



**GOSPORT**  
Borough Council

# **STATEMENT OF ACCOUNTS**

**2013/14**



## **STATEMENT OF ACCOUNTS 2013/14**

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## EXPLANATORY FOREWORD

### 1. Introduction

The Statement of Accounts provides an overview of the Council's financial position at 31 March 2014 and a summary of its income and expenditure in the year to 31 March 2014. It is, in parts, a complex document which sets out to ensure that the accounts of all Government funded bodies provide comparable and consistent information and comply with International Financial Reporting Standards. It meets the reporting and accounting requirements of the CIPFA Code of Practice on Local Authority Accounting 2013/14 (the Code) which is based on and compliant with International Financial Reporting Standards (IFRS).

### 2. The main financial statements are

#### 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.

#### Movement in Reserves Statement

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

#### Comprehensive Income and Expenditure Statement

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

#### 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 (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. These 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 - and Unusable Reserves - ie those that the Council is not able to use to provide services. The latter category includes reserves that hold unrealised gains and losses (ie revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

#### Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents to 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.

Notes to the accounts including accounting policies

The accounting policies are the specific principles, bases, conventions, rules and practices applied by the Council in preparing and presenting the financial statements.

The notes to the accounts provide further analysis and background to assist in interpreting and understanding the core financial statements.

Housing Revenue Account 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. This specifies the credit and debit items to be taken into account in determining the surplus or deficit on the HRA for the year. The notes provide further explanation about the HRA.

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 and Crime Commissioner, Fire and Rescue Authority and Central Government. The notes provide further explanation about the Collection Fund.

Annual Governance Statement

The Accounts and Audit Regulations 2011 require the Council to conduct a review at least once a year of the effectiveness of its system of internal control, and to include a statement reporting on the review with the Statement of Accounts.

**3. Financial performance****General Fund**

The Council's revenue budget for 2013/14 before transfers to or from reserves was £10,106,180, the actual net expenditure for the year was £9,385,663 giving an under spending of £720,517. The underspend reflects, in part, revenue budget carry forwards totalling £324,317 - the net underspending excluding these being £396,200 (approximately 0.6% of the gross budget)

The main areas of underspend and additional income include Homelessness £145,780, Enterprise Zone business rates reimbursement £100,000 and Administration Costs including Salaries and Overheads £97,110.

General fund net interest paid was £29,267 (budgeted net interest paid £42,880) and the Minimum Revenue Provision (statutory revenue charge for debt outstanding) was £569,832 (budgeted £569,830)

Under Business Rates Retention the closing Collection Fund balance - which may be a surplus or deficit - cannot be brought to account at the end of the financial year. This timing difference of approximately £116,000 is, under present regulations, carried by the Council's reserves until after 2013/14.

Note 8 in the Explanatory Foreword refers to this also and the Collection Fund is set out at page 99.

The table below summarises 2013/14 by Council board as reflected in the 2014/15 budget book, as opposed to the statutory reporting format in the financial statements, and shows the transfers to reserves. The actual figures include necessary accounting entries to comply with the IFRS Code.

|                                | REVISED<br>2013/14<br>£  | ACTUAL<br>2013/14<br>£    | VARIANCE<br>2013/14<br>£ |
|--------------------------------|--------------------------|---------------------------|--------------------------|
| <b>GENERAL FUND</b>            |                          |                           |                          |
| Net Expenditure of Boards      | 10,106,180               | 9,385,663                 | (720,517)                |
| Transfer to Reserves           | 177,910                  | 782,312                   | 604,402                  |
| Budget Total                   | 10,284,090               | 10,167,975                | (116,115)                |
| <b>FINANCED BY</b>             |                          |                           |                          |
| Gosport Council Tax            | (4,975,420)              | (4,975,423)               | (3)                      |
| Revenue Support Grant          | (3,289,280)              | (3,289,279)               | 1                        |
| Collection Fund Deficit        | 4,760                    | 4,761                     | 1                        |
| Business Rates Retention       | (2,024,150)              | (1,908,034)               | 116,116                  |
|                                | (10,284,090)             | (10,167,975)              | 116,115                  |
| <b>GENERAL FUND</b>            |                          |                           |                          |
|                                | Actual<br>01-Apr-13<br>£ | Revised<br>31-Mar-14<br>£ | Actual<br>31-Mar-14<br>£ |
| GF - General Fund Balance      | (890,000)                | (890,000)                 | (890,000)                |
| GF - Revenue Financing Reserve | (1,284,690)              | (1,462,600)               | (2,067,002)              |
|                                | (2,174,690)              | (2,352,600)               | (2,957,002)              |

The General Fund working balance at 31 March 2014 is £890,000 as projected in the Budget Report for 2014/15.

The Revenue Financing Reserve (RFR) - which is used to fund variations in annual maintenance requirements, uninsurable risks and spend to save initiatives including severance costs - is £2,067,002 at 31 March 2014 - this includes the transfer for 2013/14 of £782,312. The underlying balance, excluding the carried forward revenue budgets of £324,317, is £1,742,685. Additionally, the Council has other miscellaneous usable reserves totalling £621,000.

#### Housing Revenue Account

| HOUSING REVENUE ACCOUNT           | REVISED<br>2013/14<br>£  | ACTUAL<br>2013/14<br>£    | VARIANCE<br>2013/14<br>£ |
|-----------------------------------|--------------------------|---------------------------|--------------------------|
| Net Surplus                       | (346,000)                | (709,684)                 | (363,684)                |
| <b>HOUSING REVENUE ACCOUNT</b>    |                          |                           |                          |
|                                   | Actual<br>01-Apr-13<br>£ | Revised<br>31-Mar-14<br>£ | Actual<br>31-Mar-14<br>£ |
| HRA - Revenue Account Balance     | (981,000)                | (981,000)                 | (991,738)                |
| HRA - New Build Reserve (Revenue) | (151,000)                | (497,000)                 | (849,946)                |
|                                   | (1,132,000)              | (1,478,000)               | (1,841,684)              |

The Housing Revenue Account was forecast to have a revenue surplus of £346,000 for 2013/14 with revised revenue account balances totalling £1,478,000 at 31 March 2014. The actual surplus was £709,684 with revenue account balances of £1,841,684 being carried forward into 2014/15.

The main underspend was on repairs and maintenance work (£217,000) owing to an underspend on the major repairs contract (£60,000) and to the reclassification of some works to capital. Additional income of £179,000 resulted from a higher than budgeted occupancy rate at the Agnew and Barclay House hostels and also from additional service charge income.

#### 4. Material assets acquired or liabilities incurred

A summary of capital expenditure and financing for 2013/14 is shown below. This shows material schemes, additions and enhancements to the council's fixed assets – notably the Stokes Bay Wet and Dry Play Area opened in June 2013

| SCHEME  | REVISED<br>2013/14<br>£ | ACTUAL<br>2013/14<br>£ | SLIPPAGE<br>£      |
|---|-------------------------|------------------------|--------------------|
| <b>BY BOARD</b>                                   |                         |                        |                    |
| Community Board - Housing (HRA)                   | 3,550,000               | 3,555,841              | 0                  |
| Community Board - Housing (GF)                    | 434,700                 | 705,586                | (90,940)           |
| Community Board - Non Housing                     | 1,432,800               | 697,894                | (739,590)          |
| Economic Development Board                        | 86,000                  | 13,640                 | (72,300)           |
| Policy & Organisation Board                       | 730,500                 | 252,532                | (475,880)          |
|   | <b>6,234,000</b>        | <b>5,225,493</b>       | <b>(1,378,710)</b> |
| <b>BY MAJOR SCHEME</b>                            |                         |                        |                    |
| Council Dwellings                                 | 3,550,000               | 3,555,841              | 0                  |
| Information Technology                            | 467,500                 | 199,438                | (268,060)          |
| Disabled Facilities                               | 344,700                 | 292,144                | (52,570)           |
| Stokes Bay - Wet & Dry Play Area                  | 318,300                 | 235,844                | (82,450)           |
| Lighting in Parks                                 | 174,800                 | 0                      | (174,800)          |
| River Hamble to Portchester. CFERM Strategy       | 158,000                 | 156,437                | 0                  |
| Public Conveniences refurbishment                 | 156,000                 | 95,407                 | (60,590)           |
| Town Hall Major Repairs                           | 134,000                 | 0                      | (134,000)          |
| Car Park Surfacing & Pay & Display Machines       | 126,000                 | 61,568                 | (72,817)           |
| Play Area schemes                                 | 94,100                  | 53,839                 | (39,570)           |
| Housing Renewal                                   | 90,000                  | 38,226                 | (38,370)           |
| Promenade schemes                                 | 50,000                  | 1,180                  | (48,820)           |
| Affordable Housing                                | 0                       | 384,000                | 0                  |
| All other schemes                                 | 570,600                 | 151,570                | (406,663)          |
|   | <b>6,234,000</b>        | <b>5,225,493</b>       | <b>(1,378,710)</b> |
| <b>FINANCED BY</b>                                |                         |                        |                    |
| HRA - Major Repairs Reserve                       | 2,400,000               | 2,400,153              |                    |
| HRA - Revenue Contribution                        | 1,150,000               | 1,155,688              |                    |
| GF - Capital Receipts                             | 225,000                 | 221,911                |                    |
| GF - Developer Contributions - Open Spaces        | 382,400                 | 195,750                |                    |
| GF - Developer Contributions - Affordable Housing | 0                       | 384,000                |                    |
| GF - Other Grants & Contributions                 | 166,700                 | 158,281                |                    |
| GF - Capital Grants - Disabled Facilities         | 274,700                 | 274,717                |                    |
| GF - Borrowing - GF                               | 1,635,200               | 434,993                |                    |
|   | <b>6,234,000</b>        | <b>5,225,493</b>       |                    |

## 5. Pensions liability

The Statement of Accounts complies with International Accounting Standard (IAS)19 – the financial reporting standard on Retirement Benefits. This is expanded on in note 31 to the financial statements. The reported figures are supplied by independent actuaries to the Hampshire County Council administered pension fund.

The Balance Sheet and note show an improved position compared to last year's net pension deficit by £11.03 million (£44.64 million to £33.61 million) mainly due to changes in actuarial assumptions in measuring fund liabilities. This is a volatile figure and has a tendency to vary by several millions from year to year depending on actuarial assumptions and government guidance.

| 31-Mar-13<br>£'000                    | 31-Mar-14<br>£'000 |
|---------------------------------------|--------------------|
| <b>(44,640) Net Pension Liability</b> | <b>(33,610)</b>    |

## 6. Material or unusual charges or credits in the accounts.

There were no material or unusual charges or credits to the accounts in 2013/14.

## 7. Significant changes in accounting policies

The Employee Benefits accounting policy has been amended to reflect the Code's adoption of a revised version of IAS19 (IAS19R) which came into effect for accounting periods starting on or after 1 January 2013. The revised standard introduced amended definitions and treatment for some cost components together with enhanced disclosure note requirements. There is no effect on the Council's balance sheet. Notes 1(d) and 31 refer.

## 8. Major change in statutory functions and planned developments in service delivery

### Business Rates Retention

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 - or indeed reduced income, subject to the safety net..

The scheme as legislated is subject to centrally set targets and thresholds as well as a complex system of tariffs, top-ups, safety nets and levies.

While there is a possibility of reward when Business Rate receipts exceed baseline funding levels set by the government, there is also a significant risk for shortfalls in business rate funding - particularly from factors outside of the Council's direct control such as rating appeals approved by the Valuation Office. These may also relate to periods before 01 April 2013.

Note 11 to the Explanatory Forward explains the amount that the Council has provided for in respect of the cost of rating appeals

One feature of the system is that surpluses or deficits on Collection Fund performance at the end of the financial year being reported on cannot be recognised in the financial statements until subsequent financial periods while amounts adjusting safety net or levies must on the other hand be reflected in the General Fund accounts at year end. There is therefore an inbuilt timing difference of receipts and payments which is also mentioned in Note 3 above.

## 9. Current borrowing facilities and capital borrowing

The table below summarises the Council's net borrowing position as included in the balance sheet in the financial statements.

| 31-Mar-13<br>£'000                     | 31-Mar-14<br>£'000 |
|--|--------------------|
| 0 Long Term Investments                | 0                  |
| 0 Short Term Investments               | 0                  |
| 3,655 Cash and Cash Equivalents        | 6,459              |
| (11,411) Short Term Borrowing          | (2,398)            |
| (72,228) Long Term Borrowing           | (74,091)           |
| <b>(79,984) Net Borrowing position</b> | <b>(70,030)</b>    |

The Council's capital financing requirement (or the underlying need to borrow) – essentially a measure of the outstanding capital expenditure which has not yet been paid for from either revenue or capital resources is set out below. This is reduced each year by the statutory charge to revenue for outstanding debt (the minimum revenue provision).

| 31-Mar-13<br>£'000                          | 31-Mar-14<br>£'000 |
|---|--------------------|
| <b>81,418 Capital Financing Requirement</b> | <b>81,255</b>      |

## 10. The council's internal and external sources of funds available to meet its expenditure plans and other financial commitments.

The council's available reserves to meet both capital and revenue expenditure plans and other financial commitments are

### 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 (for example the Capital Receipts Reserve can only be used fund capital expenditure). These are summarised below:

| 31-Mar-13<br>£'000 |   | 31-Mar-14<br>£'000 |
|--------------------|---|--------------------|
|                    | <b>Revenue</b>                            |                    |
|                    | <b>General Fund (GF)</b>                  |                    |
| (890)              | GF - General Fund balance                 | (890)              |
| (1,285)            | GF - Revenue Financing Reserve            | (2,067)            |
| (717)              | GF - Other                                | (621)              |
|                    | <b>Housing Revenue Account (HRA)</b>      |                    |
| (981)              | HRA - Housing Revenue Account balance     | (992)              |
| (151)              | HRA - New Build Reserve (Revenue)         | (850)              |
|                    | <b>Capital</b>                            |                    |
|                    | <b>General Fund (GF)</b>                  |                    |
| (65)               | GF - Capital Receipts (Camden Allotments) | (65)               |
|                    | 0 Capital Grants Unapplied                | 0                  |
|                    | <b>Housing Revenue Account (HRA)</b>      |                    |
| (170)              | Capital Receipts Reserve (HRA)            | (724)              |
| (116)              | Capital Receipts New Build (RTB)          | (622)              |
|                    | 0 HRA - Major Repairs Reserve             | 0                  |
| <b>(4,375)</b>     |   | <b>(6,831)</b>     |

#### Grants and contributions receipts in advance

In addition to these 'usable' reserves the council also has £1.433 million at 31 March 2014 (£1.827 million at 31 March 2013) of developers' contributions that are available to spend. They are categorised separately to Usable Reserves 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.

#### **11. Details of significant provisions or contingencies and material write-offs.**

A provision was set up in 2012/13 to cover the initial levy (£9,000) and potential future liabilities (£51,000) of the MMI Scheme of Arrangement - this issue having previously been reported each year as a Contingent Liability disclosure in the annual Statement of Accounts. (£60,000 in 2011/12). The initial levy was paid in 2013/14

In 2013/14, a provision has been set up in the Collection Fund (page 99) of £3.263 million for the potential cost of rating appeals under the new Business Rates Retention funding scheme which is effective from 2013/14. The Council's share of the provision is £1.305 million (40%) which is disclosed in Note 19 to the Statement. The other precepting authorities and the government include the remainder of the provision (£1.958 million - 60%) in their financial statements for 2013/14

#### **12. Details of any material events after the reporting date up to the date the accounts are authorised for issue**

There are no material events after the reporting date up to the date that the accounts were authorised for issue.

#### **13. Impact of the current economic climate on the Council and the services it provides**

Against the background of public sector expenditure reductions and an uncertain national economic position, the Council's overall financial position remains stable and a balanced budget has been set for 2014/15.

The need to ensure that future council tax levels are acceptable and reserve levels remain adequate are priorities and prompt and measured action has been taken including service

changes, and staffing reductions. Methods of service delivery have been rigorously examined, with the emphasis on maintaining front line services.

The provisional government settlement for 2015/16 for revenue support grant and business rates retention indicated an overall funding reduction of £740,000. Estimates of government support for 2016/17 and beyond are uncertain and will almost certainly pose considerable financial challenges.

While the service reviews that have been undertaken to date, coupled with staffing reductions and the letting of major contracts, have enabled the approval of balanced budgets with no increase in Council Tax levels, it is likely that a further comprehensive review of services will be necessary.

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### 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

29 September 2014

### 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 2014.

Mr Julian Bowcher  
Borough Treasurer, Section 151 officer

29 September 2014

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus or (deficit) on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The 'Net Increase / Decrease before transfers to Earmarked Reserves' line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

|   | General Fund<br>Balance<br>£000 | Earmarked<br>General Fund<br>Reserves<br>£000 | Housing<br>Revenue<br>Account<br>£000 | Earmarked HRA<br>Reserves<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Major Repairs<br>Reserve<br>£000 | Total Usable<br>Reserves<br>£000 | Unusable<br>Reserves<br>£000 | Total Authority<br>Reserves<br>£000 |
|---|---------------------------------|---|---------------------------------------|-----------------------------------|--|----------------------------------|----------------------------------|------------------------------|-------------------------------------|
| <b>Balance at 31 March 2012</b>                                       | (890)                           | (1,424)                                       | (603)                                 | 0                                 | (65)                                   | 0                                | (2,982)                          | (41,435)                     | (44,417)                            |
| <b>Movement during 2012/13</b>  |                                 |   |                                       |                                   |  |                                  |                                  |                              |                                     |
| Deficit on the provision of services (restated)                       | 7,846                           |   | 411                                   |                                   |  |                                  | 8,257                            |                              | 8,257                               |
| Other Comp Income and Exp (restated)                                  |                                 |   |                                       |                                   |  |                                  | 0                                | (715)                        | (715)                               |
| <b>Total Comprehensive Income and Expenditure</b>                     | 7,846                           | 0   | 411                                   | 0                                 | 0                                      | 0                                | 8,257                            | (715)                        | 7,542                               |
| Adjs accg basis & funding basis under regulations (restated) (Note 9) | (8,424)                         |   | (940)                                 |                                   | (286)                                  | 0                                | (9,650)                          | 9,650                        | 0                                   |
| <b>Net (increase)/decrease before transfers to Earmarked Reserves</b> | (578)                           | 0   | (529)                                 | 0                                 | (286)                                  | 0                                | (1,393)                          | 8,935                        | 7,542                               |
| Transfers to/(from) Earmarked Reserves (Note 21)                      | 578                             | (578)   | 151                                   | (151)                             |  |                                  | 0                                |                              | 0                                   |
| <b>Net (increase)/decrease in 2012/13</b>                             | 0                               | (578)   | (378)                                 | (151)                             | (286)                                  | 0                                | (1,393)                          | 8,935                        | 7,542                               |
| <b>Balance at 31 March 2013</b>                                       | (890)                           | (2,002)                                       | (981)                                 | (151)                             | (351)                                  | 0                                | (4,375)                          | (32,500)                     | (36,875)                            |

The Movement in Reserves Statement for 2012/13 has been restated where indicated to reflect the adoption by the Code of the Pensions standard IAS19R for accounting periods starting on or after 1 January 2013. See note 37. There is no effect on the Council's finances.

|  | General Fund<br>Balance<br>£000 | Earmarked<br>General Fund<br>Reserves<br>£000 | Housing<br>Revenue<br>Account<br>£000 | Earmarked HRA<br>Reserves<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Major Repairs<br>Reserve<br>£000 | Total Usable<br>Reserves<br>£000 | Unusable<br>Reserves<br>£000 | Total Authority<br>Reserves<br>£000 |
|--|---------------------------------|---|---------------------------------------|-----------------------------------|--|----------------------------------|----------------------------------|------------------------------|-------------------------------------|
| <b>Balance at 31 March<br/>2013 - b/fwd from<br/>previous page</b>                       | <b>(890)</b>                    | <b>(2,002)</b>                                | <b>(981)</b>                          | <b>(151)</b>                      | <b>(351)</b>                           | <b>0</b>                         | <b>(4,375)</b>                   | <b>(32,500)</b>              | <b>(36,875)</b>                     |
| <b>Movement during<br/>2013/14</b>   |                                 |   |                                       |                                   |  |                                  |                                  |                              |                                     |
| Deficit on the provision of<br>services  | 1,481                           |   | (710)                                 |                                   |  |                                  | 771                              |                              | 771                                 |
| Other Comprehensive<br>Income and Expenditure  |                                 |   |                                       |                                   |  |                                  | 0                                | (14,891)                     | (14,891)                            |
| <b>Total Comprehensive<br/>Income and<br/>Expenditure</b>                                | <b>1,481</b>                    | <b>0</b>                                      | <b>(710)</b>                          | <b>0</b>                          | <b>0</b>                               | <b>0</b>                         | <b>771</b>                       | <b>(14,891)</b>              | <b>(14,120)</b>                     |
| Adjustments between<br>accounting basis &<br>funding basis under<br>regulations (Note 9) | (2,167)                         |   | 0                                     |                                   | (1,060)                                | 0                                | (3,227)                          | 3,227                        | 0                                   |
| <b>Net<br/>(increase)/decrease<br/>before transfers to<br/>Earmarked Reserves</b>        | <b>(686)</b>                    | <b>0</b>                                      | <b>(710)</b>                          | <b>0</b>                          | <b>(1,060)</b>                         | <b>0</b>                         | <b>(2,456)</b>                   | <b>(11,664)</b>              | <b>(14,120)</b>                     |
| Transfers to/(from)<br>Earmarked Reserves<br>(Note 21)                                   | 686                             | (686)   | 699                                   | (699)                             |  |                                  | 0                                |                              | 0                                   |
| <b>Net<br/>(increase)/decrease in<br/>2013/14</b>  | <b>0</b>                        | <b>(686)</b>                                  | <b>(11)</b>                           | <b>(699)</b>                      | <b>(1,060)</b>                         | <b>0</b>                         | <b>(2,456)</b>                   | <b>(11,664)</b>              | <b>(14,120)</b>                     |
| <b>Balance at 31 March<br/>2014</b>  | <b>(890)</b>                    | <b>(2,688)</b>                                | <b>(992)</b>                          | <b>(850)</b>                      | <b>(1,411)</b>                         | <b>0</b>                         | <b>(6,831)</b>                   | <b>(44,164)</b>              | <b>(50,995)</b>                     |

## Comprehensive Income and Expenditure Statement

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

| 2012/13                        |                                       |                             | Notes | 2013/14              |                         |                    |
|--------------------------------|---------------------------------------|-----------------------------|-------|----------------------|-------------------------|--------------------|
| Gross<br>Exp<br>< ----<br>£000 | Gross<br>Income<br>(restated)<br>£000 | Net<br>Exp<br>----><br>£000 |       | Gross<br>Exp<br>£000 | Gross<br>Income<br>£000 | Net<br>Exp<br>£000 |
| 7,285                          | (6,430)                               | 855                         |       | 1,549                | (575)                   | 974                |
| 2,762                          | (173)                                 | 2,589                       |       | 3,097                | (127)                   | 2,970              |
| 4,422                          | (992)                                 | 3,430                       |       | 4,374                | (971)                   | 3,403              |
| 2,319                          | (966)                                 | 1,353                       |       | 2,183                | (855)                   | 1,328              |
| 805                            | (910)                                 | (105)                       |       | 776                  | (948)                   | (172)              |
| 45,916                         | (46,731)                              | (815)                       |       | 46,037               | (48,548)                | (2,511)            |
| 2,560                          | (117)                                 | 2,443                       |       | 1,656                | (116)                   | 1,540              |
| (345)                          | 0                                     | (345)                       |       | 232                  | 0                       | 232                |
| <b>65,724</b>                  | <b>(56,319)</b>                       | <b>9,405</b>                |       | <b>59,904</b>        | <b>(52,140)</b>         | <b>7,764</b>       |
|                                |                                       |                             |       |                      |                         |                    |
|                                |                                       |                             | 6     |                      |                         | 291                |
|                                |                                       |                             | 7     |                      |                         | 4,080              |
|                                |                                       |                             | 8     |                      |                         | (11,364)           |
|                                |                                       |                             |       |                      |                         | <b>771</b>         |
|                                |                                       |                             |       |                      |                         |                    |
|                                |                                       |                             | 22    |                      |                         | (1,926)            |
|                                |                                       |                             |       |                      |                         | 5                  |
|                                |                                       |                             | 31    |                      |                         | (12,970)           |
|                                |                                       |                             |       |                      |                         | <b>(14,891)</b>    |
|                                |                                       |                             |       |                      |                         | <b>(14,120)</b>    |

- The CIE&S for 2012/13 has been restated to reflect (i) the adoption by the Code of the Pensions standard IAS19R and (ii) the inclusion of the Benefits Admin Grant as a service specific, rather than general, grant. (see note 37). Non Distributed Costs have been correctly recorded from 2013/14. The 2012/13 corrected figure is £238,000.
- Housing Services includes both General Fund Housing Services and the Housing Revenue Account (HRA) - which is detailed on pages 91 to 98
- Central Services to the Public, from 2013/14, excludes the payment and reimbursement of Council Tax Benefits. The note to the Collection Fund on page 99 refers.

## 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 by the Council. 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'.

| 01-Apr-12<br>(restated)<br>£'000 | 31-Mar-13<br>(restated)<br>£'000 |                                      | Notes | 31-Mar-14<br>£'000 |
|----------------------------------|----------------------------------|--------------------------------------|-------|--------------------|
| 141,733                          | 145,273                          | Property, Plant & Equipment          | 10    | 145,796            |
| 209                              | 209                              | Heritage Assets                      | 11    | 209                |
| 10,022                           | 7,216                            | Investment Property                  | 12    | 6,938              |
| 540                              | 569                              | Intangible Assets                    | 13    | 557                |
| 5,601                            | 5,567                            | Long Term Debtors                    | 16    | 5,498              |
| <b>158,105</b>                   | <b>158,834</b>                   | <b>Long Term Assets</b>              |       | <b>158,998</b>     |
| 6,894                            | 7,430                            | Short Term Debtors                   | 16    | 5,703              |
| 506                              | 3,655                            | Cash and Cash Equivalents            | 17    | 6,459              |
| <b>7,400</b>                     | <b>11,085</b>                    | <b>Current Assets</b>                |       | <b>12,162</b>      |
| (4,526)                          | (11,411)                         | Short Term Borrowing                 | 14    | (2,398)            |
| (3,519)                          | (2,836)                          | Short Term Creditors                 | 18    | (7,277)            |
| (41)                             | (42)                             | Short Term Liabilities               | 30    | 0                  |
| 0                                | (9)                              | Provisions                           | 19    | (1,305)            |
| <b>(8,086)</b>                   | <b>(14,298)</b>                  | <b>Current Liabilities</b>           |       | <b>(10,980)</b>    |
| 0                                | (51)                             | Provisions                           | 19    | (51)               |
| (70,521)                         | (72,228)                         | Long Term Borrowing                  | 14    | (74,091)           |
| (42)                             | 0                                | Other Long Term Liabilities          | 30    | 0                  |
| 0                                | 0                                | Receipts in Advance - Revenue Grants | 27    | (7)                |
| (2,209)                          | (1,827)                          | Receipts in Advance - Capital Grants | 27    | (1,426)            |
| (40,230)                         | (44,640)                         | Net Pension Liability                | 31    | (33,610)           |
| <b>(113,002)</b>                 | <b>(118,746)</b>                 | <b>Long Term Liabilities</b>         |       | <b>(109,185)</b>   |
| <b>44,417</b>                    | <b>36,875</b>                    | <b>Net Assets</b>                    |       | <b>50,995</b>      |
| (2,982)                          | (4,375)                          | Usable reserves                      | 21    | (6,831)            |
| (41,435)                         | (32,500)                         | Unusable Reserves                    | 22    | (44,164)           |
| <b>(44,417)</b>                  | <b>(36,875)</b>                  | <b>Total Reserves</b>                |       | <b>(50,995)</b>    |

The opening and closing balances for 2012/13 have been restated to disclose the correct classification of Transport Contributions (£215,000 and £271,000 respectively) held by the Council which were previously included under Short Term Creditors but which should have been included under Receipts in Advance – Capital Grants . See Note 37. There is no effect on the Council's finances.  
29 September 2014

## 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 authority. 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.

| 2012/13<br>(restated)<br>£000 | Notes  | 2013/14<br>£000 |
|-------------------------------|--|-----------------|
| (8,257)                       | Net surplus or (deficit) on the provision of services  | (771)           |
| 14,873                        | Adjustments to surplus or deficit on the provision of services for non-cash movements  | 12,665          |
| (2,652)                       | Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | (2,522)         |
| <b>3,964</b>                  | <b>Net Cash flows from Operating Activities</b>  | <b>9,372</b>    |
| (8,186)                       | Net Cash flows from Investing Activities   | (2,397)         |
| 7,371                         | Net Cash flows from Financing Activities   | (4,171)         |
| <b>3,149</b>                  | <b>Net increase or (decrease) in cash and cash equivalents</b>   | <b>2,804</b>    |
| 506                           | Cash and cash equivalents at the beginning of the reporting period   | 3,655           |
| 3,655                         | Cash and cash equivalents at the end of the reporting period   | 6,459           |

*The Cash Flow Statement for 2012/13 has been restated to reflect the adoption by the Code of the Pensions standard IAS19R for accounting periods starting on or after 1 January 2013. Further details are in notes 31 and 37. There is no effect on the Council's finances.*

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting Policies

#### a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, 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 Council's main bank account.

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

The following Council accounts and instruments are treated as cash and cash equivalents.

National Westminster Group Account consisting of

- Main Account

- Payments Account
- Online Account

#### Call Accounts

- Corporate Deposit Account
- Liquidity Select Account

#### Money Market Fund Accounts

- The Public Sector Deposit Fund (CCLA Investment Management Ltd)

#### Temporary Deposits

- Deposits placed with approved institutions which are repayable within one day of the balance sheet date

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.

### **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 (eg 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 31 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 4.3% based on the current rate of return on high quality corporate bonds of equivalent term and currency to the 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

|   |  |
|---|--|
| Current service costs   | The increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked  |
| Past service 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 – 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
- 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, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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 fixed 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 amortisations. 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) 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.

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

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 4%, 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.

#### **j) 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.

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.

**k) 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 are relaxed in relation to heritage assets as detailed below.

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

- Civic Regalia – annually updated insurance valuation
- Mayoral Chain and Badge – annually updated insurance valuation
- Paintings and Prints – a collection of 58 paintings located throughout the Town Hall, valued by an annually updated insurance valuation and annual inventory check
- Other Items – including a plaster cast of Nelson and D Day plaque at Stokes Bay are held at historic cost

There are no intangible heritage assets

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 Arts and Museums Service (HCC A MS). 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 and although being located principally in the stores and on display at the Gosport Discovery Centre 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.

### Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

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.

### **I) 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 (eg 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.

**m) Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture

The Council has a 25% share in the Portchester Crematorium that is disclosed in note 28 to the accounting statement. The Council's share of the jointly controlled assets and liabilities are also disclosed in note 28 as they are not considered of sufficient materiality to warrant inclusion in the Council's Comprehensive Income and Expenditure Statement.

**n) 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.

**o) Investment Properties**

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

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

**p) Leases**

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

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

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

The Council as Lessee

*Finance Leases*

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

Lease payments are apportioned between:

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

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

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 (eg there is a rent-free period at the commencement of the lease).

The Council as Lessor

*Finance Leases*

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

Lease rentals receivable are apportioned between:

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

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

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

#### *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 (eg 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

#### **q) Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2013/14 (SerCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services

**r) Property, Plant and Equipment**

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

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

A de-minimis 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 – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair 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 fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

#### Impairment

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

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

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

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

#### Depreciation

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

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

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

- Council Dwellings – based on the Major Repairs Allowance (MRA) used in the Government buyout determination for HRA self-financing
- 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. Assets Held for Sale must meet certain criteria including that they are likely to be sold in current condition within a year and are being actively marketed.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals 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.

**s) Provisions, Contingent Liabilities and Contingent Assets**

Provisions

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

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

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

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

**t) 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 21 and 22 to the accounting statements

**u) 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.

**v) Value Added Tax**

Income and expenditure excludes any amounts related to VAT as this is accounted for separately with VAT collected being paid to HM Revenue and Customs and VAT paid being recoverable from them.

## 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 by the Code for the relevant financial year.

The Code for 2014/15 has introduced several new and revised accounting standards which are effective from 1 April 2014 and which may require the publication of a restated balance sheet at the beginning of the preceeding period.

Changes in accounting policies which will be required from 1 April 2014 which are not considered to have a significant impact on the Statement of Accounts are:

- IFRS 10 Consolidated Financial Statements
- IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- Annual Improvements to IFRS 2009–2011 Cycle.

Changes in accounting policies which will be required from 1 April 2014 which may, subject to further investigation, require additional disclosures in the statement are

- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities

## 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** - there is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet 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).
- **Jointly Controlled Operation** – As a member of the Portchester Crematorium Joint Committee (PCJC) with a 25% share in the crematorium operation, the Council has made a judgement on the grounds of materiality to disclose its share of the assets and liabilities as part of the Related Parties disclosure note (note 28) rather than incorporate them into the Comprehensive Income and Expenditure Statement
- **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 19 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 Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2014 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>In 2013/14, a provision of £3.263 million has been set up in the Collection Fund accounts 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>The Council's share of the provision is £1.305 million (40%) which is disclosed in Note 19 to the Statement. The other precepting authorities and the government include the remainder of the provision (£1.958 million - 60%) in their financial statements for 2013/14</p> <p>The actual cost of appeals – whether above or below the provision - will impact on retained business rate income for the Council, central government and the major precepting authorities.</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>   |

|                          |  |  |
|--------------------------|--|--|
| Pensions Liability       | <p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p> | <p>The effects on the net pensions liability for funded LGPS benefits of changes in individual assumptions can be measured.</p> <p>For instance, a 0.1% increase in the discount rate assumption may result in a decrease in the pension liability of £1.39 million.</p> <p>The assumptions interact in complex ways. During 2013/14, the Authority's actuaries advised that the net pensions liability had reduced by £11.03 million – made up of actuarial remeasurements which reduced the liability of £12.97 million and additional net in year liabilities of £1.94 million.</p> |
| Doubtful Debt Allowances | <p>The Council has made allowances for doubtful debts of £2.195 million in 2013/14 (£1.902 million in 2012/13) 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 £106,600 (£89,000 in 2012/13).</p>  |

## 5. Material Items of Income and Expense

There are no material items for 2013/14

During 2012/13 the new Gosport Leisure Centre was completed and opened to the public in December 2012.

The new Leisure Centre was valued at £10.1 million and the difference between this valuation and the sum of the value of the old centre and new centre construction costs was £4.6 million – which was initially charged to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement and then to the Capital Adjustment Account. There is no effect on the Council's finances from this valuation adjustment.

A capital receipt of £1 million was obtained through the sale of part of the old site and this sum was used towards financing the 2012/13 capital programme.

Both of these sums are reflected for 2012/13 in note 6 to the statement.

## 6. Other Operating Expenditure

| 2012/13<br>£'000   | 2013/14<br>£'000 |
|--|------------------|
| 199 Payments to the Government Housing Capital Receipts Pool | 230              |
| 3,698 (Gain) or Loss on the disposal of non-current assets   | 61               |
| <b>3,897</b>   | <b>291</b>       |

## 7. Financing and Investment Income and Expenditure

| 2012/13<br>(restated)<br>£'000   | 2013/14<br>£'000 |
|--|------------------|
| 2,255 Interest payable & similar charges   | 2,210            |
| 1,840 Pension interest on net defined benefit liability  | 1,880            |
| (333) Interest receivable & similar income   | (315)            |
| 2,527 Net income and expenditure in relation to investment properties<br>and changes in their fair value | 305              |
| <b>6,289</b>   | <b>4,080</b>     |

The 2012/13 entry for pension interest on net defined benefit liability has been restated following adoption by the Code of the revised Pensions standard IAS19R. See notes 31 and 37.

## 8. Taxation and Non Specific Grant Income

| 2012/13<br>£'000  | 2013/14<br>£'000 |
|---|------------------|
| (5,617) Council Tax Income  | (5,056)          |
| (4,792) Non Domestic Rates (Retained Business Rates from 2013/14) | -                |
| - Retained Business Rates   | (1,775)          |
| (694) Non-Ringfenced Government Grants                            | (4,225)          |
| (231) Capital Grants and Contributions                            | (308)            |
| <b>(11,334)</b>   | <b>(11,364)</b>  |

The 2012/13 Non-Ringfenced Government Grants figure has been restated to reflect the inclusion in the CI&E Statement of the Benefits Admin Grant (£696,000) as a service specific, rather than general, grant. See notes 27 and 37. There is no effect on the Council's finances

## 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 Authority to meet future capital and revenue expenditure.

The Council's reserves against which the adjustments are made are described in notes 21 and 22.

| 2013/14  | General Fund<br>Balance<br>£000 | Housing<br>Revenue<br>Account<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Major Repairs<br>Reserve<br>£000 | Total Usable<br>Reserves<br>£000 | Movement in<br>Unusable<br>Reserves<br>£000 |
|--|---------------------------------|---------------------------------------|--|----------------------------------|----------------------------------|---|
| <b>Adjustments primarily involving the Capital Adjustment Account:</b>   |                                 |                                       |  |                                  |                                  |   |
| <b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>  |                                 |                                       |  |                                  |                                  |   |
| Charges for depreciation and impairment of non-current assets  | (1,146)                         | (2,400)                               |  |                                  | (3,546)                          | 3,546                                       |
| Revaluation losses on Property Plant and Equipment   | (80)                            | (164)                                 |  |                                  | (244)                            | 244   |
| Movements in the fair value of Investment Properties   | (581)                           |                                       | 5                                      |                                  | (576)                            | 576   |
| Amortisation of intangible assets  | (90)                            |                                       |  |                                  | (90)                             | 90  |
| Capital grants and contributions applied   | 1,013                           |                                       |  |                                  | 1,013                            | (1,013)                                     |
| Revenue expenditure funded from capital under statute  | (888)                           |                                       |  |                                  | (888)                            | 888   |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (173)                           | (1,400)                               |  |                                  | (1,573)                          | 1,573                                       |

| 2013/14  | General Fund<br>Balance<br>£000 | Housing Revenue<br>Account<br>£000 | Capital Receipts<br>Reserve<br>£000 | Major Repairs<br>Reserve<br>£000 | Total Usable<br>Reserves<br>£000 | Movement in<br>Unusable<br>Reserves<br>£000 |
|--|---------------------------------|------------------------------------|-------------------------------------|----------------------------------|----------------------------------|---|
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>   |                                 |                                    |                                     |                                  |                                  |   |
| Statutory provision for the financing of capital investment  | 570                             |                                    |                                     |                                  | 570                              | (570)                                       |
| Capital expenditure charged against the General Fund and HRA balances  |                                 | 1,156                              |                                     |                                  | 1,156                            | (1,156)                                     |
| <b>Adjustments primarily involving the Capital Receipts Reserve:</b>   |                                 |                                    |                                     |                                  |                                  |   |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement  | 125                             | 1,417                              | (1,542)                             |                                  | 0                                | 0   |
| Use of the Capital Receipts Reserve to finance new capital expenditure and reduce CFR  |                                 |                                    | 249                                 |                                  | 249                              | (249)                                       |
| Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals   |                                 | (31)                               | 31                                  |                                  | 0                                | 0   |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.  |                                 | (230)                              | 230                                 |                                  | 0                                | 0   |
| Transfer from Deferred Capital receipts Reserve upon receipt of cash   |                                 |                                    | (28)                                |                                  | (28)                             | 28  |
| <b>Adjustment involving the Major Repairs Reserve</b>  |                                 |                                    |                                     |                                  |                                  |   |
| Reversal of Major Repairs Allowance credited to the HRA  |                                 | 2,400                              |                                     | (2,400)                          | 0                                | 0   |
| Use of the Major Repairs Reserve to finance new capital expenditure  |                                 |                                    |                                     | 2,400                            | 2,400                            | (2,400)                                     |
| <b>Adjustments primarily involving the Pensions Reserve:</b>   |                                 |                                    |                                     |                                  |                                  |   |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 31)  | (2,405)                         | (1,085)                            |                                     |                                  | (3,490)                          | 3,490                                       |
| Employer's pensions contributions and direct payments to pensioners payable in the year  | 1,221                           | 329                                |                                     |                                  | 1,550                            | (1,550)                                     |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>   |                                 |                                    |                                     |                                  |                                  |   |
| Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements | 221                             |                                    |                                     |                                  | 221                              | (221)                                       |
| <b>Adjustment primarily involving the Accumulated Absences Account</b>   |                                 |                                    |                                     |                                  |                                  |   |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements                                  | 46                              | 3                                  |                                     |                                  | 49                               | (49)  |
| <b>Total Adjustments</b>   | <b>(2,167)</b>                  | <b>0</b>                           | <b>(1,060)</b>                      | <b>0</b>                         | <b>(3,227)</b>                   | <b>3,227</b>                                |

| 2012/13  | General Fund<br>Balance<br>£000 | Housing<br>Revenue<br>Account<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Major Repairs<br>Reserve<br>£000 | Total Usable<br>Reserves<br>£000 | Movement in<br>Unusable<br>Reserves<br>£000 |
|--|---------------------------------|---------------------------------------|--|----------------------------------|----------------------------------|---|
| <b>Adjustments primarily involving the Capital Adjustment Account:</b>   |                                 |                                       |  |                                  |                                  |   |
| <b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>  |                                 |                                       |  |                                  |                                  |   |
| Charges for depreciation and impairment of non-current assets  | (943)                           | (3,594)                               |  |                                  | (4,537)                          | 4,537                                       |
| Revaluation losses on Property Plant and Equipment   | (108)                           |                                       |  |                                  | (108)                            | 108   |
| Movements in the fair value of Investment Properties   | (2,846)                         | 17                                    |  |                                  | (2,829)                          | 2,829                                       |
| Amortisation of intangible assets  | (82)                            |                                       |  |                                  | (82)                             | 82  |
| Capital grants and contributions applied   | 1,076                           |                                       |  |                                  | 1,076                            | (1,076)                                     |
| Revenue expenditure funded from capital under statute  | (968)                           |                                       |  |                                  | (968)                            | 968   |
| 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 | (4,691)                         | (576)                                 |  |                                  | (5,267)                          | 5,267                                       |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>   |                                 |                                       |  |                                  |                                  |   |
| Statutory provision for the financing of capital investment  | 420                             |                                       |  |                                  | 420                              | (420)                                       |
| Capital expenditure charged against the General Fund and HRA balances  |                                 | 949                                   |  |                                  | 949                              | (949)                                       |
| <b>Adjustments primarily involving the Capital Receipts Reserve:</b>   |                                 |                                       |  |                                  |                                  |   |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement                            | 1,000                           | 582                                   | (1,582)                                |                                  | 0                                | 0   |
| Use of the Capital Receipts Reserve to finance new capital expenditure and reduce CFR  |                                 |                                       | 1,263                                  |                                  | 1,263                            | (1,263)                                     |
| Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals   |                                 | (13)                                  | 13                                     |                                  | 0                                | 0   |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.  |                                 | (199)                                 | 199                                    |                                  | 0                                | 0   |
| Transfer from Deferred Capital receipts Reserve upon receipt of cash   |                                 |                                       | (179)                                  |                                  | (179)                            | 179   |
| <b>Adjustment involving the Major Repairs Reserve</b>  |                                 |                                       |  |                                  |                                  |   |
| Reversal of Major Repairs Allowance credited to the HRA  |                                 | 2,362                                 |  | (2,362)                          | 0                                | 0   |
| Use of the Major Repairs Reserve to finance new capital expenditure  |                                 |                                       |  | 2,362                            | 2,362                            | (2,362)                                     |

| 2012/13   | General Fund<br>Balance<br>£000 | Housing Revenue<br>Account<br>£000 | Capital Receipts<br>Reserve<br>£000 | Major Repairs<br>Reserve<br>£000 | Total Usable<br>Reserves<br>£000 | Movement in<br>Unusable<br>Reserves<br>£000 |
|---|---------------------------------|------------------------------------|-------------------------------------|----------------------------------|----------------------------------|---|
| <b>Adjustments primarily involving the Pensions Reserve:</b>  |                                 |                                    |                                     |                                  |                                  |   |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement ( <b>restated</b> ) (Note 31)   | (2,596)                         | (694)                              |                                     |                                  | (3,290)                          | 3,290                                       |
| Employer's pensions contributions and direct payments to pensioners payable in the year   | 1,361                           | 229                                |                                     |                                  | 1,590                            | (1,590)                                     |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>  |                                 |                                    |                                     |                                  |                                  |   |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements                | (37)                            |                                    |                                     |                                  | (37)                             | 37  |
| <b>Adjustment primarily involving the Accumulated Absences Account</b>  |                                 |                                    |                                     |                                  |                                  |   |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (10)                            | (3)                                |                                     |                                  | (13)                             | 13  |
| <b>Total Adjustments</b>  | <b>(8,424)</b>                  | <b>(940)</b>                       | <b>(286)</b>                        | <b>0</b>                         | <b>(9,650)</b>                   | <b>9,650</b>                                |

The 2012/13 entry for the reversal of items through the Movement in Reserves Statement has been restated following adoption by the Code of the revised Pensions standard IAS19R. See notes 31 and 37.

## 10. 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   | Major Repairs Allowance (MRA) used in the Government buyout determination for HRA self-financing  |
| Other Land & Buildings (Operational Property and Garages) | Straight line method over the estimated useful life of the asset<br>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                                  |

| <b>Movement in Plant, Property and Equipment for 2013/14</b> | <b>Council Dwellings</b> | <b>Land &amp; Buildings</b> | <b>Vehicles, Plant &amp; Equipment</b> | <b>Infrastructure</b> | <b>Community Assets</b> | <b>Surplus Assets</b> | <b>Assets Under Construction</b> | <b>Total Plant, Property &amp; Equipment</b> |
|--|--------------------------|-----------------------------|--|-----------------------|-------------------------|-----------------------|----------------------------------|--|
|  | <b>£'000</b>             | <b>£'000</b>                | <b>£'000</b>                           | <b>£'000</b>          | <b>£'000</b>            | <b>£'000</b>          | <b>£'000</b>                     | <b>£'000</b>                                 |
| <b>Cost or Valuation</b>                                     |                          |                             |  |                       |                         |                       |                                  |  |
| At 1 April 2013  | 111,829                  | 22,913                      | 3,752                                  | 13,136                | 3,985                   | 80                    | 206                              | 155,901                                      |
| Additions  | 3,556                    | 109                         | 276                                    | 16                    | 11                      | 0                     | 244                              | 4,212  |
| Revaluation increases/(decreases) to RR                      | (840)                    | (195)                       |  |                       |                         |                       |                                  | (1,035)                                      |
| Revaluation increases/(decreases) to SDPS                    | (42)                     | (202)                       |  |                       |                         |                       |                                  | (244)  |
| De-recognition - Disposals                                   | (1,430)                  |                             |  |                       |                         |                       |                                  | (1,430)                                      |
| De-recognition - Other                                       |                          | (109)                       | (78)                                   | (16)                  |                         |                       |                                  | (203)  |
| Assets reclassified  |                          | 369                         |  | 57                    | (498)                   |                       | (316)                            | (388)  |
| <b>At 31 March 2014</b>                                      | <b>113,073</b>           | <b>22,885</b>               | <b>3,950</b>                           | <b>13,193</b>         | <b>3,498</b>            | <b>80</b>             | <b>134</b>                       | <b>156,813</b>                               |
| <b>Accumulated Depreciation &amp; Impairment</b>             |                          |                             |  |                       |                         |                       |                                  |  |
| At 1 April 2013  | (2,363)                  | (1,167)                     | (2,893)                                | (4,193)               | 0                       | (12)                  | 0                                | (10,628)                                     |
| Depreciation Charge  | (2,400)                  | (553)                       | (246)                                  | (347)                 | 0                       | 0                     | 0                                | (3,546)                                      |
| Depreciation & Impairment written out to RR                  | 2,332                    | 629                         |  |                       |                         |                       |                                  | 2,961  |
| De-recognition - Disposals                                   | 30                       |                             |  |                       |                         |                       |                                  | 30   |
| De-recognition - Other                                       |                          | 95                          | 65                                     | 6                     |                         |                       |                                  | 166  |
| <b>At 31 March 2014</b>                                      | <b>(2,401)</b>           | <b>(996)</b>                | <b>(3,074)</b>                         | <b>(4,534)</b>        | <b>0</b>                | <b>(12)</b>           | <b>0</b>                         | <b>(11,017)</b>                              |
| <b>Net Book Value</b>  |                          |                             |  |                       |                         |                       |                                  |  |
| <b>At 31 March 2014</b>                                      | <b>110,672</b>           | <b>21,889</b>               | <b>876</b>                             | <b>8,659</b>          | <b>3,498</b>            | <b>68</b>             | <b>134</b>                       | <b>145,796</b>                               |

| <b>Movement in Plant, Property and Equipment for 2012/13</b> | <b>Council Dwellings</b> | <b>Land &amp; Buildings</b> | <b>Vehicles, Plant &amp; Equipment</b> | <b>Infrastructure</b> | <b>Community Assets</b> | <b>Surplus Assets</b> | <b>Assets Under Construction</b> | <b>Total Plant, Property &amp; Equipment</b> |
|--|--------------------------|-----------------------------|--|-----------------------|-------------------------|-----------------------|----------------------------------|--|
|  | <b>£'000</b>             | <b>£'000</b>                | <b>£'000</b>                           | <b>£'000</b>          | <b>£'000</b>            | <b>£'000</b>          | <b>£'000</b>                     | <b>£'000</b>                                 |
| <b>Cost or Valuation</b>                                     |                          |                             |  |                       |                         |                       |                                  |  |
| At 1 April 2012  | 172,030                  | 21,652                      | 3,871                                  | 13,313                | 3,901                   | 80                    | 2,899                            | 217,746                                      |
| Additions  | 3,513                    | 75                          | 196                                    |                       | 84                      |                       | 6,153                            | 10,021                                       |
| Revaluation increases/(decreases) to RR                      | (62,368)                 | (850)                       |  |                       |                         |                       |                                  | (63,218)                                     |
| Revaluation increases/(decreases) to SDPS                    | (1,232)                  | (108)                       |  |                       |                         |                       |                                  | (1,340)                                      |
| De-recognition - Disposals                                   | (938)                    |                             |  |                       |                         |                       |                                  | (938)  |
| De-recognition - Other                                       |                          | (5,878)                     | (315)                                  | (177)                 |                         |                       |                                  | (6,370)                                      |
| Assets reclassified  | 824                      | 8,022                       |  |                       |                         |                       | (8,846)                          | 0  |
| <b>At 31 March 2013</b>                                      | <b>111,829</b>           | <b>22,913</b>               | <b>3,752</b>                           | <b>13,136</b>         | <b>3,985</b>            | <b>80</b>             | <b>206</b>                       | <b>155,901</b>                               |
| <b>Accumulated Depreciation &amp; Impairment</b>             |                          |                             |  |                       |                         |                       |                                  |  |
| At 1 April 2012  | (66,416)                 | (2,583)                     | (2,979)                                | (4,023)               | 0                       | (12)                  | 0                                | (76,013)                                     |
| Depreciation Charge  | (2,362)                  | (369)                       | (226)                                  | (347)                 |                         |                       |                                  | (3,304)                                      |
| Depreciation & Impairment written out to RR                  | 66,053                   | 596                         |  |                       |                         |                       |                                  | 66,649                                       |
| De-recognition - Disposals                                   | 362                      |                             |  |                       |                         |                       |                                  | 362  |
| De-recognition - Other                                       |                          | 1,189                       | 312                                    | 177                   |                         |                       |                                  | 1,678  |
| <b>At 31 March 2013</b>                                      | <b>(2,363)</b>           | <b>(1,167)</b>              | <b>(2,893)</b>                         | <b>(4,193)</b>        | <b>0</b>                | <b>(12)</b>           | <b>0</b>                         | <b>(10,628)</b>                              |
| <b>Net Book Value</b>  |                          |                             |  |                       |                         |                       |                                  |  |
| <b>At 31 March 2013</b>                                      | <b>109,466</b>           | <b>21,746</b>               | <b>859</b>                             | <b>8,943</b>          | <b>3,985</b>            | <b>68</b>             | <b>206</b>                       | <b>145,273</b>                               |

## Capital Commitments

Significant commitments for future expenditure at 31 March include:

| 2012/13<br>£'000                     | 2013/14<br>£'000 |
|--------------------------------------|------------------|
| 237 Accommodation & IT               | -                |
| 100 Gosport Leisure Park (Ice Rink)  | 100              |
| 168 Stokes Bay - Wet & Dry Play Area | 82               |
| <b>505</b>                           | <b>182</b>       |

## Revaluations

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

|                             | Historical | Fair Value - revalued when indicated |                  |                  |                  |                  | Total<br>£'000 |                |
|-----------------------------|------------|--------------------------------------|------------------|------------------|------------------|------------------|----------------|----------------|
|                             | £'000      | 2013/14<br>£'000                     | 2012/13<br>£'000 | 2011/12<br>£'000 | 2010/11<br>£'000 | 2009/10<br>£'000 |                |                |
| Property, Plant & Equipment |            |                                      |                  |                  |                  |                  |                |                |
| Council Dwellings           |            | 113,073                              |                  |                  |                  |                  | 113,073        |                |
| Operational Property        |            | 3,718                                | 10,868           | 5,818            | 1,652            | 64               | 22,120         |                |
| Garages                     | 765        |                                      |                  |                  |                  |                  | 765            |                |
| Equipment                   | 3,950      |                                      |                  |                  |                  |                  | 3,950          |                |
| Infrastructure              | 13,193     |                                      |                  |                  |                  |                  | 13,193         |                |
| Community Assets            | 3,498      |                                      |                  |                  |                  |                  | 3,498          |                |
| Surplus Assets              | 80         |                                      |                  |                  |                  |                  | 80             |                |
| Assets under Construction   | 134        |                                      |                  |                  |                  |                  | 134            |                |
|                             |            | <b>21,620</b>                        | <b>116,791</b>   | <b>10,868</b>    | <b>5,818</b>     | <b>1,652</b>     | <b>64</b>      | <b>156,813</b> |

## Impairments

There were no general impairments identified in 2013/14.

Any revaluation gains or losses for those assets that were reported on by the Council's valuers for 2013/14 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.

## 11. Heritage Assets

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

|                          | <b>Civic<br/>Regalia<br/>£'000</b> | <b>Mayoral<br/>Chain<br/>£'000</b> | <b>Paintings<br/>£'000</b> | <b>Other<br/>£'000</b> | <b>Total<br/>£'000</b> |
|--------------------------|------------------------------------|------------------------------------|----------------------------|------------------------|------------------------|
| <b>Cost or Valuation</b> |                                    |                                    |                            |                        |                        |
| <b>31-Mar-13</b>         | <b>49</b>                          | <b>53</b>                          | <b>97</b>                  | <b>10</b>              | <b>209</b>             |
| <b>31-Mar-14</b>         | <b>49</b>                          | <b>53</b>                          | <b>97</b>                  | <b>10</b>              | <b>209</b>             |

There were two gifted additions to the collection of Paintings and Prints in 2013/14 (a print of Anna Wardley's round the Island swim and a framed Union flag from 33 Field Hospital).

The Council's Heritage Assets were separately identified and valued for the first time on the 2011/12 balance sheet in accordance with the IFRS based CIPFA Code of Practice.

The Council's accounting policies for Heritage Assets are included in note 1 on page 25.

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

The Authority's collections of heritage assets held at the Town Hall have been 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 58 paintings and prints located throughout the Town Hall, valued by an annually updated insurance valuation and annual inventory check
- Other Items – include a plaster cast of Nelson and D Day plaque at Stokes Bay are held at historic cost

A full inventory of Civic inventory is presently in progress which will lead to a re-evaluation of insurance cover.

The Authority'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 Arts and Museums Service (HCC A MS). 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 and although being located principally in the stores and on display at the Gosport Discovery Centre 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.

## 12. Investment Properties

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

| 2012/13<br>£'000   | 2013/14<br>£'000 |
|--|------------------|
| 282 Direct operating expenses arising from investment property | 252              |
| (584) Rental income from investment property                   | (524)            |
| <b>(302) Net gain</b>  | <b>(272)</b>     |

The following table summarises the movement in the fair value of investment properties over the year. The valuation of investment property held on the balance sheet has been undertaken by Capita Ltd.

| 2012/13<br>£'000  | 2013/14<br>£'000 |
|---|------------------|
| 10,022 Balance at the start of the year                   | 7,216            |
| 23 Subsequent expenditure                                 | 36               |
| - Disposals   | (125)            |
| (2,829) Net gains or (losses) from fair value adjustments | (577)            |
| - Transfers to or from Property, Plant and Equipment      | 388              |
| <b>7,216 Balance at the end of the year</b>               | <b>6,938</b>     |

### 13. 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 £90,480 charged to revenue in 2013/14 (£82,360 in 2012/13) 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:

| 2012/13<br>£'000  | 2013/14<br>£'000 |
|---|------------------|
| Balance at the start of the year                        |                  |
| 1,374 Gross carrying amount                             | 1,476            |
| (834) Accumulated amortisation                          | (907)            |
| <b>540 Net carrying amount at the start of the year</b> | <b>569</b>       |
| 111 Purchases   | 89               |
| (9) Derecognition - Gross carrying amount               | (78)             |
| 9 Derecognition - Amortisation                          | 67               |
| (82) Amortisation for the year                          | (90)             |
| <b>569 Net carrying amount at the end of the year</b>   | <b>557</b>       |
| Comprising  |                  |
| 1,476 Gross carrying amount                             | 1,487            |
| (907) Accumulated amortisation                          | (930)            |

## 14. Financial Instruments

### Categories of Financial Instruments

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

| 01-Apr-12                           |         | 31-Mar-13 |          | 31-Mar-14 |         |
|-------------------------------------|---------|-----------|----------|-----------|---------|
| Long Term                           | Current | Long Term | Current  | Long Term | Current |
| £'000                               | £'000   | £'000     | £'000    | £'000     | £'000   |
| <b><u>Financial Liabilities</u></b> |         |           |          |           |         |
| (70,391)                            | (2,209) | (72,175)  | (2,215)  | (71,953)  | (2,222) |
| -                                   | (156)   | -         | (156)    | -         | (151)   |
| (89)                                | (42)    | (53)      | (35)     |           |         |
|                                     |         |           |          | (38)      | (15)    |
| -                                   | (2,160) | -         | (9,000)  | (2,100)   |         |
| -                                   | -       | -         | (5)      | -         | (10)    |
| (70,480)                            | (4,567) | (72,228)  | (11,411) | (74,091)  | (2,398) |
| -                                   | (2,546) | -         | (2,213)  |           | (1,929) |
| (70,480)                            | (7,113) | (72,228)  | (13,624) | (74,091)  | (4,327) |
| <b><u>Financial Assets</u></b>      |         |           |          |           |         |
| 31                                  | -       | 24        | -        | 18        | -       |
| 83                                  | 122     | 64        | 58       | 30        | 64      |
| 575                                 | -       | 575       | -        | 575       | -       |
| 4,912                               | 26      | 4,885     | 27       | 4,856     |         |
| -                                   | 754     | -         | 1,532    | -         | 2,721   |
| -                                   | 506     | -         | 3,655    | -         | 6,459   |
|                                     |         |           |          | -         |         |
| 5,601                               | 1,408   | 5,548     | 5,272    | 5,479     | 9,244   |

### Income, Expense, Gains and Losses

| 31-Mar-13   | 31-Mar-14 |
|---|-----------|
| £'000   | £'000     |
| <b><u>Financial Liabilities:</u></b>                            |           |
| 2,255   | 2,210     |
| Interest from financial liabilities measured at amortised cost  |           |
| <b><u>Financial Assets:</u></b>                                 |           |
| (57)  | (47)      |
| Interest from loans and receivables                             |           |
| (234)   | (233)     |
| Interest receivable from Finance Lease                          |           |
| (42)  | (35)      |
| Discount received from debt restructuring                       |           |
| 1,922   | 1,895     |
| Included in the Surplus or Deficit on the Provision of Services |           |

### Fair Values of Assets and Liabilities

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 present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount of the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

| 01-Apr-12                    |                 | 31-Mar-13       |                 | 31-Mar-14       |                 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Carrying Amount              | Fair Value      | Carrying Amount | Fair Value      | Carrying Amount | Fair Value      |
| £'000                        | £'000           | £'000           | £'000           | £'000           | £'000           |
| <b>Financial Liabilities</b> |                 |                 |                 |                 |                 |
| (75,047)                     | (80,317)        | (83,639)        | (91,491)        | (76,489)        | (79,015)        |
| (2,546)                      | (2,546)         | (2,213)         | (2,213)         | (1,929)         | (1,929)         |
| <b>(77,593)</b>              | <b>(82,863)</b> | <b>(85,852)</b> | <b>(93,704)</b> | <b>(78,418)</b> | <b>(80,944)</b> |
| <b>Financial Assets</b>      |                 |                 |                 |                 |                 |
| 7,009                        | 7,009           | 10,820          | 10,820          | 14,723          | 14,723          |
| <b>7,009</b>                 | <b>7,009</b>    | <b>10,820</b>   | <b>10,820</b>   | <b>14,723</b>   | <b>14,723</b>   |

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the balance sheet date.

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

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

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Council
- Liquidity Risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms
- Market Risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

The Council's overall risk management programmes focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks.

The procedures for risk management are set out through a legal framework that is included in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - o The Council's overall borrowing;
  - o Its maximum and minimum exposures to fixed and variable rates;
  - o Its maximum and minimum exposures to the maturity structure of its debt;
  - o Its maximum annual exposures to investments maturing beyond a year.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update. The Annual Treasury Management Strategy for 2013/14 which incorporated the prudential indicators was approved by Council on 20 February 2013 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2013/14 was set at £92.7m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary for 2013/14 was £87.3m. This is the expected level of debt and other long term liabilities during the year.
- The maximum and minimum exposures to the maturity structure of debt are shown on page 52.

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits were not made with banks and financial institutions unless they conformed to the Council's investment criteria. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down in the Council's Annual Investment Strategy which imposes a maximum sum to be invested with a financial institution located within each category. The credit criteria in respect of financial assets held by the authority are detailed below

- The key objectives of the Council's investment strategy are security, liquidity and yield in that order.
- The Council has determined that it will only use approved counterparties from the UK.
- In order to limit interest rate exposure all investments other than short term surplus funds are to be fixed rate transactions. No Investments are to exceed 3 years although most will not exceed 364 days.
- A £3m limit applies with any single group other than the Council's Bank or UK Regulated Qualifying Money Market Funds.
- The Council will invest in UK Regulated Qualifying Money Market Funds.
- Investments will be placed with bodies that meet the Council's creditworthiness criteria which will be assessed by utilising the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard and Poor's, forming the core. The credit ratings of counterparties are supplemented with the following overlays:

- o Credit watches and credit outlooks from credit rating agencies
- o CDS (Credit Default Swaps) spreads to give early warning of likely changes in credit ratings

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine which counterparties are suitable for investments and the suggested duration for investments. Creditworthiness criteria are monitored weekly.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £4.385 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

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<br>31 March<br>2014<br>£'000 | Historical<br>experience<br>of default<br>% | Adjustment<br>for market<br>conditions<br>at 31 March<br>2014<br>% | Estimated<br>maximum<br>exposure<br>to default<br>£ |
|---|------|--|---|--|---|
| Cash and cash equivalents   | a    | 6,459                                  | -   | -  | -   |
| General debtors   | b    | 405                                    | 11%   | 11%  | 45  |
| Housing rents   | b    | 916                                    | 55%   | 55%  | 506   |
| Other   | b    | 1,464                                  | 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   |      | 1,868                                  | 75%   | 75%  | 1,401   |
| Costs associated with Council Tax and Business Rates Collection   |      | 665                                    | 37%   | 37%  | 243   |
| (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.   |      |  |   |  |   |

The Council has no history of default with any of its counterparties in relation to deposits made or received. No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds

### Liquidity Risk

The Council manages its liquidity position through the risk management procedures above

(the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money market to cover any day to day cash flow need, and the Public Works Loans Board and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. All trade and other payables are due to be paid in less than one year.

### Re-financing risk

The Council maintains a significant debt portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial liabilities as they mature. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Existing long term debt is repayable between 1 and 15 years ahead and over 45 years ahead. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk.

| <b><u>Maturity Structure of Fixed Borrowings (excluding accrued interest &amp; restructuring discount)</u></b> |                  |                               |                                |                |                  |               |
|--|------------------|-------------------------------|--------------------------------|----------------|------------------|---------------|
| <b>01-Apr-12</b>   | <b>31-Mar-13</b> |                               | <b>2013/14 Approved Limits</b> |                | <b>31-Mar-14</b> |               |
| <b>Amount</b>  | <b>Amount</b>    | <b>Maturing within:-</b>      | <b>Minimum</b>                 | <b>Maximum</b> | <b>Amount</b>    |               |
| <b>£'000</b>   | <b>£'000</b>     |                               | <b>%</b>                       | <b>%</b>       | <b>£'000</b>     | <b>%</b>      |
| 4,370  | 11,000           | Up to 1 year                  | 2%                             | 15%            | 2,000            | 2.6%          |
| 2,215  | 2,000            | Over 1 but not over 2 years   | 2%                             | 15%            | 3,000            | 3.9%          |
| 6,684  | 10,000           | Over 2 but not over 5 years   | 10%                            | 20%            | 12,275           | 16.1%         |
| 12,491   | 14,390           | Over 5 but not over 10 years  | 18%                            | 30%            | 16,000           | 21.0%         |
| 15,000   | 15,000           | Over 10 but not over 15 years | 55%                            | 70%            | 12,000           | 15.7%         |
| -  | -                | Over 15 but not over 20 years | 55%                            | 70%            | -                | -             |
| -  | -                | Over 20 but not over 25 years | 55%                            | 70%            | -                | -             |
| -  | -                | Over 25 but not over 30 years | 55%                            | 70%            | -                | -             |
| -  | -                | Over 30 but not over 35 years | 55%                            | 70%            | -                | -             |
| -  | -                | Over 35 but not over 40 years | 55%                            | 70%            | -                | -             |
| -  | -                | Over 40 but not over 45 years | 55%                            | 70%            | -                | -             |
| 34,000   | 31,000           | Over 45 years                 | 55%                            | 70%            | 31,000           | 40.7%         |
| <b>74,760</b>  | <b>83,390</b>    |                               |                                |                | <b>76,275</b>    | <b>100.0%</b> |

### Market Risk

Interest Rate Risk – The Council is exposed to interest rate movements on its borrowings and investments. Movement in interest rates can have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement 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 to the Comprehensive Income and Expenditure Statement will rise
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

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

The Council's Treasury Management Strategy currently includes as a source of borrowing the use in 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.

Risk exposure to interest rate movements is limited to the effect that interest rate movements have on the marketplace generally when placing investments or raising loans. Cash flows and interest rate changes are actively monitored.

The authority to respond to different interest rates throughout the financial year is delegated to the Borough Treasurer, Head of Accountancy and Group Accountant.

If average interest rates in 2013/14 had been 1% higher or lower (with all other variables constant) the financial effect would have been £80,100 (2012/13 £31,000) additional interest receivable and £16,600 (2012/13 £12,100) additional interest payable on short term borrowing.

#### **Fair Value of Assets and Liabilities carried at Amortised Cost**

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

- Long Term Borrowing (PWLB) is calculated by reference to the premature repayment set of rates in force 31 March
- Long Term Investments: using applicable discount rates for individual loans relative to the balance sheet date
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

## 16. Debtors

### Long Term Debtors

| 01-Apr-12<br>£'000 | 31-Mar-13<br>£'000 |                                | 31-Mar-14<br>£'000 |
|--------------------|--------------------|--------------------------------|--------------------|
| 5,601              | 5,567              | Other Entities and Individuals | 5,498              |
| <b>5,601</b>       | <b>5,567</b>       |                                | <b>5,498</b>       |

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

| 01-Apr-12<br>£'000 | 31-Mar-13<br>£'000 |                                | 31-Mar-14<br>£'000 |
|--------------------|--------------------|--------------------------------|--------------------|
| 2,381              | 2,658              | Central Government Bodies      | 703                |
| 2,176              | 2,158              | Other Local Authorities        | 1,825              |
| 2,337              | 2,614              | Other Entities and Individuals | 3,175              |
| <b>6,894</b>       | <b>7,430</b>       |                                | <b>5,703</b>       |

## 17. Cash and Cash Equivalents

| 01-Apr-12<br>£'000 | 31-Mar-13<br>£'000 |                                   | 31-Mar-14<br>£'000 |
|--------------------|--------------------|-----------------------------------|--------------------|
| 507                | 510                | Money Market Funds                | 2,000              |
| 552                | 4,083              | Call Accounts                     | 4,986              |
| 66                 | 67                 | Cash imprests / cash in hand      | 74                 |
| (619)              | (1,005)            | Bank Overdraft (Grouped accounts) | (601)              |
| <b>506</b>         | <b>3,655</b>       |                                   | <b>6,459</b>       |

## 18. Creditors

| 01-Apr-12<br>(restated)<br>£'000 | 31-Mar-13<br>(restated)<br>£'000 |                                | 31-Mar-14<br>£'000 |
|----------------------------------|----------------------------------|--------------------------------|--------------------|
| (602)                            | (864)                            | Central Government Bodies      | (4,770)            |
| (368)                            | (579)                            | Other Local Authorities        | (928)              |
| (2,549)                          | (1,393)                          | Other Entities and Individuals | (1,579)            |
| <b>(3,519)</b>                   | <b>(2,836)</b>                   |                                | <b>(7,277)</b>     |

The opening and closing balances for 2012/13 have been restated to disclose the correct classification of Transport Contributions held by the Council which were previously included under Short Term Creditors but should have been included under Receipts in Advance – Capital Grants. See notes 27 and 37. There is no effect on the Council's finances.

The balance of £4.770 million for Central Government Bodies at 31 March 2014 includes £2.066 million in respect of the Regional Growth Fund for the Daedalus Business Park held by the Council as accountable body

## 19. Provisions

| 01-Apr-12<br>£'000 | 31-Mar-13<br>£'000 |   | 31-Mar-14<br>£'000 |
|--------------------|--------------------|---|--------------------|
| -                  | (9)                | MMI - Short Term                                | 0                  |
| -                  | (51)               | MMI - Long Term                                 | (51)               |
| -                  | -                  | Business Rates - Valuation Appeals - Short Term | (1,305)            |
| 0                  | (60)               |   | (1,356)            |

A provision was set up in 2012/13 to cover the initial levy (£9,000) and potential future liabilities (£51,000) of the MMI Scheme of Arrangement - this issue having previously been reported each year as a Contingent Liability disclosure in the annual Statement of Accounts. (£60,000 in 2011/12). The initial levy was paid in 2013/14.

A provision for Business Rates valuation appeals has been set up through the Collection Fund in 2013/14 as part of accounting for the new Business Rates Retention funding system.

An allowance for doubtful debts is included within note 16.

## 20. Agency Services

The Council's agency agreement for the provision of highways maintenance and management was terminated by Hampshire County Council on 1 May 2002 and the service was then funded and managed directly by the County although staff remained within the Borough Council offices. The Borough Council retained the agencies for Traffic Management and Development Control with the County Council reimbursing the Borough for this work and making a contribution towards administration costs.

The Traffic Management and Development Control agreement was terminated on 31 March 2009 with future highways management and maintenance being dealt with directly by Hampshire County Council.

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

| 31-Mar-13<br>£'000 |                                       | 31-Mar-14<br>£'000 |
|--------------------|---------------------------------------|--------------------|
| 38                 | Treework                              | 63                 |
| 84                 | Grasscutting                          | 81                 |
| (125)              | Hampshire County Council contribution | (145)              |
| (3)                |                                       | (1)                |

## 21. 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 (ie the Capital Receipts Reserve can only be used fund capital expenditure). The balances and movements on usable reserves are shown below:

|  | 2012/13        |                |              | 2013/14        |                |              |                |
|--|----------------|----------------|--------------|----------------|----------------|--------------|----------------|
|  | 01-Apr-12      | Transfers      | Transfers    | 31-Mar-13      | Transfers      | Transfers    | 31-Mar-14      |
|  | £'000          | In<br>£'000    | Out<br>£'000 | £'000          | In<br>£'000    | Out<br>£'000 | £'000          |
| <b>Revenue</b>                         |                |                |              |                |                |              |                |
| <b>General Fund Balance</b>            | <b>(890)</b>   |                |              | <b>(890)</b>   |                |              | <b>(890)</b>   |
| <b>Earmarked General Fund Reserves</b> |                |                |              |                |                |              |                |
| Revenue Financing Reserve              | (665)          | (620)          |              | (1,285)        | (782)          |              | (2,067)        |
| Cherque Farm Open Space                | (189)          |                | 12           | (177)          |                | 13           | (164)          |
| Regional Housing Grant                 | (159)          |                | 21           | (138)          |                | 19           | (119)          |
| Priddys Play Area Maintenance          | (105)          |                | 13           | (92)           |                | 11           | (81)           |
| High Street Innovations                | 0              | (100)          | 15           | (85)           |                | 43           | (42)           |
| Building Control Partnership           | (67)           |                | 14           | (53)           | (7)            |              | (60)           |
| Preventing Repossessions               | (53)           |                | 1            | (52)           |                | 8            | (44)           |
| Open Spaces Maintenance                | (49)           |                | 6            | (43)           |                | 5            | (38)           |
| A32 Bus Shelter Maintenance            | (30)           |                |              | (30)           |                |              | (30)           |
| Business Growth Incentive Grant        | (22)           |                |              | (22)           |                |              | (22)           |
| HPDG                                   | (58)           |                | 46           | (12)           |                | 12           | 0              |
| Royan Twinning Fund                    | (5)            | (4)            |              | (9)            |                |              | (9)            |
| Cherque Farm Land Transfer             | 0              |                |              | 0              | (9)            | 1            | (8)            |
| Education Fund                         | (4)            |                |              | (4)            |                |              | (4)            |
| New Homes Bonus Grant                  | (18)           |                | 18           | 0              |                |              | 0              |
|  | <b>(1,424)</b> | <b>(724)</b>   | <b>146</b>   | <b>(2,002)</b> | <b>(798)</b>   | <b>112</b>   | <b>(2,688)</b> |
| <b>Housing Revenue Account</b>         |                |                |              |                |                |              |                |
| Housing Revenue Account                | (603)          | (378)          |              | (981)          | (11)           |              | (992)          |
| New Build Reserve (Revenue)            | 0              | (151)          |              | (151)          | (699)          |              | (850)          |
|  | <b>(603)</b>   | <b>(529)</b>   | <b>0</b>     | <b>(1,132)</b> | <b>(710)</b>   | <b>0</b>     | <b>(1,842)</b> |
| <b>Capital</b>                         |                |                |              |                |                |              |                |
| Capital Receipts Reserve (GF)          | (65)           | (1,179)        | 1,179        | (65)           | (125)          | 125          | (65)           |
| Capital Receipts Reserve (HRA)         | 0              | (582)          | 412          | (170)          | (1,417)        | 863          | (724)          |
| Capital Receipts New Build (RTB)       | 0              |                | (116)        | (116)          |                | (506)        | (622)          |
| Major Repairs Reserve (HRA)            | 0              | (2,362)        | 2,362        | 0              | (2,400)        | 2,400        | 0              |
|  | <b>(65)</b>    | <b>(4,123)</b> | <b>3,837</b> | <b>(351)</b>   | <b>(3,942)</b> | <b>2,882</b> | <b>(1,411)</b> |
| <b>Total Usable Reserves</b>           | <b>(2,982)</b> | <b>(5,376)</b> | <b>3,983</b> | <b>(4,375)</b> | <b>(5,450)</b> | <b>2,994</b> | <b>(6,831)</b> |

## **The Council's main reserves are:**

### **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 General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. It is effectively a working balance that is available for unforeseen events and to help stabilise annual fluctuations in Council Tax levels. The General Fund balance is not available to be applied to funding HRA services.

#### **Revenue Financing Reserve**

A reserve available for general use, although it is particularly targeted at

- assisting in achieving efficiencies by providing funding for spend-to-save initiatives
- helping to ensure that variations in annual maintenance requirements can be adequately financed
- reducing exposure to risk by helping to underwrite uninsurable risks and by saving premiums where self-insurance is undertaken

It is considered that maintaining a viable RFR is an essential element for sound management of the Council's finances and in order to achieve this, the approved Council policy is that the RFR is debited or credited with any General Fund budget variations, receives a base budget contribution and Council Tax Collection Fund surpluses/deficits (subject to the working balance first being maintained at an appropriate level).

#### **Other Usable Reserves including Open Spaces, Play Areas, Bus Shelters and High Street Innovation**

Represent earmarked sums for contributing to specific service revenue expenditure.

#### **Regional Housing Grant**

A general purpose Housing grant that may be used for both Housing General Fund and Housing Revenue Account services.

### **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 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 the capital resources that have yet to be applied at the year-end.

#### **New Build Reserve**

The reserve created to provide funding for the construction of new affordable housing.

**Capital – General Fund**

The Capital Receipts reserve may only be utilised to fund capital expenditure. The General Fund balance of £65,000 at 31 March 2014 is in respect of the sale of Camden Allotments and 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.

**22. Unusable Reserves**

| 01-Apr-12<br>(restated)<br>£'000 | 31-Mar-13<br>(restated)<br>£'000 |                                       | 31-Mar-14<br>£'000 |
|----------------------------------|----------------------------------|---------------------------------------|--------------------|
| (3,290)                          | (6,684)                          | Revaluation Reserve                   | (8,602)            |
| (72,848)                         | (65,164)                         | Capital Adjustment Account            | (63,643)           |
| (5,696)                          | (5,511)                          | Deferred Capital Receipts             | (5,478)            |
| 40,230                           | 44,640                           | Net Pension Reserve                   | 33,610             |
| (8)                              |                                  | 29 Collection Fund Adjustment Account | (192)              |
| 177                              | 190                              | Accumulated Absences Account          | 141                |
| <b>(41,435)</b>                  | <b>(32,500)</b>                  |                                       | <b>(44,164)</b>    |

**Revaluation Reserve**

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

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

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

| 2012/13<br>(restated)<br>£'000 |   | 2013/14<br>£'000 |
|--------------------------------|---|------------------|
| (3,290)                        | Balance at 1 April  | (6,684)          |
| (3,754)                        | Upward revaluation of assets  | (4,155)          |
|                                | 324 Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services  | 2,229            |
| (3,430)                        | Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | (1,926)          |
|                                | 36 Difference between fair value depreciation and historical cost depreciation  | 8                |
| 36                             | Amount written off to the Capital Adjustment Account  | 8                |
| (6,684)                        | <b>Balance at 31 March</b>  | <b>(8,602)</b>   |

*The balance b/fwd for 2012/13 has been restated by £43,000 cr to correct the record of historic cost and current cost depreciation within the fixed asset account. The contra entry is in the Capital Adjustment Account also within Unusable Reserves. There is no impact on the Council's finances or Balance Sheet. See note 37.*

### **Capital Adjustment Account**

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on 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.

| 2012/13<br>(restated)<br>£'000   | 2013/14<br>£'000 |
|--|------------------|
| <b>(72,848)</b>  | <b>(65,164)</b>  |
| Balance at 1 April   |                  |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:                                   |                  |
| 3,304 Charges for depreciation, impairment of noncurrent assets  | 3,546            |
| 1,340 Revaluation losses on Property, Plant and Equipment  | 244              |
| 82 Amortisation of intangible assets   | 90               |
| 968 Revenue expenditure funded from capital under statute  | 888              |
| 5,267 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 | 1,573            |
| <b>10,961</b>  | <b>6,341</b>     |
| <b>(36)</b>  | <b>(8)</b>       |
| Adjusting amounts written out of the Revaluation Reserve   |                  |
| <b>10,925</b>  | <b>6,333</b>     |
| <b>Net written out amount of the cost of non-current assets consumed in the year</b>   |                  |
| Capital financing applied in the year:   |                  |
| <b>(1,263)</b>   | <b>(249)</b>     |
| Use of the Capital Receipts Reserve to finance new capital expenditure and reduce CFR  |                  |
| <b>(2,362)</b>   | <b>(2,400)</b>   |
| Use of the Major Repairs Reserve to finance new capital expenditure  |                  |
| <b>(590)</b>   | <b>(409)</b>     |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing                    |                  |
| <b>(486)</b>   | <b>(604)</b>     |
| Application of grants to capital financing from the Capital Grants Unapplied Account   |                  |
| <b>(420)</b>   | <b>(570)</b>     |
| Statutory provision for the financing of capital investment charged against the General Fund and HRA balances  |                  |
| <b>(949)</b>   | <b>(1,156)</b>   |
| Capital expenditure charged against the General Fund and HRA balances  |                  |
| <b>(6,070)</b>   | <b>(5,388)</b>   |
| <b>2,829</b>   | <b>576</b>       |
| <b>Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement</b>                        |                  |
| <b>(65,164)</b>  | <b>(63,643)</b>  |
| <b>Balance at 31 March</b>   |                  |

*The balance b/fwd for 2012/13 has been restated by £43,000 dr to correct the record of historic cost and current cost depreciation within the fixed asset account. The contra entry is in the Revaluation Reserve also within Unusable Reserves. There is no impact on the Council's finances or Balance Sheet.*

### **Deferred Capital Receipts**

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.

| 2012/13<br>£'000  | 2013/14<br>£'000 |
|---|------------------|
| (5,696) Balance at 1 April  | (5,511)          |
| 185 Transfer to the Capital Receipts Reserve upon receipt of cash | 33               |
| <b>(5,511) Balance at 31 March</b>                                | <b>(5,478)</b>   |

### Pensions Reserve

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

| 2012/13<br>£'000   | 2013/14<br>£'000 |
|--|------------------|
| 40,230 Balance at 1 April  | 44,640           |
| 2,710 Remeasurements of the net defined benefit liability/(asset)  | (12,970)         |
| 3,290 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 | 3,490            |
| (1,590) Employer's pensions contributions and direct payments to pensioners payable in the year  | (1,550)          |
| <b>44,640 Balance at 31 March</b>  | <b>33,610</b>    |

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic 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

| 2012/13<br>£'000  | 2013/14<br>£'000 |
|---|------------------|
| (8) Balance at 1 April  | 29               |
| 37 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 | (221)            |
| <b>29 Balance at 31 March</b>   | <b>(192)</b>     |

### Accumulated Absences Account

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

| 2012/13<br>£'000  | 2013/14<br>£'000 |
|---|------------------|
| 177 Balance at 1 April  | 190              |
| (177) Settlement or cancellation of accrual made at the end of the preceding year | (190)            |
| 190 Amounts accrued at the end of the current year                                | 141              |
| <b>190 Balance at 31 March</b>  | <b>141</b>       |

### 23. Reconciliation with amounts reported internally

The purpose of this note is to reconcile the financial information reported internally to that reported in the Comprehensive Income and Expenditure Statement.

Decisions about resource allocation – particularly budget approval – are mainly taken by the council's elected members at full council and boards on the basis of the budget being presented on a Board and Service basis in accordance with the Council's constitution.

The budget includes all financial costs and income estimated to affect the Council's overall finances while items such as the cost of retirement benefits and asset revaluations and impairments are excluded from the budget preparation and monitoring processes. These items - while being included in the Comprehensive Income and Expenditure Statement in the Statement of Accounts at year end – do not impact on the council tax levy.

Resource allocation and control during the financial year is by exception reporting to Council management team and leadership with further, generally quarterly, reports to Policy and Organisation board as necessary. These reports are generally presented as a summarised list of revenue variances together with a more detailed capital programme review. Budget monitors are available to all members through the Members Information Bulletins (MIBs).

The outturn position for 2013/14 is being reported to members in the same format as the approved budget. Reconciling the approved and reported budgets - which provide the basis of budget monitoring and control and resource allocation - to that shown in the financial statements is complicated because as outlined above certain income and expenditure items are shown in different ways and in different places between the two documents. Some items have a financial impact on the council's finances and some do not.

The analysis of income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified in the Service Reporting Code of Practice (SerCOP).

The tables below show for 2013/14 and 2012/13

1. A subjective analysis of the Comprehensive Income and Expenditure Statement (ie an analysis by type of expenditure eg employees, premises) and
2. A reconciliation showing the movement between the Board based reports to members and the Comprehensive Income and Expenditure Statements in the Statement of Accounts

| <b>2013/14 - Subjective analysis of Comprehensive Income &amp; Expenditure Statement</b> | <b>Cost of Services</b> | <b>Other Operating Expenditure</b> | <b>Financing and Investment Income &amp; Expenditure</b> | <b>Taxation &amp; Non Specific Grant Income</b> | <b>Total</b>    |
|--|-------------------------|------------------------------------|--|---|-----------------|
|  | <b>£'000</b>            | <b>£'000</b>                       | <b>£'000</b>   | <b>£'000</b>                                    | <b>£'000</b>    |
| Employees  | 1,808                   | 0                                  | 0  | 0   | 1,808           |
| Premises   | 4,302                   | 0                                  | 253  | 0   | 4,555           |
| Transport  | 59                      | 0                                  | 0  | 0   | 59              |
| Supplies & Services  | 5,409                   | 0                                  | 0  | 0   | 5,409           |
| Third Party Payments   | 3,838                   | 0                                  | 0  | 0   | 3,838           |
| Transfer Payments  | 30,365                  | 0                                  | 0  | 0   | 30,365          |
| Support Services   | 9,196                   | 0                                  | 1,880  | 0   | 11,076          |
| Capital/Financing  | 4,590                   | 291                                | 4,701  | 0   | 9,582           |
|  | <b>59,567</b>           | <b>291</b>                         | <b>6,834</b>   | <b>0</b>  | <b>66,692</b>   |
| Income   | <b>(51,803)</b>         | 0                                  | <b>(2,754)</b>   | <b>(11,364)</b>                                 | <b>(65,921)</b> |
|  | <b>7,764</b>            | <b>291</b>                         | <b>4,080</b>   | <b>(11,364)</b>                                 | <b>771</b>      |

| 2013/14 - Reconciliation of reporting in Council Board structure & the CI&E Statement |                    |                             |   |                               |                                  |                         |
|---|--------------------|-----------------------------|---|-------------------------------|----------------------------------|-------------------------|
|   | GF Board Structure | Other Operating Expenditure | Financing & Investment Income & Expenditure | Taxation & Non Specific Grant | Movement in Reserves, Collection | SerCOP Cost of Services |
|   | £'000              | £'000                       | £'000                                       | £'000                         | £'000                            | £'000                   |
| Community Economic Development  | 5,932              |                             | 331   |                               |                                  | 6,263                   |
| Policy & Organisation   | 861                |                             | (86)  |                               |                                  | 775                     |
|   | 2,333              | (48)                        | (1,849)                                     | 1,245                         | 2,378                            | 4,059                   |
|   | <b>9,126</b>       | <b>(48)</b>                 | <b>(1,604)</b>                              | <b>1,245</b>                  | <b>2,378</b>                     | <b>11,097</b>           |
| Reserves  | 782                |                             |   |                               | (782)                            | 0                       |
|   | <b>9,908</b>       | <b>(48)</b>                 | <b>(1,604)</b>                              | <b>1,245</b>                  | <b>1,596</b>                     | <b>11,097</b>           |
| SerCOP Structure  |                    |                             |   |                               |                                  |                         |
|   | £'000              | £'000                       | £'000                                       | £'000                         | £'000                            | £'000                   |
| Cost of Services  | 11,097             |                             |   |                               | 96                               | 11,193                  |
| Other Operating Expenditure   | 0                  | 48                          |   |                               |                                  | 48                      |
| Financing and Investment income and Expenditure                                       | 0                  |                             | 1,604                                       |                               |                                  | 1,604                   |
| Taxation and Non Specific Grant Income  | 0                  |                             |   | (11,364)                      |                                  | (11,364)                |
| Surplus or Deficit on the Provision of Services                                       | <b>11,097</b>      | <b>48</b>                   | <b>1,604</b>                                | <b>(11,364)</b>               | <b>96</b>                        | <b>1,481</b>            |
|   |                    |                             |   |                               |                                  | <b>(710)</b>            |
|   |                    |                             |   |                               |                                  | <b>771</b>              |

| 2012/13 - Subjective analysis of Comprehensive Income & Expenditure Statement |                  |                             |   |                                      |                 |
|---|------------------|-----------------------------|---|--------------------------------------|-----------------|
|   | Cost of Services | Other Operating Expenditure | Financing and Investment Income & Expenditure | Taxation & Non Specific Grant Income | Total           |
|   | £'000            | £'000                       | £'000   | £'000                                | £'000           |
| Employees   | 1,678            | 0                           | 0   | 0                                    | 1,678           |
| Premises  | 4,416            | 0                           | 282   | 0                                    | 4,698           |
| Transport   | 65               | 0                           | 0   | 0                                    | 65              |
| Supplies & Services   | 5,692            | 0                           | 0   | 0                                    | 5,692           |
| Third Party Payments  | 3,837            | 0                           | 0   | 0                                    | 3,837           |
| Transfer Payments   | 35,246           | 0                           | 0   | 0                                    | 35,246          |
| Support Services  | 9,009            | 0                           | 1,840   | 0                                    | 10,849          |
| Capital/Financing   | 3,206            | 3,897                       | 7,000   | 0                                    | 14,103          |
|   | <b>63,149</b>    | <b>3,897</b>                | <b>9,122</b>                                  | <b>0</b>                             | <b>76,168</b>   |
| Income  | <b>(53,744)</b>  | <b>0</b>                    | <b>(2,833)</b>                                | <b>(11,334)</b>                      | <b>(67,911)</b> |
|   | <b>9,405</b>     | <b>3,897</b>                | <b>6,289</b>                                  | <b>(11,334)</b>                      | <b>8,257</b>    |



| <b>2012/13 Senior Officer emoluments - Salaries more than £50,000 but less than £150,000 per year</b> |       |                                  |          |                    |                                 |                  |  |                       |  |   |
|---|-------|----------------------------------|----------|--------------------|---------------------------------|------------------|--|-----------------------|--|---|
| Post Title  | Notes | Salary<br>(Including Allowances) | Bonuses  | Expense Allowances | Compensation for loss of office | Benefits in Kind | Total Remuneration excluding pension contributions 2012/13 | Pension Contributions | Total Remuneration including pension contributions 2012/13 |   |
|   |       | £                                | £        | £                  | £                               | £                | £  | £                     | £  | £ |
| Chief Executive   |       | 92,019                           | -        | -                  | -                               | 342              | 92,361   | 11,812                | 104,173  |   |
| Deputy Chief Executive & Borough Treasurer  | 1     | 25,055                           | -        | -                  | -                               | -                | 25,055   | 3,262                 | 28,317   |   |
| Borough Solicitor & Deputy Chief Executive  | 2     | 81,187                           | -        | -                  | -                               | -                | 81,187   | 10,125                | 91,312   |   |
| Financial Services Manager  | 3     | 21,766                           | -        | -                  | -                               | -                | 21,766   | 2,812                 | 24,578   |   |
| Borough Treasurer   | 4     | 45,029                           | -        | -                  | -                               | -                | 45,029   | 5,825                 | 50,854   |   |
| Housing Services Manager  | 5     | 49,415                           | -        | -                  | -                               | -                | 49,415   | 6,425                 | 55,840   |   |
| Community and Customer Services Manager   |       | 71,305                           | -        | -                  | -                               | -                | 71,305   | 9,282                 | 80,587   |   |
|   |       | <b>385,776</b>                   | <b>0</b> | <b>0</b>           | <b>0</b>                        | <b>342</b>       | <b>386,118</b>   | <b>49,543</b>         | <b>435,661</b>   |   |

1. The Deputy Chief Executive & Borough treasurer retired in July 2012. Consequently the post has been deleted. The fulltime equivalent salary was £74,710.

2. The Borough Solicitor became the Borough Solicitor & Deputy Chief Executive on 01/04/2012. Returning Officer fees of £2,956 are included in the total.

3. The Financial Services Manager post was deleted on 31/07/2012. The full time equivalent salary was £64,404.

4. The post of Borough Treasurer was created on 01/08/2012. The full time equivalent salary is £66,696.

5. The Housing Services Manager post was vacant until 28/05/12. The full time equivalent salary is £59,364.

| <b>2013/14 Senior Officer emoluments - Salaries more than £50,000 but less than £150,000 per year</b> |       |                                  |          |                    |                                 |                  |  |                       |  |   |
|---|-------|----------------------------------|----------|--------------------|---------------------------------|------------------|--|-----------------------|--|---|
| Post Title  | Notes | Salary<br>(Including Allowances) | Bonuses  | Expense Allowances | Compensation for loss of office | Benefits in Kind | Total Remuneration excluding pension contributions 2013/14 | Pension Contributions | Total Remuneration including pension contributions 2013/14 |   |
|   |       | £                                | £        | £                  | £                               | £                | £  | £                     | £  | £ |
| Chief Executive   |       | 93,051                           | -        | -                  | -                               | -                | 93,051   | 11,930                | 104,981  |   |
| Borough Solicitor & Deputy Chief Executive  | 1     | 79,420                           | -        | -                  | -                               | -                | 79,420   | 10,225                | 89,645   |   |
| Borough Treasurer   |       | 69,164                           | -        | -                  | -                               | -                | 69,164   | 9,007                 | 78,171   |   |
| Housing Services Manager  |       | 60,329                           | -        | -                  | -                               | -                | 60,329   | 7,855                 | 68,184   |   |
| Community and Customer Services Manager   | 2     | 47,314                           | -        | -                  | -                               | -                | 47,314   | 5,468                 | 52,782   |   |
|   |       | <b>349,278</b>                   | <b>0</b> | <b>0</b>           | <b>0</b>                        | <b>0</b>         | <b>349,278</b>   | <b>44,485</b>         | <b>393,763</b>   |   |

1. Returning Officer fees of £741.00 are included in the total.

2. The Community & Customer Services Manager post was deleted on 31/10/2013. The full time equivalent salary was £71,704.

## 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 |                  |
|--|-----------------------------------|-----------|-----------------------------------|----------|--|-----------|--|------------------|
|  | 2012/13                           | 2013/14   | 2012/13                           | 2013/14  | 2012/13                                    | 2013/14   | 2012/13<br>£'000                         | 2013/14<br>£'000 |
| £0 - £20,000                               | 3                                 | 13        | 0                                 | 0        | 3  | 13        | 10                                       | 119              |
| £20,001 - £40,000                          | 1                                 | 5         | 0                                 | 0        | 1  | 5         | 33                                       | 155              |
| £40,001 - £60,000                          | 0                                 | 1         | 0                                 | 0        | 0  | 1         | 0  | 45               |
| £60,001 - £80,000                          | 0                                 | 0         | 0                                 | 0        | 0  | 0         | 0  | 0                |
| £80,001 - £100,000                         | 0                                 | 0         | 0                                 | 0        | 0  | 0         | 0  | 0                |
| £100,001 - £150,000                        | 0                                 | 0         | 0                                 | 0        | 0  | 0         | 0  | 0                |
|  | <b>4</b>                          | <b>19</b> | <b>0</b>                          | <b>0</b> | <b>4</b>                                   | <b>19</b> | <b>43</b>                                | <b>319</b>       |

The Authority terminated the contracts of 19 employees in 2013/14 (4 in 2012/13), incurring liabilities of £319,000 (£43,000 in 2012/13). This includes both payments to the Local Government Pension Scheme and severance payments and has been largely financed by contributions from the Revenue Financing Reserve and salary savings achieved in the year.

## 26. External Audit Costs

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

| 2012/13<br>£000   | 2013/14<br>£000 |
|---|-----------------|
| Fee payable to Ernst & Young with regard to external audit services carried out by appointed auditors |                 |
| 70 External audit services  | 70              |
| 21 Certification of grant claims and returns  | 20              |
| <b>91</b>   | <b>90</b>       |

## 27. Grant Income

The Authority credited the grants and contributions shown in the table on page 69 to the Comprehensive Income and Expenditure Statement in 2013/14.

In addition to the grants received and / or applied in 2013/14 which were not subject to any outstanding conditions described above, the council also holds £1.426 million as at 31 March 2014 (£1.827 million as at 31 March 2013) of developers' contributions which are shown as Grants and Contributions Receipts in Advance in the Balance Sheet. These grants and contributions are categorised as liabilities because 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 and the sums are available to spend on appropriate capital schemes – at which point the liability will cease and the sums will be accounted for through the Comprehensive Income and Expenditure statement. An analysis of these sums is shown below

| 01-Apr-12<br>(restated)<br>£'000            | 31-Mar-13<br>(restated)<br>£'000 |                                      | 31-Mar-14<br>£'000 |
|---|----------------------------------|--------------------------------------|--------------------|
| <b>Receipts in Advance - Revenue Grants</b> |                                  |                                      |                    |
| 0   | 0                                | INSPIRE Annex III New Burden funding | (7)                |
| <b>0</b>                                    | <b>0</b>                         |                                      | <b>(7)</b>         |
| <b>Receipts in Advance - Capital Grants</b> |                                  |                                      |                    |
| (569)                                       | (394)                            | Affordable Housing                   | (10)               |
| (1,204)                                     | (999)                            | Open Spaces and Play Areas           | (857)              |
| (137)                                       | (137)                            | Nimrod Drive Footpath                | (137)              |
| (215)                                       | (271)                            | Transport Contributions              | (359)              |
| (84)  | (26)                             | Other grants and contributions       | (63)               |
| <b>(2,209)</b>                              | <b>(1,827)</b>                   |                                      | <b>(1,426)</b>     |

*The opening and closing balances for 2012/13 have been restated to disclose the correct classification of Transport Contributions held by the Council which were previously included under Short Term Creditors (note 18). but which should have been included under Receipts in Advance – Capital Grants See note 37. There is no effect on the Council's finances.*

| 2012/13<br>(restated)<br>£000   | Grant Income                                  | 2013/14<br>£000 |
|---|---|-----------------|
| <b>Included in Taxation and Non Specific Grant Income</b>                                   |   |                 |
| <u>Non-Ringfenced Government Grants</u>   |   |                 |
| Department for Communities and Local Government:  |   |                 |
| (4,792)   | Distribution from NNDR Pool                   | -               |
| (93)  | Revenue Support Grant                         | (3,289)         |
| (140)   | Council Tax Freeze Grant                      | (56)            |
| (227)   | New Homes Bonus Grant                         | (498)           |
| (87)  | Preventing Homeless                           | -               |
| (110)   | New Burdens Grants & Town Team Partnership    | (86)            |
| -   | Capitalisation Provision Redistribution Grant | (17)            |
| -   | Section 31 - Small Business Rate Relief       | (259)           |
| -   | Enterprise Zone                               | (110)           |
| Department for Work and Pensions  |   |                 |
| (37)  | Benefits Transition & Council Tax Reform      | (21)            |
| <b>(5,486)</b>  |   | <b>(4,336)</b>  |
| <u>Capital Grants and Contributions</u>   |   |                 |
| (227)   | Developers Contributions - Open Spaces        | (197)           |
| (4)   | Other Contributions                           | -               |
| <b>(231)</b>  |   | <b>(197)</b>    |
| <b>Service Specific Revenue Grants and Contributions<br/>(included in cost of services)</b> |   |                 |
| <u>Department for Work and Pensions</u>   |   |                 |
| (35,384)  | HB / CTB Subsidy                              | (30,237)        |
| (696)   | HB / CTB Administration                       | (664)           |
| <u>Developers Contributions (Section 106)</u>   |   |                 |
| (175)   | Affordable housing                            | (384)           |
| <u>Environment Agency</u>   |   |                 |
| (155)   | Coast Protection                              | (156)           |
| <u>Department of Energy and Climate Change</u>  |   |                 |
| (149)   | Fuel Poverty Grant                            | -               |
| <u>Department for Communities and Local Government</u>                                      |   |                 |
| (372)   | Disabled Facilities Grant                     | (275)           |
| (84)  | NNDR Cost of Collection                       | (82)            |
| (15)  | High Street Innovations Grant                 | -               |
| <b>(37,030)</b>   |   | <b>(31,798)</b> |

*The Grants note for 2012/13 has been restated to correct the inclusion of the Benefits Admin Grant as a service specific, rather than general, grant. See note 37. There is no effect on the Council's finances*

## 28. 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 the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (eg council tax bills, housing benefits). Grants received from government departments are included in note 27.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in note 24. Except for the instance below, there were no related party transactions during the year by members of the Council. As approved by Policy and Organisation Board in 2003, Councillor Hook and Mrs Hook entered into an agreement in 2004/05 with the council for the rent and insurance of office accommodation in their ownership for the provision of council services. The agreement was made in full compliance with the Council's standing orders and with proper declaration of interest. A payment of £12,250 was made to surrender the lease from 11 November 2013 and the value of rental payments from 1 April 2013 to 10 November 2013 was £5,251

### Officers

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

### Gosport and Fareham Building Control Partnership

The Gosport and Fareham Building Control Partnership provides building control services to both Fareham and Gosport Borough Council. The Partnership has been in operation since 2003. During 2013/14, the Partnership charged Gosport Borough Council £157,931 (£146,911 in 2012/13) for statutory building control services. The Partnership has a policy of dividing generated surpluses between the two authorities based on fee generating work in each Authority area. At 31 March 2014, the balance of retained surplus for future investment in the service held by Fareham Borough Council was £77,378 (£66,903 in 2012/13) and £55,076 (£48,389 in 2012/13) held by Gosport Borough Council.

### Regional Growth Fund – Daedalus Business Park

The Council is the accountable body for administering the Regional Growth Fund (RGF) awarded by the Secretary of State for Business, Innovation and Skills. At 31 March 2014, £2.066 million was included in the balance sheet under Short Term Creditors in respect of RGF monies held but not yet distributed. This sum will be distributed on behalf of the Local Enterprise Partnership as grants or there is a remote possibility that any balance may become repayable with interest to the government

### Other Public Bodies

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

| <b>2012/13</b>                          |                                       | <b>2013/14</b> |
|---|---------------------------------------|----------------|
| <b>£000</b>                             |                                       | <b>£000</b>    |
| 28,781 Hampshire County Council         | Precept payments                      | 25,462         |
| 1,590 Hampshire County Council          | Pension Fund payments                 | 1,550          |
| 4,056 Hampshire Police Authority        | Precept payments                      | 3,711          |
| 1,702 Hampshire Fire & Rescue Authority | Precept payments                      | 1,506          |
| 254 Building Control Partnership        | Payments to Fareham Borough Council   | 225            |
| (330) Building Control Partnership      | Income from Fareham Borough Council   | (337)          |
| (43) Internal Audit Partnership         | Income from Eastleigh Borough Council | (50)           |

Entities controlled or significantly influenced by the Council

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.

Portchester Crematorium

The crematorium is a jointly controlled operation 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 2013/14 the Council received £150,000 (£150,000 in 2012/13) 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 2013/14 are shown below

| 2012/13<br>£'000                                     | 2013/14<br>£'000 |
|--|------------------|
| <b>Portchester Crematorium - Gosport share (25%)</b> |                  |
| 1,455 Long Term Assets                               | 1,850            |
| 227 Current Assets                                   | 291              |
| (29) Current Liabilities                             | (18)             |
| (240) Long Term Liabilities                          | (162)            |
| (198) Usable Reserves                                | (273)            |
| (1,215) Unusable Reserves                            | (1,688)          |
| <b>0</b>   | <b>0</b>         |
| (544) Income   | (542)            |
| 702 Expenditure                                      | 474              |

## 29. 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 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 Authority, 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.

| 2012/13<br>£'000  | 2013/14<br>£'000 |
|---|------------------|
| <b>76,366 Opening Capital Financing Requirement</b>   | <b>81,418</b>    |
| Capital Investment  |                  |
| 10,021 Plant, Property & Equipment  | 4,212            |
| 23 Investment Properties  | 36               |
| 111 Intangible Assets   | 89               |
| 968 Revenue Expenditure funded from Capital under Statute   | 888              |
| Sources of Finance  |                  |
| (1,237) Capital Receipts  | (222)            |
| (1,076) Government Grants & Other Contributions   | (1,013)          |
| (3,312) HRA Revenue Financing / Major Repairs Reserve   | (3,556)          |
| Other Adjustments   |                  |
| (26) Finance lease principal repayments   | (27)             |
| (420) Sum set aside from Revenue (MRP)  | (570)            |
| <b>81,418 Closing Capital Financing Requirement</b>   | <b>81,255</b>    |
| <b>Explanation of Movements in year</b>   |                  |
| 5,498 Increase in underlying need to borrow (unsupported by Government financial assistance)              | 434              |
| (446) Increase / (Decrease) in underlying need to borrow due to refinancing, MRP & Finance Lease payments | (597)            |
| <b>5,052 Increase / (decrease) in Capital Financing Requirement</b>                                       | <b>(163)</b>     |

### 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<br>1 April | Expenditure | Charged to<br>Revenue | Balance at<br>31 March |
|-----------------------|-----------------------|-------------|-----------------------|------------------------|
|                       | £'000                 | £'000       | £'000                 | £'000                  |
| Affordable Housing    | 0                     | 384         | (384)                 | 0                      |
| Housing Grants        | 0                     | 330         | (330)                 | 0                      |
| Other Capital Schemes | 0                     | 174         | (174)                 | 0                      |
| <b>Total 2013/14</b>  | <b>0</b>              | <b>888</b>  | <b>(888)</b>          | <b>0</b>               |
| <b>Total 2012/13</b>  | <b>0</b>              | <b>968</b>  | <b>(968)</b>          | <b>0</b>               |

### 30. Leases

#### Authority as Lessee

##### Finance Leases

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:

|  | 01-Apr-12<br>£'000 | 31-Mar-13<br>£'000 | 31-Mar-14<br>£'000 |
|--|--------------------|--------------------|--------------------|
| Vehicles, Plant, Furniture and Equipment | 80                 | 40                 | 0                  |
|  | <u>80</u>          | <u>40</u>          | <u>0</u>           |

The Authority 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 Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts.

|                                       | 01-Apr-12<br>£'000 | 31-Mar-13<br>£'000 | 31-Mar-14<br>£'000 |
|---------------------------------------|--------------------|--------------------|--------------------|
| Finance lease liabilities             |                    |                    |                    |
| current                               | 41                 | 42                 | 0                  |
| non current                           | 42                 | 0                  | 0                  |
| Finance costs payable in future years | 4                  | 1                  | 0                  |
| Minimum lease payments                | <u>87</u>          | <u>43</u>          | <u>0</u>           |

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

|                       | Minimum Lease Payments |                    |                    | Finance Lease Payments |                    |                    |
|-----------------------|------------------------|--------------------|--------------------|------------------------|--------------------|--------------------|
|                       | 01-Apr-12<br>£'000     | 31-Mar-13<br>£'000 | 31-Mar-14<br>£'000 | 01-Apr-12<br>£'000     | 31-Mar-13<br>£'000 | 31-Mar-14<br>£'000 |
| Not later than one    | 43                     | 43                 | 0                  | 41                     | 42                 | 0                  |
| Later than one year   | 44                     | 0                  | 0                  | 42                     | 0                  | 0                  |
| Later than five years | 0                      | 0                  | 0                  | 0                      | 0                  | 0                  |
|                       | <u>87</u>              | <u>43</u>          | <u>0</u>           | <u>83</u>              | <u>42</u>          | <u>0</u>           |

##### Operating Leases

The Authority has lease arrangements for vehicles and data link lines.

The future estimated minimum lease payments are:

|   | 01-Apr-12<br>£'000 | 31-Mar-13<br>£'000 | 31-Mar-14<br>£'000 |
|---|--------------------|--------------------|--------------------|
| Not later than one year                           | 25                 | 33                 | 35                 |
| Later than one year and not later than five years | 32                 | 46                 | 57                 |
| Later than five years                             | 7                  | 7                  | 7                  |
|   | <u>64</u>          | <u>86</u>          | <u>99</u>          |

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-13<br>£'000 | 31-Mar-14<br>£'000 |
|------------------------|--------------------|--------------------|
| Minimum lease payments | <u>40</u>          | <u>35</u>          |
|                        | <u>40</u>          | <u>35</u>          |

**Authority 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.

|                               | 01-Apr-12<br>£'000 | 31-Mar-13<br>£'000 | 31-Mar-14<br>£'000 |
|-------------------------------|--------------------|--------------------|--------------------|
| Finance lease debtor          |                    |                    |                    |
| current                       | 26                 | 27                 | 29                 |
| non current                   | 4,912              | 4,885              | 4,856              |
| Unearned finance income       | 7,863              | 7,630              | 7,397              |
| Gross investment in the lease | 12,801             | 12,542             | 12,282             |

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

|                       | Gross Investment in the Lease |                    |                    | Finance Lease payments |                    |                    |
|-----------------------|-------------------------------|--------------------|--------------------|------------------------|--------------------|--------------------|
|                       | 01-Apr-12<br>£'000            | 31-Mar-13<br>£'000 | 31-Mar-14<br>£'000 | 01-Apr-12<br>£'000     | 31-Mar-13<br>£'000 | 31-Mar-14<br>£'000 |
| Not later than one    | 260                           | 260                | 260                | 260                    | 260                | 260                |
| Later than one year   | 1,040                         | 1,040              | 1,040              | 1,040                  | 1,040              | 1,040              |
| Later than five years | 11,501                        | 11,242             | 10,982             | 11,501                 | 11,242             | 10,982             |
|                       | 12,801                        | 12,542             | 12,282             | 12,801                 | 12,542             | 12,282             |

**Operating Leases**

The Authority 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:

|   | 01-Apr-12<br>£'000 | 31-Mar-13<br>£'000 | 31-Mar-14<br>£'000 |
|---|--------------------|--------------------|--------------------|
| Not later than one year                           | 531                | 556                | 534                |
| Later than one year and not later than five years | 2,125              | 2,222              | 2,136              |
| Later than five years                             | 16,449             | 15,467             | 15,392             |
|   | 19,105             | 18,245             | 18,062             |

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.

## 31. Defined Benefit Pension Scheme

### 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.

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 contributions to be paid until the date the next actuarial valuation of the Fund is available are set out in the Rates and Adjustment Certificate.

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

**Unfunded** - the unfunded pension arrangements established by Gosport Borough Council comprise 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

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

### Contributions for the accounting period ending 31 March 2015

- **Funded** - the Employer's regular contributions to the Fund for the accounting period 31 March 2015 are estimated to be £1.40m. 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** - in the accounting period ending 31 March 2015 the Employer expects to pay £0.21m directly to beneficiaries

### Revision to IAS19

A revised version of IAS19 came into effect for the accounting periods commencing on or after 1 January 2013. The disclosures below have therefore been calculated under the revised IAS19 (IAS 19R) including the restated 2012/13 figures where necessary.

The key changes are:

- The interest cost and expected return on asset items have been replaced by a single 'net interest' item calculated at the discount rate.
- Additional disclosure requirements, including
  - › A requirement to provide a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.
  - › Disclosure of assets held split by those assets which have a quoted market value in an active market and those which are not quoted.
- There are also a number of smaller changes such as where scheme expenses are recognised.

### 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 via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year

| 2012/13   |                        | Transactions relating to Post-employment Benefits  | 2013/14         |              |
|---|------------------------|--|-----------------|--------------|
| Funded (restated) £m  | Unfunded (restated) £m |  | Funded £m       | Unfunded £m  |
| <b>Comprehensive Income and Expenditure Statement</b>   |                        |  |                 |              |
| <b>Cost of Services</b>   |                        |  |                 |              |
| 1,410   |                        | Current service costs  | 1,580           |              |
| 40  |                        | Past service costs   | 30              |              |
| <b>Financing and Investment Income and Expenditure</b>  |                        |  |                 |              |
| 1,710   | 130                    | Interest on net defined benefit liability  | 1,760           | 120          |
| <b>3,160</b>  | <b>130</b>             | <b>Pension expense recognised in the Surplus or Deficit on the Provision of Services</b> | <b>3,370</b>    | <b>120</b>   |
| <b>Remeasurements of the Net Defined Liability, comprising</b>  |                        |  |                 |              |
| (4,970)   |                        | 0 Return on plan assets (in excess of) / below that recognised in net interest           | (3,270)         | 0            |
| 7,590   | 220                    | Actuarial (gains) / losses due to change in financial assumptions                        | (7,820)         | (140)        |
| 0   | 0                      | Actuarial (gains) / losses due to changes in demographic assumptions                     | (970)           | 80           |
| (120)   | (10)                   | Actuarial (gains) / losses due to liability experience                                   | (810)           | (40)         |
| <b>2,500</b>  | <b>210</b>             | <b>Total amount recognised in Other Comprehensive Income and Expenditure</b>             | <b>(12,870)</b> | <b>(100)</b> |
| <b>5,660</b>  | <b>340</b>             | <b>Total amount recognised</b>   | <b>(9,500)</b>  | <b>20</b>    |
| <b>(3,160)</b>  | <b>(130)</b>           | <b>Movement in Reserves Statement</b>  | <b>(3,370)</b>  | <b>(120)</b> |
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code |                        |  |                 |              |
| <b>Actual amount charged against the General Fund Balance for pensions in the year</b>  |                        |  |                 |              |
| <b>1,390</b>  |                        | Employers' contributions payable to scheme   | <b>1,350</b>    |              |
|   | <b>200</b>             | Retirement benefits payable to pensioners  |                 | <b>200</b>   |

## Assumptions

The latest actuarial valuation of Gosport Borough Council's funded liabilities and unfunded LGPS benefits took place as at 31 March 2013 and 31 March 2014 respectively. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were

| 2012/13   |   | 2013/14 |
|---|---|---------|
| <b><u>Principal financial assumptions (% per annum)</u></b> |   |         |
| <b><u>Funded</u></b>  |   |         |
| 4.3%  | Discount rate   | 4.3%    |
| 3.6%  | RPI Inflation   | 3.3%    |
| 2.7%  | CPI Inflation   | 2.3%    |
| 2.7%  | Rate of increase to pensions in payment *   | 2.3%    |
| 2.7%  | Rate of increase to deferred pensions   | 2.3%    |
| 4.6%  | Rate of general increase in salaries **   | 3.8%    |
|   | * In excess of Guaranteed Minimum Pension increases in payment where appropriate  |         |
|   | ** In addition, allowance is made for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2013 |         |
| <b><u>Unfunded</u></b>                                      |   |         |
| 4.1%  | Discount rate   | 4.2%    |
| 3.5%  | RPI Inflation   | 3.2%    |
| 2.6%  | CPI Inflation   | 2.2%    |
| 2.6%  | Rate of increase to pensions in payment   | 2.2%    |

## Mortality assumptions

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements

| 2012/13  |  | 2013/14   |
|--|--|---|
| <b><u>Post retirement mortality (retirement in normal health)</u></b>  |  |   |
| <b><u>Males</u></b>  |  |   |
| Standard SAPS<br>Normal Health<br>Light Amounts<br>(S1NMA_L)   | Year of Birth base table                                 | Standard SAPS<br>Normal Health<br>Light Amounts<br>(S1NMA_L)        |
| 0  | Rating to above base table * (years)                     | 0   |
| 100%   | Scaling to above base table rates                        | 100%  |
| CMI_2009 with a<br>long term rate of<br>improvement of<br>1.25% p.a.   | Improvements to base table rates                         | CMI_2012 with a<br>long term rate of<br>improvement of<br>1.5% p.a. |
| 24.0   | Future lifetime from age 65 (aged 65 at accounting date) | 24.4  |
| 25.7   | Future lifetime from age 65 (aged 45 at accounting date) | 26.5  |
| <b><u>Females</u></b>  |  |   |
| Standard SAPS<br>Normal Health<br>Light Amounts<br>(S1NFA_L)   | Year of Birth base table                                 | Standard SAPS<br>Normal Health<br>Light Amounts<br>(S1NFA_L)        |
| 0  | Rating to above base table * (years)                     | 0   |
| 100%   | Scaling to above base table rates                        | 95%   |
| CMI_2009 with a<br>long term rate of<br>improvement of<br>1.25% p.a.   | Improvements to base table rates                         | CMI_2012 with a<br>long term rate of<br>improvement of<br>1.5% p.a. |
| 25.0   | Future lifetime from age 65 (aged 65 at accounting date) | 26.2  |
| 26.9   | Future lifetime from age 65 (aged 45 at accounting date) | 28.5  |
| <p>* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.</p> |  |   |

| 2012/13   | 2013/14  |
|---|--|
| <b>Commutation (Funded only)</b>  |  |
| Each member assumed to exchange 25% of the maximum amount permitted of their pre 01 April 2010 pension entitlements, for additional lump sum. | Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum |
| Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum |  |

### Asset Allocation

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. The assets allocated to the Employer in the Fund are notional and the assets are assumed to be invested in line with the investments of the Fund set out below for the purposes of calculating the return to be applied to those notional assets. The Fund is large and largely liquid and as a consequence there will be no significant restriction on realising assets if the situation arises.

The Administering Authority does not invest in property or assets related to itself. It is possible, however, that assets may be invested in shares relating to some of the private sector employers participating in the Fund if it forms part of their balanced investment strategy.

| 31-Mar-13   | Asset Split | 31-Mar-14    |             |               |
|---|-------------|--------------|-------------|---------------|
| Total   |             | Quoted       | Unquoted    | Total         |
| 57.6% Equities  |             | 57.6%        | 3.2%        | 60.8%         |
| 7.8% Property   |             | 7.5%         | 0.0%        | 7.5%          |
| 24.9% Government Bonds  |             | 23.5%        | 0.1%        | 23.6%         |
| 1.3% Corporate Bonds  |             | 1.4%         | 0.2%        | 1.6%          |
| 2.3% Cash   |             | 3.8%         | 0.0%        | 3.8%          |
| 6.1% Other #  |             | 0.2%         | 2.5%        | 2.7%          |
| <b>100.0% Total</b>   |             | <b>94.0%</b> | <b>6.0%</b> | <b>100.0%</b> |
| <p># Other holdings may include hedge funds, currency holdings, asset allocation futures and other financial instruments. It is assumed that these will get a return in line with equities.</p> |             |              |             |               |

## Reconciliation to Balance Sheet

| 01-Apr-12<br>£m  | 31-Mar-13<br>£m |   | 31-Mar-14<br>£m |
|--|-----------------|---|-----------------|
| <b><u>Reconciliation to Balance Sheet</u></b>  |                 |   |                 |
| <b><u>Funded</u></b>   |                 |   |                 |
| 48.77  | 54.46           | Fair value of assets                                | 58.40           |
| (86.11)  | (96.07)         | Present value of funded defined benefit obligation  | (89.16)         |
| (37.34)  | (41.61)         | Funded status                                       | (30.76)         |
| 0.00   | 0.00            | Impact of minimum funding requirement/asset ceiling | 0.00            |
| (37.34)  | (41.61)         | Pension liability recognised on the Balance Sheet   | (30.76)         |
| <p>The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:</p> <p>Active members 29%</p> <p>Deferred Pensioners 13%</p> <p>Pensioners 58%</p> |                 |   |                 |
| <b><u>Unfunded</u></b>   |                 |   |                 |
| (2.89)   | (3.03)          | Present value of defined benefit obligation         | (2.85)          |
| (2.89)   | (3.03)          | Pension liability recognised on the Balance Sheet   | (2.85)          |
| (40.23)  | (44.64)         | <b>Total</b>  | <b>(33.61)</b>  |

**Breakdown of amounts recognised in Surplus or Deficit on the Provision of Services and Other Comprehensive Income and Expenditure**

| 2012/13<br>(restated)<br>£m   | 2013/14<br>£m  |
|---|----------------|
| <b><u>Funded</u></b>  |                |
| <b><u>Operating Cost</u></b>  |                |
| 1.41 Current service cost #   | 1.58           |
| 0.04 Past service cost  | 0.03           |
| <b><u>Financing Cost</u></b>  |                |
| 1.71 Interest on net defined benefit liability  | 1.76           |
| <b>3.16 Pension expense recognised in Surplus or Deficit on the Provision of Services</b> | <b>3.37</b>    |
| <b><u>Remeasurements in Other Comprehensive Income and Expenditure</u></b>                |                |
| (4.97) Return on plan assets in excess of that recognised in net interest                 | (3.27)         |
| 7.59 Actuarial (gains)/losses due to change in financial assumptions                      | (7.82)         |
| 0.00 Actuarial (gains)/losses due to changes in demographic assumptions                   | (0.97)         |
| (0.12) Actuarial (gains)/losses due to liability experience                               | (0.81)         |
| <b>2.50 Total amount recognised in Other Comprehensive Income and Expenditure</b>         | <b>(12.87)</b> |
| <b>5.66 Total amount recognised</b>   | <b>(9.50)</b>  |
| # The current service cost includes an allowance for administration expenses of £0.02m    |                |
| <b><u>Unfunded</u></b>  |                |
| <b><u>Operating Cost</u></b>  |                |
| 0.00 Current service cost   | 0.00           |
| 0.00 Past service cost  | 0.00           |
| <b><u>Financing Cost</u></b>  |                |
| 0.13 Interest on net defined benefit liability  | 0.12           |
| <b>0.13 Pension expense recognised in Surplus or Deficit on the Provision of Services</b> | <b>0.12</b>    |
| <b><u>Remeasurements in Other Comprehensive Income and Expenditure</u></b>                |                |
| 0.22 Actuarial (gains)/losses due to change in financial assumptions                      | (0.14)         |
| 0.00 Actuarial (gains)/losses due to changes in demographic assumptions                   | 0.08           |
| (0.01) Actuarial (gains)/losses due to liability experience                               | (0.04)         |
| <b>0.21 Total amount recognised in Other Comprehensive Income and Expenditure</b>         | <b>(0.10)</b>  |
| <b>0.34 Total amount recognised</b>   | <b>0.02</b>    |

**Changes to the present value of defined benefit obligation during the accounting period**

| 2012/13<br>(restated)<br>£m   | 2013/14<br>£m |
|---|---------------|
| <b>Funded</b>   |               |
| 86.11   | 96.07         |
| Opening defined benefit obligation  |               |
| 1.41  | 1.58          |
| Current service cost  |               |
| 3.97  | 4.07          |
| Interest expense on defined benefit obligation  |               |
| 0.44  | 0.43          |
| Contributions by participants   |               |
| 7.59  | (7.82)        |
| Actuarial (gains)/losses due to change in financial assumptions   |               |
| 0.00  | (0.97)        |
| Actuarial (gains)/losses due to changes in demographic assumptions  |               |
| (0.12)  | (0.81)        |
| Actuarial (gains)/losses due to liability experience  |               |
| (3.37)  | (3.42)        |
| Net benefits paid out #   |               |
| 0.04  | 0.03          |
| Past service cost   |               |
| <b>96.07</b>  | <b>89.16</b>  |
| <b>Closing defined benefit obligation</b>   |               |
| <b>Unfunded</b>   |               |
| 2.89  | 3.03          |
| Opening defined benefit obligation  |               |
| 0.00  | 0.00          |
| Current service cost  |               |
| 0.13  | 0.12          |
| Interest expense on defined benefit obligation  |               |
| 0.22  | (0.14)        |
| Actuarial (gains)/losses due to change in financial assumptions   |               |
| 0.00  | 0.08          |
| Actuarial (gains)/losses due to changes in demographic assumptions  |               |
| (0.01)  | (0.04)        |
| Actuarial (gains)/losses due to liability experience  |               |
| (0.20)  | (0.20)        |
| Net benefits paid out #   |               |
| <b>3.03</b>   | <b>2.85</b>   |
| <b>Closing defined benefit obligation</b>   |               |
| <p># Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums. Also includes an allowance for fund administration expenses of £0.02m</p> |               |

### Changes to the fair value of assets during the accounting period

| 2012/13<br>(restated)<br>£m   | 2013/14<br>£m |
|---|---------------|
| <b><u>Funded</u></b>  |               |
| 48.77   | 54.46         |
| 2.26  | 2.31          |
| 4.97  | 3.27          |
| 1.39  | 1.35          |
| 0.44  | 0.43          |
| (3.37)  | (3.42)        |
| <b>54.46</b>  | <b>58.40</b>  |
| <p># Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums. Also includes an allowance for fund administration expenses of £0.02m</p> |               |
| <b><u>Unfunded</u></b>  |               |
| 0.20  | 0.20          |
| (0.20)  | (0.20)        |
| <b>0.00</b>   | <b>0.00</b>   |

### Actual return on assets

| 2012/13<br>(restated)<br>£m | 2013/14<br>£m |
|-----------------------------|---------------|
| 2.26                        | 2.31          |
| 4.97                        | 3.27          |
| <b>7.23</b>                 | <b>5.58</b>   |

### Sensitivity Analysis

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

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2014 is set out below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised on page 77. For inflation, for example, it is assumed that this will not change the salary inflation figure and will affect pension increases only.

Sensitivity of unfunded benefits is not included on materiality grounds.

| <b>Funded LGPS Benefits</b>   |                 |                 |
|---|-----------------|-----------------|
| <b>Discount rate assumption</b>   |                 |                 |
| Adjustment to discount rate   | <b>+0.1% pa</b> | <b>-0.1% pa</b> |
| Present value of total obligation (£m's)  | 87.77           | 90.61           |
| % change in present value of total obligation   | -1.6%           | 1.6%            |
| <b>Rate of general increase in salaries</b>   |                 |                 |
| Adjustment to salary increase rate  | <b>+0.1% pa</b> | <b>-0.1% pa</b> |
| Present value of total obligation (£m's)  | 89.39           | 88.93           |
| % change in present value of total obligation   | 0.3%            | -0.3%           |
| <b>Rate of increase to pensions in payment and deferred pensions assumption</b>   |                 |                 |
| Adjustment to pension increase rate   | <b>+0.1% pa</b> | <b>-0.1% pa</b> |
| Present value of total obligation (£m's)  | 90.35           | 88.03           |
| % change in present value of total obligation   | 1.3%            | -1.3%           |
| <b>Post retirement mortality assumption</b>   |                 |                 |
| Adjustment to mortality age rate assumption #   | <b>-1 year</b>  | <b>+1 year</b>  |
| Present value of total obligation (£m's)  | 91.36           | 86.94           |
| % change in present value of total obligation   | 2.5%            | -2.5%           |
| # 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 |                 |                 |

## 32. 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. These matters continue to be investigated by the Environment Agency and a final report is still awaited at April 2014.

- Local Land Charges

A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have not yet been issued. The Council has estimated that the maximum value of claims could be £80,000 plus interest and costs. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

- Regional Growth Fund – Daedalus Business Park

The Council is the accountable body for administering the Regional Growth Fund (RGF) for the Daedalus Business Park. At 31 March 2014, £2.066 million was included in the balance sheet under Short Term Creditors in respect of RGF monies held but not yet distributed. It is possible

that there may be an interest cost if any grant monies received should not be distributed and instead become repayable with interest to the government.

### **33. Contingent Assets**

- VAT

In conjunction with the Council's VAT advisors, the Council has protected its position regarding VAT collected for off street car parking charges by voluntarily declaring VAT income to HM Revenues and Customs (HMRC) from 2004/05 to 2013/14. The potential recovery of this sum is dependent on the outcome of an appeal against the decision of the VAT Tribunal which ruled in favour of the HMRC. It is widely felt by advisors that the final decision will also fall in favour of the HMRC. The total VAT claim is £1,013,000. No claim has been made for any interest

- Landing Stage

The new Gosport Ferry Terminal opened on 27 June 2011. Final works and contract sums remain to be completed at 31 March 2014 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.

### **34. Events after the Balance Sheet Date**

The Draft Statement of Accounts was authorised for issue by the Borough Treasurer on 30 June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2014 as they provide information that is relevant to an understanding of the Council's financial position but do not relate to conditions at that date.

The Council has been operating a shared Environmental Health service in conjunction with Fareham Borough Council since January 2011. On 1 April 2014, the Gosport and Fareham Environmental Health teams were restructured into a single team employed by Fareham in order to deliver targeted efficiency savings of approximately £50,000 per annum for each authority.

**35. Cash Flow Statement - notes**

| 2012/13<br>(restated)<br>£000 | Adjustments to surplus or deficit on the provision of services<br>for non-cash movements | 2013/14<br>£000 |
|-------------------------------|--|-----------------|
| 4,536                         | Depreciation and Impairments   | 3,546           |
| 108                           | Impairment and Downward Valuations   | 244             |
| 82                            | Amortisation   | 90              |
| 3                             | Increase/(Decrease) in Interest Creditors  | -               |
| 260                           | Increase/(Decrease) in Creditors   | 2,006           |
| 70                            | (Increase)/Decrease in Debtors   | 1,430           |
| -                             | (Increase)/Decrease in Interest Debtors  | (1)             |
| (42)                          | Adjustment of Effective Interest Rates   | (35)            |
| 1,700                         | Movement in Pension Liability  | 1,940           |
| 5,267                         | Carrying amount of non-current assets sold   | 1,573           |
| 2,829                         | Movement in Investment Property Values   | 576             |
| 60                            | Contributions to / (from) Provisions   | 1,296           |
| <b>14,873</b>                 | <b>Net cash flow</b>   | <b>12,665</b>   |

*This Cash Flow Statement note for 2012/13 has been restated to reflect the adoption by the Code of the Pensions standard IAS19R for accounting periods starting on or after 1 January 2013. Further details are in Note 31. There is no effect on the Council's finances.*

| 2012/13<br>£000 | Net cash flow from Interest and Dividends           | 2013/14<br>£000 |
|-----------------|---|-----------------|
| 333             | Interest Received                                   | 314             |
| (2,294)         | Interest Paid                                       | (2,175)         |
| <b>(1,961)</b>  | <b>Net cash outflow from Interest and Dividends</b> | <b>(1,861)</b>  |

| 2012/13<br>£000's | Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities | 2013/14<br>£000 |
|-------------------|---|-----------------|
| (1,076)           | Capital Grants credited to surplus or deficit on the provision of services  | (1,013)         |
| (1,576)           | Proceeds from the sale of property plant and equipment, investment property and intangible assets                                   | (1,509)         |
| <b>(2,652)</b>    |   | <b>(2,522)</b>  |

| 2012/13<br>£000 | Net Cash Flow from Investing Activities  | 2013/14<br>£000 |
|-----------------|--|-----------------|
| (10,738)        | Purchase of property, plant and equipment, investment property and intangible assets               | (4,642)         |
| (2,000)         | Purchase of short-term investments   | -               |
| 1,761           | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 1,542           |
| 2,000           | Proceeds from short-term and long-term investments   | -               |
| 153             | Other receipts from investing activities   | 84              |
| 638             | Capital grants received  | 619             |
| <b>(8,186)</b>  | <b>Net cash outflow from investing activities</b>  | <b>(2,397)</b>  |

| 2012/13<br>£000 | Net Cash Flow from Financing Activities          | 2013/14<br>£000 |
|-----------------|--|-----------------|
| 18,000          | Cash receipts of short and long-term borrowing   | 5,100           |
| (1,219)         | Council Tax and NNDR adjustments                 | 2,944           |
| (9,410)         | Repayments of short and long-term borrowing      | (12,215)        |
| <b>7,371</b>    | <b>Net cash inflow from financing activities</b> | <b>(4,171)</b>  |

### **36. Certification and authorisation of the Accounts**

Statement of Accounts – unaudited draft authorised for issue

Signed

Date 18 June 2014

J. BOWCHER

Borough Treasurer, Section 151 officer

Statement of Accounts – audited statement authorised for issue

Signed

Date 29 September 2014

J. BOWCHER

Borough Treasurer, Section 151 officer

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

Signed

Date 29 September 2014

COUNCILLOR M. HOOK

Leader of the Council

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

Signed

Date 29 September 2014

J. BOWCHER

Borough Treasurer, Section 151 officer

### **37. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments have been made to the Council's 2012/13 published financial statements in relation to the following:

#### **IAS19 Change to Accounting Standard**

A revised version of IAS19 came into effect for accounting periods starting on or after 1 January 2013. This is included in the Code for 2013/14.

The key changes are:

- The interest cost and expected return on asset items have been replaced by a single 'net interest' item calculated at the discount rate.
- Additional disclosure requirements, including
  - A requirement to provide a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.
  - Disclosure of assets held split by those assets which have a quoted market value in an active market and those which are not quoted.

The Council's Accounting Policies at note 1d have been updated to reflect the change

There is no effect on the Council's balance sheet - only in the presentation within the Comprehensive Income and Expenditure Statement (CI&ES) and the Pensions note 31.

#### **Correction of errors**

##### **1. Categorisation of Transportation Contributions**

The Council holds Transport Contributions which have previously been contained within Short Term Creditors on the Balance Sheet but should correctly have been categorised under Receipts in Advance – Capital Grants as they are subject to conditions as to their use.

The opening and closing balances for 2012/13 (£215,000 and £271,000 respectively) have been moved from Short Term Creditors (note 18) to Receipts in Advance – Capital (note 27) on the Balance Sheet to provide the required comparatives for the correct treatment in the 2013/14 Balance Sheet. There is no effect on the Council's finances.

##### **2. Classification of the Benefits Administration Grant and Non Distributed Costs**

The CI&ES, the Taxation and Non Specific Grant Income note (9) and the Grants note (27) for 2012/13 have been restated to reflect the inclusion of the Benefits Admin Grant of £696,000 as a service specific rather than a general grant. The CI&ES has been amended to reflect the correct recording of Non Distributed Costs. There is no effect on the Council's finances

##### **3. Current Cost and Historic Cost Depreciation Adjustment**

The balance brought forward for 2012/13 for the 'Adjustment between current cost depreciation and historic cost depreciation' has been restated by £43,000 between the Revaluation Reserve (note 22) and the Capital Adjustment Account (also note 22) to correct the record of historic cost and current cost depreciation within the fixed asset account. There is no impact on the Council's finances or Balance Sheet.

| <b>Comprehensive Income and Expenditure Statement (£'000)</b>         | <b>Net Exp</b>   | <b>IAS19</b>         | <b>Benefits</b>      | <b>2012/13</b>   |                      |                  |
|---|------------------|----------------------|----------------------|------------------|----------------------|------------------|
|   | <b>2012/13</b>   | <b>Pensions</b>      | <b>Adm &amp; NDC</b> | <b>Restated</b>  |                      |                  |
| Central Services to the Public  | 1,551            |                      | (696)                | 855              |                      |                  |
| Cultural and Related Services   | 2,589            |                      |                      | 2,589            |                      |                  |
| Environment and Regulatory Services                                   | 3,430            |                      |                      | 3,430            |                      |                  |
| Planning Services   | 1,353            |                      |                      | 1,353            |                      |                  |
| Highways, Roads & Transport Services                                  | (105)            |                      |                      | (105)            |                      |                  |
| Housing Services  | (885)            | 70                   | 0                    | (815)            |                      |                  |
| Corporate & Democratic core   | 2,443            |                      | 0                    | 2,443            |                      |                  |
| Non Distributed Costs   | (345)            |                      | 0                    | (345)            |                      |                  |
| <b>Cost Of Services</b>   | <b>10,031</b>    | <b>70</b>            | <b>(696)</b>         | <b>9,405</b>     |                      |                  |
| Other Operating Expenditure   | 3,897            |                      |                      | 3,897            |                      |                  |
| Financing and Investment Income and Expenditure                       | 5,539            | 750                  |                      | 6,289            |                      |                  |
| Taxation and Non-Specific Grant Income                                | (12,030)         |                      | 696                  | (11,334)         |                      |                  |
| <b>Deficit on Provision of Services</b>                               | <b>7,437</b>     | <b>820</b>           | <b>0</b>             | <b>8,257</b>     |                      |                  |
| Surplus on revaluation of Property, Plant and Equipment assets        | (3,430)          |                      |                      | (3,430)          |                      |                  |
| Other recognised losses   | 5                |                      |                      | 5                |                      |                  |
| Actuarial losses on pension assets / liabilities                      | 3,530            | (820)                |                      | 2,710            |                      |                  |
| <b>Other Comprehensive Expenditure</b>                                | <b>105</b>       | <b>(820)</b>         | <b>0</b>             | <b>(715)</b>     |                      |                  |
| <b>Total Comprehensive Expenditure</b>                                | <b>7,542</b>     | <b>0</b>             | <b>0</b>             | <b>7,542</b>     |                      |                  |
| <b>Movement in Reserves Statement (£'000)</b>                         | <b>Usable</b>    | <b>IAS19</b>         |                      | <b>2012/13</b>   |                      |                  |
|   | <b>Reserves</b>  | <b>Pensions</b>      |                      | <b>Restated</b>  |                      |                  |
| <b>Balance at 31 March 2012</b>                                       | <b>(2,982)</b>   |                      |                      | <b>(2,982)</b>   |                      |                  |
| Deficit on the provision of services                                  | 7,437            | 820                  | 0                    | 8,257            |                      |                  |
| Other Comp Income and Exp (restated)                                  | 0                |                      |                      | 0                |                      |                  |
| <b>Total Comprehensive Income and Expenditure</b>                     | <b>7,437</b>     | <b>820</b>           | <b>0</b>             | <b>8,257</b>     |                      |                  |
| Adjs accg basis & funding basis under regulations (restated) (Note 9) | (8,830)          | (820)                |                      | (9,650)          |                      |                  |
| <b>Net (increase)/decrease before transfers to Earmarked Reserves</b> | <b>(1,393)</b>   | <b>0</b>             | <b>0</b>             | <b>(1,393)</b>   |                      |                  |
| Transfers to/(from) Earmarked Reserves (Note 21)                      | 0                |                      |                      | 0                |                      |                  |
| <b>Net (increase)/decrease in 2012/13</b>                             | <b>(1,393)</b>   | <b>0</b>             | <b>0</b>             | <b>(1,393)</b>   |                      |                  |
| <b>Balance at 31 March 2013</b>                                       | <b>(4,375)</b>   | <b>0</b>             | <b>0</b>             | <b>(4,375)</b>   |                      |                  |
| <b>Balance Sheet (£'000)</b>  | <b>01-Apr-12</b> | <b>Transport</b>     | <b>01-Apr-12</b>     | <b>31-Mar-13</b> | <b>Transport</b>     | <b>31-Mar-13</b> |
|   |                  | <b>Contribution:</b> | <b>Restated</b>      |                  | <b>Contribution:</b> | <b>Restated</b>  |
| Property, Plant & Equipment   | 141,733          |                      | 141,733              | 145,273          |                      | 145,273          |
| Heritage Assets   | 209              |                      | 209                  | 209              |                      | 209              |
| Investment Property   | 10,022           |                      | 10,022               | 7,216            |                      | 7,216            |
| Intangible Assets   | 540              |                      | 540                  | 569              |                      | 569              |
| Long Term Debtors   | 5,601            |                      | 5,601                | 5,567            |                      | 5,567            |
| <b>Long Term Assets</b>   | <b>158,105</b>   | <b>0</b>             | <b>158,105</b>       | <b>158,834</b>   | <b>0</b>             | <b>158,834</b>   |
| Short Term Debtors  | 6,894            |                      | 6,894                | 7,430            |                      | 7,430            |
| Cash and Cash Equivalents   | 506              |                      | 506                  | 3,655            |                      | 3,655            |
| <b>Current Assets</b>   | <b>7,400</b>     | <b>0</b>             | <b>7,400</b>         | <b>11,085</b>    | <b>0</b>             | <b>11,085</b>    |
| Short Term Borrowing  | (4,520)          |                      | (4,520)              | (11,411)         |                      | (11,411)         |
| Short Term Creditors  | (3,734)          | 215                  | (3,519)              | (3,107)          | 271                  | (2,836)          |
| Short Term Liabilities  | (41)             |                      | (41)                 | (42)             |                      | (42)             |
| Provisions  | 0                |                      | 0                    | (9)              |                      | (9)              |
| <b>Current Liabilities</b>  | <b>(8,295)</b>   | <b>215</b>           | <b>(8,080)</b>       | <b>(14,569)</b>  | <b>271</b>           | <b>(14,298)</b>  |
| Provisions  | 0                |                      | 0                    | (51)             |                      | (51)             |
| Long Term Borrowing   | (70,521)         |                      | (70,521)             | (72,228)         |                      | (72,228)         |
| Other Long Term Liabilities   | (42)             |                      | (42)                 | 0                |                      | 0                |
| Receipts in Advance - Capital Grants                                  | (1,994)          | (215)                | (2,209)              | (1,556)          | (271)                | (1,827)          |
| Net Pension Liability   | (40,230)         |                      | (40,230)             | (44,640)         |                      | (44,640)         |
| <b>Long Term Liabilities</b>  | <b>(112,787)</b> | <b>(215)</b>         | <b>(113,002)</b>     | <b>(118,475)</b> | <b>(271)</b>         | <b>(118,746)</b> |
| <b>Net Assets</b>   | <b>44,423</b>    | <b>0</b>             | <b>44,423</b>        | <b>36,875</b>    | <b>0</b>             | <b>36,875</b>    |
| Usable reserves   | (2,982)          |                      | (2,982)              | (4,375)          |                      | (4,375)          |
| Unusable Reserves   | (41,435)         |                      | (41,435)             | (32,500)         |                      | (32,500)         |
| <b>Total Reserves</b>   | <b>(44,417)</b>  | <b>0</b>             | <b>(44,417)</b>      | <b>(36,875)</b>  | <b>0</b>             | <b>(36,875)</b>  |

## 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 regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on HRA Reserves Statement

| 2012/13<br>(restated)<br>£'000 | HRA INCOME AND EXPENDITURE STATEMENT  | 2013/14<br>£'000 | 2013/14<br>£'000 |
|--------------------------------|---|------------------|------------------|
|                                | <b>EXPENDITURE</b>  |                  |                  |
| 4,321                          | Repairs & Maintenance   | 4,232            |                  |
| 3,141                          | Supervision & Management  | 3,548            |                  |
| 151                            | Rents, Rates, Taxes & Other Charges   | 357              |                  |
| 3,594                          | Depreciation, Impairment and Revaluation Losses of<br>Non Current Assets  | 2,564            |                  |
| 54                             | Debt Management Costs   | 58               |                  |
| 0                              | Movement in the Allowance for Bad or Doubtful Debts   | 53               |                  |
| <b>11,261</b>                  | <b>TOTAL EXPENDITURE</b>  |                  | <b>10,812</b>    |
|                                | <b>INCOME</b>   |                  |                  |
| (12,357)                       | Dwelling Rents  | (13,381)         |                  |
| (238)                          | Non Dwelling Rents  | (243)            |                  |
| (775)                          | Charges for Services and Facilities   | (716)            |                  |
| <b>(13,370)</b>                | <b>TOTAL INCOME</b>   |                  | <b>(14,340)</b>  |
| <b>(2,109)</b>                 | <b>NET INCOME OF HRA SERVICES AS INCLUDED<br/>IN THE WHOLE AUTHORITY INCOME AND<br/>EXPENDITURE STATEMENT</b>                         |                  | <b>(3,528)</b>   |
| 0                              | HRA Services' share of Corporate and Democratic<br>Core   |                  | 99               |
| <b>(2,109)</b>                 | <b>NET INCOME FOR HRA SERVICES</b>  |                  | <b>(3,429)</b>   |
|                                | <b>HRA SHARE OF THE OPERATING INCOME AND<br/>EXPENDITURE INCLUDED IN THE WHOLE<br/>AUTHORITY INCOME AND EXPENDITURE<br/>STATEMENT</b> |                  |                  |
| 7                              | Loss on the disposal of HRA Non-Current Assets  |                  | 13               |
| 199                            | Payments to the Governments Housing Capital<br>Receipts Pool  |                  | 230              |
| 1,882                          | Interest Payable and Similar Charges  |                  | 1,876            |
| (9)                            | Interest and Investment income  |                  | (11)             |
| 458                            | Pension interest on net defined benefit liability   |                  | 615              |
| (17)                           | Investment Properties changes in Fair Value   |                  | (4)              |
| <b>411</b>                     | <b>(SURPLUS) OR DEFICIT FOR THE YEAR ON HRA<br/>SERVICES</b>  |                  | <b>(710)</b>     |

| 2012/13<br>(restated)<br>£'000 | MOVEMENT ON THE HRA STATEMENT   | 2013/14<br>£'000 | 2013/14<br>£'000 |
|--------------------------------|---|------------------|------------------|
| (603)                          | Balance on the HRA at the end of the previous year                          |                  | (981)            |
| 411                            | (Surplus) or Deficit for the year on the HRA Income and Expenditure Account | (710)            |                  |
| (940)                          | Adjustments between accounting basis and funding basis under statute        | 0                |                  |
| (529)                          | Net increase before transfers to reserves                                   |                  | (710)            |
| 151                            | Transfers to Reserves   |                  | 699              |
| (378)                          | Increase in year on HRA   |                  | (11)             |
| (981)                          | Balance on the HRA at the end of the current year                           |                  | (992)            |

*The HRA Income and Expenditure Statement for 2012/13 has been restated to reflect the adoption by the Code of the Pensions standard IAS19R for accounting periods starting on or after 1 January 2013. Further details are in Note 31. There is no effect on the HRA's finances.*

## 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.

The amounts included in the HRA differ from those included in respect of HRA services in the Income and Expenditure Account for the authority as a whole, which includes income and expenditure in accordance with the Code rather than in accordance with statutory and non-statutory proper practices.

The HRA statement has two parts in order to reconcile these two approaches

- HRA Income and Expenditure Statement – which shows in more detail the income and expenditure on HRA services included in the whole authority Surplus or Deficit on the Provision of Services (comprising as well as the amounts included in the whole authority Net Cost of Services for the HRA, the HRA's share of amounts included in the whole authority Net Service Cost but not allocated to individual services and the HRA's share of operating expenditure and income such as the pension interest on net defined benefit liability).
- Movement on the Housing Revenue Account Statement – which shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year

Following HRA reform, the depreciation charged to the HRA in 2013/14 has been based on the Major Repairs Allowance (MRA) used in the Government self-financing buyout determination. This is permissible during a transitional period while local authorities develop asset systems that will allow

componentised depreciation to become a real charge to the Housing Revenue Account

## 2. Adjustments between Accounting and Funding bases under regulations

| <b>ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASES UNDER REGULATIONS</b> |   |         |                |
|---|---|---------|----------------|
| <b>2012/13</b>  |   |         | <b>2013/14</b> |
| <b>(restated)</b>   |   |         |                |
| <b>£'000</b>  |   |         | <b>£'000</b>   |
|   | <b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>    |         |                |
| (1,232)   | Impairment and Revaluation Losses of Plant, Property & Equipment (PPE)  | (164)   |                |
| (7)   | (Loss) on the disposal of HRA Non-Current Assets  | (13)    |                |
| 17  | Investment Properties changes in Fair Value   | 4       |                |
| (199)   | Contributions from the Capital Receipts Reserve to finance payments to the Governments Housing Capital Receipts Pool          | (230)   |                |
| 949   | Capital Expenditure funded by the HRA   | 1,156   |                |
| (3)   | Net charges to Accumulated Absences Account   | 4       |                |
| (694)   | Net charges made for retirement benefits in accordance with IAS19   | (1,086) |                |
| 2,362   | Depreciation transfer to Major Repairs Reserve  | 2,400   |                |
| (2,362)   | Depreciation transfer from Capital Adjustment Account   | (2,400) |                |
| <b>(1,169)</b>  |   |         | <b>(329)</b>   |
|   | <b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>  |         |                |
| 229   | Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners | 329     |                |
| <b>229</b>  |   |         | <b>329</b>     |
| <b>(940)</b>  | <b>Net additional amount required by statute to be credited to the HRA Balance for the year</b>                               |         | <b>0</b>       |

### 3. Charges for Services and Facilities

Charges are made for heating, water rates, warden services and for communal services supplied to leaseholders.

### 4. Housing Stock

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

| 01-Apr-12    | 31-Mar-13    |                                 | 31-Mar-14    |
|--------------|--------------|---------------------------------|--------------|
|              |              | <b>Numbers</b>                  |              |
| 1,314        | 1,307        | Houses                          | 1,290        |
| 441          | 441          | Bungalows                       | 441          |
| 1,431        | 1,445        | Flats                           | 1,445        |
| <b>3,186</b> | <b>3,193</b> |                                 | <b>3,176</b> |
|              |              | <b>Analysis of bedroom type</b> |              |
| 1,557        | 1,572        | 1 bedroom                       | 1,560        |
| 540          | 535          | 2 bedroom                       | 546          |
| 1,004        | 1,001        | 3 bedroom                       | 985          |
| 85           | 85           | 4 or more bedrooms              | 85           |
| <b>3,186</b> | <b>3,193</b> |                                 | <b>3,176</b> |
|              |              | <b>Analysis of stock by age</b> |              |
| 256          | 268          | Pre 1945                        | 264          |
| 1,310        | 1,315        | 1945 - 1964                     | 1,306        |
| 659          | 634          | 1965 - 1974                     | 631          |
| 961          | 976          | 1974 onwards                    | 975          |
| <b>3,186</b> | <b>3,193</b> |                                 | <b>3,176</b> |

### 5. Value of Housing Revenue Account Property

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

| 01-Apr-12                     |                | 31-Mar-13    |                | 31-Mar-14    |                |
|-------------------------------|----------------|--------------|----------------|--------------|----------------|
| Number                        | Value<br>£'000 | Number       | Value<br>£'000 | Number       | Value<br>£'000 |
| <b>Operational Assets</b>     |                |              |                |              |                |
| 2,970                         | 102,072        | 2,966        | 105,816        | 2,956        | 106,819        |
| 221                           | 3,542          | 220          | 3,650          | 237          | 3,853          |
| 748                           | 925            | 706          | 995            | 513          | 765            |
| 1                             | 33             | 1            | 33             | 1            | 33             |
| <b>3,940</b>                  | <b>106,572</b> | <b>3,893</b> | <b>110,494</b> | <b>3,707</b> | <b>111,470</b> |
| <b>Non Operational Assets</b> |                |              |                |              |                |
| 1                             | 12             | 1            | 29             | 1            | 34             |
|                               | <b>106,584</b> |              | <b>110,523</b> |              | <b>111,504</b> |

The HRA asset base is valued annually – the 2013/14 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 – 2010' published by the Department for Communities and Local

Government (DCLG) in January 2011 which requires the review of the housing stock to be undertaken at the commencement of the financial year 2013/14 on 1 April 2013.

The analysis below shows the value of dwellings within the HRA 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 to the government of providing Council Housing at less than market rents.

| <b>01-Apr-12</b> | <b>31-Mar-13</b> |                        | <b>31-Mar-14</b> |
|------------------|------------------|------------------------|------------------|
| <b>£'000</b>     | <b>£'000</b>     |                        | <b>£'000</b>     |
| 330,044          | 342,079          | Dwellings              | 345,852          |
| 925              | 995              | Other Land & Buildings | 765              |
| <b>330,969</b>   | <b>343,074</b>   |                        | <b>346,617</b>   |

## 6. Major Repairs Reserve

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

| <b>2012/13</b> |                            | <b>2013/14</b> |
|----------------|----------------------------|----------------|
| <b>£'000</b>   |                            | <b>£'000</b>   |
| 0              | Balance at 1 April         | 0              |
| 2,362          | HRA Depreciation           | 2,400          |
| (2,362)        | HRA Capital Financed       | (2,400)        |
| <b>0</b>       | <b>Balance at 31 March</b> | <b>0</b>       |

## 7. Housing Repairs

| <b>2012/13</b> |                         | <b>2013/14</b> |
|----------------|-------------------------|----------------|
| <b>£'000</b>   |                         | <b>£'000</b>   |
| 7,834          | Expenditure on Repairs  | 7,788          |
| 5,538          | Of which planned        | 5,324          |
| 70.7%          | % of Planned / Response | 68.4%          |

£ 3.556 million of the 2013/14 expenditure (£3.513 million in 2012/13) on repairs was capital expenditure. The main categories of expenditure were a hostel conversion, sheltered scheme improvements and kitchen, bathroom and central heating installation.

## 8. Capital Expenditure

| 2012/13<br>£'000                                     | 2013/14<br>£'000 |
|--|------------------|
| 2,416 HRA Properties - capital repairs & maintenance | 2,688            |
| 50 LA Tenants Disabled Persons Grants                | 50               |
| 1,047 Barclay Hostel                                 | 818              |
| <b>3,513</b>   | <b>3,556</b>     |

## 9. Capital Financing

| 2012/13<br>£'000            | 2013/14<br>£'000 |
|-----------------------------|------------------|
| 2,362 Major Repairs Reserve | 2,400            |
| 202 Borrowing               | 0                |
| 949 Revenue                 | 1,156            |
| <b>3,513</b>                | <b>3,556</b>     |

## 10. Capital Receipts

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

| 2012/13<br>£'000       | 2013/14<br>£'000 |
|------------------------|------------------|
| 582 Right to Buy sales | 1,418            |
| <b>582</b>             | <b>1,418</b>     |

## 11. Depreciation and Impairments

The depreciation charged to the HRA has been based on the Major Repairs Allowance (MRA) used in the Government buyout determination for self-financing. The MRA may be used as a depreciation charge during a 5 year transitional period while local authorities develop asset systems that will allow componentised depreciation to become a real charge to the Housing Revenue Account.

| 2012/13<br>£'000   | 2013/14<br>£'000 |
|--------------------|------------------|
| 2,362 Depreciation | 2,400            |
| <b>2,362</b>       | <b>2,400</b>     |

The revaluation loss charged to the HRA in respect of reductions in the value the Council's housing stock which cannot be offset against a Revaluation Reserve balance was £164,000 (£1.232 million in 2012/13)

| 2012/13<br>£'000 |                                  | 2013/14<br>£'000 |
|------------------|----------------------------------|------------------|
| 1,232            | Revaluation Loss and Impairments | 164              |
| <b>1,232</b>     |                                  | <b>164</b>       |

## 12. Rent Arrears

| 2012/13<br>£'000 |  | 2013/14<br>£'000 |
|------------------|--|------------------|
| 161              | Current Tenants                          | 174              |
| 42               | Former Tenants                           | 49               |
| 1                | Garages                                  | 1                |
| <b>204</b>       | <b>Total Rent Arrears</b>                | <b>224</b>       |
| <b>(12,605)</b>  | <b>Gross Rent Income</b>                 | <b>(13,625)</b>  |
|                  | 1.6% Arrears as a % of Gross Rent Income | 1.6%             |

The provision for HRA bad debts at 31 March 2014 is £ 178,000 (£125,000 at 31 March 2013)

## 13. Rent Income from Dwellings

| 2012/13<br>£'000 |  | 2013/14<br>£'000 |
|------------------|--|------------------|
| <b>(12,627)</b>  | <b>Full rental income from dwellings</b> | <b>(13,823)</b>  |
| 238              | Less rent due on void properties         | 413              |
| 32               | Write offs                               | 29               |
| <b>(12,357)</b>  | <b>Total Rents</b>                       | <b>(13,381)</b>  |

## 14. Service Charge Breakdown

Charges are made for heating, water rates, warden services and for communal services supplied to leaseholders. Service charge income is

| 2012/13<br>£'000 |                        | 2013/14<br>£'000 |
|------------------|------------------------|------------------|
| <b>(143)</b>     | <b>Service Charges</b> | <b>(106)</b>     |
| <b>(128)</b>     | <b>Housing Care</b>    | <b>(128)</b>     |
| <b>(43)</b>      | <b>Insurance</b>       | <b>(46)</b>      |
| <b>(69)</b>      | <b>Water / Alarms</b>  | <b>(22)</b>      |
| <b>(6)</b>       | <b>Court Costs</b>     | <b>(7)</b>       |
| <b>(87)</b>      | <b>Service Charges</b> | <b>(117)</b>     |
| <b>(43)</b>      | <b>Management</b>      | <b>(43)</b>      |
| <b>(256)</b>     | <b>Other</b>           | <b>(247)</b>     |
| <b>(775)</b>     |                        | <b>(716)</b>     |

## 15. 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 (Note 2 to the HRA) with no net residual cost to the HRA.

| 2012/13<br>(restated)<br>£'000  | 2013/14<br>£'000 |
|---|------------------|
| <b>Net Cost of Services</b>   |                  |
| 7 Current service costs and past service costs                                      | 142              |
| <b>Surplus or (Deficit) for the year on HRA Services</b>                            |                  |
| 458 Pension interest on net defined benefit liability                               | 615              |
| <b>Statement of Movement on the HRA Balance</b>                                     |                  |
| (694) Reversal of net charges made for retirement benefits in accordance with IAS19 | (1,086)          |
| <b>Actual amount charged against Rents</b>  |                  |
| 229 Employers' contributions payable to scheme                                      | 329              |

*The amounts for 2012/13 have been restated to reflect the adoption by the Code of the Pensions standard IAS19R for accounting periods starting on or after 1 January 2013. Further details are in Note 31. There is no effect on the HRA's finances*

## COLLECTION FUND

| 2012/13<br>£'000                            | COLLECTION FUND   | £'000<br>Business<br>Rates | 2013/14<br>£'000<br>Council<br>Tax | £'000<br>Total  |
|---|---|----------------------------|------------------------------------|-----------------|
| <b>INCOME</b>                               |   |                            |                                    |                 |
| (34,637)                                    | Council Tax   | -                          | (36,746)                           | (36,746)        |
|   | Transfers from General Fund   |                            |                                    |                 |
| (5,642)                                     | Council Tax Benefits (see footnote)                                       | -                          | 73                                 | 73              |
| (14,502)                                    | Income collectable from Business Ratepayers                               | (14,874)                   | -                                  | (14,874)        |
|   | - Contributions towards previous year's<br>Collection Fund Deficit        | -                          | (34)                               | (34)            |
| <b>(54,781)</b>                             |   | <b>(14,874)</b>            | <b>(36,707)</b>                    | <b>(51,581)</b> |
| <b>EXPENDITURE</b>                          |   |                            |                                    |                 |
| 216   | Contribution towards previous year's<br>estimated Collection Fund surplus | -                          | -                                  | -               |
| <b>Precepts, Shares and Demands</b>         |   |                            |                                    |                 |
| 14,420                                      | Central Government  | 5,516                      | -                                  | 5,516           |
| 5,624                                       | Gosport Borough Council   | 4,412                      | 4,975                              | 9,387           |
| 28,781                                      | Hampshire County Council  | 993                        | 25,462                             | 26,455          |
| 4,056                                       | Hampshire Police and Crime Commissioners                                  | -                          | 3,710                              | 3,710           |
| 1,702                                       | Hampshire Fire and Rescue Authority                                       | 110                        | 1,506                              | 1,616           |
| <b>54,583</b>                               |   | <b>11,031</b>              | <b>35,653</b>                      | <b>46,684</b>   |
| <b>Charges to the Collection Fund</b>       |   |                            |                                    |                 |
| 78  | Write off of uncollectable amounts  | 122                        | 68                                 | 190             |
| 93  | Increase / (Decrease) in Bad Debt Provisions                              | 48                         | 374                                | 422             |
|   | - Increase / (Decrease) in Provision for appeals                          | 3,263                      | -                                  | 3,263           |
| 82  | Cost of collection  | 82                         | -                                  | 82              |
|   | - Transitional protection payments  | 12                         | -                                  | 12              |
| <b>253</b>                                  |   | <b>3,527</b>               | <b>442</b>                         | <b>3,969</b>    |
| <b>55,052</b>                               | <b>TOTAL EXPENDITURE</b>  | <b>14,558</b>              | <b>36,095</b>                      | <b>50,653</b>   |
| <b>271</b>                                  | <b>Surplus / (Deficit) arising during the year</b>                        | <b>(316)</b>               | <b>(612)</b>                       | <b>(928)</b>    |
| <b>COLLECTION FUND (SURPLUS) OR DEFICIT</b> |   |                            |                                    |                 |
| (58)  | Deficit / (Surplus) at 1 April  | -                          | 213                                | 213             |
| 271   | (Surplus) / Deficit for the year  | (316)                      | (612)                              | (928)           |
| <b>213</b>                                  | <b>(Surplus) / Deficit at 31 March</b>                                    | <b>(316)</b>               | <b>(399)</b>                       | <b>(715)</b>    |

From 2013/14, Council Tax Benefits are no longer credited to the Collection Fund from the Council's General Fund with the cost then being reclaimed through government subsidy. Instead, the Council Tax Base is reduced to reflect that certain tax-payers' will have a reduced liability to pay Council Tax (note 2 refers).

## 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 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 | 11.5   | 5/9              | 6.4  |
| A        | 4,595.8  | 6/9              | 3,063.9  |
| B        | 10,888.3   | 7/9              | 8,468.7  |
| C        | 7,670.5  | 8/9              | 6,818.2  |
| D        | 4,591.1  | 9/9              | 4,591.1  |
| E        | 1,712.8  | 11/9             | 2,093.4  |
| F        | 1,227.3  | 13/9             | 1,772.8  |
| G        | 290.0  | 15/9             | 483.3  |
| H        | 4.3  | 18/9             | 8.6  |
|          |  |                  | 27,306.4   |
|          |  |                  | Plus MOD contributions in lieu 816.7               |
|          |  |                  | Less adjustments for Council Tax Support (3,486.9) |
|          |  |                  | Less allowance for losses on collection (337.8)    |
|          |  |                  | Add second homes adjustment 234.0                  |
|          |  |                  | <b>Tax Base for 2013/14 24,532.4</b>               |
|          |  |                  | Tax base for 2012/13 27,731.0                      |

The Band D Council Tax for a Gosport property in 2013/14 was £202.81 (£202.81 in 2012/13)

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

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

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.

| <b>Estimated<br/>2013/14<br/>surplus/deficit<br/>(shared with<br/>preceptors<br/>2013/14)<br/>£'000</b> | <b>Actual<br/>31- Mar -13<br/>£'000</b> |  | <b>Estimated<br/>2013/14<br/>surplus/deficit<br/>(shared with<br/>preceptors<br/>2014/15)<br/>£'000</b> | <b>Actual<br/>31- Mar -14<br/>£'000</b> |
|---|---|--|---|---|
| 24  | 152                                     | Hampshire County Council                 | (154)   | (284)                                   |
| 2   | 22                                      | Hampshire Fire & Rescue Authority        | (9)   | (17)                                    |
| 3   | 9                                       | Hampshire Police and Crime Commissioners | (22)  | (42)                                    |
| 5   | 30                                      | Gosport Borough Council                  | (30)  | (56)                                    |
| <b>34</b>   | <b>213</b>                              |  | <b>(215)</b>  | <b>(399)</b>                            |

The difference between the estimated surplus for 2013/14 and the actual will be shared with preceptors in 2015/16.

### 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 NDR multiplier for the year was 47.1 pence (45.8p in 2012/13). The total non-domestic rateable value at the year-end was £40,347,250. (£39,434,780 in 2012/13).

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%  |

#### 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 and on the basis of an estimate of the year-end balance made by the preceding 31 January.

#### 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 the Gosport Borough Council are included in the Council's balance sheet.

| 31-Mar-13<br>£'000<br>Council Tax<br>#          | -----31-Mar-14-----        |                         |                |
|---|----------------------------|-------------------------|----------------|
|   | £'000<br>Business<br>Rates | £'000<br>Council<br>Tax | £'000<br>Total |
| <b>Debtors</b>                                  |                            |                         |                |
| - Hampshire County Council                      |                            | 1,163                   | 1,163          |
| - Hampshire Fire & Rescue Authority             |                            | 69                      | 69             |
| - Hampshire Police and Crime<br>Commissioners   |                            | 173                     | 173            |
| - Gosport Borough Council                       |                            | 227                     | 227            |
| <b>Creditors</b>                                |                            |                         |                |
| 1,488 Hampshire County Council                  | (319)                      |                         | (319)          |
| 88 Hampshire Fire & Rescue Authority            | (35)                       |                         | (35)           |
| 217 Hampshire Police and Crime<br>Commissioners | -                          |                         | -              |
| 262 Gosport Borough Council                     | (115)                      |                         | (115)          |
| 645 Central Government                          | (1,775)                    |                         | (1,775)        |
| <b>Provisions</b>                               |                            |                         |                |
| - Gosport Borough Council                       | (1,305)                    |                         | (1,305)        |
| <b>2,700</b>                                    | <b>(3,549)</b>             | 1,632                   | <b>(1,917)</b> |

## **GOSPORT BOROUGH COUNCIL**

### **ANNUAL GOVERNANCE STATEMENT 2013/14**

#### **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 4(3) of the Accounts and Audit Regulations 2011.

#### **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 has been in place at Gosport Borough Council for the date of approval of the 2013/14 Statement of Accounts.

#### **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;
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 scrutiny and managing risk;
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 Sustainable Community Strategy sets out Gosport’s 2026 Vision which has been developed in parallel with the Local Development Framework (which sets out future land use in the Borough).

The Sustainable Community Strategy will be refreshed annually and fully reviewed every three to five years.

The Council’s Corporate Plan sets out Gosport Borough Council’s Mission and Values which will help us provide quality service delivery. The Corporate Plan also identifies the Council’s strategic priorities (People, Places, Prosperity and Pursuit of Excellence), 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’s mission is:

***“To work with our community to improve everyone’s quality of life and deliver a sustainable future for the Borough.”***

The diagram sets out the various links in the process of establishing and monitoring the achievements of the Council’s ambitions, and shows the links between the Community and Corporate Plan which then feed into, and are informed by, strategies, service action plans and individual personal action plans:



The Council continues to have a well-developed Performance Management Framework (performance information & actions) which has continued to be enhanced within Covalent (software) with the additional risk module maturing through the year which assesses both operational and strategic risks within this package.

The Overview & Scrutiny Committee and key officers monitor and scrutinise progress against targets and performance in priority areas effecting relevant service areas, and consider corrective action where necessary, on a quarterly basis.

The Council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Audit Results Report.

Through reviews by external auditors, external agencies and internal audit, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council's Corporate Procurement Strategy (to be reviewed in light of EU Directives) continues to provide a consistent strategic framework within which to undertake and continuously develop procurement to deliver the Council's corporate objectives, to improve performance and deliver efficiencies. The Strategy encompasses the policy objectives of the National Procurement Strategy and adapts and prioritises them to meet the Council's local context. The Strategy recognises that the Council cannot achieve its objectives alone and emphasises the need to work in collaboration with public, private, social enterprise and voluntary sector partners. A core theme throughout the Strategy is the Council's commitment to social, economic and environmental sustainability.

The Council reviewed its Financial Procedure Rules and Contract Procedure Rules in 2011/12 and these are, incorporated in the Council's Constitution.

Risk Management is monitored by the Corporate Risk Management Group, which meets approximately four times a year. The Group reviews risk arrangements and advises Management Team on risk issues within the Council and on existing and planned risk controls. In addition, the Council (including Housing as a stand-alone review) (this was a county wide review) was examined against their insurers (Zurich) risk management standards with the overall conclusion of good/adequate. There were areas of significant improvement from the previous review.

Operational and strategic Risks are reported by use of risk registers. Each section is required to update its own register. These registers are now held and managed on the Covalent system as previously mentioned.

**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. The introduction of the Local Government Act 2000 made it the duty of every Council to review their political management structures. As part of the review Councils were required to consider the type of structure to be adopted and were given a choice of four models from which to choose. Councils with a population of less than 85,000 were offered the opportunity to adopt 'alternative arrangements' or what is sometimes referred to as the 'fourth option', and this is the option that was approved by Gosport Borough Council in 2000.

The option to employ 'alternative arrangements' allows the Council to retain a Committee structure for making decisions but together with a system that allows other Councillors to scrutinise decisions that have been made. Members of the Policy and Organisation Board are disqualified from membership of the twelve strong Overview and Scrutiny Committee. There were five meetings of the Overview and Scrutiny Committee in the year.

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 Board**

As the Regulatory Board deals only with planning applications and the Licensing Board 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. This Committee comprises eight Councillors. Additionally, an Assessment Committee comprising three Councillors of the Standards and Governance Committee have delegated powers to determine allegations of failure to comply with the Council's Code of Conduct, in accordance with the Council's arrangements for dealing with such allegations.

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

The Council Management Team (CMT) meet weekly to develop policy and strategic issues commensurate with the Council's aims, objectives and priorities. CMT also considers other internal control issues, including risk management, performance management, compliances, efficiency and financial management. Four CMT sub-groups, Corporate Risk, Organisation, C3 (communications) and the Equalities & Diversity Group are in place to consider specific areas of work. The Leader and Deputy Leader of the Council hold weekly meetings with the Chief Executive Officer to review progress in achieving the Council's objectives, priorities for action, performance management and forward planning for major issues.

Pre-Agenda meetings are held for the Service Boards three weeks before the meeting of the Board. The Chairman of the Board will be present at Pre-Agenda meetings along with relevant officers of the Council. At the Pre-Agenda meeting the Chairman will consider a list of items that it has been proposed to take forward to the Board meeting and will make a decision on whether each item in his opinion should be placed on the final Agenda, decided under the delegated powers approved by Council or referred to the Overview and Scrutiny Committee. Following such Pre-Agenda meetings all Members of the Council are furnished with a Key Decision List of items allowing four working days from publication to call in an item for scrutiny. Informal briefings are also held for the Chairmen of the Regulatory Board and Licensing Board shortly before the Board meeting.

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

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
- Protocol for Councillor/Officer Relationships
- Anti-Fraud and Corruption Policy (including Bribery)
- Whistle Blowing Policy
- Protocol on Principles of Scrutiny

**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 Council's Chief Officers (primarily the Monitoring Officer (the Borough Solicitor & Deputy Chief Executive), Chief Executive and the Personnel 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 annual Appraisal and Personal Development Scheme.

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 in accordance with Section 151 of the Local Government Act 1972. The CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010) requires the Chief Finance Officer to report directly to the Chief Executive and be a member of the 'Leadership Team', of equal status to other members. The Council does comply with this requirement in that the Borough Treasurer is part of the Council's Senior Management Team.

The Council operates an Internal Audit section, which operates to the standards set out in the 'Public Sector Internal Audit Standards 2013'. This section continues to operate successfully under a partnership arrangement with Eastleigh Borough Council and broadened the arrangement with the introduction of Test Valley Borough Council from the 1<sup>st</sup> October 2013 (initially a one year trial). It reports to the Standards and Governance Committee and is managed by the Borough Treasurer within the Financial Services Business Unit.

Service Action Plans are regularly updated by Unit and Line Managers and are a standing item on monthly team meetings. These plans incorporate Corporate Plan requirements into service activities, so that staff know what they are required to do to achieve the Council's priorities and ambitions.

**Taking informed and transparent decisions which are subject to effective scrutiny 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 Overview and Scrutiny Committee will accept and investigate formal requests for scrutiny and receive selected policies and strategies for review throughout the 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. Training for the Committee Members is planned for 2014/15.

### **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 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. A rolling programme of topical briefings such as those on economic prosperity, crime reduction, local government finance and making decisions 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 issues and scrutiny) detailed in the ' Training Opportunities for Members' booklet within the Members Information Pack.

### **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 and are encouraged to prepare an annual report. 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.

### **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. The Council has an Overview and Scrutiny Committee. They can establish sub-groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to the Board/Council.
3. Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate a three-year plan from which the annual workload is identified. 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.
4. An Internal Audit Annual Report is taken to the Standards & Governance Committee (as per the Public Sector Internal Audit Standards 2013) and this provides the overall opinion on the Council's internal control environment.

The Standards & Governance Committee also received Internal Audit monitoring reports throughout 2013/14.

Internal Audit reviews and computer-based assignments had been undertaken in accordance with the risk index previously agreed with Members and the Council's external auditors.

### **Significant governance issues**

The following governance issues were identified during 2013/14 as a result of the review of arrangements and by the work of external and internal audit.

| NO | ISSUE  | ACTION/PROGRESS TO DATE  |
|----|--|--|
| 1  | A reducing workforce.  | Management to be aware of the loss of knowledge and expertise and short term pressure on the internal control environment.   |
| 2  | To continue to identify efficiencies within the Council's operations to ensure continued value for money | Working with management to review those areas with opportunities to re-engineer and effectively deliver with reduced resources.  |
| 3  | Major contracts with three new suppliers (Environmental & Housing).                                      | Management and internal audit to continue its overview within the year to ensure strong governance arrangements are in effectively operating with each of the contractors. |
| 4  | Ensure compliance with all new and updated legislation and guidance from Central Government.             | To monitor closely all the amendments to both legislation and guidance in all areas and ensure compliance.   |

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 .....

.....

29 September 2014

29 September 2014

**Leader of the Council**

**Chief Executive**

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

### **Opinion on the Authority's financial statements**

We have audited the financial statements of Gosport Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 37; the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account and related notes 1 to 15; the 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 2013/14.

This report is made solely to the members of Gosport Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 13, 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 2013/14, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2013/14 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Gosport Borough Council as at 31 March 2014 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 2013/14.

### **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts 2013/14 for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012);
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

#### **Respective responsibilities of the Authority and the auditor**

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.

We are required under Section 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, 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 2014.

### **Certificate**

We certify that we have completed the audit of the accounts of Gosport Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Helen Thompson  
*for and on behalf of Ernst & Young LLP, Appointed Auditor  
Southampton*

29 September 2014

## GLOSSARY OF TERMS

|                            |  |
|----------------------------|--|
| Accounting Period          | The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts   |
| Accounting Policies        | The principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are to be reflected in financial statements. Include <ul style="list-style-type: none"> <li>▪ recognising</li> <li>▪ selecting measurement bases</li> <li>▪ inclusion of assets, liabilities, gains, losses and changes to reserves</li> </ul>   |
| Accruals                   | The recognition of income and expenditure as it is earned or incurred, as opposed to when cash is received or paid.  |
| Agency Services            | Services performed by or for another authority or public body, where the principal (the authority responsible for the service) reimburses the agent (the authority doing the work) for the cost of the work carried out  |
| Actuary                    | An expert on pension scheme assets and liabilities   |
| Actuarial Gains & Losses   | Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because: <ul style="list-style-type: none"> <li>• events have not coincided with the actuarial assumptions made for the last valuation</li> <li>• the actuarial assumptions have changed</li> </ul>   |
| Asset                      | Something the Council owns that has a value ie premises, property, vehicles, equipment, cash or a debt   |
| Authorised Limit           | This represents the legislative limit on the Council's external debt under the Local Government Act 2003   |
| Balance Sheet              | A statement of the recorded assets, liabilities and other balances at the end of an accounting period  |
| Billing Authority          | A local authority empowered to collect Council Tax and Business Rates, and manage the collection fund, on behalf of itself, local authorities in its area and the government   |
| Budget                     | A financial statement that expresses the Council's service delivery plans and capital programme in monetary terms  |
| Capital Adjustment Account | The Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal.<br>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).<br>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  |
| Componenti                 | The identification and recording of the components of an asset in order to more  |

|                                  |   |
|----------------------------------|---|
| sation                           | 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 etc<br>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 out rules on accounting, audit, administrative and budgeting procedures  |
| General                          | The main revenue fund of the Council, it includes income and expenditure on the   |

|  |  |
|--|--|
| Fund   | 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 for the 2013/14 Statement of Accounts, 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. Now being phased out during a transitional period of conversion to 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  |
| National Non                                       | Effective from 1 April 2013, the Business Rates Retention enables a proportion of  |

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| Domestic Rates (NNDR) (also known as Business Rates)             | 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  | Curtailments 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.<br>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).   |

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| Revenue Contribution                        | The method of financing capital expenditure directly from revenue   |
| 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 2013/14 (the Code) which is based on and compliant with International Financial Reporting Standards (IFRS) and which governs the preparation of the Council's financial statements   |
| Treasury Management                         | This is the process by which the Council controls its cash flow and its borrowing and lending activities  |
| Treasury Management Strategy (TMS)          | A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council  |
| Usable Reserves                             | Reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure)   |
| Unsupported (Prudential) Borrowing          | This is borrowing for which no financial support is provided by Central Government. The borrowing costs are met from current revenue budgets  |
| Unusable Reserves                           | Reserves that are not used to provide services - but that represent <ul style="list-style-type: none"> <li>▪ unrealised gains and losses (ie where amounts would only become available to provide services if the assets are sold) and</li> <li>▪ timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' (ie depreciation)</li> </ul>   |