

**GOSPORT BOROUGH COUNCIL**  
**STATEMENT OF ACCOUNTS 2004 / 2005**

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## EXPLANATORY FOREWORD

### 1. Contents

In accordance with statutory obligations and the Code of Practice on Local Authority Accounting, the accounts for 2004/2005 include the following statements:

- **Consolidated Revenue Account**

This account summarises all of the Council's revenue activities for both the General Fund and Housing Revenue Account and shows how the net cost has been financed from government grants and council taxpayers.

- **Housing Revenue Account**

The Council is required to maintain a separate account for income and expenditure on council housing and related activities.

- **Collection Fund**

The Collection Fund is separate from the rest of the Council's accounts and summarises council tax and business rate transactions for the Borough, County Council, Police Authority, Fire and Rescue Authority and Central Government.

- **Statement of Total Movement in Reserves**

The statement brings together all gains and losses for the financial year which are not reported through the Consolidated Revenue Account.

- **Cash Flow Statement**

All cash flows between the Council and third parties are included in the statement.

### 2. Summary of Financial Performance during the year

The Council's overall financial position continues to improve. Strategies now in place should enable this trend to continue in the medium term but projections of future tax requirements remain a concern.

- **General Fund (pages 10 - 16)**

The Council's revised budget for 2004/2005 included budgeted contributions to the General Fund working balance and Revenue Financing Reserve of £169,040 and £20,960 respectively.

The General Fund surplus for 2004/2005 of £236,740 has been allocated to the Building Control Partnership (£17,610) and Revenue Financing Reserve (£219,130) - the former in line with the performance of the partnership and the latter in line with Council policy.

Total contributions to the Revenue Financing Reserve (£240,090) and the Building Control Partnership (£17,610) are shown as Contributions to Earmarked Revenue Reserves (total of £257,700) on the face of the consolidated revenue account.

The main variations in the General Fund budget were:

- o Market Income

As projected in the last two budget monitors of 2004/2005, market income - particularly income from the Tuesday market - has fallen short of the revised income budget by £38,430.

- o Highways Section 38 Income

The transfer of the inspection & supervision of Section 38 agreements to Hampshire County Council and the treatment of the balances held in last year's final accounts was noted in the Approval of Accounts report to P&O Board in July 2004. The resulting additional income of £55,970 has been reported in previous budget monitors.

- o Parking Income

Parking income from the pay and display machines introduced on 15<sup>th</sup> November 2004 has been greater than forecast by £55,570. Income trends are being recorded to provide a sound base for future forecasts.

- o Land Charges Income

Land Charges income is largely dependent on trends in the housing market. Income has fallen short of that included in the revised budget by £44,520.

- o Interest Costs

While the Council was in a net investment position at year end, additional interest costs have resulted from poorer cash flows than expected and higher than forecast payments to the Housing Revenue Account.

- o Admin Savings

An overall reduction in administrative recharges to services, largely due to post vacancies and turnover, has resulted in savings of £59,590. This is after taking into account the corporate vacancy provision of £42,500 in Policy and Organisation Board.

- o **Commutation Adjustment**

A capitalisation direction was submitted to the ODPM for the excess of the commutation adjustment over the minimum revenue provision that the Council is required to set aside for the repayment of notional debt. The additional income arising from this is £110,000.

- **Reserves**

- o The transfer to both Earmarked Reserves (Building Control and the Revenue Financing Reserve) and the General Fund working balance for the year are set out above.
- o The General Fund working balance at 31<sup>st</sup> March 2005 is £765,000 as projected in the Budget Report for 2005/2006.
- o The Revenue Financing Reserve at 31<sup>st</sup> March 2005 is £240,090 which exceeds the forecast balance of £20,960 because of the additional contribution of £219,130 arising from budgetary variations and final grant claims.

- **Housing Revenue Account (pages 18 - 21)**

The Housing Revenue Account was forecast to have a revenue deficit of £47,000 for 2004/2005 which would decrease the account balance to £890,100 at 31<sup>st</sup> March 2005. The actual position for the year is a deficit of £40,300 and the account balance is £896,800 at 31<sup>st</sup> March 2005.

The main variations include increased interest earnings (£48,000) and a lower than expected capital contribution (£88,000).

- **Capital Programme**

The revised Capital Programme for 2004/05 was budgeted at £7,750,000. The actual capital spend was £5,838,210, an underspending of £1,911,790. Of this sum, £1,785,190 has been identified as scheme slippage and will be carried forward into 2005/2006.

An analysis of capital expenditure for 2004/2005 together with a financing summary and scheme commitments as at 31<sup>st</sup> March 2005 are included in Note 3 to the Consolidated Balance Sheet.

At 31<sup>st</sup> March 2005, the Council has funds of approximately £6.0 million which may be utilised for capital expenditure purposes; this includes specific, earmarked and committed funding. Capital funding is also possible under the Prudential Code regime of capital controls.

- **Treasury Management**

At 31<sup>st</sup> March 2005, the Council had investments of £5.0 million and short term borrowing (repayable on 1<sup>st</sup> April 2005) of £2.0 million. There was therefore a net investment of £3.0 million.

The current account was overdrawn by £652,000 at year end - within the Council's approved overdraft limit of £1 million.

- **Local Tax Collection**

The surplus on the collection fund, which reflects income from Council Tax and Non Domestic Rates together with the spending requirements of Gosport Borough, Hampshire County Council, Hampshire Police Authority and the Hampshire Fire and Rescue Authority is £140,050 which is in line with budget projections

The rates of Council Tax and Non Domestic Rates collection for 2004/2005 are 96.6% and 98.1% respectively (97.0% and 98.7% for 2003/2004).

- **Pensions**

The Statement of Accounts complies with FRS17 - the financial reporting standard on Retirement Benefits. This is expanded on in note 12 to the statement of accounting policies, note 7 to the consolidated revenue account and note 21 to the consolidated balance sheet.

The Pension note to the consolidated balance sheet shows a poorer position than last year, mainly as a result of the AA corporate bond rate being used by the actuaries from 1<sup>st</sup> April 2004 to assess liabilities instead of the 3.5% real discount rate used previously. This is consistent with guidance contained in the Statement of Recommended Practice for Local Authority Accounts produced by CIPFA.

## STATEMENT OF ACCOUNTING POLICIES

### 1. General

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting, issued in 2004 by the Chartered Institute of Public Finance and accountancy (CIPFA). The guidance notes issued by CIPFA on the application of accounting standards have also been followed. Any significant non-compliance is disclosed in the following statements.

### 2. Fixed Assets

Expenditure on fixed assets is capitalised in the accounts on an accruals basis. Only expenditure that benefits the authority for a period of more than one year is capitalised. This excludes spending on routine repairs and maintenance of fixed assets, which is charged directly to service revenue accounts.

A de-minimus level of £10,000 has been set for operational assets below which expenditure is not capitalised.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the principles of the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual and Guidance Note 11.

- Operational, non-specialised properties are valued at existing use value
- Operational, specialised properties are valued at depreciated replacement cost
- Non Operational Assets, including investment properties, assets that are surplus to requirements and assets under construction are included at open market value
- Infrastructure and Community Assets, and Vehicles, Plant and Equipment are included in the balance sheet at historical cost

Any surpluses or deficits arising from revaluations are recorded in the fixed asset restatement account. Assets are revalued every five years on a rolling programme and an impairment assessment is also undertaken to identify material changes outside of this cycle.

Council dwellings are valued at their EUV-SH [Economic Use Value for Social Housing]. The housing stock has been revalued at 1<sup>st</sup> April 2004 prices by Countrywide Surveyors on behalf of the Council

There are no additional impairment assessments to report.

### 3. Depreciation

Assets other than land are depreciated over their useful economic lives except where the asset's life is so long that depreciation would not be material. Depreciation is calculated using the straight-line method over the following periods.

Buildings: individually assessed  
Vehicles: 5 - 7 years  
Infrastructure: 20 - 50 years  
Equipment: 3-10 years

The depreciation charge for housing stock is equal to the Major Repairs Allowance. This represents a capital sum that is allowed annually to maintain the council's housing stock and in 2004/2005 is £2.177 m. The depreciation balance at 1<sup>st</sup> April 2004 has been written out of the balance sheet to update the stock value in accordance with the revaluation referred to in note 2.

Depreciation is not charged on Community Assets as it is the Council's view that most of the Community Asset value is held in land and it is not therefore depreciable. This decision will be reviewed for the 2005/06 financial year.

### 4. Capital Charges

From 1<sup>st</sup> April 1994 and 1<sup>st</sup> April 2001, General Fund service accounts and the Housing Revenue Account respectively, have been charged with a capital charge for all fixed assets used in the provision of services. The capital charge comprises an 'asset rental' calculated by applying a specified notional rate of interest to asset values, and the provision for depreciation where applicable.

The notional rates of interest applied in 2004/2005 were 3.5% for assets valued at current value, and 4.8% for assets valued at historical cost. These rates of interest were applied to opening asset values in the Fixed Asset Register for both General Fund and Housing Revenue Account (HRA) assets. This is an amendment to the policy applied in 2003/2004 for the HRA asset rental which was calculated from the closing stock value. Capital charges are reversed in the Consolidated Revenue Account and are therefore cost neutral.

### 5. Deferred Charges

Deferred Charges represent expenditure which may properly be capitalised but which does not represent fixed assets. They are written out to revenue in the year they are incurred. They include, for example, housing improvement grants.

### 6. Leases

Where assets are acquired under operating leases, the annual leasing rentals are charged to the revenue accounts of the services that use the assets. Asset ownership is retained by the lessor.

## **7. Debtors and Creditors**

The accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice. That is, sums due to, or from, the Council during the year are included whether or not the cash has actually been received or paid in the year. This policy is consistently applied each year and therefore does not have a material effect on the years accounts.

## **8. Stocks**

To comply with SSAP 9 stocks should be included in the balance sheet at the lower of cost and net realisable value. Stocks and stores items are generally valued at cost.

## **9. Cost of Support Services**

All costs of management and administration have been fully allocated to services following the principles outlined in CIPFA's Best Value Accounting Code of Practice. Generally, all overheads are initially apportioned on suitable bases (i.e. accommodation on floor area occupied) and end service unit costs are fully reallocated to services and functions on the basis of time spent.

## **10. Interest**

Interest earned and interest paid are accrued and accounted for in the Council's accounts. The Housing Revenue Account is charged or credited for a proportion of the net interest paid or earned in accordance with statutory guidelines.

## **11. Investments**

The Council's investments are recorded in the balance sheet at original cost.

## **12. Pensions**

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

The scheme's accounts are prepared in accordance with the Financial Reporting Standard No 17 - Retirement Benefits (FRS17). The pension scheme is detailed in notes 8 to the consolidated revenue account and 18 to the consolidated balance sheet.

In assessing liabilities for retirement benefits at 31 March 2004 for the 2003/04 Statement of Accounts, the actuary was required by the SORP to use a discount rate of 3.5% . For the 2004/05 Statement of Accounts, a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities is has been used. Application of this rate has resulted in an increase in liabilities of approximately £9m measured at todays prices which is adjusted for by an increase in actuarial losses recognised for the year in the Statement of Total Movements on Reserves.



The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by 12.3%

### **13. Government Grants and Contributions**

Government Grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable certainty that the grant or contribution will be received.

### **14. Provisions and Reserves**

The Council maintains certain reserves and provisions. These are briefly described below.

- Unapplied Capital Receipts primarily result from the sale of land and property and are invested pending use for financing new development or redemption of debt. From 1<sup>st</sup> April 2004, the Local Government Act 2003 and Prudential Code require the payment to the government of a proportion of housing capital receipts, prior to this there was a set aside requirement for the repayment of debt within the capital financing account.
- Deferred Capital Receipts consist of the outstanding balance of mortgage advances for the Sale of Council Houses and Houses Built for Sale.
- A provision for bad debts is maintained for debts that may be irrecoverable.
- General Fund and Housing Revenue Account balances safeguard the Council against any major unforeseen increases in expenditure or decreases in income.
- Earmarked Reserves are reserves that are held for specific expenditure and service uses.
- Fixed Asset Restatement Account represents the difference between valuing assets on the basis of previous accounting practice and current accounting practice together with any movement following asset revaluations and the net book value of any asset disposals.
- Capital Financing Account - this comprises: amounts set aside for the repayment of external loans, fixed asset expenditure financed from revenue, the reserved proportion of capital receipts required to be set aside to pay external loans, capital receipts applied to finance fixed asset expenditure, the adjustment to depreciation needed to form the minimum revenue provision.
- Local Tax Reserves represent the surpluses arising from the collection of Council Tax. Council Tax surpluses are distributed between Hampshire County Council, Hampshire Police Authority, Hampshire Fire and Rescue Authority and Gosport Borough Council on the basis of estimates of balances made in the previous year.

- Provisions are required for any liabilities of uncertain timing or amount that have been incurred and are recognised only when they exist at the balance sheet date. Provisions are charged to revenue accounts and when the expenditure is incurred this is charged directly to the provision. Provisions are utilised only for the purpose for which they are established, except when a change is required as a result of a review of the appropriateness of the balance or charge. Note 12 to the Consolidated Balance Sheet refers.

## 15. Group Accounts

The 2004 Accounting Code of Practice stipulates that the amended Group Accounting requirements should be fully implemented for the 2005/2006 financial reporting year. This Statement reflects the permissible transitional arrangements for 2004/2005 and the new requirements will be fully implemented in line with the guidance for 2005/2006.

## 16. Prior Year Adjustments

An adjustment of £76,820 has been made between the opening balances of the Fixed Asset Restatement Account and the Capital Financing Account. This is a detail adjustment agreed with the District Auditor last year and has no effect on the Council's financial position. This is further noted in notes 14 and 15 to the balance sheet.

Prior to 2004/05 capital charges were made to service revenue accounts for non-operational assets. For 2004/05, in compliance with the Code of Practice on Local Authority Accounting, capital charges were no longer made to services as non-operational assets were not used in the provision of services. The comparative figures for 2003/04 have been adjusted on the same basis. This reduces the figures reported in the Consolidated Revenue Account for Net Cost of Services and net income from the Asset Management Revenue Account by £294,960. It also affects note 3 (Transactions on the Asset Management Revenue Account) to the Consolidated Revenue Account. The overall impact on the Consolidated Revenue Account is Nil, and does not affect any other balances in the Statement of Accounts

An adjustment of £256,690 has been made between the opening balances of the Debtors Account and Government Grants Deferred Account. This is in respect of a capital financing debtor at 31<sup>st</sup> March 2004 which is no longer outstanding. It is included within the analysis in notes 9 and 18 to the Balance Sheet.

An adjustment of £980,670 has been made between the opening balances of the Unapplied Grants and Contributions Account and the Capital Financing Account. This capital financing entry that was omitted at 31<sup>st</sup> March 2004 and does not impact on the Council's financial position. It is reflected in notes 19 and 15 to the Balance Sheet.

An examination of the level of rent arrears has revealed an overstatement of the value of Housing Debtors previously carried in the balance sheet totalling £189,290. This has been corrected in the accounts at 31<sup>st</sup> March 2005 and the adjustment has been written back to the HRA (£183,910) and General Fund (£5,380).

## CONSOLIDATED REVENUE ACCOUNT

2003/2004 Net Expenditure £		Gross Expenditure £	Gross Income £	2004/2005 Net Expenditure £
986,280	Central Services to the Public	5,043,870	4,067,030	976,840
8,037,130	Cultural, Environmental and Planning Service	11,496,890	2,698,460	8,798,430
1,072,780	Highways, Roads and Transportation	1,901,220	948,430	952,790
7,902,130	Housing Services	30,781,870	23,310,600	7,471,270
2,514,110	Corporate and Democratic Core	2,402,810	21,920	2,380,890
10,000	Non Distributed Costs	153,570	0	153,570
<hr/> 20,522,430	<b>Net cost of services</b>	<hr/> 51,780,230	<hr/> 31,046,440	<hr/> 20,733,790
(7,330,660)	Transfer from Asset Management Revenue Account (note 3)			(7,601,300)
0	Contribution of housing capital receipts to Government Pool			513,010
(206,200)	Interest and investment income			(250,060)
1,010,000	Pensions Interest Cost and Expected Return on Pensions Assets			890,000
<hr/> 13,995,570	<b>Net operating expenditure</b>			<hr/> 14,285,440
247,350	HRA surplus (deficit) transferred to (from) HRA Reserve			(40,300)
0	Contribution to Earmarked Revenue Reserves (note 17 to Balance Sheet)			257,700
0	Transfer from Usable Capital Receipts equal to the contribution to Housing Pooled Capital Receipts			(513,010)
(3,039,650)	Contribution from Capital Financing Account			(2,380,960)
(900,000)	Contribution from the Pensions Reserve			(1,130,000)
<hr/> 10,303,270	<b>Amounts to be met from government grants and local taxation</b>			<hr/> 10,478,870
(3,979,930)	Demand on the Collection Fund			(4,491,750)
(3,802,910)	General Government Grants- Revenue Support Grant			(3,914,160)
(2,664,750)	Non-Domestic Rates distribution			(2,099,890)
(30,300)	Transfers from (-) / to the collection fund in respect of surpluses or deficits			(142,110)
<hr/> (174,620)	<b>Net General Fund (surplus)/deficit</b>			<hr/> (169,040)
<hr/> (421,340)	<b>Balance on General Fund at 1<sup>st</sup> April 2004</b>			<hr/> (595,960)
<hr/> (595,960)	<b>Balance on General Fund at 31<sup>st</sup> March 2005</b>			<hr/> (765,000)

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 1. S.137 (3) LOCAL GOVERNMENT ACT 1972

The Local Government Act 2000 granted new powers to authorities in England and Wales to promote well-being in their area. As a consequence the majority of the provisions of s137 were repealed with effect from October 2000. The Council is still required to disclose expenditure under s137 (3) e.g. donations to charities. Actual expenditure under s137 (3), incurred on grants to voluntary organisations in 2004/2005 was £34,200.

### 2. S.5 LOCAL GOVERNMENT ACT 1986 PUBLICITY ACCOUNT

Expenditure on publicity amounted to £142,570 in 2004/2005 of which £27,230 was incurred in the production of 'Coastline' the Council's newspaper of which 4 editions were issued to all properties within the Borough. The cost of promoting Tourism for 2004/2005 was £71,490.

### 3. TRANSACTIONS ON THE ASSET MANAGEMENT REVENUE ACCOUNT

The main aim of this account is to remove the capital charges from the consolidated revenue account so they do not impact on the charge made to the General Fund. It also includes external interest paid and the statutory capital charge or credit to the Housing Revenue Account (HRA). There are no impairment losses in 2004/2005.

2003/2004			2004/2005
£	<u>Income</u>		£
(2,569,550)	Capital charges	-General Fund	(2,861,470)
(8,196,760)		-Housing Revenue Account	(7,959,090)
(330,280)	Impairment Losses		0
(561,910)	Government Grants Deferred		(663,950)
-	HRA Statutory Charges		-
<u>(11,658,500)</u>			<u>(11,484,510)</u>
	<u>Expenditure</u>		
1,282,390	Provision for depreciation	-General Fund	1,515,790
2,412,000		-Housing Revenue Account	2,177,000
157,950	Interest charges		73,800
330,280	Impairment Losses		0
87,570	Premium on Early Debt Redemption		0
57,650	HRA Statutory Charges		116,620
<u>(7,330,660)</u>	Balance to Revenue Account		<u>(7,601,300)</u>

The Authority is required by statute to set aside a minimum revenue provision for the redemption of external debt. The method of calculating the provision is defined by statute.

<u>Minimum Revenue Provision</u>		
307,570	Non-Housing amount – 4% of credit ceiling / capital financing requirement	206,410
0	Housing amount - 2% of credit ceiling / capital financing requirement	N/A
<u>(307,570)</u>	Commutation adjustment	<u>(206,410)</u>
<u>0</u>		<u>0</u>
<u>Adjustments from / (to) the Capital Financing Account to the Consolidated Revenue Account</u>		
1,282,390	Depreciation charge to General Fund	1,515,790
1,834,910	Deferred Charges written off to Revenue	1,405,150
330,280	Impairment Losses	0
(561,910)	Government Grants Deferred	(663,960)
<u>0</u>	Minimum Revenue Provision	<u>0</u>
<u>2,885,670</u>		<u>2,256,980</u>

#### 4. HIGHWAYS AGENCY

The Council's agency agreement for the provision of highways maintenance and management was terminated by Hampshire County Council on 1<sup>st</sup> May 2002 and the service is now funded and managed directly by the County, though staff remain within the Borough Council offices. The Borough Council has retained the agencies for Traffic Management and Development Control and the County Council reimburses the Borough for this work, including a contribution towards administration costs.

Detailed below is a summary of expenditure incurred in respect of the activity, which is not included in the Consolidated Revenue Account.

	2003/2004	2004/2005
	£'000	£'000
Routine maintenance - aids to movement	6	17
- environmental	109	88
- other (including street lighting)	0	0
Administrative costs	95	91
Capital Works and Studies	11	0
Total Highway Agency Expenditure	<u>221</u>	<u>196</u>

#### 5. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

The Council is empowered by this Act to provide goods and services to other public bodies. In 2004/2005 the Council received £579,500 (£367,000 in 2003/2004) from Hampshire County Council – principally in respect of various Highways Agency functions.

#### 6. LEASED ASSET – RENTALS

Equipment and Software – the authority uses equipment and software financed under terms of an operating lease. The amount paid under these arrangements in 2004/2005 was £139,000 (£184,000 in 2003/2004).

Authority as lessor – the authority received finance leasing payments of approximately £531,000 in 2004/2005.

## 7. PENSION COSTS

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in the Local Government Superannuation Scheme, administered by Hampshire County Council – this is a defined benefit scheme based on final pensionable salary. It is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The Council pays additional contributions in respect of early and efficiency retirements and this is known as the unfunded element. Both parts are reflected in the figures below.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account (CRA) after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

	2003/2004 £'000	2004/2005 £'000
Net Cost of Services		
▪ Current service costs	890	1,250
▪ Past service costs	10	120
Net Operating Expenditure		
▪ Interest Cost	2,830	3,120
▪ Expected return on assets in the scheme	(1,820)	(2,230)
Amount to be met from Government Grants and Local Taxation		
▪ Movement on pensions reserve	(900)	(1,130)
Actual amount charged against council tax for pensions in the year		
▪ Employers' contributions payable to scheme	1,010	1,130

Note 18 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note.

Note 1 to the statement of Total Movements in Reserves details the costs that have arisen through the year estimates made in preparing figures for previous years have had to be revised (e.g. the expected return on investments)

## 8. EMPLOYEES RECEIVING REMUNERATION IN EXCESS OF £50,000

Employees receiving a remuneration in excess of £50,000 during 2004/2005 are shown below. Remuneration means all amounts due to an employee including expense allowances subject to United Kingdom income tax, and the estimated money value of any benefits received by the employee other than in the form of cash.

Remuneration	Number of Employees
Between £50,000 and £59,999	6
Between £60,000 and £69,999	1
Between £70,000 and £79,999	2

## 9. MEMBERS' ALLOWANCES

The total allowances paid to members in 2004/2005 was £198,716 (2003/2004 £187,266).

## 10. THE EURO

The Authority did not incur any specific expenditure in 2004/2005 preparing for the introduction of the Euro. The likely implications have been reviewed and a Euro group has been established but is not currently active.

## 11. RELATED PARTY TRANSACTIONS

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 has effective control 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 housing benefits). Details of transactions with government departments are set out in a note to the Cash Flow Statement.

Members of the Council have direct control over the Council's financial and operating policies. During 2004/2005, a Council member entered into an agreement with the Council for the rent of office accommodation in his 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. The value of payments from 25<sup>th</sup> September to 31<sup>st</sup> March was £4,000.

Officers – there were no related party transactions during the year by officers of the Council.

Other Public Bodies – related party transactions are as below:

Hampshire County Council	Precept	21,647
	Pension Fund Payments	1,130
Hampshire Police Authority	Precept	2,792
Hampshire Fire & Rescue Authority	Precept	1,322
Building Control Partnership	Payments to Fareham Borough Council	86

### Joint Ventures

Portchester Crematorium : The Council along with 3 neighbouring authorities is part of the Portchester Crematorium Joint Committee, which has control over the functions of Portchester Crematorium. During 2004/2005 the Council received £106,000 from the Joint Committee being its share of the distributable surpluses.

Portsmouth Harbour Renaissance Ltd – the Council is one of three equal shareholders in Portsmouth Harbour Renaissance Ltd. PHR Ltd 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.

## 12. BUILDING CONTROL TRADING ACCOUNT

The Building (Local Authority Charge) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function - 'details of scheme for setting charges'. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities.

From the 1st February 2003, Gosport Building Control merged with Fareham Building Control under a three year agreement for the joint provision of Building Control services to the Boroughs of Gosport and Fareham. The statement below shows the total cost of operating the building control unit for 2004/2005 for Gosport Borough Council and the Partnership. The Building Control surplus is held in the Building Control Partnership Reserve.

Gosport Borough Council 2004/2005	Chargeable £'000s	Non Chargeable £'000s	Total £'000s
<b>Expenditure</b>			
Employee Expenses	138	76	214
Transport	6	3	9
Supplies and Services	18	6	24
Third Party Payments	13	7	20
Central and Support Services	37	16	53
<b>Total Expenditure</b>	<u>212</u>	<u>108</u>	<u>320</u>
<b>Income</b>			
Building Regulation Charges	236	5	241
Other Fees and Charges	0	2	2
Charges to Fareham Borough Council	0	65	65
Charges to other GBC accounts	0	36	36
<b>Total Income</b>	<u>236</u>	<u>108</u>	<u>344</u>
Gross Surplus	24	0	24
Less Future Funds element retained by Fareham BC	7	0	7
Surplus for the year	<u>17</u>	<u>0</u>	<u>17</u>
Surplus for 2003/2004	27	0	27
<b>Building Control Partnership</b>			
Total expenditure	506	258	764
Total income	<u>564</u>	<u>258</u>	<u>822</u>
Surplus for 2004/2005	<u>58</u>	<u>0</u>	<u>58</u>
Fareham	25	0	25
Future Funds Account (held by Fareham)	16	0	16
Gosport	17	0	17
Surplus for 2003/2004	<u>72</u>	<u>0</u>	<u>72</u>
Fareham	45	0	45
Gosport	27	0	27



### 13. DISCLOSURE OF AUDIT COSTS

In 2004/2005 the Council incurred the following fees relating to external audit and inspection.

2003/2004 £		2004/2005 £
	Fee payable to the Audit Commission with regard to external audit services carried out by appointed auditors	
86,070	External audit services	91,480
15,160	Statutory inspection	0
28,790	Certification of grant claims and returns	28,980
0	Other Services	800
<u>130,020</u>		<u>121,260</u>



## COUNCIL HOUSING

## THE HOUSING REVENUE ACCOUNT

ACTUAL 2003/2004 £		ACTUAL 2004/2005 £
	<b>INCOME</b>	
9,588,110	Dwelling Rents (see note 13)	8,566,930
239,160	Shops & Garages	213,830
537,650	Service Charges	478,600
2,619,830	HRA Subsidy (including MRA)	0
12,984,750		9,259,360
	<b>EXPENDITURE</b>	
2,138,410	Management	1,971,350
2,846,160	Maintenance	2,772,830
83,270	Rents, Rates, Taxes, Other Charges	84,880
4,906,780	Rent Rebates	0
0	Bad Debt Provision	25,000
5,784,760	Cost of Capital/Impairment/Deferred Charges (see note 9)	5,782,090
2,412,000	Depreciation	2,177,000
0	HRA Subsidy (including MRA) (see note 11)	1,960,090
0	Subsidy Creditor for 2003/2004	250,000
18,171,380		15,023,240
5,186,630	<b>NET COST OF SERVICES</b>	5,763,880
(5,842,410)	TFR AMRA (Difference between cost of capital and impairment/deferred charges and HRA interest costs)	(5,898,710)
39,110	Amortised Premiums / Discounts	39,110
(49,680)	HRA Investment Income / Mortgage Interest	(61,670)
(5,852,980)		(5,921,270)
(666,350)	<b>NET OPERATING EXPENDITURE</b>	(157,390)
	<b>APPROPRIATIONS</b>	
419,000	Revenue Contributions to Capital	197,690
247,350	<b>TOTAL SURPLUS/ (DEFICIT) FOR THE YEAR</b>	(40,300)
689,750	Surplus at beginning of Year	937,100
937,100	Surplus at end of Year	896,800

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. Local Government and Housing Act 1989

The Housing Revenue Account includes the income and expenditure prescribed by the Local Government and Housing Act 1989. It is presented in accordance with the revised standard classification published by CIPFA in February 1995 and the update published by CIPFA in June 2001 covering resource accounting requirements.

### 2. Charges for Services and Facilities

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

### 3. Housing stock

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

	31 March 2004	31 March 2005
Houses	1,435	1,387
Bungalows	444	441
Flats	1,520	1,511
	3,399	3,339

The Council transferred 18 Steane properties to Portsmouth Housing Association on 9<sup>th</sup> March 2005 for nil consideration as part of the Steane Home Regeneration Proposal.

### 4. Value of Housing Revenue Account Property

	31 March 2004 £'000	31 March 2005 £'000
Operational	163,824	165,000
Non-Operational	-	1,435
	163,824	166,435

Council dwellings are valued at their EUV-SH [Economic Use Value for Social Housing]. This valuation methodology follows the guidelines issued by the ODPM and has been undertaken by Countrywide Surveyors on behalf of the Council. In accordance with ODPM guidance a vacant possession value is included for illustrative purposes as required and is £323 m.

### 5. Major Repairs Reserve

The major repairs reserve was set up in 2001/2002 to account for the new government subsidy for major repairs to council dwellings – the major repairs allowance (MRA).

	2004/2005 £'000
Balance Brought Forward	0
Receipts in year	2,177
Expenditure in year	
o Houses and Flats	2,147
o Environmental Improvements	16
o Surveys / Other	14
Balance Carried Forward	0

## 6. Housing Repairs

	2003/2004	2004/2005
	£	£
Expenditure on repairs	5,201,020	5,684,070
Of which planned	3,476,770	3,646,470
% of Planned / Response	66.85%	64.10%

£3,675,290 of the 2004/2005 expenditure on repairs was capital

The main categories of expenditure were central heating, window and door replacement and the modernisation of kitchens and bathrooms.

## 7. Capital Financing

The financing of capital expenditure on the housing revenue account property during the year is shown below. Only a proportion of this expenditure led to an increase in the value of assets and the remainder maintains the value by keeping them in a good state of repair.

	Land	Houses and Flats	Other	Total
	£'000	£'000	£'000	£'000
Government Grants		2,177		2,177
Revenue Contributions		198		198
Supported Borrowing		710		710
Capital Receipts		600		600
		<u>3,685</u>		<u>3,685</u>

## 8. Capital Receipts

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

	2004/2005
	£'000
Right to Buy sales	2,686
Land Sales	<u>321</u>
	<u>3,007</u>

## 9. Cost of Capital

The charge for the cost of capital is 3.5% (previously 3.5% in 2003/2004) of the value of HRA operational assets carried out in accordance with the guidance on stock valuation published by the DETR in May 2000. This has been calculated from the opening asset values (note 4, page 6 refers).

## 10. Depreciation and Impairment

The total charge for depreciation in 2004/2005 was £2,177,000.

## 11. Subsidy

	2003/2004	2004/2005
	£	£
Management and maintenance	3,999,300	4,271,050
Major Repairs Allowance	2,410,710	2,177,440
Charges for capital and interest	408,460	302,100
Rent rebates	5,035,570	0
Interest on receipts	(22,680)	(17,390)
Rent income	(9,248,020)	(8,817,810)
Other items	0	50,240
Total for year	<u>2,583,340</u>	<u>(2,034,370)</u>

Adjustment for prior years	89,940	68,590
Modified Schemes	(53,450)	5,690
Total subsidy under 1989 Act	<u>2,619,830</u>	<u>(1,960,090)</u>

## 12. Rent Arrears

	2003/2004	2004/2005
	£	£
Current Tenants	225,170	196,520
Former Tenants	75,420	75,750
Garages	<u>2,990</u>	<u>2,070</u>
Total Rent Arrears	<u>303,580</u>	<u>274,340</u>
Gross Rent Income	(9,588,110)	(8,566,930)
Arrears as a % of Gross Rent Income	3.17%	3.20%

## 13. Rent Income from Dwellings

	2003/2004	2004/2005
	£	£
Full rental income from dwellings	9,766,320	8,753,480
Less Rent due on void properties	(138,020)	(143,530)
Less Irrecoverables	<u>(40,190)</u>	<u>(43,020)</u>
Total	<u>9,588,110</u>	<u>8,566,930</u>

An examination of the level of rent arrears has revealed an overstatement of the value of Housing Debtors previously carried in the balance sheet totalling £189,290. This has been corrected in the accounts at 31<sup>st</sup> March 2005 and the adjustment has been written back to the HRA (£183,910) and General Fund (£5,380). The rent income for 2004/05 in note 13 includes this adjustment of £183,910 and the level of rent arrears in note 12 is the corrected value.

## 14. Service Charge Breakdown

The £478,600 included under service charges is broken down as follows.

	£	
Service Charges	88,060	Leaseholders
Housing Care	272,820	Care element of sheltered rent
Insurance	27,960	Leaseholders insurance repayments
Water / Alarms	22,690	Sheltered accommodation
Court Costs	14,230	
Service Charges	14,500	
Other	<u>38,340</u>	
Total	<u>478,600</u>	

## 15. Pensions

The 2004 Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice requires that retirement benefits be accounted for in accordance with FRS17 and the application of this to the Housing Revenue Account (HRA) has been deliberated on by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office of the Deputy Prime Minister (ODPM).

Pensions costs have been included within the Housing Services expenditure line in the Consolidated Revenue Account (page 10) but are not included within the separate HRA statement (page 18) as they are not prescribed as being statutory debits or credits for the HRA and it is considered that to include them as such would be inconsistent with legislative requirements.

The issue of how to account for pension costs within the HRA is likely to be further considered by CIPFA and the ODPM.

## THE COLLECTION FUND

	Notes	2003/2004 £	2004/2005 £
<b>INCOME</b>			
Council Tax	2	25,285,680	27,114,900
Transfers from General Fund - Council Tax Benefits		3,014,380	3,370,480
Income collectable from business ratepayers	3	9,536,210	10,197,560
		<u>37,836,270</u>	<u>40,682,940</u>
<b>EXPENDITURE</b>			
Precepts and demands	4	27,961,970	30,253,160
Business rate			
- Payment to National Pool		9,459,280	10,122,050
- Costs of Collection		76,930	75,510
Bad and doubtful debts			
- Write Offs		(154,430)	(98,270)
- Provisions		172,230	169,080
		<u>37,515,980</u>	<u>40,521,530</u>
Deficit / (Surplus) for the Year		<u>(320,290)</u>	<u>(161,410)</u>
<b>APPROPRIATIONS</b>			
(Surplus) as at 1 April		(851,760)	(977,050)
- Gosport Borough Council surplus released		30,300	142,110
- Hampshire County Council surplus paid		149,420	767,850
- Hampshire Police Authority surplus paid		15,280	88,450
Deficit / (Surplus) for year		<u>(320,290)</u>	<u>(161,410)</u>
Deficit / (Surplus) as at 31 March		<u>(977,050)</u>	<u>(140,050)</u>

## NOTES TO THE COLLECTION FUND

1. This account represents the statutory requirement for billing authorities to maintain a separate Collection Fund. The account is consolidated within the Council's accounts.

The year-end surplus/deficit on the Collection Fund is to be distributed between Hampshire County Council, Hampshire Police Authority and Gosport Borough Council on the basis of estimates made on 15 January of the year-end balance.

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, Hampshire Police Authority 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
A	4,694.50	6/9	3,129.70
B	10,440.50	7/9	8,120.40
C	7,418.25	8/9	6,594.00
D	3,727.25	9/9	3,727.30
E	1,572.75	11/9	1,922.30
F	1,141.00	13/9	1,648.10
G	301.00	15/9	501.70
H	6.00	18/9	12.00

The above figures exclude 646.5 band D equivalent MOD dwellings which make contributions in lieu of Council Tax.

3. Non-Domestic Rateable Value

The NNDR multiplier for the year was 45.6 pence. The rateable value at the year-end was £27,628,070

4. Precepts and Demands

	2003/2004 £	2004/2005 £
Hampshire County Council	21,504,780	21,647,560
Hampshire Fire & Rescue Authority	Inc above	1,321,810
Hampshire Police Authority	2,477,260	2,792,040
Amount of Council Tax for Gosport Borough Council Services	3,979,930	4,491,750
	27,961,970	30,253,160



**CONSOLIDATED BALANCE SHEET**

2003/2004 £	The Council's Assets Are	2004/2005 £	2004/2005 £
0	<b>Fixed Assets</b> (see note 1)		
	<b>Intangible Fixed Assets</b>	0	
	<b>Tangible Fixed Assets</b>		
	<b>Operational Assets :</b>		
163,823,930	- Council Dwellings	165,000,000	
17,124,390	- Other Land and Buildings	16,725,400	
1,653,550	- Vehicles, Plant and Equipment	1,973,340	
12,754,390	- Infrastructure	12,437,050	
2,648,100	- Community Assets	2,734,460	
	<b>Non-Operational Assets :</b>		
8,518,340	- Investment properties	8,795,440	
142,750	- Assets in Course of Construction	174,330	
<u>206,665,450</u>	<b>Total Fixed Assets</b>		<u>207,840,020</u>
684,660	Deferred Charges - (see note 5)		0
891,780	Long Term Debtors (see note 7)		766,290
<u>208,241,890</u>	<b>Total Long Term Assets</b>		<u>208,606,310</u>
	<b>Current Assets</b>		
0	Investments (see note 8)	5,000,000	
3,100	Cash in hand	2,840	
131,040	Stock of materials	146,630	
9,148,580	Sundry Debtors (see note 9)	<u>5,550,530</u>	10,700,000
<u>217,524,610</u>	<b>Total Assets</b>		<u>219,306,310</u>
	<b>Current Liabilities</b>		
0	Short Term Borrowing	2,000,000	
1,502,880	Cash Overdrawn	1,083,380	
6,265,160	Sundry Creditors (see note 10)	<u>4,434,190</u>	7,517,570
<u>209,756,570</u>	<b>Total Assets Less Current Liabilities</b>		<u>211,788,740</u>
3,440	Long Term Borrowing (see note 11)		3,440
59,970	Provisions (see note 12)		0
324,160	Deferred Capital Receipts (see note 16)		234,120
209,369,000	Net Assets before Pension Liability		211,551,180
16,200,000	Liability related to Defined Benefit Pension Scheme (see note 21)		26,010,000
<u>193,169,000</u>	<b>Total Assets Less Liabilities</b>		<u>185,541,180</u>
130,781,130	Fixed Asset Restatement Account (see note 14)		130,656,780
57,120,010	Capital Financing Account (see note 15)		57,161,230
15,635,080	Grants Deferred Account (see note 18)		15,516,540
1,180,650	Unapplied Grants and Contributions (see note 19)		1,678,150
2,009,470	Usable Capital Receipts Reserve (see note 13)		4,296,520
2,642,660	Fund Balances and Reserves (see note 17)		2,241,960
(16,200,000)	Pensions Reserve		(26,010,000)
<u>193,169,000</u>	<b>Total Net Worth</b>		<u>185,541,180</u>

Mr Peter Wilson  
Deputy Chief Executive and Borough Treasurer

November 2005

## CONSOLIDATED BALANCE SHEET NOTES

### 1. Movement on Fixed Assets during the year

	31 March 2004		Net Book Value of Assets £'000	Revaluation & Adjustments £'000	Movement in 2004/2005			Net Book Value of Assets £'000
	Certified Valuation £'000	Accumulated Depreciation & Impairment £'000			Expenditure £'000	Disposal & Transfers £'000	Depreciation £'000	
Council Dwellings	170,955	(7,132)	163,823	(4,813)	3,721	(2,803)	5,072	165,000
Other Land & Buildings	18,513	(1,389)	17,124	(13)	360	0	(745)	16,726
Vehicles, Plant etc	3,008	(1,354)	1,654	0	691	0	(372)	1,973
Infrastructure	14,370	(1,616)	12,754	0	81	0	(398)	12,437
Community Assets	2,648	0	2,648	0	86	0	0	2,734
<b>Total Operational Assets</b>	<b>209,494</b>	<b>(11,491)</b>	<b>198,003</b>	<b>(4,826)</b>	<b>4,939</b>	<b>(2,803)</b>	<b>3,557</b>	<b>198,870</b>
Non Operational Assets	8,661	0	8,661	324	52	(67)	0	8,970
<b>Total Assets</b>	<b>218,155</b>	<b>(11,491)</b>	<b>206,664</b>	<b>(4,502)</b>	<b>4,991</b>	<b>(2,870)</b>	<b>3,557</b>	<b>207,840</b>

During 2005/2006 the Council will examine the classification of Operational and Non-Operational assets in accordance with the latest guidance on definitions from CIPFA / RICS. This may result in movement between these two categories within the balance sheet and any such movements will be reported in the Statement of Accounts for 2005/2006

There are no Intangible Fixed assets recorded on the balance sheet

The valuation method of fixed assets is described in the Statement of Accounting Policies on page 5

## 2. Valuation of Fixed Assets

The table below shows the progress of the Council's rolling programme of fixed asset revaluations in line with the valuation methods set out in the Statement of Accounting Policies. The valuations, except for Council Dwellings, are carried out by the Council's Property Services Manager: Mr M. Pam MRICS BA. Council Dwellings are valued by Countrywide Surveyors on behalf of the Council. The valuations are gross balance sheet value before depreciation.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infra structure	Community Assets	Non Operational Properties
	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost:		1,266	3,699	14,451	2,734	
Revalued when indicated:						
2004/2005	167,060	347				776
2003/2004		1,545				0
2002/2003		7,030				5,153
2001/2002		8,672				2,827
2000/2001						
1999/2000						
1998/1999						40
	167,060	18,860	3,699	14,451	2,734	8,796

Assets valued at £40,000 were due for revaluation in 2004/2005 and will now be revalued in 2005/2006.

## 3. Capital Expenditure

Capital expenditure during the year is shown below

	£'000
Improvements to Housing Stock	3,721
Social Housing	354
Improvement Grants for Private Sector Housing	325
Kerbside & Waste Recycling	77
Marine Parade Public Convenience	27
Introduction of Parking Charges	152
CCTV Cameras	79
Offices inc IT & Maintenance	546
All Other Schemes & Expenditure	558
	<u>5,839</u>

Capital expenditure may be financed in various ways including borrowing, use of internal funds and external contributions and grants. Capital expenditure in 2004/2005 was financed as follows:

	£'000
Government Grants	2,596
External Contributions	560
Revenue Contributions	198
Capital Receipts	1,874
Borrowing	805
Creditors	(194)
	<u>5,839</u>

Significant commitments for future expenditure at 31<sup>st</sup> March 2005 include:

	£'000
Social Housing	991
Town Centre Parks (Compass Point)	63
Nobes Hall	137
Open Space Security Measures	21
Cemetery Headstones Safety	30
Stokes Bay Paddling Pool	75
CCTV Cameras	37
Implementing Electronic Government	197
PHA – Social Housing Grant	1,800
	<u>3,351</u>

#### 4. Information on Assets Held

The Council's fixed assets principally include:

Number as at  
31 March 2005

<b>Council dwellings (owned not leased)</b>	3,338
<b>Operational buildings</b>	
Town Hall/ Offices	3
Leisure Centre with Swimming Pool	1
Ice Rink	1
Depots	1
Surface Car Parks	44
Cemeteries	1
Public Conveniences (including 3 boarded up)	25
Museums	2
Disinfestation Centre	1
<b>Operational equipment</b>	
Vehicles	5
<b>Infrastructure assets</b>	
Slipways	17
<b>Community assets</b>	
Parks and open spaces (hectares)	176.6
Collections of art/artefacts	2
Civic regalia and silverware (items)	142
<b>Heritage Site</b>	1
<b>Non-Operational</b>	
Paddling Pool	1
Land leased to third parties (hectares)	19.2
Shops (items)	2
Tenanted Buildings (items)	6

## 5. Deferred Charges

	Improvement Grants £	Social Housing £	Other £	Total £
Balance as at 1 April 2004	0	0	684,660	684,660
Expenditure	198,930	353,600	167,960	720,490
Amounts written off to revenue	(198,930)	(353,600)	(852,620)	(1,405,150)
Balance as at 31 March 2005	0	0	0	0

Deferred Charges are defined as expenditure which may properly be deferred but which does not result in, or remain matched with, assets controlled by the authority. They generally represent expenditure which does not fall within the definition of fixed assets but which may be classified as capital expenditure for financing and capital control purposes. From 2004/2005, in accordance with the Code of Practice on Local Authority Accounting, deferred charges are maintained as a memorandum account only and do not form part of the Council's year end balance sheet. Deferred charges expenditure is now either written off to revenue in the year of being incurred or included under the new Intangible Fixed Assets heading.

Deferred charges expenditure was financed in 2004/2005 as follows:

	£
Developer Contributions	353,600
External Grants	49,330
Borrowing	47,100
Capital Receipts	340,490
Creditors	(70,030)
	<u>720,490</u>

## 6. Analysis of Net Assets employed

	31 March 2004 £ m	31 March 2005 £ m
General Fund	43	45
Housing Revenue Account	166	166
Total	<u>209</u>	<u>211</u>

## 7. Long Term Debtors- the long term loan debt outstanding on the following types of advance

	2003/2004 £	2004/2005 £
Housing Act Advances	10,180	7,200
Housing Associations	47,550	0
Sale of Houses	324,160	234,120
Voluntary and Sporting Organisations	19,450	16,370
Car Loans to Staff	415,990	473,260
PWLB Loan Premium	74,450	35,340
	<u>891,780</u>	<u>766,290</u>

## 8. Investments

	2003/2004	2004/2005
	£	£
Temporary Investments	0	5,000,000
	<u>0</u>	<u>5,000,000</u>

## 9. Sundry Debtors

	2003/2004	2004/2005
	£	£
Sundry Debtors	3,656,920	2,515,270
Customs & Excise (see note below #)	2,774,580	0
Housing Rents - arrears (including General Fund)	596,530	574,900
Council Tax – arrears	1,731,120	1,948,860
NNDR – arrears	504,770	436,480
Government Departments	1,096,970	1,344,650
Agency/Contract Service	0	(20)
	<u>10,360,890</u>	<u>6,820,140</u>
Less Provision for Bad Debts		
Sundry Debtors	390,170	393,080
Housing Rents	100,000	125,000
Council Tax	466,020	536,830
NNDR	256,120	214,700
	<u>9,148,580</u>	<u>5,550,530</u>

# At the end of 2003/04, £2,774,580 was outstanding from Customs & Excise in respect of a vat claim for the Kelsey Tower Blocks transfer. This sum was to be paid to Kelsey Housing Association upon receipt from Customs & Excise and accordingly the balance sheet at 31 March 2004 reflects both a debtor for Customs & Excise and a creditor for Kelsey Housing Association. These two entries in the accounts, while being required to present the full picture, are cost neutral to the Council and balance each other out.

## 10 Sundry Creditors

	2003/2004	2004/2005
	£	£
Sundry Creditors	1,288,640	2,177,280
Kelsey Housing Association (see note above #)	2,774,580	0
Capital Accruals	220,230	194,790
Payments in Advance	880,690	2,001,220
Government Departments	1,037,430	59,500
Agency/Contract Services	63,590	1,400
	<u>6,265,160</u>	<u>4,434,190</u>

## 11. Long Term Borrowing

(I.e. Loans with over 12 months to maturity)

	2003/2004	2004/2005
	£	£
Education Trust Fund	3,440	3,440
PWLB	0	0
	<u>3,440</u>	<u>3,440</u>

**12. Provisions**

	2003/2004	2004/2005
	£	£
Section 38 Fees	55,970	0
Staffing Appeal	4,000	0
	<u>59,970</u>	<u>0</u>

**13. Usable Capital Receipts Reserve**

	2003/2004	2004/2005
	£	£
Balance as at 1 April 2004	1,396,030	2,009,470
Receipts	16,937,700	4,161,470
	<u>18,333,730</u>	<u>6,170,940</u>
Financing of capital expenditure	16,324,260	1,874,420
Balance as at 31 March 2005	<u>2,009,470</u>	<u>4,296,520</u>

The balance at 31<sup>st</sup> March 2005 includes £200,000 in respect of Camden Allotments which must be applied in accordance with the provisions of Section 32 of the Smallholdings and Allotments Act 1908.

**14. Fixed Asset Restatement Account**

2003/2004		2004/2005
£		£
84,267,170	Balance as at 1 April 2004	130,781,130
66,098,840	Surplus/deficit on revaluation and restatement of fixed assets	2,629,460
<u>(19,584,880)</u>	Disposal of fixed assets	<u>(2,753,810)</u>
<u>130,781,130</u>	Balance as at 31 March 2005	<u>130,656,780</u>

The balance c/fwd at 31 March 2004 has been increased by £76,820 from £130,704,310 to £130,781,130 to correct a miscoding between accounts. The corresponding contra entry is to the Capital Financing Account (note 15). This is a detail adjustment agreed with the Council's External Auditor last year and has no effect on the Council's financial position.

## 15. Capital Financing Account

2003/2004 £'000		2004/2005 £'000
38,946	Balance as at 1 April 2004	57,120
2,873	Capital receipts set aside	0
(5)	Housing Assoc. and Voluntary Organisation loan principal repaid	(54)
	Capital financing - capital receipts/grants	
419	- revenue	198
562	- grant write off	664
16,323	- capital receipts	1,874
624	- commuted sum	50
1,057	- deposits	353
(66)	Contribution to Revenue (Commutation SCA)	(124)
(330)	Contribution to Revenue (Impairment)	0
(88)	Contribution to Revenue (Loan Premium)	0
(1)	Major Repairs Reserve (HRA depreciation)	0
(1,282)	MRP (less depreciation provision)	(1,515)
-	Write down of deferred charges -capital	-
(1,912)	- revenue	(1,405)
57,120	Balance as at 31 March 2005	57,161

This reserve is primarily to maintain the double entry accounting concept and does **not** represent cash balances available for future financing of capital expenditure.

The balance c/fwd at 31 March 2004 has been reduced from £56,216,160 to £56,139,340 to correct a miscoding between accounts. The corresponding contra entry is to the Fixed Asset Restatement Account (note 13). This is a detail adjustment agreed with the Council's External Auditor last year and has no effect on the Council's financial position.

## 16. Deferred Capital Receipts

Deferred capital receipts are amounts which are not available until they are repaid. They consist of the outstanding balance of mortgage advances for the sale of Council Houses and Houses Built for Sale.

	31 March 2004 £	31 March 2005 £
Houses Built for Sale	15,160	12,510
Sale of Council Houses	309,000	221,610
Total	324,160	234,120



## 17. Fund Balances and Reserves

	1 <sup>st</sup> April £	Receipts £	Payments £	31 <sup>st</sup> March £
Fund Balances				
General Fund surplus	595,960	169,040		765,000
Housing Revenue Account	937,100		40,300	896,800
Collection Fund	977,050		837,000	140,050
Civic	710	30		740
Royan Twinning Fund	2,470	3,720		6,190
Museum Purchases	8,150	380		8,530
Open Spaces	75,670	49,390	3,660	121,400
Miscellaneous	2,600			2,600
Earmarked Reserves				
Capital	0			0
Revenue				
Building Control Partnership	42,950	17,610		60,560
Revenue Financing Reserve	0	240,090		240,090
Total	<u>2,642,660</u>	<u>480,260</u>	<u>880,960</u>	<u>2,241,960</u>

Details of fund movements are summarised elsewhere in the accounts (sections on the consolidated revenue account, housing revenue account and the collection fund).

The Council's revised budget for 2004/2005 included budgeted contributions to the General Fund surplus and Revenue Financing Reserve of £169,040 and £20,960 respectively.

The General Fund surplus for 2004/2005 of £236,740 was attributed to the Building Control Partnership (£17,610) and Revenue Financing Reserve (£219,130)

The contributions to the Revenue Financing Reserve and Building Control Partnership totalling £257,700 are shown as Contributions to Earmarked Revenue Reserves on the face of the consolidated revenue account.

## 18. Grants Deferred Account

The Grants Deferred account reflects grants receivable in the year and the amount released to meet the cost of depreciating previous years' capital expenditure

	31 March 2004 £	31 March 2005 £
Balance 1 <sup>st</sup> April	14,077,840	15,635,080
Grant Receivable	2,119,150	545,410
Grant Released	(561,910)	(663,950)
Balance 31 <sup>st</sup> March	<u>15,635,080</u>	<u>15,516,540</u>

## 19. Unapplied Grants and Contributions

Unapplied grants and contributions represents developer deposits and contributions which are held and utilised to fund capital expenditure

	31 March 2004 £	31 March 2005 £
Balance 1 <sup>st</sup> April	2,184,620	1,180,650
Receipts	381,850	901,200
Payments	1,385,820	403,700
Balance 31 <sup>st</sup> March Total	<u>1,180,650</u>	<u>1,678,150</u>

## 20. Operating Leases

The authority was committed at 31 March 2005 to making payments of £71,000 under operating leases in 2005/2006, comprising the following elements:

	£'000
Leases expiring in 2005/06	6
Leases expiring between 2006/07 and 2009/10	59
Leases expiring after 2009/10	6

## 21. Pension Assets and Liabilities

Note 8 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Superannuation Scheme administered by Hampshire County Council. The following note contains details of the related assumptions made in estimating the figures included in that note.

In accordance with Financial Reporting Standard No. 17 - Retirement Benefits (FRS 17) Gosport Borough Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees.

The pension calculations are based on the liabilities determined in the Actuarial Valuation as at 31 March 2004 as updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of FRS17 in order to assess the liabilities of the Fund as at 31 March 2005. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value.

Gosport Borough Council's contribution rate over the accounting period was 225% of members' contributions.

Projected contribution rates – expressed as a % of members' contributions - are as follows:

April 2004 to March 2005	225%
April 2005 to March 2006	250%
April 2006 to March 2007	275%
April 2007 to March 2008	300%

These figures include the past service element of the contribution rate.

Assumptions:

The main assumptions used for the purposes of FRS 17 are as follows:

	31 March 2004	31 March 2005
Discount rate	6.4% pa	5.3% pa
Rate of increase in salaries	4.4% pa	4.4% pa
Rate of increase in pensions in payment	2.9% pa	2.9% pa
Rate of inflation	2.9% pa	2.9% pa
Discount rate for pension cost over following year	5.4% pa	5.3% pa
Long-term expected rates of return on:		
Equities	7.7% pa	7.7% pa
Bonds	4.7% pa	4.7% pa
Property	6.7% pa	6.7% pa
Other assets	4.2% pa	4.8% pa
Average long term expected rate of return	6.9% pa	6.8% pa

Position in the Fund:

Assets are valued at fair value, principally market value for investments. The proportions of total assets held in each asset type by the Fund as a whole at 31 March 2004 and 31 March 2005 are as follows:

	31 March 2004	31 March 2005
Equities	71%	69%

Bonds	21%	22%
Property	4%	4%
Other	4%	5%

The following amounts, needed for reconciliation to the balance sheet, were measured in accordance with the requirements of FRS17:

	31 March 2004	31 March 2005
	£m	£m
Share of assets	32.84	34.14
Estimated Funded Liabilities	(46.59)	(57.51)
Estimated Unfunded Liabilities	(2.45)	(2.64)
Gosport Borough Council's deficiency in the Fund	<u>(16.20)</u>	<u>(26.01)</u>

In accordance with Local Authority Accounting Practice (LAAP) Bulletin 56, the opening unfunded liability balance has been recognised a prior period adjustment to the opening balances of the pensions liability & pensions reserve

The movement in net deficiency for the year to 31 March 2005 is as follows:

Net deficiency at 1 <sup>st</sup> April 2004	£m
	(16.20)
Contributions Paid	1.13
Current Service Cost	(1.25)
Past Service Costs	(0.12)
Gain/loss on any Settlements or Curtailments	0
Expected return on Pension Fund Assets	2.23
Interest on Pension Scheme Liabilities	(3.12)
Actuarial gain/loss	(8.68)
Net deficiency at 31 <sup>st</sup> March 2005	<u>(26.01)</u>

The actuarial gain/loss can be further analysed as follows:

	Amount	Percentage
	£m	
Actual return less expected return on assets	0.93	2.7 % of scheme assets
Experience gains and losses on pension liabilities	1.55	2.6 % of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	(11.16)	18.6 % of scheme liabilities
Total	<u>(8.68)</u>	14.4 % of scheme liabilities

The liability at 31<sup>st</sup> March 2005 shows the underlying commitment that the authority has in the long run to pay retirement benefits and impacts on the net worth of the authority as recorded in the balance sheet. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

## 22. Contingent Liabilities

- Municipal Mutual Insurance Limited

There is a potential residual liability of £60,000 in respect of claims that have been settled by MMI and that could be recovered if the winding up results in a loss. The current forecast is that a small surplus will result – part of which will be distributed to Gosport Borough Council.

- Browndown Tip

The Council's Head of Property Services and Senior Environmental Health 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 can be identified and the future use of the land. These matters remain to be fully investigated and quantified.

- Millennium Project

On the 19<sup>th</sup> May 1997, Portsmouth Harbour Renaissance Ltd. acting on behalf of shareholders, Gosport Borough Council, Portsmouth City Council, Portsmouth Naval Base Property Trust, entered into an agreement with the Millennium Commission to complete the Portsmouth Harbour Renaissance Project. Over the three year period Gosport Borough Council incurred expenditure of approximately £11m which was partially offset by Millennium Grant of £6.6m. The three partners are jointly and severally responsible for delivering the project and the Commission can withhold grant from across the whole project if any one of the three partners defaults on the delivery of their part of the scheme. The final stages of the scheme are estimated to be completed in 2005/06.

### **23. Post Balance Sheet Events**

There were no post balance sheet events.

### **24. Group Accounts**

Gosport Borough Council is one of three equal shareholders in Portsmouth Harbour Renaissance Ltd. This level of shareholding satisfies the criteria that defines an associated company. But the activities of the company are not of a nature that warrants the requirement to prepare group accounts. Portsmouth Harbour Renaissance Ltd. does not operate independently; does not generate surpluses; does not 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.

The Council along with 3 neighbouring authorities is part of the Portchester Crematorium Joint Committee, which has control over the functions of Portchester Crematorium. During 2004/2005 the Council received £106,000 from the Joint Committee being its share of the distributable surpluses.

The new Group Accounting requirements will be implemented in the 2005/2006 Statement of Accounts.

### **25. Trust Fund**

The Council administers an Education Trust Fund amounting to approximately £3,400 at 31 March 2005. The purpose of the Trust is to assist the education of necessitous Gosport children unable to avail themselves of educational facilities for financial reasons. Trust Funds are not covered by the audit opinion on the main statement of accounts, however the accounts are audited independently and copies are held by Gosport Borough Council.

## STATEMENT OF TOTAL MOVEMENT IN RESERVES

	2004-2005 £000s	2004-2005 £000s	2003-2004 £000s
Surplus / (deficit) for the year			
- General Fund	169		148
- Housing Revenue Account	(40)		247
- Fund Balances	(787)		124
- Earmarked Revenue Reserves	257		27
<i>deduct</i> Appropriation from pensions reserve	(1,130)		(900)
Actuarial gains and losses relating to pensions	(8,680)		3,460
<b>Total increase / (decrease) in revenue resources (note 1)</b>		(10,211)	3,106
Increase / (decrease) in Usable Capital Receipts	2,287		613
Unapplied Capital Grants and Contributions	498		(1,003)
<b>Total increase / (decrease) in realised capital resources (note 2)</b>		2,785	(390)
Gains / (losses) on revaluation of fixed assets	2,629		66,099
<b>Total increase / (decrease) in unrealised value of fixed assets (note 3)</b>		2,629	66,099
<b>Value of assets sold or disposed of (note 4)</b>		(2,754)	(19,662)
Capital receipts set aside	1,874		19,197
Revenue Resources set aside	(1,833)		(945)
Movement on Government Grants Deferred Account	(118)		1,557
Movement on Major Repairs Reserve	0		0
<b>Total increase / (decrease) in amounts set aside to finance capital investment (note 5)</b>		(77)	19,809
Increase / (decrease) on the pensions reserve		9,810	(2,560)
<b>Total recognised gains and losses</b>		<b>2,182</b>	<b>66,402</b>

## Notes to Statement of Total Movement in Reserves

## 1. Movements in revenue resources

	General Fund Balances	HRA Balances	Fund Balances (Note 1)	Earmarked Revenue Reserves (Note 2)	Pensions Reserve (Note 3)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Surplus / (Deficit) in 2004-05	169	(40)				129
Appropriation to / from revenue				257	(1,130)	(873)
Receipts & Payments			(787)			(787)
Actuarial gains and losses relating to pensions (see note below)					(8,680)	(8,680)
	169	(40)	(787)	257	(9,810)	(10,211)
Balance B/Fwd at 1 <sup>st</sup> April 2004	596	937	1,067	43	(16,200)	(13,557)
Balance C/Fwd at 31 <sup>st</sup> March 2005	765	897	279	300	(26,010)	(23,768)

Note 1: Fund Balances comprise

	£'000
Collection Fund	140
Civic	1
Royan Twinning Fund	6
Museum Purchases	8
Open Spaces	121
Miscellaneous accounts	3
	<u>279</u>

Note 2: Earmarked Revenue Reserves comprise

	£'000
Building Control Reserve	60
Revenue Financing Reserve	240
	<u>300</u>

Note 3: The actuarial gains identified as movements on the Pensions Reserve in 2004-05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31<sup>st</sup> March 2004.

	2002/03		2003/04		2004/05	
	£'000	%	£'000	%	£'000	%
Differences between the expected & actual return on assets	(10,160)	(36.4%)	3,440	10.5%	930	2.7%
Differences between the actuarial assumptions about liabilities & actual experience	190	0.4%	(110)	(0.2%)	1,550	2.6%
Changes in the demographic & financial assumptions used to estimate liabilities	(60)	(0.1%)	130	0.3%	(11,160)	(18.6%)
	<u>(10,030)</u>		<u>3,460</u>		<u>(8,680)</u>	

## 2. Movement in realised capital resources

	Usable capital receipts £'000	Unapplied capital grants & contributions £'000
Amounts receivable in 2004-05	4,161	902
Amounts applied to finance new capital investment	(1,874)	(404)
<b>Total increase/(decrease) in realised capital investment in 2004-05</b>	<b>2,287</b>	<b>498</b>
Balance B/Fwd at 1 <sup>st</sup> April 2004	2,009	1,180
Balance C/Fwd at 31 <sup>st</sup> March 2005	4,296	1,678

## 3. Movements in unrealised value of fixed assets, & 4. Value of assets sold or disposed of

	Fixed Asset Restatement Account £'000
<b>3. Movements in unrealised value of fixed assets</b>	
Gain/(loss) on revaluation of fixed assets in 2004-05	2,629
<b>4. Value of assets sold or disposed of</b>	
Amounts written off fixed asset balances for disposals in 2004-05	(2,754)
Total movement on reserve in 2004-05	(125)
Balance B/Fwd at 1 <sup>st</sup> April 2004	130,781
Balance C/Fwd at 31 <sup>st</sup> March 2005	130,656

## 5. Movements in amounts set aside to finance capital investment

	Capital Financing Account £'000	Government Grants Deferred £'000	Major Repairs Reserve £'000
Capital receipts set aside in 2004-05			
- reserved receipts	0		
- usable receipts applied	1,874		
<b>Total capital receipts set aside in 2004-05</b>	<b>1,874</b>		
Revenue resources set aside in 2004-05			
- capital expenditure financed from revenue	601		
- commutation adjustment	(124)		
- reconciling amount for provisions for loan repayment	(2,310)		
<b>Total revenue resources set aside in 2004-05</b>	<b>(1,833)</b>		
Grants applied to capital investment in 2004-05		546	
Amounts credited to the asset management revenue account in 2004-05		(664)	
<b>Movements on Governments Grants Deferred</b>		<b>(118)</b>	
Depreciation provision to MRR in 2004-05			(2,177)
Capital expenditure financed in 2004-05			2,177
<b>Movements on Major Repairs Reserve</b>			<b>0</b>
Total increase / (decrease) in amounts set aside to finance capital investment			
Total movement on reserve in 2004-05	41	(118)	0
Balance B/Fwd at 1 <sup>st</sup> April 2004	57,120	15,635	0
Balance C/Fwd at 31 <sup>st</sup> March 2005	57,161	15,517	0

<b>CASH FLOW STATEMENT</b>		2004/2005
2003/2004		£'000
£'000		£'000
	<b>REVENUE ACTIVITIES</b>	
	<b>CASH OUTFLOWS</b>	
9,613	Cash paid to and on behalf of employees	10,055
7,088	Housing benefit paid out	7,792
8,868	National non-domestic rate payments to national pool	11,139
24,147	Precepts paid	26,618
0	Payments to the capital receipts pool	513
20,091	Other operating cash payments	21,816
69,807		77,933
	<b>CASH INFLOWS</b>	
(5,061)	Rents (after rebates)	(4,693)
(25,085)	Council tax income	(26,778)
(2,665)	National non-domestic rate receipts from national pool	(2,100)
(11,899)	Non-domestic rate receipts	(11,410)
(3,803)	Revenue support grants	(3,914)
(9,830)	Other government grants	(13,003)
(1,088)	Cash received for goods and services	(2,330)
(8,822)	Other operating cash receipts	(13,460)
(68,253)		77,688
1,554	<b>NET REVENUE EXPENDITURE / (INCOME)</b>	245
	<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>	
	<b>CASH OUTFLOWS</b>	
229	Interest paid	30
	<b>CASH INFLOWS</b>	
(233)	Interest received	(247)
	<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>	
	<b>CASH OUTFLOWS</b>	
6,625	Purchase of fixed assets	5,148
295	Payment of improvement grants	324
981	Payment of Local Authority Housing Association grant	354
8	Payment to voluntary organisations	12
7,909		5,838
	<b>CASH INFLOWS</b>	
(3,955)	Sale of fixed assets	(4,673)
0	Repayment of improvement loans	0
0	Repayment of Housing Act advances	0
(78)	Improvement/Housing Defects grant	(93)
(2,411)	Major Repairs Allowance	(2,177)
0	Housing Association grant	(48)
(933)	Capital schemes - Grant income	(1,340)
(4)	Repayment of Housing Association loans/ Vol Org	(54)
(102)	Repayment of Sale of Council House loans	Inc above
(7,483)		(8,385)
	<b>MANAGEMENT OF LIQUID RESOURCES</b>	
	<b>CASH OUTFLOWS</b>	
41,565	Investments made	50,700
	<b>CASH INFLOWS</b>	
(46,665)	Investments realised	(45,762)
(3,124)	<b>NET CASH FLOW BEFORE FINANCING</b>	2,419



<b><u>FINANCING</u></b>			
<b>CASH OUTFLOWS</b>			
3,000	Repayments of amounts borrowed	0	
<u>6,000</u>	Short-term loans repaid	<u>9,500</u>	9,500
9,000			
<b>CASH INFLOWS</b>			
0	New loans raised	0	
<u>(5,000)</u>	Short - term loans raised	<u>(11,500)</u>	(11,500)
<u>(5,000)</u>			
876	<b>DECREASE IN CASH</b>		<u>419</u>

## NOTES TO THE CASH FLOW STATEMENT

## 1. Reconciliation of net surplus to cash inflow from revenue activities

	2004/2005 £'000
General Fund surplus	169
Housing Revenue Account surplus	(40)
Collection Fund surplus	161
Contribution to capital reserves	0
Contributions to earmarked reserves	258
Contributions from Collection Fund reserves	(142)
Deferred charges	(162)
Decrease in revenue creditors	(1,781)
Increase in stocks	(15)
Decrease in debtors	3,693
Increase in debtors provision	185
Interest and investment income	(247)
Interest paid	30
Asset management revenue account	(74)
Other non cash items	(1,790)
Net cashflow from revenue activities	<u>245</u>

## 2. Movement in cash

	Cash £'000
Cash and bank balance 1 April 2004	(1,500)
Cash and bank balance 31 March 2005	(1,081)
Decrease in cash	<u>419</u>

## 3. Movement in Long Term Borrowing

	As at 31/3/04 £'000	As at 31/3/05 £'000	Movement £'000
Public Works Loan Board	-	-	-

## 4. Movement in Government Grants

	As at 31/3/04 £'000	As at 31/3/05 £'000	Movement £'000
Revenue			
Revenue Support Grant	3,803	3,914	111
Housing Benefit Subsidy	12,807	14,876	2,069
Housing Subsidy	(2,977)	(1,873)	1,104
	<u>13,633</u>	<u>16,917</u>	<u>3,284</u>
Capital Grants			
Improvement / Housing Defects Grant	78	93	15
Major Repairs Allowance	2,411	2,177	(234)
Housing Association Grant	0	48	48
Capital Schemes Funding	933	1,340	407
	<u>3,422</u>	<u>3,658</u>	<u>236</u>

## 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;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

Councillor  
Chair of Policy and Organisation Board

November 2005

### 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 Code of practice.

The Chief Finance Officer has also:

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

I certify that the Statement of Accounts present fairly the financial position of the Authority at 31<sup>st</sup> March 2005 and its income and expenditure for the year then ended.

Mr Peter Wilson  
Deputy Chief Executive and Borough Treasurer

November 2005

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## **STATEMENT ON THE SYSTEM OF INTERNAL CONTROL**

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### **1. Scope of Responsibility**

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

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the council's functions and which includes arrangements for the management of risk.

### **2. The Purpose of the System of Internal Control**

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at the council for the year ended 31 March 2005 and up to the date of approval of the annual accounts.

### **3. The Internal Control Environment**

The system of internal financial control is based on a framework of regular management information, financial regulations, administration procedures, management supervision and a recognised system of delegation and accountability. In particular, the system includes: -

- Regular reviews of monthly and annual financial reports that indicate performance against forecasts
- Comprehensive financial procedures and rules
- Financial updates to Senior Management Team and Members
- Setting targets to measure financial and other performance

The Council has a nominated Section 151 Officer, the Deputy Chief Executive and Borough Treasurer with the Financial Services Manager acting as Deputy.

- The administration of financial affairs of the Council
- The provision of advice on financial probity and budget and policy framework issues
- Compliance with the Accounts and Audit Regulations 2003

A performance management framework is in place and an annual Best Value Performance Plan is produced detailing our performance against established targets.

A series of risk management workshops were run to assist in the development of the risk register. These were facilitated by Internal Audit staff and supported by senior management.

#### **4. Review of Effectiveness**

The Council introduced a new political management structure (2001) to oversee the executive management decisions. For Councils with a population of less than 85,000, one of the models was known as "alternative arrangements". Following consideration of the residents' views the Borough Council has adopted a Constitution based on the "alternative arrangements" favoured by its residents. This meets the requirements of the Local Government Act 2000.

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. Some of these processes are required by the law, while others are a matter for the Council to choose.

All of the existing Committees have been disbanded. They have been replaced by Boards and Sub Boards, which will make executive decisions. New Committees have also been established to scrutinise the work of the Boards on behalf of residents.

##### Management

Service Unit Managers are responsible for the routine monitoring and review of the internal controls operating within their services. They meet weekly to discuss strategic matters.

##### Internal Audit

The responsibility for maintaining and reviewing the system of internal control rests with the Council. In practice, however, the Council is likely to take assurance from the work of Internal Audit.

During the year, the work of Internal Audit included fundamental reviews of all the systems of internal financial control as well as placing reliance on the Benefit Fraud Inspectorate (Bfi) review in February 2005.

##### The Council's Boards & Scrutiny Committees

The powers and terms of references of the above are covered under [Part 3 Schedule 9](#) of the Constitution.

##### The Audit & Risk Sub-Committee

The Sub-Committee meets regularly throughout the year and receives formal reports from the Head of Internal Audit and Risk Assurance.

##### External Audit (Mazars)

As well as carrying out an annual review of Internal Audit the appointed External Auditors also have a program of annual audit work on the Council's systems.

## 5. **Significant Internal Control Issues**

There have been no significant internal financial control issues identified. The following table highlights the progress against the issues raised in last years (2003/04) Statement of Internal Control. An action plan has been prepared for the implementation of corporate governance and risk management procedures:

2003/04 Significant Internal Control Issues	Progress in 04/05
<ul style="list-style-type: none"> <li>recommend that a Overview &amp; Scrutiny Committee is to have Risk Management as part of his/her Portfolio;</li> </ul>	This has been incorporated into the Audit & Risk Sub Committee Terms of Reference.
<ul style="list-style-type: none"> <li>embed risk management into the Council's daily processes;</li> </ul>	This is still under developed.
<ul style="list-style-type: none"> <li>further Members, managers and section heads training sessions to assist in risk identification, prioritisation and treatment (including a risk management toolkit).</li> </ul>	Written guidance was provided to all members using the Members Information Bulletin (MIB) as well as facilitated workshops for all Line Managers.
<ul style="list-style-type: none"> <li>Provide project management training to key staff through 2004/05 with the aim to introduce an endorsed corporate project management methodology for the Council April 2005.</li> </ul>	<p>Training in project management was provided to key officers.</p> <p>A recognised project management methodology has yet to be adopted corporately.</p>
<ul style="list-style-type: none"> <li>Improve its performance management framework;</li> </ul>	The introduction of the Performance Sub Group (PSG) has enhanced the Councils performance management framework
<ul style="list-style-type: none"> <li>Management arrangements have been revised and are being developed through 2004/05 to ensure a more streamlined approach.</li> </ul>	Sub Groups have been established covering organisation, resources and performance management to support Management Team.

The following significant internal control issues have been identified.

No.	Issue	Action
1.	There is a need to improve the business processes in many operational areas to establish and encourage "efficiencies" and improved value for money on a systematic basis.	Begin the three-year reviews of all sections throughout the Council.
2.	Develop a framework to support corporate assurance.	Internal Audit (Feb 06) to prepare assurance statements for each Service Unit Manager to sign to support the overall assurance program.
3.	There is a need to further improve the Councils performance management framework	Further develop the performance management framework.
4.	There is a need to embed risk management into the culture of the Council.	Further develop the risk register and drill-down to operational risk assessments by March 2006.
5.	Provide key staff and Members with financial training.	There is planned financial awareness training (Finance and Audit Officers) for key staff and Members in 2005/06
6.	Update the financial regulations and contract standing orders.	Planned to be completed by Internal Audit by December 2005
7.	Provide the Members of the Audit & Risk Sub Committee with in-house training and awareness of risk management matters within the Council.	Internal Audit to act as facilitator and run an in-house "workshop style" meeting by March 2006 for the Members of the Audit & Risk Sub Committee.
8.	The Council's procurement practices need to be further developed in accordance with the National Procurement Strategy.	Establish an officer procurement group by November 2005 to assist and monitor against the National Procurement Strategy

Borough Treasurer .....

Chief Executive .....

Chair of P&O Board .....

Date .....

## **Independent auditors' report to Gosport Borough Council**

We have audited the Statement of Accounts for the year ended 31 March 2005 on pages 5 to 41 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 5 to 9. This report is made solely to Gosport Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Gosport Borough Council for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditors**

As described in the Statement of Responsibilities for the Statement of Accounts on page 42, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the 'Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004'. Our responsibilities as independent auditors are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the Statement of Accounts presents fairly the financial position of the Council and its income and expenditure for the year.

We review whether the Statement on Internal Control on pages 43 to 46 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider whether the Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the Council's corporate governance arrangements or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the Statement of Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Statement of Accounts.

### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.



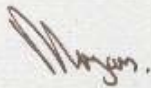
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the Statement of Accounts presents fairly the financial position of Gosport Borough Council as at 31 March 2005 and its income and expenditure for the year then ended.

### **Certificate**

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



Mazars LLP  
Chartered Accountants and Registered Auditors  
Southampton

29 November 2005