



STATEMENT OF ACCOUNTS

2006-2007

GOSPORT BOROUGH COUNCIL
STATEMENT OF ACCOUNTS 2006 / 2007

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EXPLANATORY FOREWORD

1. Contents

The Statement of Accounts for 2006/2007 reflects the revised reporting and accounting requirements encompassed in the Statement of Recommended Practice (SORP) for 2006. The Statement of Accounts for 2007/2008 (next year) will include further required amendments that will be included in the as yet unpublished SORP 2007.

Some of the financial statements and notes included in this document are fundamentally different to those that have gone before and the explanatory foreword and accompanying notes attempt to outline and explain these.

In accordance with statutory obligations and the Code of Practice on Local Authority Accounting, the accounts for 2006/2007 include the following statements:

- **Income and Expenditure Account**

This statement is a summary of the resources generated and consumed by the authority during the year.

It reports the net cost for the year of all functions for which the authority is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers. The income and expenditure recorded is essentially in line with the conventions of UK GAAP (Generally Accepted Accounting Practice) which is adhered to by large private sector companies.

- **Statement of Movement on the General Fund Balance**

This statement is a reconciliation showing how the balance of resources generated or consumed in the year links to the statutory requirements for raising Council Tax.

The Income and Expenditure Account discloses the income receivable and expenditure incurred in operating the Council for the year in line with UK GAAP. There are, however, items that are required to be credited or charged to the General Fund in order to determine the local authority's budget requirement and Council Tax demand – both of which are determined by statute and non-statutory proper practices rather than being in accordance with UK GAAP. This reconciliation statement firstly summarises, and secondly details, the differences between the outturn on the Income and Expenditure Account and the General Fund Balance

- **Statement of Total Recognised Gains and Losses**

This statement demonstrates how the movement in net worth in the Balance Sheet is identified to the Income and Expenditure Account surplus or deficit and to other unrealised gains and losses.

Not all of the gains and losses experienced by a local authority are reflected in the Income and Expenditure Account. The Statement of Total Recognised Gains and Losses brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

- **Balance Sheet**

The Balance Sheet sets out the Council's financial position at 31st March 2007. It summarises the Council's assets and liabilities including the available balances and reserves. The Council's share of the pension fund deficit is also shown.

- **Cash Flow Statement**

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

- **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.

2. Summary of Financial Performance during the year

The Council's overall financial position remains stable and a balanced and robust budget has been set for 2007/2008. Projections of future tax requirements from 2008/2009 remain a concern with the need for early action to ensure adherence to the Council's policy of annual tax rises of no more than 4% and to avoid the likelihood of capping in future years.

- **General Fund**

The Council's revised budget for 2006/2007 included a contribution to the General Fund working balance of £19,000 and a net contribution from the Revenue Financing Reserve of £419,100.

After making these contributions as budgeted, the General Fund was underspent by £101,820 which been allocated to the Revenue Financing Reserve in line with Council policy.

The table below summarises 2006/2007 in the format of the Council's budget book as opposed to the statutory reporting format in the Income and Expenditure Account on page 15.

GENERAL FUND BUDGET 2006/2007

	REVISED 2006/2007 £'000	ACTUAL 2006/2007 £'000	VARIANCE £'000
<u>GENERAL FUND</u>			
Community & Environment	6,764	6,744	(20)
Housing	561	621	60
Policy & Organisation	4,819	4,681	(138)
Total Net Expenditure	12,144	12,046	(98)
Transfer to GF Working Balance	19	19	0
Transfer from Building Control Reserve	(5)	(8)	(3)
Transfer from Revenue Financing Reserve	(419)	(419)	0
Transfer to Revenue Financing Reserve - GF Surplus	0	101	101

Budget Total	11,739	11,739	0
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	2006/2007	
	£'000	%
<u>FINANCED BY</u>		
Gosport Council Tax	4,853	41.3%
Revenue Support Grant	1,111	9.5%
Non Domestic Rates Distribution	5,755	49.0%
Collection Fund Surplus	20	0.2%
	11,739	100.0%

The main variations in the General Fund budget include:

- o Concessionary Travel – an overspending of £35,400 arising from the successful appeal by bus operators that exceeded budgetary provision
- o Local Tax Collection – improved costs income of (£52,700)
- o Bad Debt Provisions – a review of the Council's provisions for bad and doubtful debts at year end led to increased provisions in respect of both homeless related debts, £47,500 and of general debtor balances, £32,770
- o Wessex Slaughterhouse Board (WSB) – income of (£73,560), received during the year from the distribution of surplus assets arising from the dissolution of the WSB
- o Net interest receivable was budgeted at £160,460 with the actual net interest received being £134,700, a reduction of £25,760

(note : figures in brackets represent a cost reduction or underspending)

Revenue budget carried forwards totalling £82,810 will partially offset the underspending

The Council also received Business Growth Incentive Grant income of £193,780 in 2006/2007 in respect of the 2007/2008 financial year. This appears on the Income and Expenditure Account on page 15.

▪ Reserves

- o The General Fund working balance at 31st March 2007 is £840,000 (7% of the net revenue budget) as projected in the Budget Report for 2007/2008.
- o The Revenue Financing Reserve at 31st March 2007 is £391,740 which exceeds the forecast balance of £289,650 by £101,820 because of the underspending outlined above. This balance will, however, be reduced by the revenue carry forwards of £82,810

▪ Housing Revenue Account

The Housing Revenue Account was forecast to have a revenue deficit of £90,000 for 2006/2007 which would decrease the account balance to £900,750 at 31st March 2007. The actual position for the year was a deficit of £823,010, an overspending of £733,010, with a resulting account balance of £167,740 at 31st March 2007.

The main variations include

- o Repairs and maintenance expenditure of £123,000 particularly for increased repairs on void properties and additional payments of £320,490 to the Council's repairs and maintenance partnership contractor in respect of 2006/2007
- o Supervision and management (£100,000) including backdated job evaluation costs for scheme managers and significant increases in utility costs.
- o A reduction in anticipated income for supporting people, leasehold service charges and leasehold insurance of £60,000.
- o The cost of the final settlement of the 2003/2004 subsidy of £64,890

A strategy to restore the working balance has been developed and this will be incorporated into the Revised 2007/2008 and 2008/2009 budgets.

▪ **Treasury Management**

At 31st March 2007, the Council had investments of £11.3 million, including £9 million investments with building societies and £2.3 million short term investments with money market placed through the Council's Global Treasury Fund and Corporate Deposit Account.

Long term borrowing remains at £8 million. This represents loans taken with the Public Works Loan Board in January 2006 at favourable rates of interest and in line with policy and the need to fund the Council's future capital programme.

The Council was therefore in a net investment position of £3.3 million at the end of the financial year.

▪ **Capital Programme**

The revised Capital Programme for 2006/2007 was budgeted at £7.704 million. The actual capital spend was £6.707 million, an underspending of £0.997 million. Scheme slippage of £1.187 million has been identified and will be carried forward into 2007/2008.

CAPITAL PROGRAMME 2006/2007			
	REVISED 2006/2007 7 £'000	ACTUAL 2006/2007 7 £'000	SLIPPAGE £'000
<u>BY BOARD</u>			
Housing Board (HRA)	4,250	4,554	0
Housing Board (GF)	1,180	931	140
Community & Environment Board	1,582	679	873
Policy & Organisation Board	692	543	174
	7,704	6,707	1,187
<u>BY MAJOR SCHEME</u>			
Council Dwellings	4,250	4,554	0
Social Housing	666	556	110
Housing Grants	514	374	30
Alver Valley Habitat Creation	342	1	341
Information Technology	323	228	95
High Street Refurbishment	213	128	85
Privett Park Pavilion	169	41	128
Town Hall Major Repairs	118	120	0
Replacement Landing Stage	110	16	94
Falkland Gardens - New Public Convenience	100	78	8
Westfield Road Depot	86	82	4
Aid to Voluntary Organisations	63	27	35
CCTV schemes	56	54	0
Allotments - Provision of Security	55	48	7
Priddys Hard Heritage Area	47	23	45
Bus Station	22	0	22
Mobile Home Park	10	1	9
All other schemes	560	376	174
	7,704	6,707	1,187

	REVISED 2006/2007 £'000	ACTUAL 2006/2007 £'000
<u>PROGRAMME FINANCING</u>		
REVENUE (HRA)	400	400
MAJOR REPAIRS ALLOWANCE	2,166	2,154
CAPITAL RECEIPTS	1,399	1,413
COMMUTED SUMS	204	64
GRANTS & CONTRIBUTIONS	1,394	775
CAPITAL GRANTS	244	244
BORROWING	1,897	1,657
	7,704	6,707

At 31st March 2007, the Council has funds of approximately £4.5 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.

▪ **Voluntary Reduction of Debt**

Usable Capital Receipts of £3.7 million have been set aside at year end to reduce the Council's underlying need to borrow for capital purposes (the Capital Financing Requirement) at year end. This set aside will yield revenue savings of £148,000 in 2007/2008 by reducing the statutory charge to revenue (Minimum Revenue Provision) for the repayment of capital debt. This is a temporary saving which will continue until capital funding is needed to progress approved capital schemes when further financing through the use of the Prudential Code for borrowing will be necessary.

▪ **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 £620,000 which exceeds the forecast

The rates of Council Tax and Non Domestic Rates collection for 2006/2007 were 97.0% and 97.9% respectively (96.8% and 98.6% for 2005/2006).

▪ **Retirement Benefits**

The Statement of Accounts complies with FRS17 – the financial reporting standard on Retirement Benefits. This is expanded on in note 34 to the core financial statements. The reported figures are supplied by independent actuaries to the Hampshire County Council administered pension fund.

The Balance Sheet and note show a poorer position than last year with the net pension deficit increasing by £860,000 primarily due to revised and updated assumptions in calculating liabilities.

▪ **Restating of 2005/06 Comparative Figures**

The revised presentation of the statement of accounts in line with the SORP 2006 has necessitated the restating of some comparative figures from 2005/2006 – most notably in the Income and Expenditure Account. These are explained further – principally in note 1 to the core financial statements - but also as needed throughout the statement.

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2006/2007 financial year and its position at the year end of 31st March 2007. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2006*, published 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. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. Accruals of Income and Expenditure

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 annual accounts. Where income 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

3. Contingent Liabilities

Contingent liabilities are not formally recognised in the accounting statements but are disclosed by way of a note to the accounts. They represent a possible obligation that may require a payment or transfer of economic benefits and are included to aid understanding of the Council's financial position.

4. Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but which does not result in the creation of an asset. Deferred charges are written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of deferred charges from existing capital resources or by borrowing, a transfer to the Capital Financing Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax. Deferred charges include, for example, housing improvement grants.

5. Events after the Balance Sheet date

A separate disclosure note is made of any material events that may have occurred after the balance sheet date which provided evidence of conditions that existed at that date. Such events may be adjusting or non-adjusting and are reflected up until the date when the Statement of Accounts is authorised for issue.

6. Exceptional Items, Extraordinary Items & Prior Period Adjustments

Exceptional items are included within the net cost of services and extraordinary items are disclosed and described separately on the face of the income and expenditure account. The occurrence of either is explained in the notes to the accounting statements.

Prior period adjustments generally arise from corrections and adjustments that are an inherent part of the estimates used in the accounting process.

Material adjustments arising from changes in accounting policies or from the correction of errors are accounted for by restating the comparative figures in both the accounting statements and notes for the previous period and explaining any adjustments in the accompanying notes.

7. Fixed Assets

Intangible Fixed Assets

Intangible assets do not have physical substance but are identifiable and controlled by the Council (eg software licences) and will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

Tangible Fixed Assets

Tangible Fixed Assets are assets that have physical substance and are held for use in the direct or indirect provision of services on a continuing basis.

Recognition

Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised in the accounts on an accruals basis provided that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of the asset (eg repairs and maintenance) is charged to revenue as it is incurred.

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

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Council dwellings are valued at their EUV-SH [Economic Use Value for Social Housing]. In line with the Guidance on Stock Valuation published by the DETR in May 2000, the housing stock has been valued at 1st April 2006 prices by Countrywide Surveyors on behalf of the Council
- 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 market value
- Infrastructure and Community Assets, and Vehicles, Plant and Equipment and Intangible Assets are included in the balance sheet at historical cost

Assets included in the balance sheet at current value are revalued where there have been material changes in value, but as a minimum every five years

Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service account
- otherwise it is written off to Fixed Asset Restatement Account

There are no impairments to report in 2006/2007

Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal)

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is required to be credited to the Usable 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 Statement of Movement on the General Fund Balance.

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 Financing Account from the Statement of Movement on the General Fund Balance.

Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for land and non-operational investment properties) by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. Depreciation is calculated using the straight-line method over the following periods:

Council Dwellings:	Equal to the Major Repairs Allowance. This represents a capital sum that is allowed annually to maintain the council's housing stock and in 2006/2007 is £2.154 m
Buildings:	Straight line allocation over the estimated life of the property
Vehicles, Plant and Equipment	Straight line allocation over 5 to 10 years depending on the asset except for IT which is depreciated over 3 years
Infrastructure:	Straight line allocation over 20 to 50 years depending on the asset

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.

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

Charges to Revenue for Fixed Assets

Service revenue accounts and support services are charged with the following amounts to record the real cost of holding fixed assets during the year

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets
- Amortisation of intangible fixed assets attributable to the service

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute

towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Financing Account for the difference between the two.

8. Group Accounts

The 2005 Accounting Code of Practice stipulated that the modified Group Accounting requirements were to be fully implemented from the 2005/2006 financial reporting year. Where a local authority has a material interest in subsidiary or associate companies or joint ventures then there is a requirement to produce an additional set of financial statements.

There are no entities where the Council's interest is such that it would give rise to the requirement to prepare group accounts.

The Council's has an interest in an entity that does not require the production of group accounts and this is disclosed in note 22 to the accounting statements..

9. 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. Revenue grants are matched in service revenue accounts with the expenditure to which they relate and general grants (eg Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

10. Investments

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

11. Leases

Finance leases are leasing arrangements where substantially all the rewards and risks relating to the leased property transfer to the lessor. Council policy is to not enter into finance leases.

Operating leases are leases that are not finance leases. Rentals payable are charged to the revenue accounts of the services that use the assets as they become payable and asset ownership is retained by the lessor. Assets leased in this way are excluded from the balance sheet as they are not owned by the Council

12. 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 Best Value Accounting Code of Practice 2006. 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 multi-functional democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early

These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services

13. Provisions

Provisions are made when an event has taken place that gives the council an obligation that probably requires a settlement by a transfer of economic benefits but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year with any necessary increase or decrease being adjusted between the provision and the service revenue account.

The Council maintains a provision for bad debts and doubtful debts that may be irrecoverable.

14. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no charge against the council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits – these do not represent usable resources for the council.

The Council's main reserves are described further in note 29 to the accounting statements.

15. Retirement 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 scheme's accounts are prepared in accordance with the Financial Reporting Standard No 17 – Retirement Benefits (FRS17). The pension scheme is detailed in notes 33 to the accounting statements.

The Local Government Scheme 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 projected earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 5.3%
- Assets of the LGPS attributable to the council are included in the balance sheet at their fair value

The council's change in the net pensions liability is analysed into 6 components

Current service costs	The increase in liabilities as a result of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
Past service costs	The increase in liabilities arising from current years decisions whose effect relates to years of service earned in earlier years – charged to Non-Distributed Costs in the Income and Expenditure Account
Interest Cost	The expected increase in the present value of liabilities during the year as they move one year closer to being paid – charged to Net Operating Expenditure in the Income and Expenditure Account
Expected return on assets in the scheme	The annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to Net Operating Expenditure in the Income and Expenditure Account
Actuarial gains and losses	Changes in the 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 – debited to the Statement of Total Recognised Gains and Losses
Employers' contributions payable to scheme	Cash paid as employers contributions to the pension fund

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with the debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

16. Stocks

Stocks are included in the balance sheet at the lower of cost and net realisable value.

17. 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.

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 S. Cully
Chair of Policy and Organisation Board
2007

19th September

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 of Practice').

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 presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2007.

Mr Peter Wilson
Deputy Chief Executive and Borough Treasurer

11th September 2007

INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the council during the last year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees during the year.

2005/06 Net Expenditure (restated) £'000		2006/07 Gross Expenditure £'000	2006/07 Gross Income £'000	2006/07 Net Expenditure £'000
784	Central Services to the Public	5,768	(4,619)	1,149
6,568	Cultural, Environmental and Planning Services	10,730	(3,476)	7,254
628	Highways, Roads and Transport Services	2,340	(1,171)	1,169
1,271	Housing Services	28,465	(26,795)	1,670
2,285	Corporate and Democratic Core	2,894	(466)	2,428
262	Non Distributed Costs	200	0	200
11,798	NET COST OF SERVICES	50,397	(36,527)	13,870
(20)	(Gain) / Loss on the disposal of fixed assets			(2,119)
73	Interest payable and similar charges			312
(255)	Interest and Investment income			(664)
696	Contribution of Housing Capital Receipts to Government Pool			762
850	Pensions Interest Cost and Expected Return on Pensions Assets			640
0	Business Growth Incentive Grant			(193)
13,142	NET OPERATING EXPENDITURE			12,608
(4,667)	Demand on Collection Fund			(4,853)
(4,012)	General Government Grants - Revenue Support Grant			(1,111)
(2,235)	Non-Domestic Rates distribution			(5,755)
(20)	Transfer from the Collection Fund			(20)
2,208	DEFICIT / (SURPLUS) FOR THE YEAR			869

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the authority is required to raise precepts on a different accounting basis, the main differences being:

- (a) Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- (b) Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the precepts that it raised for the year, taking into account the use or reserves built up in the past and contributions to reserves earmarked for future

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/06 £'000		2006/07 £'000
2,208	Deficit / (Surplus) for the year on the Income and Expenditure Account	869
(2,264)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(888)
(56)		(19)
(765)	General Fund Balance brought forward	(821)
(821)	General Fund Balance carried forward	(840)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2005/06 Net Expenditure £'000		2006/07 Net Expenditure £'000
2,208	Deficit / (surplus) on the Income and Expenditure Account	869
16,197	Deficit / (surplus) arising from the revaluation of Fixed Assets	(5,907)
(1,070)	Actuarial (gains) / losses on pension fund assets and liabilities	20
	<u>Any other recognised gains or losses</u>	
77	Deficit / (surplus) on the Collection Fund	(27)
(184)	Application of Commuted Sums and Deposits to finance capital	(59)
50	Reduction in Deferred Credits & Long Term Debtors	45
17,278	Total recognised loss / (gain) for the year	(5,059)

BALANCE SHEET as at 31st March 2007			
31st March 2006			31st March 2007
(restated)		Notes	£'000
£'000		14-18	
	Fixed Assets		
301	Intangible Fixed Assets		224
	Tangible Fixed Assets		
	Operational Assets		
146,471	Council Dwellings		148,908
11,134	Other Land & Buildings		15,179
1,751	Vehicles, Plant & Equipment		1,474
12,478	Infrastructure Assets		12,349
3,090	Community Assets		3,305
	Non-Operational		
16,444	Investment Properties		16,520
232	Assets Under Construction		227
<u>191,901</u>			<u>198,186</u>
0	Long Term Investments	21	7,000
514	Long Term Debtors	19	454
<u>192,415</u>	Total Long Term Assets		<u>205,640</u>
	Current Assets		
118	Stock		104
6,699	Sundry Debtors	20	6,565
8,477	Investments	21	4,309
93	Cash in Hand		7
<u>15,387</u>			<u>10,985</u>
<u>207,802</u>	TOTAL ASSETS		<u>216,625</u>
	Current Liabilities		
0	Short Term Borrowing		0
0	Long Term Borrowing within 12 mnths		0
4,301	Sundry Creditors	24	7,080
271	Cash Overdrawn		249
<u>4,572</u>			<u>7,329</u>
<u>203,230</u>	Total Assets less Current Liabilities		<u>209,296</u>
8,000	Long Term Borrowing	25	8,000
0	Provisions	26	0
14,579	Grants Deferred Account	27	13,831
3,345	Unapplied Grants & Contributions	28	4,240
<u>177,306</u>	Net Assets before Pension Liability		<u>183,225</u>
26,000	Liability related to Defined Benefit Pension Scheme		26,860
<u><u>151,306</u></u>	TOTAL ASSETS LESS LIABILITIES		<u><u>156,365</u></u>

31st March 2006 (restated) £'000		31st March 2007 £'000
	FINANCED BY:	
	Note 29	
112,625	Fixed Asset Restatement Account	116,956
59,227	Capital Financing Account	63,981
2,482	Usable Capital Receipts	271
185	Deferred Capital Receipts	140
2,787	Fund Balances & Reserves	1,877
(26,000)	Pensions Reserve	(26,860)
151,306	TOTAL NET WORTH	156,365
Mr Peter Wilson Deputy Chief Executive and Borough Treasurer		11th September 2007

2005/2006		CASH FLOW STATEMENT		2006/2007	
£'000			£'000	£'000	
<u>OPERATING ACTIVITIES</u>					
CASH OUTFLOWS					
10,923	Cash paid to and on behalf of employees		11,770		
8,440	Housing benefit paid out		9,379		
11,677	Non-domestic rate payments to national pool		12,473		
27,118	Precepts paid		28,808		
696	Payment re Pooling of Housing Capital Receipts		1,011		
17,559	Other operating cash payments		20,117		
<u>76,413</u>					83,558
CASH INFLOWS					
(4,827)	Rents (after rebates)		(4,909)		
(28,175)	Council tax income		(29,806)		
(2,235)	Non-domestic rate receipts from national pool		(5,755)		
(12,161)	Non-domestic rate receipts		(12,872)		
(4,012)	Revenue support grants		(1,111)		
(15,750)	Other government grants		(18,998)		
(4,390)	Cash received for goods and services		(4,052)		
(4,082)	Other operating cash receipts		(7,571)		
<u>(75,632)</u>					<u>(85,074)</u>
781	NET REVENUE INCOME				(1,516)
<u>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</u>					
CASH OUTFLOWS					
72	Interest paid				332
CASH INFLOWS					
(339)	Interest received				(473)
<u>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</u>					
CASH OUTFLOWS					
5,996	Purchase of fixed assets		5,583		
173	Payment of Housing Improvement grants		374		
635	Payment of Affordable Housing initiatives		556		
12	Payment to voluntary organisations		27		
<u>6,816</u>					<u>6,540</u>
CASH INFLOWS					
(2,026)	Sale of fixed assets		(2,338)		
(2,172)	Major Repairs Allowance		(2,154)		
0	Housing grants		(2,412)		
(1,453)	Capital schemes - Grant income		(604)		
<u>(5,651)</u>					<u>(7,508)</u>
<u>MANAGEMENT OF LIQUID RESOURCES</u>					
CASH OUTFLOWS					
8,423	Investments made				13,990
CASH INFLOWS					
(5,000)	Investments realised				(11,301)
<u>5,102</u>	NET CASH FLOW BEFORE FINANCING				<u>64</u>
<u>FINANCING</u>					
CASH OUTFLOWS					
2,000	Short-term loans repaid		2,000		
<u>2,000</u>					<u>2,000</u>
CASH INFLOWS					
(8,000)	New loans raised		0		
0	Short - term loans raised		(2,000)		
<u>(8,000)</u>					<u>(2,000)</u>
(898)	NET (INCREASE) / DECREASE				64

NOTES TO THE CORE FINANCIAL STATEMENTS

1. EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

Extraordinary Item

There were no extraordinary items.

Prior Year Adjustments

In the 2006/2007 statement of accounts, the council has adopted three significant new accounting policies that impact on the comparative figures for 2005/2006 in the Income and Expenditure Account.

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts or support services
- Credits for government grants deferred are now posted to service revenue accounts and support services rather than credited as a corporate income item
- Gains and losses on the disposal of fixed assets are recognised in the income and Expenditure Account

These three changes have had the following impact on the comparative figures for 2005/2006 compared with those published in the 2005/2006 statement of accounts (only the figures that have changed are included in the table)

	Consolidated Revenue Account 2005/06 £'000	Remove Capital Financing Charges £'000	Relocate Government Grants Def Credits £'000	Recognise Gains/Loss on disposal of Fixed Assets £'000	Income & Expenditure 2006/07 £'000
Central Services	821	(37)	0	0	784
Cultural, Environmental and Planning	8,487	(1,048)	(871)	0	6,568
Highways, Roads and Transport	713	(85)	0	0	628
Housing Services Corporate and	7,134	(5,821)	0	0	1,313
Democratic Core	2,550	(15)	(250)	0	2,285
Non Distributed Costs	262	0	0	0	262
NET COST SERVICES	19,967	(7,006)	(1,121)	0	11,840
(Gain) / Loss on the disposal of fixed assets	0				0
AMRA (Interest Payable in 2006/07)	(8,054)	7,006	1,121		73
NET OPERATING EXPENDITURE	11,913	0	0	0	11,913

Additional adjustments have been made in respect of the following

Collection Fund balance – note 6 to the Collection Fund refers to the disaggregation of the collection fund balance so that creditors are raised for the balances attributable to the precepting authorities. This has amended the creditor and fund balances and reserves figures in the 2005/2006 balance sheet comparatives as included in the note.

Balance Sheet – the format has been restated to reflect the SORP guidance on items that comprise the net worth of the authority. Grants deferred and unapplied grants and contributions are now included in the top half of the balance sheet and deferred capital receipts in the lower.

Capital Financing Requirement – note 13 refers to the restating of the comparative CFR for 2005/2006 to reflect the adjustment of £150,000 from long term debtors to short term debtors in the final published statement for 2005/2006

2. 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 2006/2007 was £53,500 (£32,500 in 2005/2006).

3. S.5 LOCAL GOVERNMENT ACT 1986 PUBLICITY ACCOUNT

Expenditure on publicity amounted to £176,210 in 2006/2007 (£162,300 in 2005/2006) of which £36,430 (£28,700 in 2005/2006) 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 2006/2007 was £83,420 (£78,900 in 2005/2006).

4. BUILDING CONTROL TRADING ACCOUNT

Building Control is included within Development Services. 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. This agreement has been renegotiated and a renewed open ended agreement was signed on 31st March 2006.

The Local Authority building control charge regulations require disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the building control unit cannot be charged for, such as dangerous structure services, enforcement, demolition service, providing general advice and liaising with other statutory authorities. The following table shows the cost of operating the building control unit divided between chargeable and non-chargeable activities, for Gosport Borough Council and the Partnership.

Gosport Borough Council 2006/2007	Chargeable	Non Chargeable	Total
	£'000	£'000	£'000
Expenditure			
Employee Expenses	100	88	188
Transport	4	3	7
Supplies and Services	15	10	25
Third Party Payments	9	8	17
Central and Support Services	29	20	49

Total Expenditure	157	129	286
Income			
Building Regulation Charges	168	4	172
Other Fees and Charges	-	2	2
Charges to Fareham Borough Council	-	77	77
Charges to other GBC accounts	-	43	43
Transfer from Futures Account	-	3	3
Total Income	168	129	297
Surplus for 2006/2007	13	-	13
Future Funds transfer to FBC	(13)	-	(13)
Total for 2006/2007	0	-	0
Surplus for 2005/2006	6	-	6
Building Control Partnership			
Total expenditure	468	388	856
Total income	507	388	895
Surplus for 2006/2007	39	-	39
Fareham	26	-	26
Gosport	13	-	13
Surplus for 2005/2006	17	-	17
Fareham	11	-	11
Gosport	6	-	6

5. AGENCY INCOME AND EXPENDITURE

The Council's agency agreement for the provision of highways maintenance and management was terminated by Hampshire County Council on 1st 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 Income and Expenditure Account.

	2005/2006 £'000	2006/2007 £'000
Routine Maintenance - Aids to Movement	21	11
- Environmental	115	107
Administrative costs	95	99
Total Highway Agency Expenditure	231	217

6. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

The Council is empowered by this Act to provide goods and services to other public bodies. In 2006/2007 the Council received £307,230 (£490,700 in 2005/2006) from Hampshire County Council – principally in respect of various Highways Agency functions. Related expenditure was £432,260 in 2006/07 and £518,100 in 2005/2006.

7. MEMBERS' ALLOWANCES

The total allowances paid to members in 2006/2007 were £200,880 (2005/2006 £196,700).

8. OFFICERS' EMOLUMENTS

Employees receiving a remuneration in excess of £50,000 during 2006/2007 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	
	2005/2006	2006/2007
Between £50,000 and £59,999	6	7
Between £60,000 and £69,999	-	-
Between £70,000 and £79,999	2	1
Between £80,000 and £89,999	-	1

9. 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 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 1st April 2006 to 31st March 2007 as £8,000.

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

Other Public Bodies – related party transactions are as below:

		£'000
Hampshire County Council	Precept payments	24,110
	Pension Fund payments	1,620
Hampshire Police Authority	Precept payments	3,162
Hampshire Fire & Rescue Authority	Precept payments	1,420
Building Control Partnership	Income from Fareham Borough Council	77

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 2006/2007 the Council received £110,000 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. 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.

10. AUDIT COSTS

In 2006/2007 the Council incurred the following fees relating to external audit and inspection.

2005/2006 £'000		2006/2007 £'000
6	Fee payable to the Audit Commission with regard to external audit services carried out by appointed auditors	7
104	External audit services	94
0	Statutory inspection	0
46	Certification of grant claims and returns	60
0	Other Services	0
<u>150</u>		<u>154</u>

11. EXPLANATION OF THE SIGNIFICANCE OF THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

While the surplus or deficit on the Income and Expenditure Account is the best measure of the Council's financial performance for the year as measured by generally accepted accounting practice, the movement on the General Fund is also an important aspect of the Council's stewardship. Up until 2005/2006 the local authority statement of performance was the Consolidated Revenue Account (CRA) and the movement on the CRA was also the movement for the year on the General Fund balance.

In accordance with both statute and non-statutory proper practices, certain amounts are required to be charged or credited to the Income and Expenditure surplus or deficit in order to determine the movement on the General Fund balance for the year and relate the Income and Expenditure Account back to Council Tax levels.

The Statement of Movement on the General Fund Balance is the vehicle by which this reconciliation exercise takes place. It consists of two parts – the 'statement' – effectively a summary of the total additional figures linking the Income and Expenditure surplus or deficit to the General Balance brought forward and carried forward and then a more detailed note of the summarised reconciling items which are considered in more detail in note 12.

12. BREAKDOWN OF RECONCILING ITEMS IN THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The main reconciling items include :

- Reversals of the charges made in the Net Cost of Services for the use of fixed assets. Principally, depreciation, impairment losses attributable to the consumption of economic benefits, amortisation of intangible assets and deferred charges.
- The removal of any net gain or loss on the sale of fixed assets
- Adjustment for the difference between the amount by which pension costs are calculated in accordance with FRS17 and the SORP and the contributions to the pension scheme due under the pension scheme regulations and chargeable to services.
- The statutory provision for the repayment of debt ('the minimum revenue provision') and any voluntary provision for the repayment of debt
- Transfers to and from earmarked reserves
- The statutory transfer of the HRA surplus or deficit for the year to the HRA balance
- Any capital expenditure charge to revenue

- A transfer from usable capital receipts to meet the payments to the Housing Capital Receipts Pool.
- These items including their respective values are detailed in note 13

13. NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND		
2005/06 £'000	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the	2006/07 £'000
(159)	Amortisation of intangible fixed assets	(161)
(1,495)	Depreciation and impairment of fixed assets	(1,417)
1,121	Government Grants Deferred amortisation	903
(528)	Deferred Charges to be financed from capital resources	(192)
(72)	Capitalisation Direction to be financed from capital resources	0
20	Net (gain) / loss on sale of fixed assets	2,119
(2,420)	Net charges made for retirement benefits in accordance with FRS17	(2,370)
(3,533)	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for	(1,118)
(9)	Transfer from the Major Repairs Reserve in respect of HRA Depreciation charges in excess	0
0	Statutory provision for the repayment of debt	17
51	Capital Expenditure funded by the HRA	400
(696)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(762)
1,360	Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners	1,530
706		1,185
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement	
94	HRA surplus / (deficit) transferred to HRA Reserves	(823)
469	Net transfer to / (from) Earmarked Reserves	(132)
563		(955)
(2,264)	Net additional amount required to be credited to the General Fund balance for the year	(888)

14. SUMMARY OF CAPITAL EXPENDITURE AND FIXED ASSET DISPOSALS

Movement on Fixed Assets

	31 March 2006			Movement in 2006/2007			31 March 2007 Net Book Value of Assets £'000	
	Certified Valuation £'000	Accumul'd Deprec'n & Impairmnt £'000	Net Book Value of Assets £'000	Valuation Impairmnt Adjs £'000	Expenditure £'000	Disposal & Transfers £'000		Depreciation £'000
Intangible	566	(265)	301		84		(161)	224
Tangible								
Council Dwellings	148,620	(2,149)	146,471	(727)	4,554	(1,406)	16	148,908
Other Land & Buildings	13,230	(2,096)	11,134	2,467	120	78	1,380	15,179
Vehicles, Plant & Equipment	3,769	(2,018)	1,751		249		(526)	1,474
Infrastructure	14,894	(2,416)	12,478		69	216	(414)	12,349
Community Assets	3,090	0	3,090		212	3		3,305
Total Operational Assets	183,603	(8,679)	174,924	1,740	5,204	(1,109)	456	181,215
Non Operational Assets	16,676	0	16,676	235	398	(562)		16,747
Total Assets	200,845	(8,944)	191,901	1,975	5,686	(1,671)	295	198,186

Information about Depreciation methodologies

The table below summarises the methods of depreciation used for the Council's assets. In line with the CIPFA Statement of Recommended Practice, land and non-operational investment properties are not depreciated. There have been no changes in depreciation methods in 2006/07.

Asset	Depreciation Method
Intangible Assets	Depreciated over 3 years in line with the Council's IT replacement programme
Tangible Assets	
Council Dwellings	Set equal to the Major Repairs Allowance, the capital sum received annually from the government to maintain the Council's Housing Stock
Other Land & Buildings (Operational Property and Garages)	Straight line method with asset lives being individually assessed Garages are not depreciated as it is the Council's view that most of the value is in the land
Vehicles, Plant & Equipment	Straight line method over 5 to 10 years IT equipment is depreciated over 3 years in line with the Council's rolling replacement programme

Infrastructure	Straight line method over 20 to 50 years depending on 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
Non Operational Assets (Investment Properties and Assets under Construction)	No depreciation charge

Intangible Fixed Assets

Intangible Assets consist primarily of software licences and in line with SORP guidance do not require revaluation. They continue to be depreciated over a 3 year period in line with the Council’s replacement IT policy. As part of the preparation for the SORP 2007 accounting changes they will in 2007/2008 be subject to an impairment review to reassess their economic lives for depreciation purposes.

Capital Expenditure and Financing

Capital expenditure may be financed in various ways including by the use of internal resources; external grants or contributions; directly from revenue and from borrowing.

The Local Government Act 2003 introduced the Prudential Code and the Capital Financing Requirement (CFR) The CFR shows the overall indebtedness – or underlying need to borrow - of the Council. The underlying need to borrow may not directly relate to external loans but can also include internal funds that have been used to finance capital spending as an alternative to raising external debt – in which case borrowing may be required at a future date.

The following table shows the movements on the CFR for 2006/2007

	2005/2006 (restated) £'000	2006/2007 £'000
Opening Capital Financing Requirement	5,272	5,982
Capital Investment		
Operational Assets	5,657	5,288
Non-Operational Assets	270	398
Deferred Charges	528	193
Sources of Finance		
Capital Receipts	(2,929)	(1,413)
Government Grants & Other Contributions	(2,585)	(2,401)
Sums set aside from Revenue	(51)	(400)
Other Adjustments		
Long Term Debtors	(252)	(59)
Capitalisation Direction	72	0
Sum set aside from Revenue (MRP & VRP)		(3,717)
Closing Capital Financing Requirement	5,982	3,871
Explanation of Movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	822	6

Increase in underlying need to borrow (unsupported by Government financial assistance)	0	1,651
Decrease in underlying need to borrow because of Long Term Debtors, Capitalisation Direction, MRP & VRP	(112)	(3,768)
Increase / (decrease) in Capital Financing Requirement	710	(2,111)

The comparative CFR for 2005/2006 has been reduced from £6.132m to £5.982m to reflect the adjustment of £150,000 from long term debtors to short term debtors in the final published statement for 2005/2006.

15. COMMITMENTS UNDER CAPITAL CONTRACTS

Significant commitments for future expenditure at 31st March 2007 include:

<u>31 March 2006</u>	<u>£'000</u>	<u>31 March 2007</u>	<u>£'000</u>
Housing Renewal	45	Housing Renewal	30
Social Housing	399	Social Housing	110
PHA – Social Housing	1,800	PHA – Social Housing	1,500
Falklands Gardens Public Convenience	100		
		Alver Valley	341
High Street Refurbishment	213	High Street Refurbishment	85
		Privett Park Pavilion	128
Priddys Hard	1,337	Priddys Hard	695
Transformation Government (IT)	145	Transformation Government (IT)	95
	4,039		2,984

16. INFORMATION ON ASSETS HELD

Major fixed assets held at 31st March 2007 include

Council Dwellings
3,259 Council Dwellings
825 Garages
Other Land and Buildings
1 Town Hall
42 Car Parks
1 Cemeteries
23 Public Conveniences (including 4 boarded up)
1 Disinfestation Centre
Vehicles, Plant and Equipment
4 Vehicles
CCTV Equipment
IT Hardware
Infrastructure assets
Slipways
Coastal Defences
Community assets
1 Paddling Pool

Parks and open spaces
 Collections of art/artefacts
 Civic regalia and silverware
 Non-Operational assets
 1 Leisure Centre with Swimming Pool
 1 Depot
 Land and tenanted buildings

17. LEASES

Equipment and Software – the authority uses equipment and software financed under terms of an operating lease. The amount paid under these arrangements in 2006/2007 was £64,520 (£72,000 in 2005/2006).

The authority was committed at 31 March 2007 to making payments of £18,000 under operating leases in respect of equipment and software in 2007/2008, comprising the following elements:

	£'000
Leases expiring in 2007/08	12
Leases expiring between 2008/09 and 2011/12	6

18. VALUATION INFORMATION

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 (inc Intangibles)	Infra structure	Community Assets	Non Operational Properties
	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost:			4,018	15,179	3,305	
Revalued when indicated:						
2006/2007	151,042	12,434				1,406
2005/2006		833				8,466
2004/2005		148				771
2003/2004		985				
2002/2003		1,495				5,877
	151,042	15,895	4,018	15,179	3,305	16,520

19. LONG TERM DEBTORS

	2005/2006 £'000	2006/2007 £'000
Housing Act Advances	7	7
Sale of Houses	185	140
Voluntary and Sporting Organisations	14	9
Car Loans to Staff (payable after 12 months)	308	298
	514	454

20. SUNDRY DEBTORS

	2005/2006 £'000	2006/2007 £'000
Sundry Debtors	3,880	3,062
Car Loans to Staff (payable within 12 months)	150	150
Housing Rents - arrears (including General Fund)	541	613
Council Tax – arrears	2,167	2,344
NNDR – arrears	332	490
Government Departments	1,099	1,740
Agency/Contract Service	21	7
	8,190	8,406
Less Provision for Bad Debts		
Sundry Debtors	604	737
Housing Rents	125	125
Council Tax	603	743
NNDR	159	236
	6,699	6,565

21. INVESTMENTS

	2005/2006 £'000	2006/2007 £'000
Long Term Investments	0	7,000
Short Term Investments	7,000	2,000
Money Market Funds - Principal	1,423	2,112
Money Market Funds – Interest	54	197
	8,477	11,309

22. ANALYSIS OF NET ASSETS EMPLOYED

	2005/2006 (restated) £'000	2006/2007 £'000
General Fund	28,795	33,647
Housing Revenue Account	148,511	149,578
Total	177,306	183,225

The comparative figures for 2005/2006 have been restated following the changes to the Balance Sheet layout and disaggregation of the Collection Fund introduced from 2006/2007 - as described in note 1 Prior Period Adjustments.

23. INTEREST IN OTHER ENTITIES

The Council has an interest in the following entity, the accounts of which have not been consolidated into the financial statements of the Council.

Portchester Crematorium Joint Committee: The joint committee manages the operations of Portchester Crematorium and is equally represented by the four constituent authorities : Gosport Borough Council, Fareham Borough Council, Havant Borough Council and Portsmouth City Council. Further information can be obtained from : The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham. Gosport Borough Council's share of the net assets of Portchester Crematorium Joint Committee are £979,270 (£937,003 in 2005/2006). Transactions between the Joint Committee and the Council are outlined in note 9.

24. SUNDRY CREDITORS

	2005/2006 (restated) £'000	2006/2007 £'000
Sundry Creditors	2,645	2,473
Collection Fund (HCC, HPA, HFRA)	367	529
Capital Accruals	56	234
Payments in Advance	794	3,833
Government Departments	438	10
Agency/Contract Services	1	1
	4,301	7,080

Note 1 Prior Period Adjustments, and note 6 to the Collection Fund, refer to the disaggregation of the Collection Fund balance from 2006/2007 resulting in an increased creditor balance

25. LONG TERM BORROWING

	2005/2006 £'000	2006/2007 £'000
Public Works Loan Board – repayable in ten years or more	8,000	8,000
	8,000	8,000

Long term borrowing is loans with over 12 months to maturity

26. PROVISIONS

The Council has no provisions apart from the Provision for Bad Debts which is included in note 19

27. GRANTS DEFERRED ACCOUNT

The Grants Deferred account reflects grants receivable in the year and the amount released to meet the cost of depreciating associated capital expenditure items usually over the useful life of the asset.

	2005/2006 £'000	2006/2007 £'000
Balance 1 st April	15,517	14,579
Grant Receivable	184	155
Grant Released	(1,122)	(903)

Balance 31 st March	14,579	13,831
--------------------------------	---------------	---------------

28. UNAPPLIED GRANTS AND CONTRIBUTIONS

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

	2005/2006 £'000	2006/2007 £'000
Balance 1 st April	1,678	3,345
Receipts	1,997	1,579
Payments	(330)	(684)
Balance 31 st March	3,345	4,240

29. RESERVES

Reserve	1 st April 2006 £'000	Net Movement in Year £'000	31 st March 2007 £'000	Purpose of Reserve	Further details of Movements
Fixed Asset Restatement Account	112,625	4,331	116,956	Store of gains on revaluation of fixed assets	Note a below
Capital Financing Account	59,227	4,754	63,981	Store of capital resources set aside to meet past expenditure	Note b below
Usable Capital Receipts	2,482	(2,211)	271	Proceeds of fixed asset sales available to meet future capital investment	Note c below
Deferred Capital Receipts	185	(45)	140		Note d below
Fund Balances and Reserves	2,787	(910)	1,877		Note e below
Pensions Reserve	(26,000)	(860)	(26,860)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 33 to the Core Financial Statements
Total	151,306	5,059	156,365		

Note (a) : Fixed Asset Restatement Account

	2005/2006	2006/2007
	£'000	£ '000
Balance as at 1 April	130,657	112,625
Gains / losses on revaluation of fixed assets	(16,197)	5,907
Disposal of fixed assets	(1,835)	(1,576)
Balance as at 31 March	112,625	116,956

Note (b) : Capital Financing Account

The Capital Financing Account contains the amount of capital receipts set aside by statute or voluntarily to repay external loans and records the financing of capital expenditure from sources other than loan. It also includes the difference between the amounts provided for depreciation and required to be charged to revenue to repay the principal element of external loans. This reserve is primarily to maintain the double entry accounting concept and does **not** represent cash balances available for future financing of capital expenditure

	2005/2006	2006/2007
	£'000	£'000
Balance as at 1 April	57,161	59,227
Capital Financing - revenue	51	400
- grant write off	1,121	903
- capital receipts	2,973	1,438
- commuted sum	147	63
- deposits	37	3
- deferred charges	(528)	(192)
Capitalisation Direction (Commutation adjustment)	(72)	
Major Repairs Reserve (HRA depreciation)	(9)	
MRP / Depreciation Provision / Impairment	(1,654)	(1,561)
Voluntary Set Aside of Capital Receipts		3,700
Balance as at 31 March	59,227	63,981

Note (c) : Usable Capital Receipts Reserve

	2005/2006	2006/2007
	£'000	£'000
Balance as at 1 April	4,297	2,482
Receipts	1,158	2,933
	5,455	5,415
Financing of capital expenditure	2,973	1,444
Voluntary Set Aside of Capital Receipts		3,700
Balance as at 31 March	2,482	271

The Usable Capital Receipts balance at 31st March 2007 includes £152,000 in respect of Camden Allotments which must be applied in accordance with the provisions of Section 32 of the Smallholdings and Allotments Act 1908.

Note (d) : 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.

	2005/2006 £'000	2006/2007 £ '000
Houses Built for Sale	11	11
Sale of Council Houses	174	129
	185	140

Note (e) : Fund Balances and Reserves

	1 st April (restated) £'000	Receipts £'000	Payments £'000	31 st March £'000
Fund Balances				
General Fund surplus	821	19		840
Housing Revenue Account	991		823	168
Collection Fund	64	189	162	91
Civic	0	1		1
Royan Twinning Fund	2	4		6
Museum Purchases	9			9
Open Spaces	116		6	110
Education Fund	4			4
Miscellaneous	3			3
Business Growth Incentive Grant	0	193		193
Earmarked Reserves				
Capital	0			0
Major Repairs Reserve	0			0
Revenue:				
Building Control Partnership	69	13	21	61
Revenue Financing Reserve	708	102	419	391
Total	2,787	521	1,431	1,877

Note 1 Prior Period Adjustments, and note 6 to the Collection Fund, refer to the disaggregation of the Collection Fund balance from 2006/2007 resulting in a decreased opening Collection Fund balance.

30. 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 of the company results in a loss. The current forecast is that a small surplus will result – part of which will be distributed to Gosport Borough Council. The latest available scheme statement is for the six months ended 31st March 2007.

- 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 are presently being investigated by the Environment Agency.

- Millennium Project

On the 19th 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 have been completed in 2005/06.

31. AUTHORISATION OF ACCOUNTS FOR ISSUE

The accounts were authorised for issue on 11th September 2007 by Mr Peter Wilson, Deputy Chief Executive and Borough Treasurer.

32. EVENTS AFTER THE BALANCE SHEET DATE

There were no events occurring between the balance sheet date and the date the accounts were authorised for issue which had a bearing upon the financial results of the past year.

33. TRUST FUNDS

The Council administers an Education Trust Fund amounting to £3,800 at 31 March 2007. The purpose of the Trust is to assist the education of necessitous Gosport children unable to avail themselves of educational facilities for financial reasons. The fund balance is now separately identified within the Council's reserves and earns internal interest (note 28 refers).

34. RETIREMENT BENEFITS

Participation in Pension Schemes

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 Pension 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 pension 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.

Gosport Borough Council's contribution rate, expressed as a percentage of members contributions, for 2006/2007 was 275%. The contribution rate for 2007/2008 is 295%.

Transactions relating to Retirement Benefits

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement on the General Fund during the year:

	2005/2006 £'000	2006/2007 £'000
Income and Expenditure Account		
Net Cost of Services		
▪ Current service costs	1,310	1,550
▪ Past service costs	260	180
Net Operating Expenditure		
▪ Interest Cost	3,180	3,310
▪ Expected return on assets in the scheme	(2,330)	(2,670)
Net Charge to the Income and Expenditure Account	2,420	2,370
Statement of Movement in the General Fund Balance		
▪ Reversal of net charges made for retirement benefits in accordance with FRS17	(1,060)	(840)
Actual amount charged against the General Fund Balance for pensions in the year		
▪ Employers' contributions payable to scheme	1,360	1,530

Assets and Liabilities in relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31st March are as follows:

	31 March 2006 £m	31 March 2007 £m
Estimated Assets	41.68	43.80
Estimated Funded Liabilities	(64.84)	(67.75)
Estimated Unfunded Liabilities	(2.84)	(2.91)
Gosport Borough Council's deficiency in the Fund	(26.00)	(26.86)

The liability at 31st March 2007 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. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The liabilities have been assessed by Hewitt Bacon and Woodrow, an independent firm of actuaries, with estimates for Hampshire County Council being based on the latest full valuation of the scheme as at 31 March 2004.

The main assumptions used for the purposes of FRS 17 in their calculations are:

	31 March 2006	31 March 2007
Rate of inflation	3.0% pa	3.2% pa
Rate of increase in salaries	4.5% pa	4.7% pa
Rate of increase to pensions in payment	3.0% pa	3.2% pa
Rate of increase to deferred pensions	3.0% pa	3.2% pa
Discount rate	4.9% pa	5.3% pa
Take up of option to convert annual pension into retirement grant	50.0%	50.0%

Assets are valued at total monetary fair value, principally market value for investments. The estimated rates of return of assets were

	31 March 2006	31 March 2007
Long-term expected rates of return on:		
Equities	7.3% pa	7.7% pa
Property	6.3% pa	6.7% pa
Government Bonds	4.3% pa	4.7% pa
Corporate Bonds	4.9% pa	5.3% pa
Other assets	4.6% pa	5.6% pa
Average long term expected rate of return	6.5% pa	6.9% pa

The proportions of total assets held in each asset type by the Fund as a whole at 31 March 2006 and 31 March 2007 are as follows:

	31 March 2006	31 March 2007
Equities	70%	67%
Bonds	21%	23%
Property	4%	5%
Other	5%	5%
Total fair value of assets in Fund	£2,667.53m	£2,885.48

Actuarial Gains and Losses

The actuarial gains / (losses) identified as movements on the Pensions Reserve in 2006/2007 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March 2007.

	2002/2003		2003/2004		2004/2005		2005/2006		2006/2007	
	£m	%	£m	%	£m	%	£m	%	£m	%
Differences between the expected and actual return on assets	(10.16)	(36.4)	3.44	10.5	0.93	2.7	5.63	13.5	(0.06)	(0.1)
Differences between actuarial assumptions about liabilities and actual experience	0.19	0.4	(0.11)	(0.2)	1.55	2.6	0.04	0.1	(0.16)	(0.2)
Changes in the demographic and financial assumptions used to estimate liabilities	(0.06)	(0.1)	0.13	0.3	(11.16)	(18.6)	(4.60)	6.8	0.20	0.3
Total	(10.03)	(23.5)	3.46	7.1	(8.68)	(14.4)	1.07	1.6	(0.02)	0.0

35. NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation of net surplus on I&E Account to the movement in cash

2005/2006		2006/2007	
£'000		£'000	
56	General Fund surplus		19
(2,305)	Fixed Assets		(1,787)
102	Deferred Charges & Long Term Debtors		60
(4,679)	Current Assets other than cash		(2,770)
(2,273)	Current Liabilities other than cash		2,141
8,000	Long Term Borrowing		0
(49)	Provisions & Deferred Capital Receipts		(45)
1,340	Capital Financing Account & Grants Deferred		312
(148)	Unapplied Grants & Usable Receipts		2,376
854	Other Balances		(370)
0	Pension Scheme Liability		0
898	Movement in Cash		(64)

2. Movement in cash

2005/2006 £'000		2006/2007 £'000
(1,083)	Cash and bank balance 1 April	(185)
(185)	Cash and bank balance at 31 March	(249)
898	Increase / (Decrease) in cash	(64)

3. Reconciliation of movement in Cash to Net Debt

31-Mar-06 £'000			31-Mar-07 £'000
898	Increase / (Decrease) in Cash	Note 2	(64)
	Increase / (Decrease) in Cash	Note 4	
3,477	Temporary Investments		2,832
2,000	Short Term Borrowing		
(8,000)	Long Term Borrowing		
(1,625)	Change in Net debt arising from Cashflows		2,768
1,917	Net Funds 1st April		292
292	Net Funds 31st March		3,060

423

3,309

4. Analysis of changes in financing & management of liquid resources

31-Mar-06 £'000		31-Mar-07 £'000	Movement
8,477	Temporary Investments	11,309	2,832
0	Short Term Borrowing	0	0
(8,000)	Long Term Borrowing	(8,000)	0
477		3,309	2,832

Temporary Investments and Short Term Borrowing are primarily treasury management and cash flow transactions with building societies. The former also includes short term deposits on the money market through the Council's Global Treasury Fund and Corporate Deposit Accounts. Long Term Borrowing is with the Public Works Loan Board (PWLb).

5. Analysis of Government Grants

31-Mar-06 £'000		31-Mar-07 £'000
	<u>Revenue Grants</u>	
(4,012)	Revenue Support Grants	(1,111)
(20,070)	Housing Benefit Subsidy	(18,758)
4,320	Housing Subsidy	(240)
(15,750)		(18,998)
	<u>Capital Grants</u>	
(2,172)	Major Repairs Allowance	(2,154)
	Improvement/Housing Defects grant	0
	Housing Association grant	0
	Disabled Facilities Grant	(126)
	Regional Housing Pot Grant	(215)
	Affordable Housing Grant	(2,071)
0		(2,412)
	<u>Capital schemes - Grant & Contributions</u>	
(335)	Public Amenity Open Space	(377)
(243)	Miscellaneous grants	0
(322)	Affordable Housing	0
(250)	Priddys Open Space	0
(138)	Nimrod Drive	0
0	Football Foundation - Privett Park	0
0	Heritage Lottery - Town Centre Historic Parks	(53)
0	Sports Lottery - GFRC & St Vincent Artificial Turf Pitch	0
(150)	IEG	0
(8)	Defra - Recycling, Coast Protection	0
0	CCTV	(56)
0	Town Centre Strategy - DEFRA/HCC	(50)
0	Town Centre Parks - Hants Playing Fields	(2)
0	Waste Performance & Efficiency DEFA	(66)
(7)	Other	0
(1,453)		(604)

HRA INCOME AND EXPENDITURE ACCOUNT		
2005/06 (restated) £'000		2006/07 £'000
	INCOME	
(8,792)	Dwelling Rents	(9,198)
(211)	Non Dwelling Rents - Shops & Garages	(214)
(511)	Service Charges	(378)
<u>(9,514)</u>	TOTAL INCOME	<u>(9,790)</u>
	EXPENDITURE	
2,735	Repairs & Maintenance	3,057
2,309	Supervision & Management	2,801
78	Rents, Rates, Taxes & Other Charges	81
2,018	Negative HRA Subsidy Payable	2,231
157	Transitional Contribution for Rent Rebates	0
2,181	Depreciation of Fixed Assets	2,154
<u>9,478</u>	TOTAL EXPENDITURE	<u>10,324</u>
<u>(36)</u>	NET COST OF HRA SERVICES PER AUTHORITY INCOME & EXPENDITURE ACCOUNT	<u>534</u>
0	HRA Services share of Corporate & Democratic Core	0
<u>(36)</u>	NET COST OF HRA SERVICES	<u>534</u>
(20)	(Gain) / Loss on the disposal of fixed assets	29
696	Contribution of Housing Capital Receipts to Government Pool	762
35	Amortisation of Premiums & Discounts	0
(127)	Interest and Investment income	(94)
31	Pensions Interest Cost and Expected Return on Pensions Assets	56
<u>579</u>	(SURPLUS) OR DEFICIT FOR THE YEAR ON HRA SERVICES	<u>1,287</u>

STATEMENT OF MOVEMENT ON THE HRA BALANCE

2005/06		2006/07
£'000		£'000
579	(Surplus) or Deficit for the year on the HRA Income and Expenditure Account	1,287
(673)	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	(464)
<u>(94)</u>	(Increase) or decrease in the HRA Balance	<u>823</u>
(897)	HRA Surplus brought forward	(991)
<u>(991)</u>	HRA Surplus carried forward	<u>(168)</u>

NOTES TO THE HOUSING REVENUE ACCOUNT

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. 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 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. The latter includes income and expenditure in accordance with the SORP rather than in accordance with statutory and non-statutory proper practices. The HRA statement has two parts in order to reconcile these two approaches – the Income and Expenditure Account shows in more detail the income and expenditure on HRA services included in the whole authority income and expenditure account and this is reconciled to the movement on the HRA balance for the year in the Statement of Movement on the HRA Balance.

2005/06		2006/07
£'000		£'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year	
20	Net (gain) / loss on sale of fixed assets	(29)
(89)	Net charges made for retirement benefits in accordance with FRS17	(206)
(69)		(235)
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year	
(696)	Contribution of Housing Capital Receipts to Government Pool	(762)
(9)	Transfer from the Major Repairs Reserve	0
50	Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners	133
51	Capital Expenditure funded by the HRA	400
(604)		(229)
(673)	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	(464)

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:

	31 March 2006	31 March 2007
Houses	1,343	1,329
Bungalows	440	440
Flats	1,495	1,490
	3,278	3,259
Analysis of bedroom type		
	31 March 2006	31 March 2007
1 bedroom	1,612	1,613
2 bedroom	556	546
3 bedroom	1,023	1,013
4 or more bedrooms	87	87
	3,278	3,259
Analysis of stock by age		
	31 March 2006	31 March 2007
Pre 1945	275	271
1945 – 1964	1,343	1,334
1965 – 1974	690	687
1974 onwards	970	967
	3,278	3,259

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.

	31 March 2006		31 March 2007	
	Number	Value £'000	Number	Value £'000
Operational Assets				
Standard Dwellings	3,011	140,544	2,992	142,851
Sheltered Housing	267	5,927	267	6,057
Garages and Parking Spaces	1,018	1,141	825	900
Community Asset	1	33	1	33
	4,297	147,645	4,085	149,841
Non Operational Assets				
Premises	3	144	3	144
Total		147,789		149,985

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.

	31 March 2006 Value £'000	31 March 2007 Value £'000
Dwellings	325,490	330,907
Other Land and Buildings	1,141	900
	326,631	331,807

6. 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).

	2005/2006 £'000	2006/2007 £'000
Balance Brought Forward	0	0
Receipts in year	2,172	2,154
Expenditure in year		
o Houses and Flats	(2,156)	(2,154)
o Environmental Improvements	(4)	0
o Surveys / Other	(12)	0
Balance Carried Forward	0	0

7. Housing Repairs

	2005/2006 £'000	2006/2007 £'000
Expenditure on repairs	6,296	6,932
Of which planned	3,947	4,546
% of Planned / Response	62.7%	65.6%

£4,504,000 of the 2006/2007 expenditure on repairs was capital

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

8. Capital Financing

The financing of capital expenditure on the housing revenue account property during the year is shown below. Capital expenditure totalled £4,554,000, comprising £4,504,000 on repairs and £50,000 on local authority tenants disabled persons grants.

	Land £'000	Houses and Flats £'000	Other £'000	Total £'000
Government Grants		2,154		2,154
Revenue		400		400
Borrowing		1,116		1,116
Capital Receipts		884		884
	0	4,554	0	4,554

9. Capital Receipts

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

	2005/2006	2006/2007
	£'000	£'000
Right to Buy sales	1,882	1,303
Auction sales	145	83
Land sales	0	0
	2,027	1,386

10. Depreciation and Impairment

The total charge for depreciation in 2006/2007 was £2,153,916 (£2,180,892 in 2005/2006). There was no impairment in 2006/2007 or 2005/2006. The depreciation charge for Council Dwellings is equated to the Major Repairs Allowance at £2,153,916 (£2,171,788 in 2005/2006).

11. Subsidy

	2005/2006	2006/2007
	£'000	£'000
Management and maintenance	4,891	5,107
Major Repairs Allowance	2,172	2,154
Charges for capital and interest	42	64
Rental constraint allowance	0	31
Interest on receipts	(32)	(12)
Rent income	(9,036)	(9,538)
Other items	0	0
Total for year	(1,963)	(2,194)
Adjustment for prior years	(55)	28
Modified Schemes		
Total subsidy under 1989 Act	(2,018)	(2,166)

12. Rent Arrears

	2005/2006	2006/2007
	£'000	£'000
Current Tenants	152	182
Former Tenants	61	50
Garages	1	1
Total Rent Arrears	214	234
Gross Rent Income	(8,792)	(9,198)
Arrears as a % of Gross Rent Income	2.4%	2.5%

13. Rent Income from Dwellings

	2005/2006	2006/2007
	£'000	£'000
Full rental income from dwellings	8,977	9,369
Less Rent due on void properties	(150)	(133)

Less Irrecoverables	(35)	(38)
Total	8,792	9,198

14. Service Charge Breakdown

The £378,000 included under service charges income is broken down as follows.

	£'00	
	0	
Service Charges	60	Leaseholders
Housing Care	256	Care element of sheltered rent
Insurance	34	Leaseholders insurance repayments
Water / Alarms	21	Sheltered accommodation recharge
Court Costs	8	From tenants
Service Charges	18	Tenants
Other	(19)	
	<u>378</u>	

15. Pensions

The 2006 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. The application of this to the Housing Revenue Account (HRA) has been debated by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office of the Deputy Prime Minister (ODPM) and continues to be unresolved.

Against this background, FRS17 has been applied to the HRA from 2006/2007 and comparative figures have been included for 2005/2006. Prior to 2006/2007 no figures were included for this. The following transactions have been included with no net residual cost to the HRA.

	2005/2006 £'000	2006/2007 £'000
Net Cost of Services		
▪ Current service costs and past service costs	8	17
Surplus or (Deficit) for the year on HRA Services		
▪ Pensions interest cost and expected return on Pensions Assets	31	56
Statement of Movement on the HRA Balance		
▪ Reversal of net charges made for retirement benefits in accordance with FRS17	(89)	(206)
Actual amount charged against Rents		
▪ Employers' contributions payable to scheme	50	133

COLLECTION FUND		
2005/06		2006/07
£'000		£'000
	INCOME	
(28,534)	Council Tax	(30,066)
(3,628)	Transfers from General Fund Council Tax Benefits	(3,944)
(11,436)	Income collectable from Business Ratepayers	(12,341)
<u>(43,598)</u>		<u>(46,351)</u>
	EXPENDITURE	
31,671	Precepts and demands from County and District	33,545
	Business Rate	
11,361	Payment to National Pool	12,261
75	Costs of Collection	80
	Bad and Doubtful Debts	
(111)	Write Offs	(34)
177	Provisions	174
134	Contributions - release of surplus	136
<u>43,307</u>	TOTAL EXPENDITURE	<u>46,162</u>
<u>(291)</u>	MOVEMENT ON FUND BALANCE	<u>(189)</u>
	APPROPRIATIONS	
(140)	(Surplus) at 1st April	(431)
(291)	Deficit (Surplus) for the year	(189)
<u>(431)</u>	(Surplus) at 31st March	<u>(620)</u>

NOTES TO THE COLLECTION FUND

1. The Collection Fund

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

Any surplus or deficit in respect of Council Tax at the end of the year is, during the next year distributed between the billing authority and the major precepting authorities in proportion to their precepts in the year that the surplus or deficit occurred.

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	4,743.8	6/9	3,161.8
B	10,460.3	7/9	8,135.8
C	7,486.5	8/9	6,654.7
D	3,828.0	9/9	3,828.0
E	1,654.5	11/9	2,022.2
F	1,182.8	13/9	1,708.4
G	306.5	15/9	510.8
H	5.0	18/9	10.0
			26,031.7
	Plus MOD contributions in lieu		631.5
	Less allowance for losses on collection		(261.1)
	Add second homes adjustment		74.3
	Tax Base for 2006/2007		26,476.4

3. Non-Domestic Rateable Value

The NNDR multiplier for the year was 43.3 pence. The total non-domestic rateable value at the year-end was £33,814,280

4. Precepts and Demands

	2005/2006 £'000	2006/2007 £'000
Hampshire County Council	22,678	24,110
Hampshire Fire & Rescue Authority	1,359	1,420
Hampshire Police Authority	2,967	3,162
Gosport Borough Council	4,667	4,853
	31,671	33,545

5. Release of Collection Fund surpluses

	2005/2006 £'000	2006/2007 £'000
Hampshire County Council	96	97
Hampshire Fire & Rescue Authority	6	6
Hampshire Police Authority	12	13
Gosport Borough Council	20	20
	134	136

6. Accounting for the Collection Fund Balance

The surplus on the Collection Fund at 31st March 2007 of £620,000 has been accounted for as follows:

- In the Balance Sheet at 31st March 2007, the council included the £620,000 surplus on a disaggregated basis with prior year figures at 31st March 2006 also being amended to allow a true comparison. The treatment is summarised below.

	2005/2006 £'000	2006/2007 £'000
<u>Creditors</u>		
Hampshire County Council	309	445
Hampshire Fire & Rescue Authority	18	26
Hampshire Police Authority	40	58
<u>Fund Balances and Reserves</u>		
Gosport Borough Council	64	91
	431	620

- In the Statement of Total Recognised Gains and Losses, the council inserted a new line for attributable movement on the Collection Fund balance to record the additional £27,000 surplus accruing to the council in 2006/07.

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

2006/07

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 2007 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;
- quarterly updates from the Head of Audit to the Standards & Governance Committee;
- a structured approach to the work of Internal Audit and External Audit;
- 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 issues;
- Compliance with the Accounts and Audit Regulations 2006.

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

4. Review of Effectiveness

Following consideration of the residents' views (2001) 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.

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. In addition, they complete an assurance statement for their responsible areas of the Council.

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 other key areas of the Council. The Section used a "risk based" approach to its reviews of the fundamental systems.

The section work closely with the Council's External Auditors to provide a broader coverage and to ensure there is no duplication of valuable resources. In addition, the Council engages specialist IT Auditors to review the IT control environment.

The Council's Boards & Scrutiny Committee

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

The Standards & Governance Committee

In 2006/07 the Audit & Risk Sub-Committee was dissolved and the responsibilities were taken over by the Standards & Governance Committee. This Committee meets regularly throughout the year and receives formal reports from the Head of Internal Audit and Risk Assurance as well as reporting high level internal and external audit recommendations. Minutes and reports are available through the Council's website www.gosport.gov.uk.

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 in 2006/07. The following table highlights the progress against the issues raised in last years (2005/06) Statement of Internal Control.

2005/06 Significant Internal Control Issues	Progress in 06/07
Further work on risk management is required to embed the culture into the Council and its processes as laid out in the Audit Commission's Key Lines of Enquiry - Use of Resources test.	Significant progress has been made in risk awareness, management and assessments throughout the Council. An on-line risk register has been developed and will be live in June 2007.
Improve procurement practices within the Council and update its Contract Standing Orders.	Guidance from CIPFA will be tailored to the Council in 2007/08. Procurement practices throughout the Council are still in need of improving.
Develop a framework to support corporate assurance.	Introduced an assurance framework.
There are segregation of duty concerns within creditors and debtors.	Resource restrictions do not allow for this segregation to be achieved.
There is need for succession planning to be introduced for key posts within the Council.	Council Management Team has made significant progress in this area.
Provide key staff and Members with financial training.	This has been completed.
Improve financial management information to Members (i.e. write-offs).	Improved management reports are now available (with profiling) from the General Ledger.
The lack of a creditor control account.	A creditor control account has been introduced.
Introduce a more robust process for reconciliation sign off by management.	Processes and resources are now in place to improve management sign off.
There is a lack of quality key financial systems procedural notes.	The development of key financial system procedural notes is ongoing. Good progress has been made through 2006/07.
Develop a code of corporate governance.	Development has been deferred till 2007/08.

The following significant internal control issues have been identified during 2006/2007.

Issue 06/07	Action
Recording of reconciliations performed within Housing Finance.	Introduction of a reconciliation log sheet.
Update the Council's risk management strategy.	Strategy to be updated and approved by Council.
Introduce the risk register at both strategic and operational levels.	Workshops have been arranged and all risks and controls identified.
Introduce an assurance framework for the Council.	Introduced and all Managers to sign a Service specific Assurance Statement for 2006/07.
Update the Council's Anti Fraud and Corruption Policy.	Drafted and will be approved in early 2007/08 by Full Council.
Improve management information and budgetary control around all of the Council's partnership arrangements.	Improve the quality of management information, internal reporting and communication mechanisms to provide robust financial procedures and control.

Borough Treasurer Peter Wilson.....Date 19th September 2007

Chief Executive Ian Lycett.....Date 19th September 2007

Chair of P&O Board Councillor S. CullyDate 19th September 2007

Independent auditors' report to the Members of Gosport Borough Council

Opinion on the financial statements

We have audited the financial statements of Gosport Borough Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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 36 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 Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

We review whether the statement on internal control reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the requirements of the Accounts and Audit Regulations 2003" issued in 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, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) 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 Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority'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 financial statements are 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 financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

Mazars LLP

Chartered Accountants and Registered Auditors
Southampton
28 September 2007

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a Best Value Performance Plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditors' responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. 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.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's Best Value Performance Plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, we are satisfied that, in all significant respects, Gosport Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

We issued our statutory report on the audit of the Authority's Best Value Performance Plan for the financial year 2006/07 on 27 November 2006. We did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

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
28 September 2007