) | (6,659) | (9,411) |
| Balance at 31 March 2018 | (7,331) | (4,094) | (1,747) | 0 | (101) | (13,273) | (73,961) | (87,234) |

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-17 £'000 | Notes | 31-Mar-18 £'000 |
|--|-------|--------------------|
| 172,619 Property, Plant & Equipment | 13 | 183,706 |
| 362 Heritage Assets | 14 | 386 |
| 7,876 Investment Properties | 15 | 6,407 |
| 583 Intangible Assets | 16 | 498 |
| 4,830 Long Term Debtors | 19 | 4,819 |
| 186,270 Long Term Assets | | 195,816 |
| 8,024 Short Term Investments | 17 | 4,008 |
| 4,942 Short Term Debtors | 19 | 5,640 |
| 267 Cash and Cash Equivalents | 20 | 7,050 |
| 13,233 Current Assets | | 16,698 |
| (6,352) Short Term Borrowing | 17 | (11,347) |
| (5,423) Short Term Creditors | 21 | (5,812) |
| (3) Short Term Liabilities | 32 | (1) |
| (1,127) Short Term Provisions | 22 | (811) |
| (12,905) Current Liabilities | | (17,971) |
| (1,092) Long Term Creditors | 21 | (1,102) |
| (30) Long Term Provisions | 22 | (30) |
| (66,249) Long Term Borrowing | 17 | (63,000) |
| (148) Other Long Term Liabilities | 32 | (147) |
| (1,856) Receipts in Advance - Capital Grants | 29 | (2,380) |
| (39,400) Net Pension Liability | 33 | (40,650) |
| (108,775) Long Term Liabilities | | (107,309) |
| 77,823 Net Assets | | 87,234 |
| (10,521) Usable Reserves | 24 | (13,273) |
| (67,302) Unusable Reserves | 25 | (73,961) |
| (77,823) Total Reserves | | (87,234) |

FINANCIAL STATEMENTS

The unaudited Statement was issued on 31 May 2018 and the audited Statement was issued on 25 July 2018.

Chris Ward CPFA
Borough Treasurer,
25 July 2018

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.

| 2016/17 £000 | Notes | 2017/18 £000 |
|--|-------|-----------------|
| (645) Net surplus or (deficit) on the provision of services | | (2,624) |
| 5,819 Adjustments to surplus or deficit on the provision of services for non-cash movements | 36 | 9,750 |
| (2,406) Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 36 | (2,653) |
| 2,768 Net Cash flows from Operating Activities | | 4,473 |
| (3,446) Net Cash flows from Investing Activities | 36 | 913 |
| (2,957) Net Cash flows from Financing Activities | 36 | 1,397 |
| (3,635) Net increase or (decrease) in cash and cash equivalents | | 6,783 |
| 3,902 Cash and cash equivalents at the beginning of the reporting period | | 267 |
| 267 Cash and cash equivalents at the end of the reporting period | | 7,050 |

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018.

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 2017/18 and the Service Reporting Code of Practice 2017/18, 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 the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- 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 Councils 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 (ie 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 on the actual outstanding benefits at year end at current wage and salary rates and charged directly 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 2.6% 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.

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 |

NOTES TO THE FINANCIAL STATEMENTS

| | |
|---|--|
| 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is 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.

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

NOTES TO THE FINANCIAL STATEMENTS

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.

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

NOTES TO THE FINANCIAL STATEMENTS

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

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. The Council does not have any Available for Sale Assets.

Loans and receivables 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. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Income and Expenditure Statement 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

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

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

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
- the grants or contributions will be received.

NOTES TO THE FINANCIAL STATEMENTS

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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

NOTES TO THE FINANCIAL STATEMENTS

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).

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).

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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).

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:

NOTES TO THE FINANCIAL STATEMENTS

- 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
- 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.

NOTES TO THE FINANCIAL STATEMENTS

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 is 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 and doubtful debts that may be irrecoverable.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 2018/19 Code.

The new standards in the 2018/19 Code that apply from 1 April 2018 are:

- IFRS 9 Financial Instruments
- Amendments to IAS 7 Statement of Cash Flows : Disclosure Initiative
- IFRS 15 Revenue from Contracts with Customers including subsequent amendments
- Amendments to IAS 12 Income Taxes : Recognition of Deferred Tax Assets for Unrealised Losses

IFRS 9 introduces changes to the classification and measurement of financial assets and moves to a forward looking 'expected loss' impairment model rather than the current 'incurred loss' model. A full assessment is being undertaken although it is not presently anticipated that there will be a material impact of the Council's finances.

IAS 7 may require an amended cash flow disclosure in the 2018/19 Statement

It is not expected that that IFRS15 or IAS12 will 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 it's 25% share of the PCJC assets and liabilities in it's

NOTES TO THE FINANCIAL STATEMENTS

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.

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 2018 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 2018, the Council's share of the total provision of £1.989 million (£2.779 million in 2016/17) is £0.796 million (£1.112 million in 2016/17).</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 £67,000 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</p> | <p>The effects on the net pensions liability for funded LGPS</p> |

NOTES TO THE FINANCIAL STATEMENTS

| | | |
|--------------------------|---|---|
| | <p>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>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 2017/18 mortality rate assumption)</p> <p>The assumptions interact in complex ways. During 2017/18, the Authority's actuaries advised that the net pensions liability had increased by £1.25 million – made up of actuarial remeasurements which increased the liability by £0.17 million and additional net in year liabilities of £1.08 million.</p> |
| Doubtful Debt Allowances | <p>The Council has made allowances for doubtful debts of £3.714 million in 2017/18 (£3.267 million in 2016/17) based on what it believes to be a prudent but realistic level.</p> | <p>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 (£163,000 in 2016/17).</p> |
| Fair Value Measurements | <p>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</p> | <p>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 below.</p> <p>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</p> |

5. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Borough Treasurer on 25 July 2018. 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

NOTES TO THE FINANCIAL STATEMENTS

existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. Other Operating Expenditure

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| 279 Payments to the Government Housing Capital Receipts Pool | 282 |
| 281 (Gain) or Loss on the disposal of non-current assets | 3,427 |
| 560 | 3,709 |

7. Financing and Investment Income and Expenditure

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| 2,159 Interest payable and similar charges | 2,099 |
| 1,170 Pension interest on net defined benefit liability | 960 |
| (341) Interest receivable and similar income | (305) |
| (186) Net income and expenditure in relation to investment properties and changes in their fair value | (537) |
| 2,802 | 2,217 |

8. Taxation and Non Specific Grant Income and Expenditure

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| (5,400) Council Tax Income | (5,667) |
| (2,723) Retained Business Rates | (2,695) |
| (3,064) Non-Ringfenced Government Grants (Note 29) | (2,764) |
| (461) Capital Grants and Contributions (Note 29) | (354) |
| (11,648) | (11,480) |

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

| 2017/18 | Usable Reserves | | | | |
|--|----------------------|-------------------------|--------------------------|-----------------------|--------------------------|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |
| | £000 | £000 | £000 | £000 | £000 |
| Adjustments to Revenue Resources | | | | | |
| 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) | | | |
| Total Adjustments to Revenue Resources | (3,239) | (7,715) | 0 | 0 | 0 |
| Adjustments between Revenue and Capital Resources | | | | | |
| 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) |
| Total Adjustments between Revenue and Capital Resources | 901 | 4,042 | (1,710) | (2,876) | (81) |
| Adjustments to Capital Resources | | | | | |
| 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) | | |
| Total Adjustments to Capital Resources | 1,112 | 0 | 905 | 2,876 | 0 |
| Total Adjustments | (1,226) | (3,673) | (805) | 0 | (81) |

NOTES TO THE FINANCIAL STATEMENTS

| 2016/17 | Usable Reserves | | | | |
|--|----------------------|-------------------------|--------------------------|-----------------------|--------------------------|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |
| | £000 | £000 | £000 | £000 | £000 |
| Adjustments to Revenue Resources | | | | | |
| 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) | (848) | (202) | | | |
| Council Tax and Business Rates (transfers to or (from) the Collection Fund adjustment account) | 459 | | | | |
| Holiday pay (transferred to the Accumulated Absences Reserve) | 20 | 2 | | | |
| 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) | (2,833) | (3,608) | | | |
| Total Adjustments to Revenue Resources | (3,202) | (3,808) | 0 | 0 | 0 |
| Adjustments between Revenue and Capital Resources | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 243 | 1,162 | (1,405) | | |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | | | (28) | 28 | |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | | | (279) | 279 | |
| Posting of HRA resources from revenue to the Major Repairs Reserve | | 2,463 | | (2,463) | |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | 528 | | | | |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | | 1,174 | | | |
| Transfers to Capital Reserves | 20 | | | | (20) |
| Total Adjustments between Revenue and | 791 | 4,492 | (1,098) | (2,463) | (20) |
| Adjustments to Capital Resources | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | | | 1,667 | | |
| Use of the Major Repairs Reserve to finance capital expenditure | | | | 2,463 | |
| Application of capital grants to finance capital expenditure | 1,002 | | | | |
| Cash payments in relation to deferred capital receipts | | | (330) | | |
| Total Adjustments to Capital Resources | 1,002 | 0 | 1,337 | 2,463 | 0 |
| Total Adjustments | (1,409) | 684 | 239 | 0 | (20) |

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 | 2016/17 | | Net Expenditure in the Comprehensive Income & Expenditure Statement | | 2017/18 | | Net Expenditure in the Comprehensive Income & Expenditure Statement |
|---|--------------|---|--|-----------------|----------------|--------------|---|
| | £000 | Adjustments between Funding & Accounting Basis £000 | | | £000 | £000 | |
| 5,766 | (419) | 6,185 | Community Board | 5,879 | (344) | 6,223 | |
| 681 | 82 | 599 | Economic Development Board | 1,058 | 115 | 943 | |
| 4,281 | (1,011) | 5,292 | Policy and Organisation Board | 2,011 | (2,148) | 4,159 | |
| (100) | 3,045 | (3,145) | Housing Revenue Account | (1,049) | 2,098 | (3,147) | |
| 10,628 | 1,697 | 8,931 | Cost Of Services | 7,899 | (279) | 8,178 | |
| (10,728) | (2,442) | (8,286) | Other Income and Expenditure | (10,779) | (5,225) | (5,554) | |
| (100) | (745) | 645 | (Surplus) or Deficit | (2,880) | (5,504) | 2,624 | |
| (10,109) | | | Opening General Fund and HRA Balance | (9,579) | | | |
| (100) | | | Less / Plus Surplus or Deficit on General Fund and HRA Balance in Year | (2,880) | | | |
| 630 | | | Less capital funding from HRA Revenue Balances b/fwd and Transfer to Revenue Reserve for Capital | 933 | | | |
| (9,579) | | | Closing General Fund and HRA Balance at 31 March # | (11,526) | | | |

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

| 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 |
| Net Cost Of Services | (1,778) | (120) | 1,619 | (279) |
| Other income & expenditure from the Expenditure & Funding Analysis | (2,868) | (960) | (1,397) | (5,225) |
| Difference between the General Fund surplus or deficit & the Comprehensive Income & Expenditure Statement surplus or deficit on the provision of services | (4,646) | (1,080) | 222 | (5,504) |

| Adjustments between Funding and Accounting Basis 2016/17 | Adjustments for Capital Purposes £000 | Net change for the Pensions Adjustments £000 | Other Differences £000 | Total Adjustments £000 |
|--|--|--|------------------------------|------------------------------|
| Community Board | | | (419) | (419) |
| Economic Development Board | | | 82 | 82 |
| Policy and Organisation Board | (1,087) | 75 | 1 | (1,011) |
| Housing Revenue Account | 1,174 | 45 | 1,826 | 3,045 |
| Net Cost Of Services | 87 | 120 | 1,490 | 1,697 |
| Other income & expenditure from the Expenditure & Funding Analysis | (209) | (1,170) | (1,063) | (2,442) |
| Difference between the General Fund surplus or deficit & the Comprehensive Income & Expenditure Statement surplus or deficit on the provision of services | (122) | (1,050) | 427 | (745) |

NOTES TO THE FINANCIAL STATEMENTS

Adjustments for Capital Purposes - include

- **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 .
- **Movement in Reserves Statement** – depreciation adjustment; Minimum Revenue Provision; Refcus expenditure and grant income included in services

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

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| 1,905 Employees (<i>excludes Business Unit staff</i>) | 1,194 |
| 5,567 Premises | 5,204 |
| 40 Transport | 25 |
| 3,804 Supplies & Services | 3,725 |
| 4,480 Third Party Payments (<i>includes major contracts</i>) | 4,616 |
| 27,670 Transfer Payments (<i>includes Benefit payments</i>) | 26,298 |
| 11,856 Support Services (<i>see note below #</i>) | 10,408 |
| 3,814 Depreciation, amortisation, impairment | 11,065 |
| 5,308 Capital/Financing (<i>includes interest, MRP</i>) | 1,643 |
| (3,566) Fees & Charges (<i>see analysis below</i>) | (4,546) |
| (60,233) Non Fees & Charges (<i>see analysis below</i>) | (57,007) |
| 645 Deficit on Provision of Services | 2,624 |

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 £12.1 million in 2017/18 (£14.2 million in 2016/17). The total employee related costs included are £8.3 million and £9.8 million respectively.

NOTES TO THE FINANCIAL STATEMENTS

Income can be further analysed over the following headings

| 2016/17 £'000 | | 2017/18 £'000 |
|------------------|--|------------------|
| | Fees & Charges (see segmental analysis below) | |
| (1,327) | Cust & Client Receipts - Sales | (434) |
| (496) | Cust & Client Receipts - Rents | (2,128) |
| (1,743) | Cust & Client Receipts - Fees & Charges | (1,985) |
| | Non Fees & Charges | |
| (33,195) | Government Grants (<i>includes Business Rates, Revenue Support Grant & Benefits Subsidy payments</i>) | (31,256) |
| (2,700) | Other Grants, Reimbursements & Contributions (<i>a broad range of service grants & contributions, including Business Rates Cost of Collection</i>) | (2,348) |
| (2,192) | Interest (<i>includes interest reimbursed by the HRA to the GF</i>) | (2,201) |
| (5,318) | Taxation & Non Specific Grants (<i>includes Council Tax precept</i>) | (6,151) |
| (16,253) | HRA - income (<i>includes Benefits rental income</i>) | (14,861) |
| (575) | Other | (188) |
| (63,799) | | (61,553) |
| | Fees & Charges by reporting segment | |
| (2,861) | Community Board | (3,831) |
| (220) | Economic Development Board | (192) |
| (437) | Policy and Organisation Board | (516) |
| (48) | Housing Revenue Account | (8) |
| (3,566) | | (4,547) |

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 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 |
| Cost or Valuation | | | | | | | | |
| 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 |
| At 31 March 2018 | 144,189 | 26,847 | 3,586 | 13,238 | 4,286 | 208 | 348 | 192,702 |
| Accumulated Depreciation & Impairment | | | | | | | | |
| 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 |
| At 31 March 2018 | 0 | (436) | (2,694) | (5,866) | 0 | 0 | 0 | (8,996) |
| Net Book Value | | | | | | | | |
| At 31 March 2018 | 144,189 | 26,411 | 892 | 7,372 | 4,286 | 208 | 348 | 183,706 |

NOTES TO THE FINANCIAL STATEMENTS

| Movement in Plant, Property and Equipment for 2016/17 | 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 |
| Cost or Valuation | | | | | | | | |
| At 1 April 2016 | 118,331 | 24,476 | 3,777 | 13,193 | 3,842 | 17 | 1,197 | 164,833 |
| Additions | 5,171 | 436 | 109 | 74 | 32 | | 343 | 6,165 |
| Revaluation increases/(decreases) to RR | 15,265 | 256 | | | | | | 15,521 |
| Revaluation increases/(decreases) to SDPS | | (402) | | | | (2) | | (404) |
| De-recognition - Disposals | (1,165) | | | | (50) | | | (1,215) |
| De-recognition - Other | | (294) | (672) | (29) | (23) | | | (1,018) |
| Assets reclassified | 799 | | | | | | (799) | 0 |
| At 31 March 2017 | 138,401 | 24,472 | 3,214 | 13,238 | 3,801 | 15 | 741 | 183,882 |
| Accumulated Depreciation & Impairment | | | | | | | | |
| At 1 April 2016 | (2,388) | (914) | (3,045) | (5,168) | 0 | 0 | 0 | (11,515) |
| Depreciation Charge | (2,463) | (606) | (152) | (349) | | | | (3,570) |
| Depreciation & Impairment written out to RR | 2,387 | 742 | | | | | | 3,129 |
| De-recognition - Disposals | 21 | | | | | | | 21 |
| De-recognition - Other | | | 672 | | | | | 672 |
| Assets reclassified | | | | | | | | 0 |
| At 31 March 2017 | (2,443) | (778) | (2,525) | (5,517) | 0 | 0 | 0 | (11,263) |
| Net Book Value | | | | | | | | |
| At 31 March 2017 | 135,958 | 23,694 | 689 | 7,721 | 3,801 | 15 | 741 | 172,619 |

NOTES TO THE FINANCIAL STATEMENTS

Capital Commitments

Significant commitments for future expenditure at 31 March 2018 include:

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| - Disabled Facilities Grants | 297 |
| 62 Gosport Leisure Park (Ice Rink) | 62 |
| 37 Car Park resurfacing & upgrading - Pebble Beach | - |
| - Alver Valley Country Park | 40 |
| 99 | 399 |

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 |
|-----------------------------|---------------------|--------------------------------------|--------------|--------------|-----------|----------------|
| | | 2017/18 | 2016/17 | 2015/16 | 2014/15 | |
| | | £'000 | £'000 | £'000 | £'000 | |
| Property, Plant & Equipment | | | | | | |
| Council Dwellings | | 144,189 | | | | 144,189 |
| Operational Property | | 13,955 | 6,269 | 5,554 | 44 | 25,822 |
| Garages | | 1,025 | | | | 1,025 |
| Equipment | 3,586 | | | | | 3,586 |
| Infrastructure | 13,238 | | | | | 13,238 |
| Community Assets | 4,286 | | | | | 4,286 |
| Surplus Assets | | 193 | 15 | | | 208 |
| Assets under Construction | 348 | | | | | 348 |
| | 21,458 | 159,362 | 6,284 | 5,554 | 44 | 192,702 |

Impairments

There were no general impairments identified in 2017/18 or 2016/17.

Any revaluation gains or losses for those assets that were reported on by the Council's valuers for 2017/18 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 |
|--------------------------|--|--------------------|----------------|----------------|
| Cost or Valuation | | | | |
| 31-Mar-17 | 250 | 100 | 12 | 362 |
| Revaluations | 10 | 14 | | 24 |
| 31-Mar-18 | 260 | 114 | 12 | 386 |

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 2017/18 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

For 2017/18, the assets in the Council's property portfolio which were included as Investment Properties have been reviewed against the CIPFA Code definition which governs how such assets should be classified on the Balance Sheet. A number of assets that were previously shown as Investment Properties have been reclassified to Property, Plant and Equipment (PPE). This is a prospective adjustment (there is no change to the opening Balance Sheet)

NOTES TO THE FINANCIAL STATEMENTS

which is reflected in the disclosure notes 13 and 15. It is also a Code requirement that PPE assets are considered for depreciation and this will be embraced for the reclassified assets from 2018/19. The total value that was transferred to PPE is £2 million

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.

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| 252 Direct operating expenses arising from investment property | 443 |
| (549) Rental income from investment property | (493) |
| (297) Net gain | (50) |

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 2018 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.

| 2016/17 £'000 | 2017/18 £'000 |
|---|------------------|
| 8,063 Balance at the start of the year | 7,876 |
| 42 Subsequent expenditure | 97 |
| (118) Disposals | |
| (111) Net gains or (losses) from fair value adjustments | 486 |
| 0 Transfers to or from Property, Plant and Equipment | (2,052) |
| 7,876 Balance at the end of the year | 6,407 |

NOTES TO THE FINANCIAL STATEMENTS

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 £113,580 charged to revenue in 2017/18 (£120,680 in 2016/17) 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:

| 2016/17 £'000 | 2017/18 £'000 |
|---|------------------|
| Balance at the start of the year | |
| 1,685 Gross carrying amount | 1,723 |
| (1,103) Accumulated amortisation | (1,140) |
| 582 Net carrying amount at the start of the year | 583 |
| 121 Purchases | 74 |
| (83) Derecognition - gross carrying amount | (136) |
| 83 Derecognition - amortisation | 74 |
| 0 Transfer from Assets Under Construction | 17 |
| (120) Amortisation for the year | (114) |
| 583 Net carrying amount at the end of the year | 498 |
| Comprising | |
| 1,723 Gross carrying amount | 1,678 |
| (1,140) Accumulated amortisation | (1,180) |

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

NOTES TO THE FINANCIAL STATEMENTS

| 31-Mar-17 | | 31-Mar-18 | |
|------------------------------|----------------|-----------------|-----------------|
| Long Term | Current | Long Term | Current |
| £'000 | £'000 | £'000 | £'000 |
| Financial Liabilities | | | |
| (66,249) | (5,242) | (63,000) | (3,248) |
| - | (110) | - | (96) |
| - | (1,000) | - | (8,000) |
| - | - | - | (3) |
| (66,249) | (6,352) | (63,000) | (11,347) |
| - | (1,332) | - | (1,404) |
| (66,249) | (7,684) | (63,000) | (12,751) |
| Financial Assets | | | |
| - | 1 | - | - |
| 48 | 22 | 60 | 23 |
| - | 275 | - | - |
| 4,761 | 33 | 4,728 | 34 |
| - | 1,865 | - | 2,009 |
| - | 8,000 | - | 4,000 |
| - | 24 | - | 8 |
| - | 267 | - | 7,050 |
| 4,809 | 10,487 | 4,788 | 13,124 |

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-17 | 31-Mar-18 |
|-------------------------------|--------------|
| £'000 | £'000 |
| Financial Liabilities: | |
| 2,159 | 2,099 |
| Financial Assets: | |
| (113) | (78) |
| (228) | (227) |
| 1,818 | 1,794 |

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 2018, using the following methods and assumptions:

- 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.

NOTES TO THE FINANCIAL STATEMENTS

- 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-17 | | | | 31-Mar-18 | |
|-----------------|-----------------|--|------------------|-----------------|-----------------|
| Carrying Amount | Fair Value | | Fair Value Level | Carrying Amount | Fair Value |
| £'000 | £'000 | | | £'000 | £'000 |
| | | Financial Liabilities held at fair Value | | | |
| (71,601) | (87,999) | PWLB Loans (Long and Short Term) | 2 | (66,344) | (79,834) |
| (71,601) | (87,999) | Total Financial Liabilities | | (66,344) | (79,834) |
| (2,332) | | Liabilities for which fair value is not disclosed | * | (9,404) | |
| (73,933) | | Total Financial Liabilities | | (75,748) | |
| | | <u>Recorded on the balance sheet as</u> | | | |
| (66,249) | | Long Term Borrowing | | (63,000) | |
| (6,352) | | Short Term Borrowing | | (11,347) | |
| (1,332) | | Short Term Creditors | | (1,404) | |
| (73,933) | | Total Financial Liabilities | | (75,751) | |

NOTES TO THE FINANCIAL STATEMENTS

| 31-Mar-17 | | | | 31-Mar-18 | |
|-----------------|------------|---|------------------|-----------------|------------|
| Carrying Amount | Fair Value | | Fair Value Level | Carrying Amount | Fair Value |
| £'000 | £'000 | | | £'000 | £'000 |
| | | Financial Assets held at amortised cost | | | |
| 4,761 | 6,427 | Long Term Lease receivables | 3 | 4,728 | 3,610 |
| - | - | - Deferred Capital Receipt | | - | - |
| 48 | 48 | Long Term Staff Loans (Car, Bike and Bus Pass) | 3 | 60 | 60 |
| 4,809 | 6,475 | Total | | 4,788 | 3,670 |
| 10,487 | | Assets for which fair value is not disclosed | * | 13,181 | |
| 15,296 | | Total Financial Assets | | 17,969 | |
| | | <u>Recorded on the balance sheet as:</u> | | | |
| 4,809 | | Long Term Debtors | | 4,788 | |
| 2,196 | | Short Term Debtors | | 2,123 | |
| 8,024 | | Short Term Investments | | 4,008 | |
| 267 | | Cash and Cash Equivalents | | 7,050 | |
| 15,296 | | Total Financial Assets | | 17,969 | |

* 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's 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.
- *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.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy which includes an annual investment strategy. This guidance emphasises that priority is to be given to security and liquidity rather than yield. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

NOTES TO THE FINANCIAL STATEMENTS

Credit Risk

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.

Trade and 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.

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.

The following analysis summarises the council's potential maximum exposure to credit risk based on experience of default and collectability.

| | Note | Amount at 31 March 2018 £'000 | Historical experience of default % | Adjustment for market conditions at 31 March 2018 % | Estimated maximum exposure to default £ |
|---|------|--|---|--|---|
| Short Term Investments | a | 4,008 | - | - | - |
| Cash and cash equivalents | a | 7,050 | - | - | - |
| General debtors | b | 117 | 81% | 81% | 95 |
| Housing rents | b | 1,384 | 56% | 56% | 778 |
| Other | b | 5,410 | 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 | | 2,829 | 90% | 90% | 2,547 |
| Costs associated with Council Tax and Business Rates Collection | | 711 | 41% | 41% | 295 |
| (a) The council does not expect any default in relation to these elements | | | | | |
| (b) 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 and historical experience. | | | | | |

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

NOTES TO THE FINANCIAL STATEMENTS

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:

| <u>Maturity Structure of Fixed Borrowings i.e. greater than 12 months (excluding accrued interest)</u> | | | | | |
|---|---------------------------------|--------------------------------|----------------|------------------|---------------|
| 31-Mar-17 | | 2017/18 Approved Limits | | 31-Mar-18 | |
| Amount | Maturing within:- | Minimum | Maximum | Amount | |
| £'000 | | % | % | £'000 | % |
| 5,242 | Up to 1 year | 4% | 9% | 3,248 | 5.0% |
| 3,248 | Over 1 but not over 2 years | 2% | 12% | 4,000 | 6.0% |
| 12,000 | Over 2 but not over 5 years | 13% | 23% | 11,000 | 17.0% |
| 17,000 | Over 5 but not over 10 years | 19% | 33% | 17,000 | 26.0% |
| 3,000 | Over 10 but not over 15 years | 40% | 64% | - | - |
| | - Over 15 but not over 20 years | 40% | 64% | - | - |
| | - Over 20 but not over 25 years | 40% | 64% | - | - |
| | - Over 25 but not over 30 years | 40% | 64% | - | - |
| | - Over 30 but not over 35 years | 40% | 64% | - | - |
| | - Over 35 but not over 40 years | 40% | 64% | - | - |
| 4,000 | Over 40 but not over 45 years | 40% | 64% | 31,000 | 46.0% |
| 27,000 | Over 45 years | 40% | 64% | - | - |
| 71,490 | | | | 66,248 | 100.0% |

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

If all interest rates in 2017/18 had been 1% higher (with all other variables constant) the financial effect would have been £139,730 (2016/17 £176,700) additional interest receivable on variable rate investments. There were no significant variable rate borrowings during 2017/18 or 2016/17.

19. Debtors

Long Term Debtors

| 31-Mar-17 £'000 | 31-Mar-18 £'000 |
|--------------------------------------|--------------------|
| 4,830 Other entities and individuals | 4,819 |
| 4,830 | 4,819 |

Short Term Debtors (net of allowances for doubtful debts)

| 31-Mar-17 £'000 | 31-Mar-18 £'000 |
|--------------------------------------|--------------------|
| 416 Central Government bodies | 950 |
| 1,569 Other Local Authorities | 2,020 |
| 2,957 Other entities and individuals | 2,670 |
| 4,942 | 5,640 |

20. Cash and Cash Equivalents

| 31-Mar-17 £'000 | 31-Mar-18 £'000 |
|---|--------------------|
| 450 Money Market Funds | 6,906 |
| 41 Cash imprests / cash in hand | 48 |
| (224) Cash at bank / (Overdraft) [Grouped accounts] | 96 |
| 267 | 7,050 |

NOTES TO THE FINANCIAL STATEMENTS

21. Creditors

Long Term Creditors

| 31-Mar-17 £'000 | | 31-Mar-18 £'000 |
|--------------------|--------------------------------|--------------------|
| (1,092) | Other entities and individuals | (1,102) |
| (1,092) | | (1,102) |

Short Term Creditors

| 31-Mar-17 £'000 | | 31-Mar-18 £'000 |
|--------------------|--------------------------------|--------------------|
| (2,834) | Central Government bodies | (2,688) |
| (902) | Other Local Authorities | (1,094) |
| (1,687) | Other entities and individuals | (2,030) |
| (5,423) | | (5,812) |

22. Provisions

| | | Balance 01-Apr-17 £'000 | < ----- 2017/18 ----- > Additional provisions made £'000 | Amounts used £'000 | Unused amounts reversed £'000 | Balance 31-Mar-18 £'000 |
|---------------------------|----------------|-------------------------------|--|--------------------------|--|-------------------------------|
| Business Rates Appeals | Short Term (S) | (1,112) | (446) | 262 | 500 | (796) |
| MMI Scheme of Arrangement | Long Term (L) | (15) | | | | (15) |
| MMI Scheme of Arrangement | | (30) | | | | (30) |
| | | (1,157) | (446) | 262 | 500 | (841) |

The provision for Business Rates valuation appeals is required by Business Rates Retention funding system - the Council's share of the total provision of £1.989 million is £0.796 million. An allowance for doubtful debts is included within Note 19.

23. Agency Services

A contribution is paid by the County Council towards treework (to 2016/17) and grasscutting (environmental maintenance) and this is summarised below.

| 31-Mar-17 £'000 | | 31-Mar-18 £'000 |
|--------------------|---------------------------------------|--------------------|
| 52 | Treework | 0 |
| 85 | Grasscutting | 88 |
| (132) | Hampshire County Council contribution | (68) |
| 5 | | 20 |

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:

| | 2016/17 | | | 2017/18 | | | |
|---|-----------------|----------------|---------------|-----------------|----------------|---------------|-----------------|
| | 01-Apr-16 | Transfers In | Transfers Out | 31-Mar-17 | Transfers In | Transfers Out | 31-Mar-18 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Revenue | | | | | | | |
| General Fund Balance | (890) | | | (890) | | | (890) |
| Earmarked General Fund Reserves | | | | | | | |
| Revenue Financing Reserve | (3,068) | (729) | 508 | (3,289) | (567) | | (3,856) |
| Stability & Resilience Reserve | (1,339) | | 204 | (1,135) | (569) | 142 | (1,562) |
| Cherque Farm Open Space | (237) | | 19 | (218) | | 19 | (199) |
| Supporting Troubled Families | (87) | (10) | | (97) | | | (97) |
| Housing Renewal Grant | (84) | | 75 | (9) | | | (9) |
| Priddys Play Area Maintenance | (63) | | 7 | (56) | | 7 | (49) |
| Building Control Partnership | (65) | (16) | | (81) | (16) | | (97) |
| Community Safety Partnership | (48) | | 2 | (46) | (9) | 7 | (48) |
| Preventing Repossessions | (44) | | 30 | (14) | | | (14) |
| High Street Innovations | (24) | | 1 | (23) | | | (23) |
| Open Spaces Maintenance | (29) | | 3 | (26) | | 3 | (23) |
| Bus Shelter Maintenance | (30) | | | (30) | | | (30) |
| Business Growth Incentive Grant | (22) | | | (22) | | | (22) |
| Urbaser Contract Reserve | (78) | (21) | | (99) | (3) | | (102) |
| Sodexo Contract Reserve | 0 | (10) | | (10) | | 9 | (1) |
| Royan Twinning Fund | (6) | (3) | | (9) | | 1 | (8) |
| Cherque Farm Land Transfer | (7) | | 1 | (6) | | | (6) |
| Healthy Homes | 0 | (33) | | (33) | (24) | 33 | (24) |
| CCTV Monitoring | 0 | (8) | | (8) | | | (8) |
| Education Fund | (4) | | | (4) | | | (4) |
| Hermitage Wildlife Garden | 0 | | | 0 | (10) | | (10) |
| Benefits DWP External Funding | 0 | | | 0 | (49) | | (49) |
| Homeless Support Grant Reserve | 0 | | | 0 | (165) | | (165) |
| Planning DCLG Grants Reserve | 0 | | | 0 | (35) | | (35) |
| | (5,235) | (830) | 850 | (5,215) | (1,447) | 221 | (6,441) |
| Housing Revenue Account | | | | | | | |
| Housing Revenue Account | (992) | | | (992) | | | (992) |
| Major Repairs, New Build & Loan Repayment Reserve | (2,992) | (100) | 630 | (2,462) | (1,049) | 409 | (3,102) |
| | (3,984) | (100) | 630 | (3,454) | (1,049) | 409 | (4,094) |
| Capital | | | | | | | |
| Capital Receipts Reserve (GF) | (65) | (575) | 549 | (91) | (608) | 645 | (54) |
| Revenue Reserve for Capital (GF) | 0 | | | 0 | (524) | | (524) |
| Capital Receipts Reserve (HRA) | (100) | (504) | 504 | (100) | (713) | 699 | (114) |
| Capital Receipts New Build (HRA) | (1,016) | (349) | 614 | (751) | (479) | 175 | (1,055) |
| Major Repairs Reserve (HRA) | 0 | (2,463) | 2,463 | 0 | (2,876) | 2,876 | 0 |
| Capital Grants Unapplied (CIL) | 0 | (20) | | (20) | (81) | | (101) |
| | (1,181) | (3,911) | 4,130 | (962) | (5,281) | 4,395 | (1,848) |
| Total Usable Reserves | (11,290) | (4,841) | 5,610 | (10,521) | (7,777) | 5,025 | (13,273) |

NOTES TO THE FINANCIAL STATEMENTS

25. Unusable Reserves

| 31-Mar-17 £'000 | 31-Mar-18 £'000 |
|---|--------------------|
| (37,673) Revaluation Reserve | (49,586) |
| (63,621) Capital Adjustment Account | (59,704) |
| (5,070) Deferred Capital Receipts Reserve | (4,763) |
| 39,400 Net Pension Reserve | 40,650 |
| (446) Collection Fund Adjustment Account | (659) |
| 108 Accumulated Absences Account | 101 |
| (67,302) | (73,961) |

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

| 2016/17 £'000 | 2017/18 £'000 |
|---|------------------|
| (19,000) Balance at 1 April | (37,673) |
| (20,226) Upward revaluation of assets | (13,346) |
| 1,536 Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | 1,141 |
| (18,690) Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | (12,205) |
| 17 Difference between fair value depreciation and historical cost depreciation | 292 |
| 17 Amount written off to the Capital Adjustment Account | 292 |
| (37,673) Balance at 31 March | (49,586) |

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

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| (62,580) Balance at 1 April | (63,621) |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | |
| 3,625 Charges for depreciation, impairment of noncurrent assets | 4,111 |
| 349 Revaluation losses on Property, Plant and Equipment | 656 |
| 121 Amortisation of intangible assets | 113 |
| 578 Revenue expenditure funded from capital under statute | 806 |
| 1,657 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 | 4,895 |
| 6,330 | 10,581 |
| (17) Adjusting amounts written out of the Revaluation Reserve | (292) |
| Net written out amount of the cost of non-current assets consumed in the year | 10,289 |
| Capital financing applied in the year: | |
| (1,667) Use of the Capital Receipts Reserve to finance new capital expenditure and reduce CFR | (1,212) |
| (2,463) Use of the Major Repairs Reserve to finance new capital expenditure | (2,876) |
| (561) Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (705) |
| (441) Application of grants to capital financing from the Capital Grants Unapplied Account | (407) |
| (528) Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances | (2) |
| (1,805) Capital expenditure charged against the General Fund and HRA balances | (683) |
| (7,465) | (5,885) |
| 111 Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | (487) |
| (63,621) Balance at 31 March | (59,704) |

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.

| 2016/17 £'000 | 2017/18 £'000 |
|---|------------------|
| (5,402) Balance at 1 April | (5,070) |
| 332 Transfer to the Capital Receipts Reserve upon receipt of cash | 307 |
| (5,070) Balance at 31 March | (4,763) |

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.

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| 35,550 Balance at 1 April | 39,400 |
| 2,800 Remeasurements of the net defined benefit liability/(asset) | 170 |
| 3,250 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 | 2,830 |
| (2,200) Employer's pensions contributions and direct payments to pensioners payable in the year | (1,750) |
| 39,400 Balance at 31 March | 40,650 |

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

NOTES TO THE FINANCIAL STATEMENTS

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| 13 Balance at 1 April | (446) |
| (459) 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 | (213) |
| (446) Balance at 31 March | (659) |

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.

| 2016/17 £'000 | 2017/18 £'000 |
|---|------------------|
| 131 Balance at 1 April | 108 |
| (131) Settlement or cancellation of accrual made at the end of the preceding year | (108) |
| 108 Amounts accrued at the end of the current year | 101 |
| 108 Balance at 31 March | 101 |

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/>

| 2016/17 £000 | 2017/18 £000 |
|-----------------|-----------------|
| 234 Allowances | 245 |
| 5 Expenses | 2 |
| 239 | 247 |

27. Officers Remuneration

| Number of employees 2016/17 | Left during 2016/17 | 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: | Number of employees 2017/18 | Left during 2017/18 |
|-----------------------------|---------------------|--|-----------------------------|---------------------|
| | | Remuneration band | | |
| 6 | 2 | £50,000 - £54,999 | 3 | - |
| 2 | - | £55,000 - £59,999 | 3 | 1 |
| 1 | 1 | £60,000 - £64,999 | 2 | 1 |
| 1 | - | £65,000 - £69,999 | 2 | 1 |
| 1 | 1 | £70,000 - £74,999 | - | - |
| 1 | 1 | £75,000 - £79,999 | - | - |
| - | - | £80,000 - £84,999 | 1 | 1 |
| - | - | £85,000 - £89,999 | - | - |
| 1 | 1 | £90,000 - £94,999 | - | - |
| 2 | 2 | £95,000 - £99,999 | - | - |
| - | - | £100,000 - £104,999 | - | - |
| 1 | 1 | £105,000 - £109,999 | - | - |
| - | - | £110,000 - £114,999 | - | - |
| - | - | £115,000 - £119,999 | - | - |
| 1 | 1 | £120,000 - £124,999 | - | - |

The numbers for 2016/17 reflect the shared management arrangement with Portsmouth City Council that was introduced during 2016/17.

NOTES TO THE FINANCIAL STATEMENTS

| 2017/18 Senior Officer emoluments - Salaries more than £50,000 but less than £150,000 per year | | | | | | | | | |
|--|-------|-------------------------------|---------|--------------------|---------------------------------|------------------|--|-----------------------|--|
| Post Title | Notes | Salary (Including Allowances) | Bonuses | Expense Allowances | Compensation for loss of office | Benefits in Kind | Total Remuneration excluding pension contributions 2017/18 | Pension Contributions | Total Remuneration including pension contributions 2017/18 |
| | | £ | £ | £ | £ | £ | £ | £ | £ |
| Chief Executive | 1 | - | - | - | - | - | - | - | - |
| Borough Solicitor & Deputy Chief Executive | 1 | - | - | - | - | - | - | - | - |
| Borough Treasurer | 1 | - | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - | - |

1. The roles of the Chief Executive, Borough Solicitor and Deputy Chief Executive and Borough Treasurer are, from 1 October 2016, fulfilled 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 for 2017/18 is £167,462 (Chief Executive £66,790; Borough Solicitor & Deputy Chief Executive £52,530 and Borough Treasurer £48,142)

| 2016/17 Senior Officer emoluments - Salaries more than £50,000 but less than £150,000 per year | | | | | | | | | |
|--|-------|-------------------------------|----------|--------------------|---------------------------------|------------------|--|-----------------------|--|
| Post Title | Notes | Salary (Including Allowances) | Bonuses | Expense Allowances | Compensation for loss of office | Benefits in Kind | Total Remuneration excluding pension contributions 2016/17 | Pension Contributions | Total Remuneration including pension contributions 2016/17 |
| | | £ | £ | £ | £ | £ | £ | £ | £ |
| Chief Executive | 1 | 52,047 | - | - | 155,938 | - | 207,985 | 16,014 | 223,999 |
| Borough Solicitor & Deputy Chief Executive | 2 | 53,675 | - | - | 93,310 | - | 146,985 | 168,620 | 315,605 |
| Borough Treasurer | 3 | 42,213 | - | - | 106,909 | - | 149,122 | 138,607 | 287,729 |
| | | 147,935 | 0 | 0 | 356,157 | 0 | 504,092 | 323,241 | 827,333 |

1. The Chief Executive was made redundant on 30/09/16. The full time equivalent salary was £101,957

2. The Borough Solicitor & Deputy Chief Executive was made redundant on 30/09/16. The full time equivalent salary was £80,421. Returning Officer fees of £12,855 and associated pension costs of £9,867 are included in these totals.

3. The Borough Treasurer was made redundant on 30/09/16. The full time equivalent salary was £73,713.

4. With effect from 01 October 2016, the roles of these three posts are fulfilled 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 for 2016/17 is £83,663

NOTES TO THE FINANCIAL STATEMENTS

Exit Packages

| Exit package cost band (including special) | 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 | |
|--|-----------------------------------|----------|-----------------------------------|----------|--|----------|--|------------------|
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 £'000 | 2017/18 £'000 |
| £0 - £20,000 | 9 | 4 | 0 | 0 | 9 | 4 | 85 | 44 |
| £20,001 - £40,000 | 8 | 1 | 0 | 0 | 8 | 1 | 228 | 35 |
| £40,001 - £60,000 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 47 |
| £60,001 - £80,000 | 10 | 1 | 0 | 0 | 10 | 1 | 694 | 62 |
| £80,001 - £100,000 | 1 | 0 | 0 | 0 | 1 | 0 | 83 | 0 |
| £100,001 - £150,000 | 2 | 0 | 0 | 0 | 2 | 0 | 254 | 0 |
| £150,001 - £200,000 | 2 | 0 | 0 | 0 | 2 | 0 | 321 | 0 |
| £200,001 - £250,000 | 1 | 0 | 0 | 0 | 1 | 0 | 241 | 0 |
| £250,001 - £300,000 | 1 | 0 | 0 | 0 | 1 | 0 | 256 | 0 |
| | 34 | 7 | 0 | 0 | 34 | 7 | 2,162 | 188 |

There were 34 exit packages in 2016/17 incurring a total cost of £2.162 million that is reflected in the Comprehensive Income and Expenditure Statement for 2016/17. This includes both payments to the Local Government Pension Scheme and severance payments and has been largely financed by contributions from the Revenue Financing and HRA Reserves and salary savings achieved in the year.

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.

| 2016/17 £000 | 2017/18 £000 |
|---|-----------------|
| Fee payable to Ernst & Young with regard to external audit services carried out by appointed auditors | |
| 53 External audit services | 53 |
| 17 Certification of grant claims and returns | 13 |
| 70 | 66 |

NOTES TO THE FINANCIAL STATEMENTS

29. Grant Income

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2017/18.

| 2016/17 £000 | Grant Income | 2017/18 £000 |
|---|---|-----------------|
| Included in Taxation and Non Specific Grant Income | | |
| <u>Non-Ringfenced Government Grants</u> | | |
| Department for Communities and Local Government: | | |
| (1,176) | Revenue Support Grant | (612) |
| (991) | New Homes Bonus Grant | (779) |
| (45) | New Burdens Grants - various | (177) |
| (353) | Autumn Statement Measures - Business Rate Relief Grants | (663) |
| (25) | Transition Grant | (24) |
| Department for Work and Pensions | | |
| (454) | HB / CTB Administration | (424) |
| (20) | <u>Community Infrastructure Levy</u> | (85) |
| (3,064) | | (2,764) |
| <u>Capital Grants and Contributions</u> | | |
| (253) | Developers Contributions - Open Spaces | (105) |
| (50) | Partnership for Urban South Hampshire | - |
| (138) | Developer Contribution - Access | - |
| (20) | Gosport Bowls Club | - |
| - | Sports England - BMX Track | (150) |
| - | Contractor Contributions - Bridgemary Skate Park | (55) |
| - | Local Enterprise Partnership - Daedalus Regeneration | (37) |
| - | Developer Contribution - Priddys Play Area | (7) |
| (461) | | (354) |
| Service Specific Revenue Grants and Contributions (included in cost of services) | | |
| <u>Department for Work and Pensions</u> | | |
| (27,788) | HB / CTB Subsidy | (26,094) |
| <u>Environment Agency</u> | | |
| (94) | Coast Protection | (407) |
| <u>Department for Communities and Local Government</u> | | |
| (447) | Disabled Facilities Grant | (350) |
| (80) | NNDR Cost of Collection | (78) |
| (27) | Natural England Grant | (15) |
| - | Homelessness Prevention Grants | (596) |
| (28,436) | | (27,540) |

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

| 2016/17 £'000 | 2017/18 £'000 |
|---|------------------|
| Receipts in Advance - Capital Grants | |
| (10) Affordable Housing | (10) |
| (1,065) Open Spaces and Play Areas | (1,104) |
| (486) Transport Contributions | (615) |
| (295) Other grants and contributions | (651) |
| (1,856) | (2,380) |

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 2017/18 is shown in Note 26. During 2017/18, one member's business supplied a bed and mattress for £148 to the Council's troubled families initiative. 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 2017/18, the Partnership charged Gosport Borough Council £100,498 (£108,086 in 2016/17) 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 2018, the balance of retained surplus for future investment in the service held by Gosport Borough Council was £97,245 (£80,007 in 2016/17), £162,202 (£134,909 in 2016/17) by Fareham Borough Council and £60,015 (£37,722 in 2016/17) 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 2017/18, the Partnership charged Gosport Borough Council £745,852 for statutory environmental health services (£677,836 in 2016/17). The Partnership has a policy of sharing expenditure (excluding internal recharges) on a 50/50 basis. All income is retained by the relevant authority.

NOTES TO THE FINANCIAL STATEMENTS

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

During 2017/18 the Council received £145,000 (£130,000 in 2016/17) 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 2017/18 are shown below

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| Portchester Crematorium - Gosport share (25%) | |
| 1,649 Long Term Assets | 1,568 |
| 521 Current Assets | 643 |
| (17) Current Liabilities | (15) |
| (193) Long Term Liabilities | (205) |
| (504) Usable Reserves | (627) |
| (1,456) Unusable Reserves | (1,364) |
| 0 | 0 |
| (507) Income | (523) |
| 389 Expenditure | 400 |

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:

| 2016/17 £000 | | 2017/18 £000 |
|--|--|-----------------|
| 29,434 Hampshire County Council | | 31,237 |
| 4,163 Hampshire Police & Crime Commissioners | Business Rates (excluding Hampshire Police & Crime Commissioners) and Council Tax precepts | 4,369 |
| 1,783 Hampshire Fire & Rescue Authority | | 1,832 |
| 2,200 Hampshire County Council | Pension Fund payments | 1,750 |
| 997 Building Control & Partnerships | Payments to Fareham Borough Council | 986 |
| (555) Environmental Services | Income from Fareham Borough Council | (505) |
| (41) Internal Audit Partnership | Income from Test Valley Borough Council | (57) |

NOTES TO THE FINANCIAL STATEMENTS

Portsmouth City Council – Shared Management arrangements

In June 2016, the Council approved entering into a shared management arrangement with Portsmouth City Council (PCC). This encompassed the following posts and functions: Chief Executive; Borough Treasurer; Borough Solicitor; Housing Services; Economic Prosperity, Tourism and Culture; Personnel and Pay and Central Services.

During 2017/18, the Council paid PCC £744,593 (£234,017 in 2016/17). The 2017/18 figure reflects both the full year cost (2016/17 being for a part year) as well as some costs that were previously incurred by GBC directly and are now incurred by PCC and re-charged to GBC.

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.

| 2016/17 £'000 | 2017/18 £'000 |
|---|------------------|
| 80,704 Opening Capital Financing Requirement | 80,145 |
| <u>Capital Investment</u> | |
| 6,165 Plant, Property & Equipment | 6,469 |
| 42 Investment Properties | 97 |
| 121 Intangible Assets | 74 |
| 578 Revenue Expenditure funded from Capital under Statute | 806 |
| <u>Sources of Finance</u> | |
| (1,637) Capital Receipts | (1,180) |
| (1,001) Government Grants & Other Contributions | (1,112) |
| (4,268) GF and HRA Revenue and Reserves including Major Repairs Reserve | (3,559) |
| <u>Other Adjustments</u> | |
| (31) Finance lease principal repayments and liabilities | (31) |
| (528) Sums set aside from Revenue (including Minimum and Voluntary Repayments of Principal) | (2) |
| 80,145 Closing Capital Financing Requirement | 81,707 |
| Explanation of Movements in year | |
| 0 Increase in underlying need to borrow (unsupported) | 1,595 |
| (559) (Decrease) in underlying need to borrow due to MRP, VRP and lease payments | (33) |
| (559) (Decrease) / Increase in Capital Financing Requirement | 1,562 |

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 | 0 | 350 | (350) | 0 |
| Coast Protection Strategy | 0 | 407 | (407) | 0 |
| Other Capital Schemes | 0 | 49 | (49) | 0 |
| Total 2017/18 | 0 | 806 | (806) | 0 |
| Total 2016/17 | 0 | 578 | (578) | 0 |

NOTES TO THE FINANCIAL STATEMENTS

32. Leases

| Council as Lessee | | | | |
|--|-------------------------------|------------------|-------------------------------|------------------|
| <u>Finance Leases</u> | | | | |
| The Council has an item of office equipment held under a finance lease. | | | | |
| The assets acquired under these leases are carried as Equipment in the Balance Sheet at the following net amounts: | | | | |
| | | | 31-Mar-17 | 31-Mar-18 |
| | | | £'000 | £'000 |
| Vehicles, Plant, Furniture and Equipment | | | 0 | 0 |
| | | | 0 | 0 |
| The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts. | | | | |
| | | | 31-Mar-17 | 31-Mar-18 |
| | | | £'000 | £'000 |
| Finance lease liabilities | | | | |
| current | | | 2 | 0 |
| non current | | | 0 | 0 |
| Finance costs payable in future years | | | 0 | 0 |
| Minimum lease payments | | | 2 | 0 |
| The minimum lease payments will be payable over the following periods: | | | | |
| | Minimum Lease Payments | | Finance Lease Payments | |
| | 31-Mar-17 | 31-Mar-18 | 31-Mar-17 | 31-Mar-18 |
| | £'000 | £'000 | £'000 | £'000 |
| Not later than one year | 2 | 0 | 2 | 0 |
| Later than one year, not later than five years | 0 | 0 | 0 | 0 |
| Later than five years | 0 | 0 | 0 | 0 |
| | 2 | 0 | 2 | 0 |
| <u>Operating Leases</u> | | | | |
| 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-17 | 31-Mar-18 |
| | | | £'000 | £'000 |
| Not later than one year | | | 1,539 | 1,324 |
| Later than one year and not later than five years | | | 55 | 49 |
| Later than five years | | | 7 | 7 |
| | | | 1,601 | 1,380 |
| 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-17 | 31-Mar-18 |
| | | | £'000 | £'000 |
| Minimum lease payments | | | 1,311 | 1,291 |
| | | | 1,311 | 1,291 |

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-17 £'000 | 31-Mar-18 £'000 |
|-------------------------------|--------------------|--------------------|
| Finance lease debtor | | |
| current | 33 | 34 |
| non current | 4,761 | 4,728 |
| Unearned finance income | 6,708 | 6,480 |
| Gross investment in the lease | 11,502 | 11,242 |

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

| | Gross Investment in the Lease | | Finance Lease payments | |
|--|----------------------------------|--------------------|---------------------------|--------------------|
| | 31-Mar-17 £'000 | 31-Mar-18 £'000 | 31-Mar-17 £'000 | 31-Mar-18 £'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 | 10,202 | 9,942 | 10,202 | 9,942 |
| | 11,502 | 11,242 | 11,502 | 11,242 |

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-17 £'000 | 31-Mar-18 £'000 |
|---|--------------------|--------------------|
| Not later than one year | 596 | 617 |
| Later than one year and not later than five years | 2,383 | 2,469 |
| Later than five years | 15,645 | 15,336 |
| | 18,624 | 18,422 |

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-17 £'000 | 31-Mar-18 £'000 |
|---|--------------------|--------------------|
| Not later than one year | 1 | 1 |
| Later than one year and not later than five years | 4 | 4 |
| Later than five years | 144 | 143 |
| | 149 | 148 |

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 2019

Funded - £1.58m, 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 - £0.20m 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

| 2016/17 | Key assumptions (% per annum) | 2017/18 |
|---------|-----------------------------------|---------|
| | <u>Funded</u> | |
| 2.5% | Discount rate | 2.6% |
| 3.1% | RPI Inflation | 3.2% |
| 2.0% | CPI Inflation | 2.1% |
| 2.0% | Pension increases | 2.1% |
| 2.0% | Pension accounts revaluation rate | 2.1% |
| 3.5% | Salary increases | 3.6% |
| | <u>Unfunded</u> | |
| 2.5% | Discount rate | 2.6% |
| 3.1% | RPI Inflation | 3.2% |
| 2.0% | CPI Inflation | 2.1% |
| 2.0% | Pension increases | 2.1% |

| 2016/17 | Assumed life expectancy at age 65 | 2017/18 |
|---------|-----------------------------------|---------|
| | <u>Males</u> | |
| 24.0 | Member aged 65 at accounting date | 24.1 |
| 26.0 | Member aged 45 at accounting date | 26.2 |
| | <u>Females</u> | |
| 27.0 | Member aged 65 at accounting date | 27.2 |
| 29.3 | Member aged 45 at accounting date | 29.4 |

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

| 2016/17 | | Transactions relating to Post-employment Benefits | 2017/18 | |
|--|-------------------|--|-----------------|-------------------|
| Funded £'000 | Unfunded £'000 | | Funded £'000 | Unfunded £'000 |
| <u>Comprehensive Income and Expenditure Statement</u> | | | | |
| Cost of Services | | | | |
| 1,450 | | Current service costs # | 1,790 | |
| 630 | | Past service costs | 80 | |
| 0 | | Settlement cost | 0 | |
| Financing and Investment Income and Expenditure | | | | |
| 1,080 | 90 | Interest on net defined benefit liability | 890 | 70 |
| 3,160 | 90 | Pension expense recognised in the Surplus or Deficit on the Provision of Services | 2,760 | 70 |
| Remeasurements of the Net Defined Liability, comprising | | | | |
| (11,560) | | Return on plan assets (in excess of) / below that recognised in net interest | (370) | |
| 19,670 | 270 | Actuarial (gains) / losses due to change in financial assumptions | (130) | (10) |
| (1,380) | (70) | Actuarial (gains) / losses due to changes in demographic assumptions | 0 | 0 |
| (4,150) | 20 | Actuarial (gains) / losses due to liability experience | 650 | 30 |
| 2,580 | 220 | Total amount recognised in Other Comprehensive Income and Expenditure | 150 | 20 |
| 5,740 | 310 | Total included in Comprehensive Income and Expenditure Statement | 2,910 | 90 |
| <u>Movement in Reserves Statement</u> | | | | |
| (3,160) | (90) | Reversal of charges made for retirement benefits | (2,760) | (70) |
| 2,010 | 190 | Inclusion of employers contributions payable | 1,560 | 190 |
| (1,150) | 100 | Total included in Movement in Reserves Statement | (1,200) | 120 |
| 20 | | # Allowance for administration expenses included in current service cost | 20 | |

NOTES TO THE FINANCIAL STATEMENTS

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| <u>Employers contributions paid to Pension Fund</u> | |
| 1,390 Normal Funded Contributions | 1,430 |
| 620 Lump Sums for Early Retirements | 130 |
| <u>Employers contributions paid to Pensioners</u> | |
| 190 Discretionary / Unfunded Added Years | 190 |
| 2,200 | 1,750 |

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-17 £m | Reconciliation to Balance Sheet | 31-Mar-18 £m |
|--|---|-----------------|
| <u>Funded</u> | | |
| 75.64 | Fair value of assets | 76.09 |
| (112.22) | Present value of funded defined benefit obligation | (114.02) |
| (36.58) | Funded status | (37.93) |
| 0.00 | Impact of minimum funding requirement/asset ceiling | 0.00 |
| (36.58) | Pension liability recognised on the Balance Sheet | (37.93) |
| 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% |
| <u>Unfunded</u> | | |
| (2.82) | Present value of defined benefit obligation | (2.72) |
| (2.82) | Pension liability recognised on the Balance Sheet | (2.72) |
| (39.40) | Total | (40.65) |

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-17 | | Asset allocation | 31-Mar-18 | | Total | |
|--------------|--------------|------------------|------------------|--------------|--------------|---------------|
| Quoted | Unquoted | | Quoted | Unquoted | | |
| 56.8% | 3.5% | 60.3% | Equities | 58.5% | 4.1% | 62.6% |
| 0.5% | 6.0% | 6.5% | Property | 0.7% | 6.3% | 7.0% |
| 25.0% | 0.2% | 25.2% | Government Bonds | 23.5% | 0.2% | 23.7% |
| 1.4% | 0.0% | 1.4% | Corporate Bonds | 1.0% | 0.0% | 1.0% |
| 3.4% | 0.0% | 3.4% | Cash | 2.6% | 0.0% | 2.6% |
| 0.0% | 3.2% | 3.2% | Other | 0.2% | 2.9% | 3.1% |
| 87.1% | 12.9% | 100.0% | Total | 86.5% | 13.5% | 100.0% |

Movement in the present value of Pension Fund Obligations

| 2016/17 £m | Changes to the present value of the defined benefit obligation | 2017/18 £m |
|---------------|--|---------------|
| | Funded | |
| 96.60 | Opening defined benefit obligation | 112.22 |
| 1.45 | Current service cost | 1.79 |
| 3.22 | Interest expense on defined benefit obligation | 2.76 |
| 0.40 | Contributions by participants | 0.37 |
| 19.67 | Actuarial (gains)/losses due to change in financial assumptions | (0.13) |
| (1.38) | Actuarial (gains)/losses due to changes in demographic assumptions | 0.00 |
| (4.15) | Actuarial (gains)/losses due to liability experience | 0.65 |
| (4.22) | Net benefits paid out | (3.72) |
| 0.63 | Past service cost | 0.08 |
| 0.00 | Settlements | 0.00 |
| 112.22 | Closing defined benefit obligation | 114.02 |
| | Unfunded | |
| 2.70 | Opening defined benefit obligation | 2.82 |
| 0.00 | Current service cost | 0.00 |
| 0.09 | Interest expense on defined benefit obligation | 0.07 |
| 0.27 | Actuarial (gains)/losses due to change in financial assumptions | (0.01) |
| (0.07) | Actuarial (gains)/losses due to changes in demographic assumptions | 0.00 |
| 0.02 | Actuarial (gains)/losses due to liability experience | 0.03 |
| (0.19) | Net benefits paid out | (0.19) |
| 2.82 | Closing defined benefit obligation | 2.72 |

NOTES TO THE FINANCIAL STATEMENTS

Movement in the fair value of Pension Fund Assets

| 2016/17 £m | Changes to the fair value of assets | 2017/18 £m |
|---|--|---------------|
| Funded | | |
| 63.75 | Opening fair value of assets | 75.64 |
| 2.14 | Interest income on assets | 1.87 |
| 11.56 | Remeasurement gains/(losses) on assets | 0.37 |
| 2.01 | Contributions by the employer | 1.56 |
| 0.40 | Contributions by participants | 0.37 |
| (4.22) | Net benefits paid out # | (3.72) |
| 0.00 | Settlements | 0.00 |
| 75.64 | Closing fair value of assets | 76.09 |
| # The 'Net benefits paid out' figure includes an allowance for expenses of £0.02m | | |
| Unfunded | | |
| 0.19 | Contributions by the employer | 0.19 |
| (0.19) | Net benefits paid out | (0.19) |
| 0.00 | Closing fair value of assets | 0.00 |

Actual return on Scheme Assets

| 2016/17 £m | Actual return on assets | 2017/18 £m |
|---------------|-------------------------------------|---------------|
| 2.14 | Interest income on assets | 1.87 |
| 11.56 | Remeasurement gain/(loss) on assets | 0.37 |
| 13.70 | Actual return on assets | 2.24 |

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 2018 and the projected service cost for the year ending 31 March 2019 is set out below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised on page 79.

Sensitivity of unfunded benefits is not included on materiality grounds.

NOTES TO THE FINANCIAL STATEMENTS

| Sensitivity analysis for funded LGPS benefits | | | |
|---|-----------------|--------------------|-----------------|
| Discount rate assumption | | | |
| Adjustment to discount rate | +0.1% pa | Base figure | -0.1% pa |
| Present value of total obligation (£m's) | 112.08 | 114.02 | 116.00 |
| % change in present value of total obligation | -1.7% | | 1.7% |
| Projected service cost (£m's) | 1.81 | 1.86 | 1.91 |
| Approximate % change in projected service cost | -2.9% | | 2.9% |
| Rate of general increase in salaries | | | |
| Adjustment to salary increase rate | +0.1% pa | Base figure | -0.1% pa |
| Present value of total obligation (£m's) | 114.37 | 114.02 | 113.68 |
| % change in present value of total obligation | 0.3% | | -0.3% |
| Projected service cost (£m's) | 1.86 | 1.86 | 1.86 |
| Approximate % change in projected service cost | 0.0% | | 0.0% |
| Rate of increase to pensions in payment and deferred pensions assumption and rate of revaluation of pension fund accounts | | | |
| Adjustment to pension increase rate | +0.1% pa | Base figure | -0.1% pa |
| Present value of total obligation (£m's) | 115.65 | 114.02 | 112.42 |
| % change in present value of total obligation | 1.4% | | -1.4% |
| Projected service cost (£m's) | 1.91 | 1.86 | 1.81 |
| Approximate % change in projected service cost | 2.9% | | -2.9% |
| Post retirement mortality assumption | | | |
| Adjustment to mortality age rate assumption # | -1 year | Base figure | +1 year |
| Present value of total obligation (£m's) | 117.37 | 114.02 | 110.68 |
| % change in present value of total obligation | 2.9% | | -2.9% |
| Projected service cost (£m's) | 1.93 | 1.86 | 1.79 |
| Approximate % change in projected service cost | 3.6% | | -3.5% |
| # 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

NOTES TO THE FINANCIAL STATEMENTS

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.

- **GMP Equalisation**

The government issued a consultation on 28 November 2016 entitled “Consultation on indexation and equalisation of Guaranteed Minimum Pension (GMP) in public service pension schemes” which considered the inequality of GMP benefits between male and female members prior to 6 April 1997. The outcome of this is not presently known and there is a potential increase in pension liabilities that is not allowed for in the Pensions disclosure note.

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 2018 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

36. Cash Flow Statement - notes

| 2016/17 £000 | Adjustments to surplus or deficit on the provision of services for non-cash movements | 2017/18 £000 |
|-----------------|---|-----------------|
| 3,625 | Depreciation and Impairments | 4,112 |
| 349 | Impairment and Downward Valuations | 656 |
| 121 | Amortisation | 112 |
| (1,399) | Increase/(Decrease) in Creditors | 922 |
| 1,190 | (Increase)/Decrease in Debtors | (1,212) |
| 1,050 | Movement in Pension Liability | 1,080 |
| 1,657 | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | 4,895 |
| (774) | Other non-cash items charged to the net surplus or deficit on the provision of services | (815) |
| 5,819 | Net cash flow | 9,750 |

NOTES TO THE FINANCIAL STATEMENTS

| 2016/17 £000's | Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities | 2017/18 £000 |
|-------------------|---|-----------------|
| (1,404) | Proceeds from the sale of property plant and equipment, investment property and intangible assets | (1,460) |
| (1,002) | Capital Grants credited to the surplus/deficit on the provision of services | (1,193) |
| (2,406) | | (2,653) |

| 2016/17 £000 | Net Cash Flow from Investing Activities | 2017/18 £000 |
|-----------------|---|-----------------|
| (6,136) | Purchase of property, plant and equipment, investment property and intangible assets | (6,299) |
| (29,000) | Purchase of short-term and long-term investments | (15,500) |
| 1,736 | Proceeds from the sale of property, plant and equipment, investment property, intangible assets (including deferred capital receipts) | 1,767 |
| 29,000 | Proceeds from short-term and long-term investments | 19,500 |
| 954 | Other receipts from investing activities | 1,445 |
| (3,446) | Net cash outflow from investing activities | 913 |

| 2016/17 £000 | Net Cash Flow from Financing Activities | 2017/18 £000 |
|-----------------|---|-----------------|
| 1,000 | Cash receipts of short and long-term borrowing | 8,000 |
| (19) | Cash payments for the reduction of outstanding liabilities relating to finance leases | |
| (3,334) | Repayments of short and long-term borrowing | (6,242) |
| (604) | Other payments for financing activities | (361) |
| (2,957) | Net cash (inflow) / outflow from financing activities | 1,397 |

| 2016/17 £000 | The cash flows for operating activities include the following items: | 2017/18 £000 |
|-----------------|--|-----------------|
| 344 | Interest Received | 321 |
| (2,148) | Interest Paid | (2,111) |
| (1,804) | Net cash outflow from Interest and Dividends | (1,790) |

NOTES TO THE FINANCIAL STATEMENTS

37. Certification and authorisation of the Accounts

Statement of Accounts – unaudited draft authorised for issue

Signed

Date 31 May 2018

C. WARD

Borough Treasurer, Section 151 officer

Statement of Accounts – audited statement authorised for issue

Signed

Date 25 July 2018

C. WARD

Borough Treasurer, Section 151 officer

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

Signed

Date 25 July 2018

COUNCILLOR M. HOOK

Leader of the Council

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

Signed

Date 25 July 2018

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

| 2016/17 £'000 | HRA INCOME AND EXPENDITURE STATEMENT | 2017/18 £'000 | 2017/18 £'000 |
|------------------|---|------------------|------------------|
| | EXPENDITURE | | |
| 4,226 | Repairs & maintenance | 4,631 | |
| 4,474 | Supervision & management | 3,735 | |
| 181 | Rents, rates, taxes & other charges | 259 | |
| 2,463 | Depreciation, impairment and revaluation losses of non current assets | 2,876 | |
| 49 | Debt management costs | 39 | |
| 0 | Movement in the allowance for bad or doubtful debts | 62 | |
| 11,393 | TOTAL EXPENDITURE | | 11,602 |
| | INCOME | | |
| (13,984) | Dwelling rents | (14,077) | |
| (242) | Non dwelling rents | (251) | |
| (416) | Charges for services and facilities | (501) | |
| (14,642) | TOTAL INCOME | | (14,829) |
| (3,249) | NET INCOME OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT | | (3,227) |
| 104 | HRA Services' share of Corporate and Democratic Core | | 80 |
| (3,145) | NET INCOME FOR HRA SERVICES | | (3,147) |
| | HRA SHARE OF THE OPERATING INCOME AND EXPENDITURE INCLUDED IN THE WHOLE AUTHORITY COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT | | |
| 11 | (Gain)/Loss on the disposal of HRA non-current assets | | 3,388 |
| 279 | Payments to the Governments Housing Capital Receipts Pool | | 282 |
| 1,848 | Interest payable and similar charges | | 1,892 |
| (24) | Interest and investment income | | (18) |
| 247 | Pension interest on net defined benefit liability | | 227 |
| (784) | (SURPLUS) / DEFICIT FOR THE YEAR ON HRA SERVICES | | 2,624 |

SUPPLEMENTARY FINANCIAL STATEMENTS

| 2016/17 £'000 | MOVEMENT ON THE HRA STATEMENT | 2017/18 £'000 | 2017/18 £'000 |
|------------------|---|------------------|------------------|
| (992) | Balance on the HRA at the end of the previous year | | (992) |
| (784) | Surplus / deficit for the year on the HRA Income and Expenditure Account | 2,624 | |
| 684 | Adjustments between accounting basis and funding basis under regulations (detailed below) | (3,673) | |
| (100) | Net increase before transfers to reserves | | (1,049) |
| 100 | Transfers to Reserves | | 1,049 |
| 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 | | | |
|--|---|------------------|------------------|
| 2016/17 £'000 | | 2017/18 £'000 | 2017/18 £'000 |
| | Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year | | |
| (11) | Gain/(Loss) on the disposal of HRA Non-Current Assets | (3,388) | |
| (279) | Contributions from the Capital Receipts Reserve to finance payments to the Governments Housing Capital Receipts Pool | (282) | |
| 1,174 | Capital Expenditure funded by the HRA | 274 | |
| 2 | Net charges to Accumulated Absences Account | (1) | |
| (686) | Net charges made for retirement benefits in accordance with IAS19 | (669) | |
| 2,463 | Depreciation transfer to Major Repairs Reserve | 2,876 | |
| (2,463) | Depreciation transfer from Capital Adjustment Account | (2,876) | |
| 200 | | | (4,066) |
| | Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year | | |
| 484 | Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners | 393 | |
| 484 | | | 393 |
| 684 | Net additional amount required by statute to be credited to the HRA Balance for the year | | (3,673) |

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-17 | | | 31-Mar-18 | |
|--|----------------|----------------------------|--------------|----------------|
| Number | Value £'000 | | Number | Value £'000 |
| <u>Operational Assets</u> | | | | |
| 2,955 | 131,330 | Standard Dwellings | 2,944 | 138,784 |
| 182 | 4,628 | Sheltered Housing | 182 | 5,405 |
| 493 | 994 | Garages and Parking Spaces | 502 | 1,025 |
| - | - | - Operational Property # | 5 | 62 |
| 1 | 33 | Community Asset | 1 | 33 |
| 3,631 | 136,985 | | 3,634 | 145,309 |
| <u>Non Operational Assets</u> | | | | |
| 1 | 34 | Premises # | - | - |
| | 137,019 | | | 145,309 |
| # recategorised and restated under Operational | | | | |

The HRA asset base is valued annually – the 2017/18 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 2017/18 has been valued at 1 April 2018.

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-17 £'000 | | 31-Mar-18 £'000 |
|--------------------|------------------------|--------------------|
| 411,997 | Dwellings | 435,911 |
| 994 | Other Land & Buildings | 1,025 |
| 412,991 | | 436,936 |

SUPPLEMENTARY FINANCIAL STATEMENTS

3. Housing Stock

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

| 31-Mar-17 | 31-Mar-18 |
|--|--------------|
| <u>Numbers</u> | |
| 1,271 Houses | 1,263 |
| 428 Bungalows | 428 |
| 1,438 Flats | 1,435 |
| 3,137 | 3,126 |
| <u>Analysis of bedroom type</u> | |
| 1,547 1 bedroom | 1,545 |
| 545 2 bedroom | 542 |
| 961 3 bedroom | 955 |
| 84 4 or more bedrooms | 84 |
| 3,137 | 3,126 |
| <u>Analysis of stock by age</u> | |
| 261 Pre 1945 | 260 |
| 1,289 1945 - 1964 | 1,281 |
| 623 1965 - 1974 | 623 |
| 964 1974 onwards | 962 |
| 3,137 | 3,126 |

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.

| 2016/17 £'000 | 2017/18 £'000 |
|------------------------------|------------------|
| 0 Balance at 1 April | 0 |
| 2,463 HRA Depreciation | 2,876 |
| (2,463) HRA Capital Financed | (2,876) |
| 0 Balance at 31 March | 0 |

5. Housing Repairs

| 2016/17 £'000 | 2017/18 £'000 |
|-------------------------------|------------------|
| 7,090 Expenditure on Repairs | 7,463 |
| 4,186 Of which planned | 3,851 |
| 59.0% % of Planned / Response | 51.6% |

£ 3.434 million of the 2017/18 expenditure (£3.637 million in 2016/17) 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

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| 3,587 HRA Properties - capital repairs & maintenance | 3,434 |
| 50 LA Tenants Disabled Persons Grants | 0 |
| 1,354 St Vincent Road Development | 0 |
| 283 Purchase of Properties | 584 |
| 5,274 | 4,018 |

7. Capital Financing

| 2016/17 £'000 | 2017/18 £'000 |
|---------------------------------|------------------|
| 2,463 Major Repairs Reserve | 2,876 |
| 1,174 Revenue Contribution | 274 |
| 1,007 Capital Receipts Reserves | 459 |
| 630 Revenue Reserves | 409 |
| 5,274 | 4,018 |

8. Capital Receipts

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

| 2016/17 £'000 | 2017/18 £'000 |
|--------------------------|------------------|
| 1,060 Right to Buy sales | 1,192 |
| 86 Sold at Auction | - |
| 1,146 | 1,192 |

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 2016/17 or 2017/18

| 2016/17 £'000 | 2017/18 £'000 |
|---|------------------|
| 2,463 Depreciation of Council Dwellings | 2,876 |
| 2,463 | 2,876 |

SUPPLEMENTARY FINANCIAL STATEMENTS

10. Rent Arrears

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| 181 Current Tenants | 216 |
| 42 Former Tenants | 61 |
| 0 Garages | 0 |
| 223 Total Rent Arrears | 277 |
| (14,225) Gross Rent Income | (14,261) |
| 1.6% Arrears as a % of Gross Rent Income | 1.9% |

The bad debt provision for all HRA debts at 31 March 2018 is £293,100 (£231,600 at 31 March 2017)

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.

| 2016/17 £'000 | 2017/18 £'000 |
|--|------------------|
| Net Cost of Services | |
| (45) Current service costs and past service costs | 49 |
| Surplus or (Deficit) for the year on HRA Services | |
| 247 Pension interest on net defined benefit liability | 227 |
| Statement of Movement on the HRA Balance | |
| (686) Reversal of net charges made for retirement benefits in accordance with IAS19 | (669) |
| Actual amount charged against Rents | |
| 484 Employers' contributions payable to scheme | 393 |

SUPPLEMENTARY FINANCIAL STATEMENTS

| COLLECTION FUND | | | |
|---|-------------------|-----------------|-----------------|
| 2016/17 £'000 | -----2017/18----- | | |
| | £'000 | £'000 | £'000 |
| | Business Rates | Council Tax | Total |
| INCOME | | | |
| (39,741) Council Tax | - | (42,085) | (42,085) |
| (15,218) Income collectable from Business Ratepayers | (15,385) | - | (15,385) |
| (54,959) | (15,385) | (42,085) | (57,470) |
| EXPENDITURE | | | |
| Apportionment of Previous Year Estimated Collection Fund Surplus / (Deficit) | | | |
| (179) Central Government | 595 | - | 595 |
| (75) Gosport Borough Council | 476 | 55 | 531 |
| 324 Hampshire County Council | 107 | 286 | 393 |
| 54 Hampshire Police and Crime Commissioners | - | 42 | 42 |
| 17 Hampshire Fire and Rescue Authority | 12 | 17 | 29 |
| Precepts, Shares and Demands | | | |
| 7,949 Central Government | 7,291 | - | 7,291 |
| 11,751 Gosport Borough Council | 5,833 | 5,620 | 11,453 |
| 29,434 Hampshire County Council | 1,312 | 29,925 | 31,237 |
| 4,163 Hampshire Police and Crime Commissioners | - | 4,369 | 4,369 |
| 1,783 Hampshire Fire and Rescue Authority | 146 | 1,686 | 1,832 |
| 55,221 | 15,772 | 42,000 | 57,772 |
| Charges to the Collection Fund | | | |
| 254 Write off of uncollectable amounts | 157 | 418 | 575 |
| 581 Increase / (Decrease) in Bad Debt Provisions | (138) | (285) | (423) |
| (2,126) Increase / (Decrease) in Provision for Appeals | (790) | - | (790) |
| 80 Cost of collection | 78 | - | 78 |
| 74 Transitional protection payments | 234 | - | 234 |
| (1,137) | (459) | 133 | (326) |
| 54,084 TOTAL EXPENDITURE | 15,313 | 42,133 | 57,446 |
| (875) (Surplus) / Deficit arising during the year | (72) | 48 | (24) |
| MOVEMENTS ON THE COLLECTION FUND | | | |
| (372) (Surplus) / Deficit at 1 April | (957) | (290) | (1,247) |
| (875) (Surplus) / Deficit for the year | (72) | 48 | (24) |
| (1,247) (Surplus) / Deficit at 31 March | (1,029) | (242) | (1,271) |

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 Number of Taxable Properties after Discounts | Ratio Equivalent | Band D Dwellings |
|----------|--|------------------|---|
| Disabled | 9.00 | 5/9 | 5.0 |
| A | 3,690.20 | 6/9 | 2,460.1 |
| B | 9,993.70 | 7/9 | 7,772.9 |
| C | 7,503.80 | 8/9 | 6,670.0 |
| D | 4,560.40 | 9/9 | 4,560.4 |
| E | 1,796.10 | 11/9 | 2,195.2 |
| F | 1,276.90 | 13/9 | 1,844.4 |
| G | 289.30 | 15/9 | 482.1 |
| H | 12.30 | 18/9 | 24.5 |
| | | | 26,014.6 |
| | | | Plus MOD contributions in lieu 785.3 |
| | | | Less allowance for losses on collection (390.2) |
| | | | Tax Base for 2017/18 26,409.7 |
| | | | Tax base for 2016/17 25,945.9 |

The Band D Council Tax for a Gosport property in 2017/18 was £212.81 (£207.81 in 2016/17)

Distribution of the Council Tax surplus or deficit

SUPPLEMENTARY FINANCIAL STATEMENTS

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 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 2016/17 (surplus) / deficit (shared with preceptors 2017/18) £'000 | | Actual 31- Mar -17 £'000 | Council Tax | Estimated 2017/18 (surplus) / deficit (shared with preceptors 2018/19) £'000 | | Actual 31- Mar -18 £'000 |
|--|--------------|--------------------------------|--|--|--------------|--------------------------------|
| (286) | (207) | | Hampshire County Council | 0 | (174) | |
| (17) | (12) | | Hampshire Fire & Rescue Authority | 0 | (10) | |
| (42) | (31) | | Hampshire Police and Crime Commissioners | 0 | (26) | |
| (55) | (40) | | Gosport Borough Council | 0 | (32) | |
| (400) | (290) | | | 0 | (242) | |

The difference between the estimated surplus for 2017/18 and the actual surplus will be shared with preceptors in 2019/20.

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 47.9p pence (49.7p in 2016/17). The total non-domestic rateable value at the year-end was £42,972,935 (£41,054,131 in 2016/17).

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 2016/17 (surplus) / deficit (shared with preceptors 2017/18) £'000 | | Actual 31- Mar -17 £'000 | Business Rates | Estimated 2017/18 (surplus) / deficit (shared with preceptors 2018/19) £'000 | | Actual 31- Mar -18 £'000 |
|---|--------------|--------------------------------|-----------------------------------|---|----------------|--------------------------------|
| (595) | (479) | | Government | (180) | (515) | |
| (107) | (86) | | Hampshire County Council | (32) | (92) | |
| (12) | (9) | | Hampshire Fire & Rescue Authority | (3) | (10) | |
| (476) | (383) | | Gosport Borough Council | (144) | (412) | |
| (1,190) | (957) | | | (359) | (1,029) | |

The difference between the estimated surplus for 2017/18 and the actual will be shared with preceptors and central government in 2019/20.

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-17----- | | | -----31-Mar-18----- | | |
|--------------------------|--------------|----------------|---------------------|--------------|----------------|
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Business Rates | Council Tax | Total | Business Rates | Council Tax | Total |
| Debtors | | | | | |
| | 1,037 | 1,037 | | 1,190 | 1,190 |
| | 58 | 58 | | 65 | 65 |
| | 151 | 151 | | | |
| | | | | 176 | 176 |
| 93 | 316 | 409 | 52 | 338 | 390 |
| Creditors | | | | | |
| (336) | | (336) | (274) | | (274) |
| (37) | | (37) | (30) | | (30) |
| (91) | (83) | (174) | (64) | (89) | (153) |
| (1,866) | | (1,866) | (1,524) | | (1,524) |
| Provisions | | | | | |
| (1,112) | | (1,112) | (796) | | (796) |
| Unusable Reserves | | | | | |
| (383) | (40) | (423) | (412) | (32) | (444) |
| (3,732) | 1,439 | (2,293) | (3,048) | 1,648 | (1,400) |

The Council's Unusable Reserves figures above exclude the Enterprise Zone £215,000 credit (£23,000 credit in 2016/17)

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GOSPORT BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT 2017/18

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

Our governance framework derives from six core principles identified in a 2004 publication entitled The Good Governance Standard for Public Services. This was produced by the Independent Commission on Good Governance in Public Services - a commission set up by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Office of Public Management. The Commission utilised work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA/SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007. The six core principles are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;

ANNUAL GOVERNANCE STATEMENT

3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective risk management;
5. Developing the capacity and capability of members and officers to be effective; and
6. Engaging with local people and other stakeholders to ensure robust public accountability.

The key elements of each of these core principles are as follows:

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

The Council'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'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 performance management has been delegated to Section Heads and these arrangements are being embedded in day to day business. Whilst in transition, key outcome based performance management measurements have been retained whilst new and relevant measures are being further developed.

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.

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Strategic and operational risks are reported by use of risk registers. Each section manages its own register. Most registers are held and managed on the Pentana (previously Covalent) system.

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

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 2017/18:-

Composition of Boards

The following is the composition of the Boards:-

| Board/Sub Board | Number of Members |
|--|-------------------|
| Policy and Organisation Board | 14 |
| Community Board | 14 |
| Economic Development Board | 14 |
| Regulatory Board | 14 |
| 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)

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

ANNUAL GOVERNANCE STATEMENT

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.

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 Unit 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

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

It is the shared responsibility of the Chief Officers [primarily the Monitoring Officer (the Borough Solicitor & Deputy Chief Executive) and Chief Executive] 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.

ANNUAL GOVERNANCE STATEMENT

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'.

The Council's in-house Internal Audit section operates to the standards set out in the 'Public Sector Internal Audit Standards (PSIAS) 2017'. A self-assessment was completed in May 2017 and the results highlighted strong results against the Standards. It is planned mid 2018 for an independent assessment to be completed by another Hampshire Council with the results being taken to the Standards & Governance Committee. Monitoring of the majority of Hampshire Councils in respect of the PSIAS's has also been completed by the established Hampshire Audit Managers Group. This section continues to operate successfully under an extended shared management arrangement with Test Valley Borough Council to March 2020.

The Head of Internal Audit & Risk Assurance will present the Annual Report which will give the following opinion of the adequacy of the Council's systems of internal control.

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of Gosport Borough Council's risk management, control and governance processes. In our opinion, based upon the work undertaken, for the 12 months ended 31 March 2018 Gosport Borough Council has adequate and effective risk management control and governance processes to manage the achievement of the organisation's objectives.

Taking informed and transparent decisions and managing risk

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.

Developing the capacity and capability of members and officers to be effective

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

ANNUAL GOVERNANCE STATEMENT

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 & Deputy Chief Executive 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. chairing skills, dealing with challenging people and media and image) to need-to-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 (adding resilience) has also allowed all GBC staff access to key training material from their intranet. All newly appointed officers are provided with an induction (monitored by HR) when they begin employment with the Council.

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

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 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.

ANNUAL GOVERNANCE STATEMENT

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:

1. The Borough Solicitor & Deputy Chief Executive (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 Council's internal control environment.

The Standards & Governance Committee also received Internal Audit monitoring reports throughout 2017/18.

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. Reviews have focused

ANNUAL GOVERNANCE STATEMENT

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 2017/18.

| NO | ISSUE | ACTION/PROGRESS TO DATE |
|----|--|--|
| 1 | Embedding new performance & risk management arrangements as a consequence of the Plan on a Page and review of the Risk and Performance Management Framework. | The Council has continued to evolve its approach to performance management by promoting a transparent and open performance culture amongst Section Heads. |
| 2 | A reducing workforce. | Delivery of the Medium Term Financial Plan and its focus on avoidance to cuts through income generation, strategic partnerships and genuine efficiencies. |
| 3 | To continue to identify efficiencies within the Council's operations to ensure continued value for money | Ensure Service Reviews do not compromise core service delivery and resilience in favour of financial savings. |
| 4 | Preparation for the new General Data Protection Regulation (GDPR) to ensure full compliance. | 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 th May 2018). |

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

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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 2018 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 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; and
- Collection Fund and the 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Gosport Borough Council as at 31 March 2018 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 2017/18.

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 [authority/group] 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

AUDIT OPINION

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 2017/18 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.

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 2018.

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

AUDIT OPINION

- 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 Responsibilities set out on page 14, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, 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 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/auditorsresponsibilities>. 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 2018.

AUDIT OPINION

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.

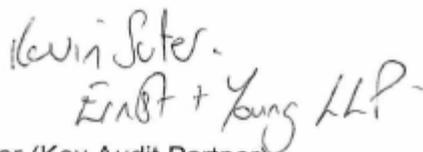
We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects 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 Gosport Borough Council and the Gosport Borough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
31 July 2018

The maintenance and integrity of the Gosport Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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"> ▪ recognising ▪ selecting measurement bases ▪ inclusion of assets, liabilities, gains, losses and changes to reserves |
| 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"> • events have not coincided with the actuarial assumptions made for the last valuation • the actuarial assumptions have changed |
| 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

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| | 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 |

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| 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 |

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| 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"> ▪ unrealised gains and losses (ie where amounts would only become available to provide services if the assets are sold) and ▪ timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' (ie depreciation) |