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(023) 9254 5587
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20 September 2011

S U M M O N S

MEETING: Policy and Organisation Board
DATE: 28 September 2011
TIME: 6.00pm
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Geoff Rawling

LINDA EDWARDS
BOROUGH SOLICITOR

MEMBERS OF THE BOARD

The Mayor (Councillor Carter C R)(ex-officio)
Councillor Hook (Chairman)
Councillor Burgess (Vice-Chairman)

Councillor Beavis	Councillor Langdon
Councillor Chegwyn	Councillor Philpott
Councillor Mrs Forder	Councillor Smith
Councillor Lane	Councillor Wright

FIRE PRECAUTIONS

(To be read from the Chair if members of the public are present)

In the event of the fire alarm sounding, please leave the room immediately. Proceed downstairs by way of the main stairs or as directed by GBC staff, follow any of the emergency exit signs. People with disability or mobility issues please identify yourself to GBC staff who will assist in your evacuation of the building.

IMPORTANT NOTICE:

- If you are in a wheelchair or have difficulty in walking and require access to the Committee Room on the First Floor of the Town Hall for this meeting, assistance can be provided by Town Hall staff on request

If you require any of the services detailed above please ring the Direct Line for the Democratic Services Officer listed on the Summons (first page).

NOTE:

i. Councillors are requested to note that, if any Councillor who is not a Member of the Board wishes to speak at the Board meeting, then the Borough Solicitor is required to receive not less than 24 hours prior notice in writing or electronically and such notice shall indicate the agenda item or items on which the member wishes to speak.

ii. Please note that mobile phones should be switched off for the duration of the meeting.

Policy and Organisation Board
28 September 2011

AGENDA

RECOMMENDED
MINUTE FORMAT

1. APOLOGIES FOR NON-ATTENDANCE

2. DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter, any personal or personal and prejudicial interest in any item(s) being considered at this meeting.

3. MINUTES OF THE MEETINGS OF THE POLICY AND ORGANISATION BOARD HELD ON 29 JUNE AND 4 AUGUST 2011.

To approve as correct records the Minutes of the meetings of the Policy and Organisation Board held on 29 June and 4 August 2011 (copies herewith).

4. DEPUTATIONS – STANDING ORDER 3.5

(NOTE: The Board is required to receive a deputation(s) on a matter which is before the meeting of the Board provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Monday, 26 September 2011. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).

5. PUBLIC QUESTIONS – STANDING ORDER 3.6

(NOTE: The Board is required to allow a total of 15 minutes for questions from Members of the public on matters within the terms of reference of the Board provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Monday, 26 September 2011).

6. BUDGET STRATEGY 2012/13 — Part II, Peter Wilson, Ext. 5301

To consider the strategy for preparation of the General Fund budget, Capital Programme and Proposed Fees & Charges for the next financial year in the light of the Medium Term Financial Strategy 2011-2016 approved by the Board in June 2011 and the current national and local financial situation.

7. FINAL ACCOUNTS 2010/11 — Part II, Julian Bowcher, Ext. 5551

To Follow

8. TREASURY MANAGEMENT ANNUAL REVIEW 2010/11, PROGRESS REPORT 2011/12 & PRUDENTIAL INDICATORS

Part II
John Norman
Ext. 5316

The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity for 2010/11 together with a review of 2011/12 to date. The report also includes the Prudential Indicators for 2010/11 in accordance with the requirements of the Prudential Code.

9. ANNUAL GOVERNANCE REPORT

Patrick Jarvis
Audit Commission
Tel No 0844 798 8986

Cross Reference from the Standards & Governance Committee (15 September 2011)

10. ANY OTHER ITEMS
Which the Chairman determines should be considered, by reason of special circumstances, as a matter of urgency.

AGENDA NO 6

GOSPORT BOROUGH COUNCIL

REPORT TO THE:	**POLICY & ORGANISATION BOARD**
MEETING DATE:	**28 SEPTEMBER 2011**
TITLE:	**BUDGET STRATEGY 2012/13**
AUTHOR:	**BOROUGH TREASURER**
STATUS:	**FOR INFORMATION**

PURPOSE OF REPORT

To consider the strategy for preparation of the General Fund budget, Capital Programme and Proposed Fees & Charges for the next financial year in the light of the Medium Term Financial Strategy 2011-2016 approved by the Board in June 2011 and the current national and local financial situation.

RECOMMENDATION

That the Board note the Council's current financial position and the principles that will be used in the preparation of the budget for the 2012/13 financial year.

1.0 BACKGROUND

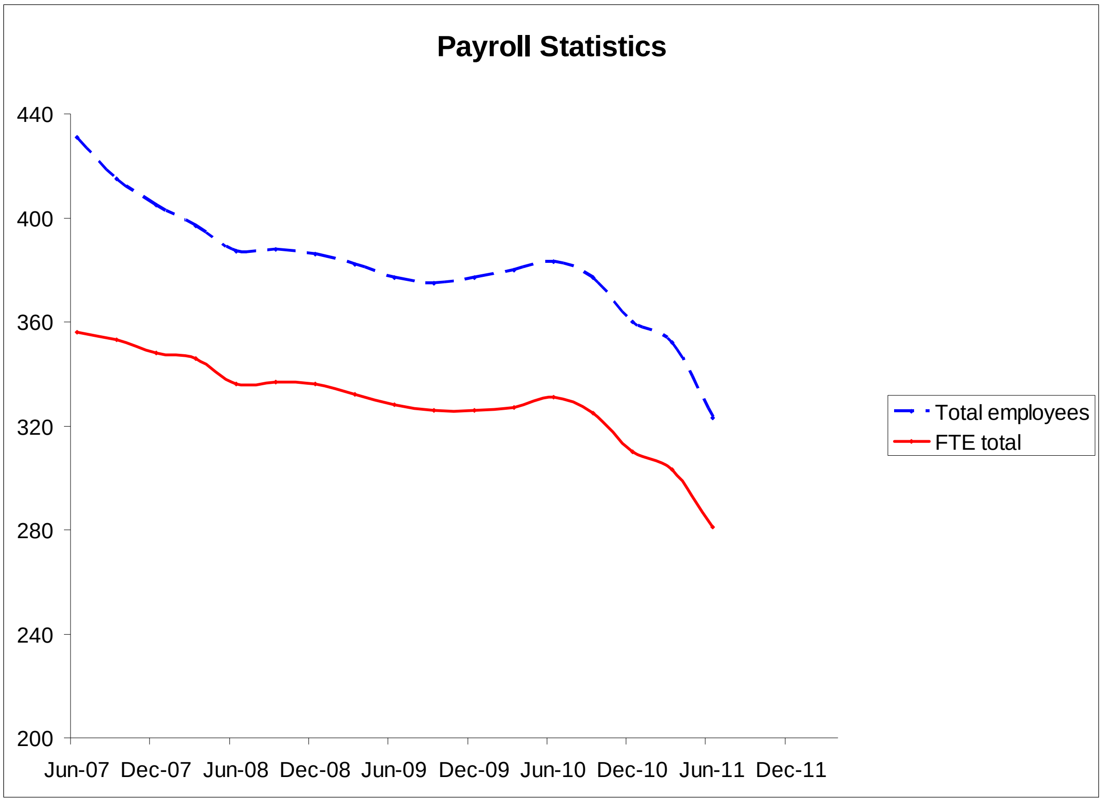
1.1 The Council has to prepare a budget for General Fund services in order to ascertain the amount required to be raised from Council Tax.

1.2 The Council's Medium Term Financial Strategy considered by the Board in June indicated that the reductions necessary to the Council's projected General Fund budget to achieve Council Tax increases of 2.5% (below likely capping level) incorporating latest inflation projections amount to approximately £0.25M over the next 4 years, including £220,000 in 2014/15.

1.3 The final accounts outturn for 2010/11 for General Fund shows that significant net savings were achieved in the latter part of last financial year and that reserves remain at an adequate level.

1.4 In the last few months it has become clear that Homelessness costs are rising significantly. However, this is more than offset in the latest Budget Monitor by payroll savings resulting from recent restructuring plus the current national pay freeze. Other risk areas associated with the budget currently remain as outlined in the Council's Budget Book.

1.5 The indications are that the prompt and measured actions taken by the Council in response to the pressure on budgets following the Comprehensive Spending Review of 2010 are delivering the planned savings in 2011/12. Also, the full year effect of the staffing reductions that have been made will dramatically reduce the Council's commitments in 2012/13 and beyond. The graph below indicates the way in which employee numbers have been changing over recent years.



(FTE = Full Time Equivalent)

1.6 Whilst there are further reductions expected in support from Exchequer grant in forthcoming financial years, the Council is now better placed to respond.

1.7 Unspent revenue and capital budgets from 2010/11 have been closely examined and carried forward in to 2011/12 where appropriate.

2.0 BUDGET STRATEGY 2012/13

2.1 Budget preparation will initially be in accordance with previous policy i.e. "zero-based" wherever possible and new bids will be minimised. Maintenance proposals will be in accordance with Asset Management Plan requirements.

2.2 General inflation is expected to continue above 2% during 2012/13, although it should be noted that pay inflation is expected to be lower and that the Council is now able to cap expenditure on its new major contracts, should that prove necessary.

2.3 Capital projects within the Capital Programme will be considered in terms of priority and affordability and presented with a revised Capital Strategy as part of the main budget setting process early in 2012. Funding of the planned new leisure park remains the top priority.

2.4 Whilst the Council's policy is that annual Council Tax rises should not exceed 2.5%, the final decision on the Council Tax will be taken next February after budget requirements and final Grant figures are confirmed.

2.5 It is equitable that the proportion of costs borne by service users is not significantly varied. Fees & charges will only be increased where required by statute.

3.0 SAVINGS & EFFICIENCIES

3.1 A significant part of the Council's response to the severe budget pressures faced in recent years has been a drive for increased efficiencies and savings.

3.2 Gosport has a track record of innovation and partnership working; many examples of joint working already exist and others are being explored. The Council will continue to seek opportunities to deliver services more efficiently through outsourcing, partnership and joint working.

3.3 Spend-to-save initiatives are an essential tool in managing future commitments down. Efficiencies sought as part of our strategy will continue to include:

1. Carbon reduction (L)
2. Collaboration/partnership working (M)
3. Improvements in the way that we procure goods & services (M)
4. Staffing reviews linked to succession plans, natural turnover and voluntary redundancies/retirements. (M)
5. Reduction of administration and support service costs (linked to 2, 3, 4, and improved business systems). (M)

6. Rationalisation of asset use e.g. raising capital receipts to offset the impact of new capital investment. (H)

(Risk assessment impact criteria have been used to indicate potential annual savings (H/M/L), where High = over £100,000; Medium = £50 – 100,000; Low = less than £50,000).

4.0 CONCLUSION

4.1 Preparation of the General Fund budget for 2012/13 has begun against a backdrop of further pressure on resources, both nationally and locally. This report indicates the key underlying principles that will be adopted in order to prepare a draft budget that results an increase of no more than 2.5% to the Council Tax rates levied for the Borough Council's requirements.

SUPPORTING INFORMATION

Financial Implications:	**See Report**
Legal Implications:	**Set out in the report**
Service Improvement Plan implications:	**No direct implications**
Corporate Plan:	**-**
Risk Assessment:	**See para. 1.4**
Background papers:	**Medium Term Financial Strategy 2011-16**
Appendices/Enclosures:	**-**
Report Author/Lead Officer	**Peter Wilson**

AGENDA NO **7**

GOSPORT BOROUGH COUNCIL

BOARD:	**POLICY & ORGANISATION BOARD**
DATE OF MEETING:	**28 SEPTEMBER 2011**
TITLE:	**FINAL ACCOUNTS 2010/11**
AUTHOR:	**FINANCIAL SERVICES MANAGER**
STATUS:	**FOR APPROVAL**

SUMMARY OF REPORT AND RECOMMENDATIONS

This report summarises the outturn position for the 2010/11 financial year and recommends the approval of the Statement of Accounts for 2010/11.

Recommendations

1. Approve the Statement of Accounts for 2010/11
2. Note
   - The outturn position contained in the report and Appendices.
   - The capital programme slippage detailed in Appendix D
   - The write offs approved under delegated authority at Appendix E

1.0 PURPOSE OF REPORT

1.1 To present the Statement of Accounts and provide an overview of the outturn position for 2010/11.

2.0 REPORT

2.1 The Accounts and Audit Regulations 2011 issued by the Secretary of State for the Environment in March 2011 set out the new requirements for the production and publication of the annual Statement of Accounts from the 2010/11 financial year onwards.

2.2 Previously, the Draft Statement of Accounts had to be approved by the end of June following the financial year end with the subsequent audit and publication of the statement following by the end of September.

2.3 The latest regulations require that member approval of the accounts should follow the external audit with the subsequent publication taking place by the end of September. This is so that members receive and approve a final Statement that has been amended for any items arising out of the audit.

2.4 The audit of the accounts was undertaken on site by the Council's external auditors (now the Audit Commission, formerly Mazars) during July, August and September. The audit concludes when the audit opinion is issued prior to publication.

2.5 The accounts were available for formal public inspection during July and August and the Council's auditor was available to receive questions from any Gosport local elector. The relevant dates were published in the News and on the Council website.

2.6 As previously reported, financial reporting in Local Authorities must now reflect the fundamental and complex changes arising from the national adoption of International Financial Reporting Standards (IFRS). This has added to both the length and complexity of the final accounts process, the statement of accounts and the audit.

2.7 Standards and Governance Committee considered the Audit Commission's Annual Governance Report on 15 September. The report noted that, subject to satisfactory completion of the outstanding audit work, the Commission planned to issue an unqualified audit opinion by 30 September after P&O Board had formally approved the adjusted financial statements, revised accounting policies and letter of representation.

2.8 The formal statutory Statement of Accounts for 2010/11 which includes adjustments arising from the external audit has been despatched separately to this report but is for consideration as part of this item. The key points affecting the Council's finances are summarised below.

3.0 OUTTURN 2010/11

3.1 A summary of the key outturn figures for the General Fund, Housing Revenue Account, Capital Programme and major Reserves is shown at Appendix A.

4.0 GENERAL FUND REVENUE BUDGET

4.1 The Council's revenue budget for 2010/11 before transfers to or from reserves was £13,907,720. The actual net expenditure for the year was £13,757,000 providing an under spending of £150,720.

4.2 Appendix B summarises the actual expenditure and income figures for

2010/11 by Board and Service.

4.3 Appendix C sets out a summary of the main variances that comprise the overall £150,720 underspending with the major ones being considered below. Variances that are the result of capital charges for depreciation, impairment, 'revenue expenditure charged to capital under statute' etc are not included as they are offset by transfers within the accounts and consequently have no direct effect on expenditure

4.4 The main variances within the underspending were

- Homelessness – an overall underspend of £22,000
- Benefits - an underspending of £107,000 after estimated subsidy (subject to the final subsidy claim and audit) and after prudent provision for the recovery of overpayments.
- Local Taxation – increased net costs of £74,000 for non domestic rating relief and an increase in the provision for non-recovery of court costs.
- Development Services – a saving of planning appeal costs of £29,000
- Item 8 – increased recharge to the HRA from the statutory Item 8 calculation for borrowing costs of £34,000
- Administration recharges - additional costs of £235,000 including severance payments of £215,900 approved by Personnel Board in October and January. A contribution from the Revenue Financing Reserve (RFR) of £215,900 has been made to meet the severance costs.

4.5 The resulting gross under spending, after meeting the severance costs from reserves, of £366,620 has been transferred to the RFR in line with Council policy.

5.0 GENERAL FUND RESERVES

5.1 The General Fund working balance at 31 March 2011 is £890,000 as projected in the Budget Report for 2011/12 and in line with Council policy.

5.2 The Revenue Financing Reserve at 31 March 2011 is £645,500 which exceeds the forecast balance of £494,780 by £150,720 because of the underspending outlined above of £366,620 less the contribution to meet severance payments of £215,900. This balance will, however, be reduced by the revenue carry forwards of approximately £63,000 in due course.

6.0 HOUSING REVENUE ACCOUNT

6.1 The Housing Revenue Account was forecast to have a revenue surplus of £164,000 for 2010/11 with a revised account balance of £522,290 at 31 March 2011.

6.2 The actual position for the year was a surplus of £81,080 (£82,920 less than planned) with a resulting account balance of £439,370 at 31 March 2011. This is considered to be too low and will be addressed in the medium term in line with Council policy.

6.3 The major variations were the increased expenditure on repairs and void works totalling £62,000 and an overspend on debt repayment costs of approximately £35,000 due to the additional capital expenditure brought forward during the year. An overspend on mobilisation and procurement costs included under housing management were offset by savings made elsewhere within the budget.

7.0 CAPITAL PROGRAMME

7.1 The revised Capital Programme for 2010/11 was budgeted at £11,011,000. The actual capital spend summarised in Appendix A and detailed in Appendix D is £6,962,000 an overall underspending of £4,049,000. .

7.2 Scheme slippage, to be carried forward into 2011/12 has been identified as £4,444,410 - this is also detailed in Appendix D and includes £2.6M in respect of the Replacement Ferry Landing Stage project which was in progress over the financial year end.

8.0 TREASURY MANAGEMENT

8.1 At 31 March 2011, the Council had total investments of £4.015 million, including £4 million invested with banks and building societies and £0.15 million short term investments with the Council's money market and call accounts.

8.2 Total long term borrowing with the PWLB (Public Works Loan Board) at 31 March 2011 was £17 million and the Council was therefore in a net borrowing position of £12.985 million at the end of the financial year, compared to £9.713M at 31 March 2010.

8.3 The Board is receiving the treasury management annual review and progress report separately on the agenda.

9.0 COLLECTION FUND

9.1 The balance on the collection fund, representing the difference between estimated and actual council tax income, is shared between the billing authorities of Gosport Borough, Hampshire County Council, Hampshire Police Authority and the Hampshire Fire and Rescue Authority. The collection fund has moved from a deficit position of £676,000 at the beginning of the year to a reduced deficit of £394,000 at the end of the year, broadly in line with expectations.

9.2 The rates of Council Tax and Non Domestic Rates collection for 2010/11 were 97.1% and 97.5% respectively (97.3% and 99.0% for 2009/10).

10.0 WRITE OFFS

10.1 Under Financial Regulations, the Borough Treasurer has delegated authority to approve write offs up to £10,000 (in 2010/11). These are summarised on Appendix E for the year to April 2011 along with figures for the previous year for comparison. The cost of NNDR (business rates) write offs is not borne locally but passed on to the national pool and only approximately 14% of the Council Tax write offs is borne by the Council. In terms of the sums due to be collected the amounts written off represent a fraction of 1% and are in line with budgeted provisions.

11.0 RISK ASSESSMENT

11.1 The Council's published budgetary risk assessment listed the following budget areas as having (depending on their nature) high to low risks of occurrence with varying potential impacts on the Council's financial position.

- Concessionary Fares
- Capital Programme
- Homelessness
- Gosport Market Income
- General Income
- Revenue Support Grant
- Housing Benefits
- Land Charges Income
- Insurance
- Inflation
- Savings and Efficiencies
- Net Interest Income
- Maintenance

11.2 The variances detailed in section 4 generally fall within these categories which, while endorsing the accuracy of the risk assessment, also highlights the need for continued monitoring and control of these areas.

12.0 CONCLUSION

12.1 This report summarises the outturn position for 2010/11 and requests members to approve the formal Statement of Accounts for 2010/11.

Financial ImplicationsFinancial Implications:	As set out in the report
Legal Implications:	The Council is required to approve and publish the Statement of Accounts for 2010/11 by 30 September 2011.
Service Improvement Plan	This report and the Statement of Accounts reflect both service improvement plans and the corporate plan.
Corporate Plan:	
Risk Assessment:	Section 11 of the report
Background papers:	Final Accounts working papers
Appendices/Enclosures:	A Outturn 2010/11 – Summary B Outturn 2010/11 – By Board and Service C General Fund Variances D Capital Programme 2010/11 E Write Offs
Report Author/Lead Officer	John Norman

AGENDA NO. 7

ADDENDUM REPORT

P & O Board 28 September 2011
Item 7 – Final Accounts 2010/11

Further guidance has been received on the wording for several sections in the Statement of Accounts for 2010/11 for consideration by P & O Board on 28th.

Please will you replace the following pages in report and Statement of Accounts with the attached replacements. The amended text is shaded in grey.

Report – pages:
1/2

Statement – pages
11/12
15/16
81/82

This does not affect any of the reported figures.

AGENDA NO 7

GOSPORT BOROUGH COUNCIL

BOARD:	**POLICY & ORGANISATION BOARD**
DATE OF MEETING:	**28 SEPTEMBER 2011**
TITLE:	**FINAL ACCOUNTS 2010/11**
AUTHOR:	**FINANCIAL SERVICES MANAGER**
STATUS:	**FOR APPROVAL**

SUMMARY OF REPORT AND RECOMMENDATIONS

This report summarises the outturn position for the 2010/11 financial year and recommends the approval of the Statement of Accounts for 2010/11.

Recommendations

1. Approve the Statement of Accounts for 2010/11
2. Approve the accounting policies contained within the Statement of Accounts
3. Note
   - The outturn position contained in the report and Appendices.
   - The capital programme slippage detailed in Appendix D
   - The write offs approved under delegated authority at Appendix E

1.0 PURPOSE OF REPORT

1.1 To present the Statement of Accounts and provide an overview of the outturn position for 2010/11.

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2.3 The latest regulations require that member approval of the accounts should follow the external audit with the subsequent publication taking place by the end of September. This is so that members receive and approve a final Statement that has been amended for any items arising out of the audit.

2.4 The audit of the accounts was undertaken on site by the Council's external auditors (now the Audit Commission, formerly Mazars) during July, August and September. The audit concludes when the audit opinion is issued prior to publication.

2.5 The accounts were available for formal public inspection during July and August and the Council's auditor was available to receive questions from any Gosport local elector. The relevant dates were published in the News and on the Council website.

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2.7 Standards and Governance Committee considered the Audit Commission's Annual Governance Report on 15 September. The report noted that, subject to satisfactory completion of the outstanding audit work, the Commission planned to issue an unqualified audit opinion by 30 September after P&O Board had formally approved the adjusted financial statements, revised accounting policies and letter of representation.

2.8 The formal statutory Statement of Accounts for 2010/11 which includes adjustments arising from the external audit has been despatched separately to this report but is for consideration as part of this item. The key points affecting the Council's finances are summarised below.

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4.1 The Council's revenue budget for 2010/11 before transfers to or from reserves was £13,907,720. The actual net expenditure for the year was £13,757,000 providing an under spending of £150,720.

4.2 Appendix B summarises the actual expenditure and income figures for

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
(890)	(890)	General Fund balance	(890)
(757)	(1,561)	Revenue Financing Reserve	(645)
(490)	(358)	Housing Revenue Account	(439)
(870)	(1,046)	General Fund - Other	(1,000)
(136)	(65)	Capital Receipts Reserve	(65)
0	(109)	Capital Grants Unapplied	0
(3,143)	(4,029)		(3,039)

Grants and contributions receipts in advance

In addition to these 'usable' reserves the council also has £2.518 million as at 31 March 2011 (£3.585 million as at 31 March 2010) of developers' contributions that are available to spend. They are categorised separately to Usable Reserves as they are subject to conditions as to the nature and timescale of their use and could therefore be returnable. The Council manages these sums to mitigate that possibility.

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

There are no provisions, contingencies or material write-offs to report for 2010/11.

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

During July 2011, a fraud came to light involving a former employee of the Council and affecting both 2010/11 and 2011/12 financial years. Although not considered material, appropriate adjustments have been made to the 2010/11 accounts. The sum involved is expected to be fully recovered by the Council in due course, following ongoing investigations by the Police and other external agencies

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

Against the background of public sector expenditure reductions and an uncertain national economic position, the Council's overall financial position remains stable and a balanced budget has been set for 2011/12.

The need to ensure that future council tax levels are acceptable and reserve levels remain adequate is a priority and prompt and measured action has been taken including service changes, fee increases and staffing reductions. While the emphasis is on maintaining front line services, the methods of delivery have been, and continue to be, examined. ie in conjunction with the recent major contract procurement process.

The reductions necessary to the Council's projected General Fund budget to achieve Council Tax increases of 2.5% (below likely capping level) incorporating latest inflation projections amount to approximately £0.25 million over the next 4 years, including £220,000 in 2014/15.

There is a lot of uncertainty regarding future levels of Exchequer support, inflation and interest rates. The most optimistic current forecast beyond 2012/13 is that modest additional expenditure may be possible in some years working within Council Tax rises of 2.5%p.a., whilst the worst scenario is for ongoing annual budget cuts of between £50,000 and £450,000 being required.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- approve the Statement of Accounts.

Councillor M. Hook
Chair of Policy and Organisation Board 2011

The Chief Finance Officer's responsibilities

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

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

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

The Chief Finance Officer has also:

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

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31st March 2011. These financial statements replace the unaudited financial statements authorised for issue by the Deputy Chief Executive and Borough Treasurer on 29th June 2011.

Mr Peter Wilson
Deputy Chief Executive and Borough Treasurer 2011

Comprehensive Income and Expenditure Statement

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

2009/10 Gross Exp £000	2009/10 Gross Income £000	2009/10 Net Exp £000		Notes	2010/11 Gross Exp £000	2010/11 Gross Income £000	2010/11 Net Exp £000
6,799	(6,124)	675	Central Services to the Public		7,392	(6,067)	1,325
10,489	(2,160)	8,329	Cultural, Environmental, Regulatory & Planning services		11,084	(2,219)	8,865
2,771	(1,061)	1,710	Highways, Roads & Transport services		2,734	(1,316)	1,418
37,151	(34,458)	2,693	Housing Services		38,504	(37,894)	610
			Housing Services - Exceptional Item	6	42,936	0	42,936
2,537	(125)	2,412	Corporate & Democratic core		2,793	(123)	2,670
122		122	Non Distributed Costs - Exceptional Item	6	(9,458)	0	(9,458)
59,869	**(43,928)**	**15,941**	**Cost Of Services**		**95,985**	**(47,619)**	**48,366**
		7,421	Other Operating Expenditure	8			354
		2,649	Financing and Investment Income and Expenditure	9			476
		(13,776)	Taxation and Non-Specific Grant Income	10			(13,395)
		12,235	**Deficit on Provision of Services**				**35,801**
		5,592	Surplus or deficit on revaluation of Property, Plant and Equipment assets				232
		14	Other recognised gains or losses				26
		10,720	Actuarial (gains) / losses on pension assets / liabilities				(4,460)
		16,326	**Other Comprehensive (Income) and Expenditure**				**(4,202)**
		28,561	**Total Comprehensive Income and Expenditure**				**31,599**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves. ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'. The unaudited accounts were issued on 29 June 2011 and the audited accounts were authorised for issue on 22 September 2011.

01-Apr-09 £'000	31-Mar-10 £'000		Notes	31-Mar-11 £'000
199,477	183,962	Property, Plant & Equipment	12	142,195
10,332	10,150	Investment Property	13	11,237
161	411	Intangible Assets	14	486
0	0	Assets Held for Sale	12	0
2,022	1,011	Long Term Investments	15	0
337	858	Long Term Debtors	18	782
212,329	**196,392**	**Long Term Assets**		**154,700**
5,136	3,014	Short Term Investments	15	4,031
56	36	Inventories	17	5
7,595	9,665	Short Term Debtors	18	8,973
1,453	509	Cash and Cash Equivalents	19	0
14,240	**13,224**	**Current Assets**		**13,009**
0	0	Cash and Cash Equivalents/Bank Overdraft	19	(1,430)
0	(198)	Short Term Borrowing	15	(1,203)
(6,681)	(2,144)	Short Term Creditors	20	(2,649)
(19)	(59)	Short Term Liabilities	33	(40)
0	0	Provisions	21	0
(6,700)	**(2,401)**	**Current Liabilities**		**(5,322)**
(11,162)	(15,089)	Long Term Borrowing	15	(15,857)
(21)	(123)	Other Long Term Liabilities	33	(83)
(4,327)	(3,585)	Grants and Contributions Receipts in Advance	29	(2,518)
(31,700)	(44,320)	Net Pension Liability	35	(31,430)
(47,210)	**(63,117)**	**Long Term Liabilities**		**(49,888)**
172,659	**144,098**	**Net Assets**		**112,499**
(3,143)	(4,029)	Usable reserves	22	(3,039)
(169,516)	(140,069)	Unusable Reserves	23	(109,460)
(172,659)	**(144,098)**	**Total Reserves**		**(112,499)**

39. Events after the Balance Sheet Date

During July 2011, a fraud came to light involving a former employee of the Council and affecting both 2010/11 and 2011/12 financial years. Although not considered material, appropriate adjustments have been made to the 2010/11 accounts. The sum involved is expected to be fully recovered by the Council in due course, following ongoing investigations by the Police and other external agencies.

The Statement of Accounts was authorised for issue by the Deputy Chief Executive and Borough Treasurer on 22 September 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

40. Certification and authorisation of the Accounts

<u>Statement of Accounts – unaudited draft authorised for issue</u>

Signed

Date

P. WILSON

Deputy Chief Executive and Borough Treasurer, Section 151 officer

<u>Statement of Accounts – audited draft authorised for issue</u>

Signed

Date

P. WILSON

Deputy Chief Executive and Borough Treasurer, Section 151 officer

<u>Statement of Accounts – audited and approved by Policy and Organisation Board</u>

Signed

Date

COUNCILLOR M. HOOK

Leader of the Council

<u>Statement of Accounts – approved by Policy and Organisation Board and authorised for publication</u>

Signed

Date

P. WILSON

Deputy Chief Executive and Borough Treasurer, Section 151 officer

APPENDIX A

	REVISED 2010/11 £	ACTUAL 2010/11 £	VARIANCE * £
GENERAL FUND			
Community & Environment Board	7,800,440	7,857,493	57,053
Housing Board	667,700	622,476	(45,224)
Policy & Organisation Board	5,439,580	5,277,028	(162,552)
Total Net Expenditure	13,907,720	13,756,997	(150,723)
GF Working Balance, contribution to / (from) reserve	0	0	0
RFR, contribution to / (from) reserve	(719,770)	(935,670)	(215,900)
RFR, contribution to / (from) reserve - underspend		366,628	366,628
Non specific grant income	(343,850)	(343,855)	(5)
Budget Total	12,844,100	12,844,100	0
HOUSING REVENUE ACCOUNT			
Net Deficit / (Surplus)	(164,000)	(81,083)	82,917

	REVISED 2010/11 £	ACTUAL 2010/11 £	SLIPPAGE to 2011/12 £
CAPITAL PROGRAMME			
Housing - HRA	1,964,000	2,329,200	0
Housing - GF	1,577,000	1,246,134	(331,600)
Community & Environment	6,578,000	2,809,430	(3,788,793)
Policy & Organisation	892,000	577,235	(324,020)
Total Programme	11,011,000	6,961,999	(4,444,413)

** Note : the figures in brackets denote an underspending*

	Actual 1-Apr-10 £	Revised 31-Mar-11 £	Actual 31-Mar-11 £
GF - Working Balance	(890,000)	(890,000)	(890,000)
GF - Revenue Financing Reserve	(1,214,550)	(494,780)	(645,508)
HRA - Balance	(358,285)	(522,285)	(439,368)

APPENDIX B

	Expenditure £	Income £	Net Expenditure £	Revised Budget £	Variance (Under)/Over £
1A - GOSPORT MARKET	72,669.57	(123,342.56)	(50,672.99)	(52,080.00)	1,407.01
1B - CEMETERY	293,513.63	(268,835.94)	24,677.69	38,200.00	(13,522.31)
1C - LEISURE & CULTURE	3,097,008.71	(547,457.46)	2,549,551.25	2,331,620.00	217,931.25
1D - WASTE	1,891,045.92	(300,065.61)	1,590,980.31	1,559,900.00	31,080.31
1E - STREETSCENE	2,055,045.61	(804,560.92)	1,250,484.69	1,314,590.00	(64,105.31)
1F - CONCESSIONARY TRAVEL	1,615,764.73	(429,982.71)	1,185,782.02	1,279,700.00	(93,917.98)
1G - LANDING STAGE	27,716.18	0.00	27,716.18	37,130.00	(9,413.82)
1H - MISC ENVIRONMENTAL & TRANSPORT	561,485.97	(197,804.66)	363,681.31	403,490.00	(39,808.69)
1I - ENVIRONMENTAL HEALTH SERVICES	939,327.58	(24,035.15)	915,292.43	887,890.00	27,402.43
C&E BOARD	**10,553,577.90**	**(2,696,085.01)**	**7,857,492.89**	**7,800,440.00**	**57,052.89**
2A - HOME ADAPTATION GRANTS	1,331,357.96	(1,074,100.00)	257,257.96	88,400.00	168,857.96
2B - PRIVATE SECTOR HOUSING	115,405.52	(204,997.25)	(89,591.73)	115,180.00	(204,771.73)
2C - HOMELESSNESS	1,821,477.51	(1,366,667.50)	454,810.01	464,120.00	(9,309.99)
HOUSING BOARD	**3,268,240.99**	**(2,645,764.75)**	**622,476.24**	**667,700.00**	**(45,223.76)**
3A - REGISTRATION OF ELECTORS	174,317.48	(2,865.50)	171,451.98	234,200.00	(62,748.02)
3B - LOCAL LAND CHARGES	118,194.88	(121,096.60)	(2,901.72)	(8,540.00)	5,638.28
3C - MOBILE HOME PARK	46,099.32	(153,472.75)	(107,373.43)	(68,820.00)	(38,553.43)
3D - HOUSING BENEFITS	29,909,187.17	(29,329,275.93)	579,911.24	636,370.00	(56,458.76)
3E - LOCAL TAXATION	857,248.28	(338,907.43)	518,340.85	443,740.00	74,600.85
3F - MARKETING AND TOURISM	171,926.53	(998.03)	170,928.50	176,340.00	(5,411.50)
3G - ECONOMIC PROSPERITY	457,435.14	(114,880.43)	342,554.71	324,620.00	17,934.71
3H - COMMUNITY SAFETY	718,399.59	(286,384.23)	432,015.36	445,580.00	(13,564.64)
3I - DEVELOPMENT SERVICES	1,184,256.23	(488,353.91)	695,902.32	865,330.00	(169,427.68)
3J - DEPOT (LANDLORD ACCOUNT)	120,581.74	(62,153.51)	58,428.23	(4,490.00)	62,918.23
3K - LICENSING & REGISTRATION	247,689.86	(138,071.55)	109,618.31	111,710.00	(2,091.69)
3L - PRIDDY'S HARD	66,010.33	8,140.78	74,151.11	72,670.00	1,481.11
3M - ASSISTANCE TO VOLUNTARY ORGS	272,447.38	(6,723.24)	265,724.14	270,400.00	(4,675.86)
3N - CORPORATE & CIVIC EXPENSES	2,210,396.98	(50,419.37)	2,159,977.61	2,137,630.00	22,347.61
3O - MISCELLANEOUS SERVICES	(8,948,739.16)	(153,177.39)	(9,101,916.55)	306,460.00	(9,408,376.55)
3P - OTHER CORPORATE AREAS	8,805,389.18	104,825.83	8,910,215.01	(503,620.00)	9,413,835.01
P&O BOARD	**36,410,840.93**	**(31,133,813.26)**	**5,277,027.67**	**5,439,580.00**	**(162,552.33)**
4 - BUSINESS UNITS	15,406,041.21	(15,406,041.21)	0.00	0.00	0.00
4A - LEISURE & CORPORATE	2,301,858.54	(2,301,858.54)	0.00	0.00	0.00
4B - HOUSING	2,428,024.52	(2,428,024.52)	0.00	0.00	0.00
4C - BOROUGH TREASURER	1,618,558.23	(1,618,558.23)	0.00	0.00	0.00
4D - CHIEF EXECUTIVE	1,370,384.33	(1,370,384.33)	0.00	0.00	0.00
4E - ENVIRONMENTAL SERVICES	2,481,933.73	(2,481,933.73)	0.00	0.00	0.00
4G - LEGAL DEMOCRATIC & PLANNING	2,094,931.50	(2,094,931.50)	0.00	0.00	0.00
4H - FINANCIAL SERVICES	3,110,350.36	(3,110,350.36)	0.00	0.00	0.00
BUSINESS UNITS	**15,406,041.21**	**(15,406,041.21)**	**0.00**	**0.00**	**0.00**
	65,638,701.03	**(51,881,704.23)**	**13,756,996.80**	**13,907,720.00**	**(150,723.20)**
TRANSFER TO / (FROM) RESERVES			**(912,896.80)**	**(1,063,620.00)**	150,723.20
	65,638,701.03	**(51,881,704.23)**	**12,844,100.00**	**12,844,100.00**	**0.00**
FINANCED BY					
COUNCIL TAX			(5,597,516.97)	(5,597,517.00)	0.03
AGGREGATE EXCHEQUER FINANCE (RSG, NDR)			(7,296,452.00)	(7,296,452.00)	0.00
COLLECTION FUND DEFICIT CONTRIBUTION			49,868.97	49,869.00	(0.03)
			0.00	**0.00**	**0.00**

Note - the actual figures above include prescribed Code of Practice entries for the formal statement of accounts

APPENDIX C

GENERAL FUND - Summarised variances for 2010/11 over £5,000
***(Variances in brackets represent reduced expenditure or increased income)**

Board / Service & Heading	Revised Budget £	Actual £	Variance* £
COMMUNITY AND ENVIRONMENT BOARD			
Gosport Market			
Income	(128,750)	(123,343)	5,407
Cemetery			
Income	(261,730)	(268,836)	(7,106)
Leisure & Culture			
Open Spaces			
Premises - Special Maintenance	71,050	46,536	(24,514)
Supplies & Services - Purchase of Equipment	27,290	34,713	7,423
Tenanted Properties			
Rents	(174,060)	(151,000)	23,060
Tenanted Properties - Commercial			
Rent - Turnover rents higher than predicted	(118,720)	(127,740)	(9,020)
Gosport Recreation Centre			
Special Maintenance	21,810	1,611	(20,199)
Waste			
Bad Debt Provision	0	15,000	15,000
Contract	1,450,880	1,487,335	36,455
Income including recycling	(267,640)	(289,482)	(21,842)
Street Cleansing			
Third Party Payments	273,260	263,691	(9,569)
HCC Grass Trees & Shrubs			
Treework	157,500	136,496	(21,004)
Nursery			
Employees	63,930	92,629	28,699
Premises	22,170	17,828	(4,342)
Supplies & Services	31,810	49,308	17,498
Gosport & South in Bloom			
Premises	9,160	4,210	(4,950)
Car Parks			
Supplies & Services	23,540	28,340	4,800
Income	(537,770)	(564,210)	(26,440)
Concessionary Travel			
Travel Tokens	386,000	359,541	(26,459)
Farepass	1,027,000	957,247	(69,753)
Misc Environmental & Transportation			
Footway Lighting - Electricity	19,550	12,585	(6,965)
Highways GBC			
Signs - High Street finger posts	10,000	0	(10,000)
Environmental Health Services			
Public Health			
Supplies & Services - Homecheck	18,580	12,553	(6,027)
	2,124,860	**1,995,011**	**(129,849)**
HOUSING BOARD - GENERAL FUND SERVICES			
Homelessness	127,020	105,459	(21,561)
	127,020	**105,459**	**(21,561)**
POLICY AND ORGANISATION BOARD			
Local Land Charges			

GENERAL FUND - Summarised variances for 2010/11 over £5,000
***(Variances in brackets represent reduced expenditure or increased income)**

Board / Service & Heading	Revised Budget £	Actual £	Variance* £
Income	(133,000)	(120,900)	12,100
Mobile Home Park			
Stokes Bay Mobile Home Park			
Commission / sales	(16,500)	(63,000)	(46,500)
Housing Benefits			
Rent Rebates			
Expenditure Net of Subsidy Income	144,920	142,847	(2,073)
Rent Allowances			
Expenditure Net of Subsidy Income	20,050	(64,868)	(84,918)
Council Tax Benefits			
Expenditure Net of Subsidy Income	(50,000)	(69,778)	(19,778)
Local Taxation			
NNDR Cost of Collection			
NNDR Relief	54,500	104,460	49,960
Council Tax Cost Of Collection			
Increase in bad debt provision	0	23,882	23,882
Economic Prosperity			
Cultural initiatives			
Initiatives	11,000	4,351	(6,649)
Development Services			
Development Control Service			
Planning Appeal Costs	30,000	870	(29,130)
Depot (Landlord Account)			
Wilmott Lane Depot			
Electricity - change of supplier	17,000	8,630	(8,370)
Rents	(47,000)	(53,430)	(6,430)
Miscellaneous Services			
Climate Change			
Initiatives	2,270	9,205	6,935
Other Miscellaneous			
Contract Procurement Costs	74,250	75,935	1,685
Misc Income	(1,500)	(23,955)	(22,455)
Other Corporate Areas			
Audit Fees	90,340	107,926	17,586
MRP	299,200	358,195	58,995
Item 8	(156,700)	(190,295)	(33,595)
Interest Receivable	(214,640)	(226,357)	(11,717)
	124,190	**23,717**	**(100,473)**
ADMIN	11,304,620	11,539,757	235,137
TRANSFER FROM RESERVES - BUDGETED	(1,063,620)	(1,063,620)	0
TRANSFER FROM RESERVES - SEVERANCE		(215,900)	(215,900)
TRANSFER TO RESERVES - UNDERSPEND		366,628	366,628
ALL OTHER VARIATIONS	227,030	93,048	(133,982)
TOTAL	**12,844,100**	**12,844,100**	**(0)**

APPENDIX D

DESCRIPTION	REVISED BUDGET 2010/11 £	EXPENDITURE TO BE FINANCED £	SLIPPAGE CR=to 2011/12 DR=fr 2011/12 £
HOUSING BOARD (HRA)			
LA Tenants DP Grant	50,000	50,000	
Improvements to Stock	1,914,000	2,279,200	
Board Total	**1,964,000**	**2,329,200**	**0**
HOUSING BOARD (GF)			
Specific Schemes	814,000	500,000	(314,000)
Steane contribution to PHA	300,000	300,000	
Disabled Facilities	370,000	393,129	
Housing Renewal	60,000	23,374	(17,600)
Private Sector House Condition Survey	33,000	29,632	
Board Total	**1,577,000**	**1,246,134**	**(331,600)**
COMMUNITY & ENVIRONMENT BOARD			
Aid to Voluntary Organisations	39,000	6,500	(36,790)
Alver Valley - Habitat Creation & Access Works	62,000	53,518	(8,480)
Landing Stage - replacement	4,786,000	2,129,225	(2,656,780)
River Hamble to Portchester. CFERM Strategy	50,000	34,406	(15,600)
Cemetery	50,000	2,340	(47,660)
Waste Recycling - Project Integra Contribution	10,000	7,689	
Recycling to complexes	60,000	58,204	
Gosport Leisure Centre - replacement	727,000	225,819	(501,180)
Provide lighting to pathways within Leisure Parks		1,813	
Privett Enclosure / GBFC Improved Facilities	150,000	840	(149,160)
Marine Parade West Public Convenience Refurbishment	77,000	0	(77,000)
High Street Refurbishment		2,491	
L-O-S Embankment Regrade	47,000	55,932	
Lee Promenade - rolling programme of resurfacing	45,000	0	(45,000)
Tukes Avenue Playing Field - Facility Upgrade	5,000	0	(5,000)
Nobes Avenue - Play Area, Equipment Renewal	10,000	0	(10,000)
Improvement Works to Solent Gardens	1,000	0	(1,000)
Play Area Equipment - Upgrade & Refurbish	28,000	11,567	(16,433)
Privett Park Tennis Courts - surface upgrade	25,000	0	(25,000)
Cherque Farm - provision of play areas	10,000	4,751	(5,250)
Disabled Toilets refurbishment	5,000	0	(5,000)
Bridgemary, Elson & Leesland - Play Areas	13,000	0	(13,000)
Walpole Park Skatepark - extension	6,000	0	(6,000)
Bus Shelters - A32 Purchase (14)	4,000	0	(4,000)
Elson Skateboard & BMX Track	11,000	14,439	
Leesland Skatepark - provide equipment & railings	65,000	47,725	(17,270)
Leesland Park Play Area - equipment & safety surfacing upgrade	35,000	4,000	(31,000)
Stokes Bay Promenade - maintenance & resurfacing	3,000	0	(3,000)
Privett Park - resurface car park	20,000	0	(20,000)
Privett Park - Play Improvements	35,000	25,490	(9,510)
Walpole Park Play Area - improvements	33,000	34,202	
Waterfront Brasserie - Pumping Chamber Upgrade	1,000	0	(1,000)
Alver Meadow - Playbuild Scheme	50,000	52,155	
Transfer of Play Areas at Priddys Hard	21,000	12,273	(8,730)
L-o-S Skate Park Extension & Upgrade	32,000	24,051	(7,950)
Privett Park-High Protective Fence & Multi Use Games Facility	62,000	0	(62,000)
Board Total	**6,578,000**	**2,809,430**	**(3,788,793)**
POLICY & ORGANISATION BOARD			
Forton Lake Opening Bridge - Major Repairs	12,000	8,725	(3,280)
CCTV - General Replacement	18,000	5,708	(12,300)
LABGI Environmental Improvements	10,000	0	(10,000)
Mobile Home Park		6,422	
Waterfront Masterplanning	180,000	94,000	(86,000)
Upgrade of Existing Analogue Radio System	21,000	22,159	
Information Technology	284,000	239,871	(45,790)
Financial Management System	79,000	45,338	(33,660)
Town Hall Major Repairs	288,000	155,011	(132,990)
Board Total	**892,000**	**577,235**	**(324,020)**
Total all Boards	**11,011,000**	**6,961,999**	**(4,444,413)**

APPENDIX E

CUMULATIVE WRITE OFFS UNDER DELEGATED AUTHORITY

		2009/10 £	2010/11 £
Council Tax		63,272	102,070
NNDR		42,507	41,078
Housing Rents	HRA	23,654	40,476
	GF	63,775	71,761
Sundry Debtors		45,831	575
Housing Benefits		55,387	56,069
TOTALS		**294,426**	**312,029**

GOSPORT
BOROUGH COUNCIL

STATEMENT OF ACCOUNTS

2010/11

STATEMENT OF ACCOUNTS 2010/11

CONTENT		PAGE

EXPLANATORY FOREWORD

1. Introduction

The Statement of Accounts for 2010/11 meet the reporting and accounting requirements that are required by the CIPFA Code of Practice 2010/11 (the Code). The Code is a major departure from the previous annual CIPFA Statements of Recommended Practice (SORP) in that it completes the transition to International Financial Reporting Standards (IFRS).

2. The main financial statements are

Statement of Responsibilities

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

Movement in Reserves Statement

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

Comprehensive Income and Expenditure Statement

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

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. These are Usable Reserves - ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use - and Unusable Reserves – ie those that the Council is not able to use to provide services. The latter category includes reserves that hold unrealised gains and losses (ie revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents to the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

Notes to the accounts including accounting policies

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

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

Housing Revenue Account and notes

The Housing Revenue Account (HRA) reflects the statutory obligation to maintain a separate revenue account for income and expenditure on council housing and related activities in accordance with the Local Government and Housing Act 1989. This specifies the credit and debit items to be taken into account in determining the surplus or deficit on the HRA for the year. The notes provide further explanation about the HRA.

Collection Fund and notes

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

Annual Governance Statement

The Accounts and Audit Regulations 2003 require the Council to conduct a review at least once a year of the effectiveness of its system of internal control, and to include a statement reporting on the review with the Statement of Accounts.

3. Financial performance

General Fund

The Council's revenue budget for 2010/11 before transfers to or from reserves was £13,907,720, the actual net expenditure for the year was £13,757,000 giving an under spending of £150,720

Two major staffing reports were approved in October 2010 and January 2011 resulting in severance costs in 2010/11 in exchange for future ongoing employee savings. The costs of these are included in the 2010/11 accounts. An additional report was approved in April 2011 which is not included in the accounts. A contribution from the Revenue Financing Reserve (RFR) of £215,900 has been made to meet the severance payments which are included in the actual expenditure figure above.

The resulting overall underspending against the revised budget of £366,620 (£150,720 plus £215,900) has been transferred to the RFR in line with Council policy.

General fund net interest paid was £77,687 (budgeted £115,100).

The statutory revenue charge for debt outstanding in 2010/11 was £358,195.

The table below summarises 2010/11 by Council board as reflected in the 2011/12 budget book, as opposed to the statutory reporting format in the financial statements and shows the transfers to and from reserves.

A more extensive analysis including variations is included in the outturn report to Policy and Organisation Board.

	REVISED 2010/11 £	ACTUAL 2010/11 £	VARIANCE 2010/11 £
GENERAL FUND			
Community & Environment Board	7,800,440	7,857,493	57,053
Housing Board	667,700	622,476	(45,224)
Policy & Organisation Board	5,439,580	5,277,028	(162,552)
Total Net Expenditure	13,907,720	13,756,997	(150,723)
GF Working Balance, contribution to / (from) reserve	0	0	0
RFR, contribution to / (from) reserve	(719,770)	(935,670)	(215,900)
RFR, contribution to / (from) reserve - underspend		366,628	366,628
Non specific grant income	(343,850)	(343,855)	(5)
Budget Total	12,844,100	12,844,100	0
FINANCED BY			
Gosport Council Tax	(5,597,517)	(5,597,517)	
Revenue Support Grant	(925,169)	(925,169)	
Non Domestic Rates Distribution	(6,371,283)	(6,371,283)	
Collection Fund Surplus (Deficit)	49,869	49,869	
	(12,844,100)	(12,844,100)	

General Fund Reserves

The General Fund working balance at 31 March 2011 is £890,000 as projected in the Budget Report for 2011/12.

The Revenue Financing Reserve (RFR) is being used to fund spend to save initiatives including severance costs. The future savings arising from these will contribute towards acceptable budget levels and the maintenance of adequate reserves. The RFR at 31 March 2011 is £645,500.

Housing Revenue Account

The Housing Revenue Account was forecast to have a revenue surplus of £164,000 for 2010/11 with a revised account balance of £522,290 at 31 March 2011. The actual position for the year was a reduced surplus of £81,080 with a resulting account balance of £439,370 at 31 March 2011. This balance needs to be increased to a more adequate level as soon as possible.

The major variations were the increased expenditure on repairs and void works totalling £62,000 and an overspend on debt repayment costs of approximately £35,000 due to the additional capital expenditure brought forward during the year. An overspend on mobilisation and procurement costs included under housing management were offset by savings made elsewhere within the budget.

4. Material assets acquired or liabilities incurred

A summary of capital expenditure and financing for 2010/11 is shown below. This shows material schemes, additions and enhancements to the council's fixed assets.

SCHEME	REVISED 2010/11 £	ACTUAL 2010/11 £	SLIPPAGE £
BY BOARD			
Housing Board (HRA)	1,964,000	2,329,200	0
Housing Board (GF)	1,577,000	1,246,134	(331,600)
Community & Environment Board	6,578,000	2,809,430	(3,788,793)
Policy & Organisation Board	892,000	577,235	(324,020)
	11,011,000	**6,961,999**	**(4,444,413)**
BY MAJOR SCHEME			
Council Dwellings	1,964,000	2,329,200	0
Landing Stage replacement - completion June 2011	4,786,000	2,129,225	(2,656,780)
Gosport Leisure Park	727,000	225,819	(501,180)
Cemetery	50,000	2,340	(47,660)
Privett Enclosure / GBFC Improved Facilities	150,000	840	(149,160)
Marine Parade West Public Convenience refurb	77,000	0	(77,000)
Lee Promenade - rolling programme of resurfacing	45,000	0	(45,000)
Privett Park - Protective Fence & Multi Use Facility	62,000	0	(62,000)
Waterfront Masterplanning	180,000	94,000	(86,000)
Information Technology	363,000	285,209	(79,450)
Town Hall Major Repairs	288,000	155,011	(132,990)
All other schemes	2,319,000	1,740,354	(607,193)
	11,011,000	**6,961,999**	**(4,444,413)**
FINANCED BY			
Major Repairs Allowance	1,824,000	1,965,400	
Capital Receipts	360,000	83,673	
Developer Contributions - Open Spaces	303,000	116,616	
Other Grants & Contributions	1,545,000	1,251,253	
Capital Grants	270,000	274,100	
Borrowing	6,709,000	3,270,957	
	11,011,000	**6,961,999**	

5. Pensions liability

The Statement of Accounts complies with International Accounting Standard (IAS)19 – the financial reporting standard on Retirement Benefits. This is expanded on in note 35 in the Notes to the Financial Statements. The reported figures are supplied by independent actuaries to the Hampshire County Council administered pension fund.

The Balance Sheet and note show an improved position compared to last year's net pension deficit by £12.89 million (£44.32 million to £31.43 million) primarily due to the change in the inflation index to be used (as notified by the government) to derive statutory pension increases leading to a reduction in defined benefit obligations.

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
(31,700)	**(44,320)**	**Net Pension Liability**	**(31,430)**

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

There are two exceptional items that are disclosed separately on the face of the Comprehensive Income and Expenditure Statement on page 15 which are further described in note 6 to the financial statements.

- Housing Services – a reduction in value (impairment) of the Council's housing stock of £42.936 million resulting from the annual valuation exercise.
- Non Distributed Costs – a credit of £9.458 million in respect of Past Service Pension Costs being the effect of the change in the inflation index, from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI), used to derive statutory pension increases. The CPI is lower than the RPI and results in a reduction in the balance sheet pension liability .

In 2009/10 income of £332,341 was received in respect of the Fleming Case VAT reclaim, note 7 in the financial statements refers.

7. Significant changes in accounting policies

From 2010/11, the financial statements have been prepared on an IFRS basis which reflects the fundamental changes required to previous practice. The adoption of IFRS includes the restatement of comparatives and the previous opening and closing figures on the balance sheet.

The accounting policies applied for 2010/11 and retrospectively for 2009/10 are at note 1, page 18 in the Notes to the Financial Statements.

The significant policy changes are

Government grants and contributions

Government grants and third party contributions are recognised in the Comprehensive Income and Expenditure Statement as due to the Council when there is reasonable assurance that any attached conditions will be complied with. There is no longer a Grants Deferred Account to hold and release grant income over the life of the asset.This change in policy has created major changes in the Income and Expenditure statement.

Cash and Cash Equivalents

Cash and cash equivalents include cash, bank accounts and investments repayable without penalty within one day. This new definition is reflected in the balance sheet.

Investment Properties

This class of fixed assets is more narrowly defined than previously and has resulted in a transfer of assets previously included as Investment properties to Plant Property and Equipment with associated changes in valuation and depreciation practices.

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

The Council has not been affected by any change in statutory functions during the financial year 2010/11.

Future developments in service delivery include

Revenue

- The adoption from 1 April 2011 by Hampshire County Council of responsibility for the concessionary travel function.
- The embedding of structural change following staffing reductions and a review of the Council's constitution.

- The Council has undertaken a major contract procurement exercise for waste, grounds and building maintenance services. The new contracts are effective from April 2011.
- Planning for implementation of HRA reform from April 2012.

Capital

- The opening of the new Gosport Ferry landing stage in June 2011.
- The progression of the planning and construction of the new Gosport Leisure Park due for opening in the summer of 2012.

9. Current borrowing facilities and capital borrowing

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

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
2,022	1,011	Long Term Investments	0
5,136	3,014	Short Term Investments	4,031
1,453	509	Cash and Cash Equivalents	0
0	0	Cash and Cash Equivalents/Bank Overdraft	(1,430)
0	(198)	Short Term Borrowing	(1,203)
(11,162)	(15,089)	Long Term Borrowing	(15,857)
(2,551)	**(10,753)**	**Net Borrowing position**	**(14,459)**

Additional long term (Public Works Loan Board) borrowing of £2 million was taken during the year to take advantage of favourable interest rates and to fund the Council's capital programme.

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

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
8,733	**10,534**	**Capital Financing Requirement**	**13,446**

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

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

Usable Reserves

Usable reserves are reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure). These are summarised below:

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
(890)	(890)	General Fund balance	(890)
(757)	(1,561)	Revenue Financing Reserve	(645)
(490)	(358)	Housing Revenue Account	(439)
(870)	(1,046)	General Fund - Other	(1,000)
(136)	(65)	Capital Receipts Reserve	(65)
0	(109)	Capital Grants Unapplied	0
(3,143)	**(4,029)**		**(3,039)**

Grants and contributions receipts in advance

In addition to these 'usable' reserves the council also has £2.518 million as at 31 March 2011 (£3.585 million as at 31 March 2010) of developers' contributions that are available to spend. They are categorised separately to Usable Reserves as they are subject to conditions as to the nature and timescale of their use and could therefore be returnable. The Council manages these sums to mitigate that possibility.

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

There are no provisions, contingencies or material write-offs to report for 2010/11.

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

During July 2011, a fraud came to light involving a former employee of the Council and affecting both 2010/11 and 2011/12 financial years. Although not considered material, appropriate adjustments have been made to the 2010/11 accounts. The sum involved is expected to be fully recovered by the Council in due course, following ongoing investigations by the Police and other external agencies

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

Against the background of public sector expenditure reductions and an uncertain national economic position, the Council's overall financial position remains stable and a balanced budget has been set for 2011/12.

The need to ensure that future council tax levels are acceptable and reserve levels remain adequate is a priority and prompt and measured action has been taken including service changes, fee increases and staffing reductions. While the emphasis is on maintaining front line services, the methods of delivery have been, and continue to be, examined. ie in conjunction with the recent major contract procurement process.

The reductions necessary to the Council's projected General Fund budget to achieve Council Tax increases of 2.5% (below likely capping level) incorporating latest inflation projections amount to approximately £0.25 million over the next 4 years, including £220,000 in 2014/15.

There is a lot of uncertainty regarding future levels of Exchequer support, inflation and interest rates. The most optimistic current forecast beyond 2012/13 is that modest additional expenditure may be possible in some years working within Council Tax rises of 2.5%p.a., whilst the worst scenario is for ongoing annual budget cuts of between £50,000 and £450,000 being required.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- approve the Statement of Accounts.

Councillor M. Hook
Chair of Policy and Organisation Board 2011

The Chief Finance Officer's responsibilities

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

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

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

The Chief Finance Officer has also:

- kept proper accounting records which 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 a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011.

Mr Peter Wilson
Deputy Chief Executive and Borough Treasurer 2011

Movement in Reserves Statement

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

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2009	**(890)**	**(1,627)**	**(490)**	**(136)**	**0**	**(3,143)**	**(169,516)**	**(172,659)**
Movement during 2009/10								
Deficit on the provision of services	9,289		3,055		(109)	**12,235**		**12,235**
Other Comprehensive Income and Expenditure						**0**	**16,326**	**16,326**
Total Comprehensive Income and Expenditure	**9,289**	**0**	**3,055**	**0**	**(109)**	**12,235**	**16,326**	**28,561**
Adjustments between accounting basis & funding basis under regulations (Note 11)	(10,269)	0	(2,923)	71	0	**(13,121)**	**13,121**	**0**
Net (increase)/decrease before transfers to Earmarked Reserves	**(980)**	**0**	**132**	**71**	**(109)**	**(886)**	**29,447**	**28,561**
Transfers to/(from) Earmarked Reserves (Note 22)	980	(980)				**0**		**0**
Net (increase)/decrease in 2009/10	**0**	**(980)**	**132**	**71**	**(109)**	**(886)**	**29,447**	**28,561**
Balance at 31 March 2010	**(890)**	**(2,607)**	**(358)**	**(65)**	**(109)**	**(4,029)**	**(140,069)**	**(144,098)**

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Movement during 2010/11								
(Surplus)/Deficit on the provision of services	(7,480)		43,281			**35,801**		**35,801**
Other Comprehensive Income and Expenditure					109	**109**	**(4,311)**	**(4,202)**
Total Comprehensive Income and Expenditure	**(7,480)**	**0**	**43,281**	**0**	**109**	**35,910**	**(4,311)**	**31,599**
Adjustments between accounting basis & funding basis under regulations (Note 11)	8,423		(43,343)	0	0	**(34,920)**	**34,920**	**0**
Net (increase)/decrease before transfers to Earmarked Reserves	**943**	**0**	**(62)**	**0**	**109**	**990**	**30,609**	**31,599**
Transfers to/(from) Earmarked Reserves (Note 22)	(943)	962	(19)			**0**		**0**
Net (increase)/decrease in 2010/11	**0**	**962**	**(81)**	**0**	**109**	**990**	**30,609**	**31,599**
Balance at 31 March 2011	**(890)**	**(1,645)**	**(439)**	**(65)**	**0**	**(3,039)**	**(109,460)**	**(112,499)**

Comprehensive Income and Expenditure Statement

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

2009/10 Gross Exp £000	2009/10 Gross Income £000	2009/10 Net Exp £000		Notes	2010/11 Gross Exp £000	2010/11 Gross Income £000	2010/11 Net Exp £000
6,799	(6,124)	675	Central Services to the Public		7,392	(6,067)	1,325
10,489	(2,160)	8,329	Cultural, Environmental, Regulatory & Planning services		11,084	(2,219)	8,865
2,771	(1,061)	1,710	Highways, Roads & Transport services		2,734	(1,316)	1,418
37,151	(34,458)	2,693	Housing Services		38,504	(37,894)	610
			Housing Services - Exceptional Item	**6**	42,936	0	42,936
2,537	(125)	2,412	Corporate & Democratic core		2,793	(123)	2,670
122		122	Non Distributed Costs - Exceptional Item	**6**	(9,458)	0	(9,458)
59,869	**(43,928)**	**15,941**	**Cost Of Services**		**95,985**	**(47,619)**	**48,366**
		7,421	Other Operating Expenditure	**8**			354
		2,649	Financing and Investment Income and Expenditure	**9**			476
		(13,776)	Taxation and Non-Specific Grant Income	**10**			(13,395)
		12,235	**Deficit on Provision of Services**				**35,801**
		5,592	Surplus or deficit on revaluation of Property, Plant and Equipment assets				232
		14	Other recognised gains or losses				26
		10,720	Actuarial (gains) / losses on pension assets / liabilities				(4,460)
		16,326	**Other Comprehensive (Income) and Expenditure**				**(4,202)**
		28,561	**Total Comprehensive Income and Expenditure**				**31,599**

Balance Sheet

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

01-Apr-09 £'000	31-Mar-10 £'000		Notes	31-Mar-11 £'000
199,477	183,962	Property, Plant & Equipment	12	142,195
10,332	10,150	Investment Property	13	11,237
161	411	Intangible Assets	14	486
0	0	Assets Held for Sale	12	0
2,022	1,011	Long Term Investments	15	0
337	858	Long Term Debtors	18	782
212,329	**196,392**	**Long Term Assets**		**154,700**
5,136	3,014	Short Term Investments	15	4,031
56	36	Inventories	17	5
7,595	9,665	Short Term Debtors	18	8,973
1,453	509	Cash and Cash Equivalents	19	0
14,240	**13,224**	**Current Assets**		**13,009**
0	0	Cash and Cash Equivalents/Bank Overdraft	19	(1,430)
0	(198)	Short Term Borrowing	15	(1,203)
(6,681)	(2,144)	Short Term Creditors	20	(2,649)
(19)	(59)	Short Term Liabilities	33	(40)
0	0	Provisions	21	0
(6,700)	**(2,401)**	**Current Liabilities**		**(5,322)**
(11,162)	(15,089)	Long Term Borrowing	15	(15,857)
(21)	(123)	Other Long Term Liabilities	33	(83)
(4,327)	(3,585)	Grants and Contributions Receipts in Advance	29	(2,518)
(31,700)	(44,320)	Net Pension Liability	35	(31,430)
(47,210)	**(63,117)**	**Long Term Liabilities**		**(49,888)**
172,659	**144,098**	**Net Assets**		**112,499**
(3,143)	(4,029)	Usable reserves	22	(3,039)
(169,516)	(140,069)	Unusable Reserves	23	(109,460)
(172,659)	**(144,098)**	**Total Reserves**		**(112,499)**

Cash Flow Statement

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

2009/10 £000		**Notes**	**2010/11 £000**
12,235	Net (surplus) or deficit on the provision of services		35,801
(20,492)	Adjustments to surplus or deficit on the provision of services for non-cash movements	38	(47,371)
9,474	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		8,860
1,217	Net Cash flows from Operating Activities		**(2,710)**
1,693	Net Cash flows from Investing Activities	38	4,378
(1,966)	Net Cash flows from Financing Activities	38	271
944	Net (increase) or decrease in cash and cash equivalents		**1,939**
1,453	Cash and cash equivalents at the beginning of the reporting period		509
509	Cash and cash equivalents at the end of the reporting period		(1,430)

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year end of 31 March 2011.

The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 which require the annual statement of accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

b) Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with the Councils main bank account.

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

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

<u>National Westminster Group Account consisting of</u>

- Main Account

- Payments Account
- Online Account

Call Accounts
- Corporate Deposit Account
- Liquidity Select Account

Money Market Fund Account
- Global Treasury Account

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

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

d) Employee Benefits

Benefits Payable During Employment

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

The accrual is made at the wage and salary rates applicable in the following accounting year (for practical purposes the average 2010/11 rates have been used), being the period in which the employee takes the benefit.

The accrual is calculated on the actual outstanding benefits at year end and charged directly to the Surplus or Deficit on the Provision of Services (based on the revised budget for 2010/11), but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Post Employment Benefits

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

The pension scheme is detailed in note 35 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 earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% based on the current rate of return on high quality corporate bonds of equivalent term and currency to the liabilities.
- Assets of the LGPS attributable to the council are included in the balance sheet at their fair value.

The council's change in the net pension liability is analysed into 7 components

Current service costs	The increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Account to the services for which the employees worked
Past service costs	The increase in liabilities arising from current year's decisions whose effect relates to years of service earned in earlier years – charged to Non-Distributed Costs in the Comprehensive 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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account
Expected return on assets	The annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account
Gains or losses on settlements and curtailments	The result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
Actuarial gains and losses	Changes in the pension liability that arises because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
Employers' contributions payable to scheme	Cash paid as employers' contributions to the pension fund

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

e) Events after the Balance Sheet Date

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

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

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

f) Exceptional Items

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

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

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

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

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

h) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

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

i) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

Discounts are apportioned over the lifetime of replacement loans with the unapportioned balance being included on the balance sheet within the carrying amount of the outstanding loans.

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

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

The Council makes interest free car loans available to certain employees as part of its recruitment and retention package. These constitute ‘soft loans’ being made at less than market rates. No accounting adjustment is made for these as the effect is not considered material.

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

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

j) <u>Government Grants and Contributions</u>

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement

k) <u>Intangible Assets</u>

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

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

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

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

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

l) <u>Interests in Companies and Other Entities</u>

The Authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that require it to prepare group accounts.

The Council has an interest in an entity that does not require the production of group accounts and this is disclosed in note 30 to the accounting statements.

m) Inventories and Long Term Contracts

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

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

n) Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

o) Leases

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

<u>The Authority as Lessor</u>

Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Policy on reclassifying leases under IFRS

The adoption of IFRS requires all lease and ‘lease type’ arrangements in which the Council has an interest (i.e. both as lessee and lessor) to be reviewed to ensure that the substance of transactions is properly reflected in the accounts. There is no clear cut guidance on the classification of leases, rather a series of tests which can be applied to indicate whether a lease is operating or finance

All leases and lease type arrangements have been assessed as being operating or finance leases where the annual revenue flow (rent paid or rent received) is greater than £10,000 and lease period is 15 years or more for property or 5 years or more for vehicles and equipment.

In line with Financial Regulations, where a leased asset with the Council as lessee is identified as a finance lease, only those assets with a net book value of £10,000 or more are brought onto the balance sheet.

Contracts with an annual value in excess of £50,000 have been reviewed for embedded leases.

p) 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 f Practice 2010/11* (BVACOP). 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 Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

q) Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance. In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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

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

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

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

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

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

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

Impairment

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

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

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

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

Depreciation

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

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

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

- Council Dwellings - equal to the Major Repairs Allowance. This represents a capital sum that is allowed annually to maintain the council's housing stock and in 2009/10 is £2.543 m
- Buildings - straight-line allocation over the useful life of the property as estimated by the Valuer
- Vehicles, Plant and Equipment - straight line allocation over 4 to 10 years depending on the asset
- Infrastructure – straight-line allocation over 20 to 50 years depending on the asset

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

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

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets Held for Sale must meet certain criteria including that they are likely to be sold in current condition within a year and are being actively being marketed.

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

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

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

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

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

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

r) Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

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

Contingent Liabilities

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

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

Contingent Assets

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

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

s) Reserves

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

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

The Council's main reserves are described further in notes 22 and 23 to the accounting statements

t) Revenue Expenditure funded from Capital under Statute

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

u) Value Added Tax

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

2. Significant changes resulting from the adoption of IFRS

The financial statements for 2010/11 are the first to be prepared on an International Financial Reporting Standards (IFRS) basis, adapted for the public sector by the Code of Practice on Local Authority Accounting (The Code). This has resulted in the restatement of some opening balances and transactions, with the result that some prior year comparative figures in the financial statements for 2010/11 are different from the equivalent figures presented in the financial statements for 2009/10.
The most significant differences and reasons for the differences are explained below:

Investment Property Revaluation Gains

The Code requires that any changes in the value of Investment Properties are shown in the Comprehensive Income and Expenditure Statement. The effect of this on the Balance Sheet is that revaluation gains on Investment Property previously credited to the Revaluation Reserve are now credited to the Comprehensive Income and Expenditure Statement and adjusted out in the Movement in Reserves Statement to the Capital Adjustment Account.

Cash and Cash Equivalents

The revised definition for Cash and Cash Equivalents is included in the Accounting Policies in Note 1 Accounting Policies. This may affect how the totality of the Council's cash and investments are shown in the balance sheet and will fluctuate from year to year.

Grants and Contributions

Grants and contributions are now recognised as income when they become receivable – that is when any conditions relating to the grant have been met.
Previously, grants and contributions awarded for the purpose of capital expenditure were held in a grants deferred account and recognised as income over the life of the assets that they were used to fund. As a result of the transition to IFRS the balance on the Government Grants Deferred Account has been transferred to the Capital Adjustment Account and the previous release of credits to services does not take place.

Reclassification of Leases

The transition to IFRS required an examination of leases and lease type arrangements. For two leases, where the Council is the lessee, this necessitated a re-classification from operating leases to finance leases. The impact of this is that the assets included under those leases are included as equipment on the Council's Balance Sheet and the present value of future lease rentals payable are shown as creditors.

Accumulated Absences

The Code requires the Council to calculate the value of leave and flexitime accrued by employees at the Balance Sheet date that has not been taken. This accrual is shown as a creditor and is offset by the Accumulated Absences Adjustment Account in the Unusable Reserves section of the Balance Sheet.

The major areas of impact of these changes on the Balance Sheet as at 31st March 2009 and 2010 are:

	Balance in 2009/10 accounts	**31-Mar-09** Comparative figure in 2010/11 accounts	Movement
	£'000	**£'000**	**£'000**
Vehicles, Plant & Equipment	895	932	37
Current Assets - Investments	6,876		(6,876)
Current Assets - Cash and Bank	7		(7)
Current Liabilities - Bank Overdrawn	(294)		294
Short Term Investments		5,136	5,136
Cash and Cash Equivalents		1,453	1,453
Government Grants Deferred Account	(13,358)	0	13,358
Revaluation Reserve	(9,427)	(7,360)	2,067
Capital Adjustment Account	(177,801)	(193,877)	(16,076)
Accumuated Absences Adjustment Account	0	154	154

	Balance in 2009/10 accounts	**31-Mar-10** Comparative figure in 2010/11 accounts	Movement
	£'000	**£'000**	**£'000**
Vehicles, Plant & Equipment	1,019	1,196	177
Current Assets - Investments	4,301		(4,301)
Current Assets - Cash and Bank	5		(5)
Current Liabilities - Bank Overdrawn	(783)		783
Short Term Investments		3,014	3,014
Cash and Cash Equivalents		509	509
Government Grants Deferred Account	(11,548)	0	11,548
Revaluation Reserve	(3,747)	(1,868)	1,879
Capital Adjustment Account	(168,474)	(182,122)	(13,648)
Accumuated Absences Adjustment Account	0	144	144

3. New Accounting Standards – issued but not yet adopted

The Code requires the council to identify any accounting standards that have been issued but have yet to be adopted.

Financial Reporting Standard (FRS) 30 on Heritage Assets requires the recognition of Heritage Assets as a separate class of assets from 2011/12 financial year.

Heritage Assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for the contribution they make to knowledge and culture.

Some of these assets are currently included within other classes of asset (mainly Community Assets) and some of them may not be currently recognised in the Balance Sheet. It is not possible at this stage to estimate the value of these assets and the impact the changes will have on the Balance Sheet (for carrying values and revaluations) and the Comprehensive Income and Expenditure Statement (for depreciation and impairment charges).

The balances as at 31 March 2011 will be restated in the 2011/12 financial statements in order to provide comparative figures in the 2011/12 financial statements.

4. Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Asset reclassifications – the council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These are based on the main reason that the council is holding the asset with the classification determining the valuation method to be used.
- Lease classifications – the council has made judgements on whether its lease arrangements are operating leases or finance leases. There is an element of subjectivity in these assessments and de-minimus levels have been applied. The accounting treatment for operating and finance leases is different (see accounting policy on Leases) and may have a significant effect on the accounts.
- Production of Group Accounts – for 2010/11 it is not considered that there are any bodies that meet the requirements for Group Accounting and the financial statements therefore only represent Gosport Borough Council's transactions and balances in the year. As a member of the Portchester Crematorium Joint Committee (PCJC), the Council has an interest in the management of the Portchester Crematorium. The PCJC prepare a short form of accounts as a 'small entity' in line with the Accounts and Audit Regulations 2011 and full group accounts are not possible from this shortened form of accounts. (note 29 Related Parties also refers)
- Doubtful debts allowances - the council has made judgements on a prudent level of allowances for doubtful debts. These are based on historical experience of debtor defaults and the current economic climate.

5. Uncertainties relating to Assumptions and Estimates used

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

The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

Item	**Uncertainties**	**Effect if Actual Results Differ from Assumptions**
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.

	individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £5.6 million. However, the assumptions interact in complex ways. During 2010/11, the Authority's actuaries advised that the net pensions liability had decreased by £2.68 million as a result of estimates being corrected as a result of experience and decreased by £1.73 million attributable to updating of the assumptions.
Doubtful Debt Allowances	The council has made allowances for doubtful debts of £1.545 million in 2010/11 (£1.195 million in 2009/10) based on what it believes to be a prudent but realistic level.	If debt collection rates were to deteriorate or improve, a 5% change in the General Fund allowances would require an adjustment to the allowance of £71,000 (£53,500 in 2009/10).

6 Exceptional Items

The following two exceptional items have been separately disclosed on the face of the Comprehensive Income and Expenditure Statement on page 15 by virtue of their nature and size.

- Housing Services – Impairment - £42.936 million

The annual valuation of the HRA asset base has resulted in a reduction in value of the Council's housing stock which cannot be offset against a Revaluation Reserve balance. The fall in value is due primarily to a change in the social housing adjustment factor. Note 11 to the HRA Income and Expenditure Statement also refers.

- Non Distributed Costs – Past Service Pension Costs - £9,458 million credit

Certain retirement benefit costs or credits are excluded from the definition of the total costs of services and are defined as Non Distributed Costs. These must be shown separately on the face of the Comprehensive Income and Expenditure Statement and this heading is included here as an extraordinary item because of the size of the reported sum. The credit is due primarily to the change in the inflation index used to derive statutory pension increases from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). The CPI being lower than the RPI.

7. Material Items of Income and Expense

Material items of income and expense incurred which are not disclosed on the face of the Comprehensive Income and Expenditure Statement at page 15 are shown below:

2010/11 - nil

2009/10 - VAT reclaim

As a result of retrospective changes in liability for VAT, the Council's retained VAT advisers successfully challenged and recovered payments made over a substantial number of years. The recovery which included sporting and cemetery services and bulky waste totalled £332,341 and included £162,811 in respect of compound interest. This total sum was included in the Council's revised budget and is included in the Cost of Services in the Comprehensive Income and Expenditure Statement.

8. Other Operating Expenditure

2009/10 £'000		2010/11 £'000
154	Payments to the Government Housing Capital Receipts Pool	251
7,267	Losses on the disposal of non-current assets	103
7,421		**354**

9. Financing and Investment Income and Expenditure

2009/10 £'000		2010/11 £'000
426	Interest payable & similar charges inc finance lease rentals payable & debt rescheduling premiums	534
2,470	Pensions interest cost and expected return on pensions assets	1,500
(336)	Interest income inc finance lease rentals receivable & debt rescheduling discounts	(270)
89	Net income in relation to investment properties and changes in their fair value	(1,288)
2,649		**476**

10. Taxation and Non Specific Grant Income

2009/10 £'000		2010/11 £'000
(5,561)	Council Tax Income	(5,589)
(5,899)	Non Domestic Rates	(6,372)
(1,887)	Non-Ringfenced Government Grants	(1,011)
(429)	Capital Grants and Contributions	(423)
(13,776)		**(13,395)**

11. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2010/11	**General Fund Balance £000**	**Housing Revenue Account £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Total Usable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(1,615)	(42,936)			**(44,551)**
Movements in the market value of Investment Properties	1,028				**1,028**
Amortisation of intangible assets	(116)				**(116)**
Capital grants and contributions	1,533				**1,533**
Revenue expenditure funded from capital under statute	(1,295)				**(1,295)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(155)	52			**(103)**

2010/11	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	358				**358**
Transfer of GF Earmarked Reserves	(19)	19			**0**
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure statement					**0**
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement			(326)		**(326)**
Use of the Capital Receipts Reserve to finance new capital expenditure			84		**84**
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals			17		**17**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.		(251)	251		**0**
Transfer from Deferred Capital receipts Reserve upon receipt of cash			(26)		**(26)**
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)	7,088	(608)			**6,480**
Employer's pensions contributions and direct payments to pensioners payable in the year	1,569	381			**1,950**
Adjustments primarily involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	41				**41**
Adjustment primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6				**6**
Total Adjustments	**8,423**	**(43,343)**	**0**	**0**	**(34,920)**

2009/10	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(1,751)	(2,312)			**(4,063)**
Amortisation of intangible assets	(86)				**(86)**
Capital grants and contributions	1,021			0	**1,021**
Revenue expenditure funded from capital under statute	(729)				**(729)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7,359)	24			**(7,335)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	195				**195**
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement			(732)		**(732)**
Use of the Capital Receipts Reserve to finance new capital expenditure			623		**623**
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals			40		**40**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.		(154)	154		**0**
Transfer from Deferred Capital receipts Reserve upon receipt of cash			(14)		**(14)**
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)	(2,754)	(916)			**(3,670)**
Employer’s pensions contributions and direct payments to pensioners payable in the year	1,335	435			**1,770**

2009/10	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000
Adjustments primarily involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(151)				**(151)**
Adjustment primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	10				**10**
Total Adjustments	**(10,269)**	**(2,923)**	**71**	**0**	**(13,121)**

12. Property, Plant and Equipment

Depreciation

The table below summarises the methods of depreciation used for the Council's assets. In line with the CIPFA Code of Practice, land and investment properties are not depreciated. There have been no changes in depreciation methods in 2010/11.

Asset	Depreciation Method
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 hardware is assessed to provide an asset life.
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

The table below shows the movement on Plant, Property and Equipment for 2010/11 analysed between historic costs and fair value. The difference between the two total figures is the total in the Revaluation Reserve at 31 March 2011

Movement on Plant, Property and Equipment	31st March 2010				Movement in 2010/11					31st March 2011			
	Gross	Depreciation	Valuation Loss/Imp	Net Book Value	Additions	Disposals	Valuation Loss	Depreciation	Transfers	Gross	Depreciation	Valuation Loss/Imp	Net Book Value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Historical Cost													
Council Dwellings	161,144	(6,836)	(5,831)	148,477	2,329	(287)	(42,936)	(1,959)		163,186	(8,795)	(48,767)	105,624
Other Land & Buildings	20,216	(1,796)	(522)	17,898	155	(155)		(800)	(52)	20,164	(2,596)	(522)	17,046
Vehicles, Plant, Equipment	5,007	(3,811)	0	1,196	192	(271)		(76)		4,928	(3,887)	0	1,041
Infrastructure	13,925	(3,666)	0	10,259	11			(356)		13,936	(4,022)	0	9,914
Community Assets	3,130	0	0	3,130	278					3,408	0	0	3,408
Assets under Construction	1,134	0	0	1,134	2,506					3,640	0	0	3,640
	204,556	**(16,109)**	**(6,353)**	**182,094**	**5,471**	**(713)**	**(42,936)**	**(3,191)**	**(52)**	**209,262**	**(19,300)**	**(49,289)**	**140,673**
Fair Value													
Council Dwellings	167,468	(2,544)	(16,390)	148,534	2,329	(287)	(45,530)	578		169,510	(1,966)	(61,920)	105,624
Other Land & Buildings	21,887	(1,566)	(611)	19,710	155	(155)	(334)	(754)	(52)	21,454	(2,320)	(565)	18,569
Vehicles, Plant, Equipment	5,007	(3,811)	0	1,196	192	(271)		(76)		4,928	(3,887)	0	1,041
Infrastructure	13,923	(3,666)	0	10,257	11			(356)		13,934	(4,022)	0	9,912
Community Assets	3,130	0	0	3,130	278					3,408	0	0	3,408
Assets under Construction	1,135	0	0	1,135	2,506					3,641	0	0	3,641
	212,550	**(11,587)**	**(17,001)**	**183,962**	**5,471**	**(713)**	**(45,864)**	**(608)**	**(52)**	**216,875**	**(12,195)**	**(62,485)**	**142,195**

The table below shows the movement on Plant, Property and Equipment for 2009/10 analysed between historic costs and fair value. The difference between the two total figures is the total in the Revaluation Reserve at 31 March 2010

Movement on Plant, Property and Equipment	**31st March 2009**				**Movement in 2009/10**					**31st March 2010**			
	Gross	Depreciation	Valuation Loss/Imp	Net Book Value	Additions	Disposals	Valuation Loss	Depreciation	Transfers	Gross	Depreciation	Valuation Loss/Imp	Net Book Value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Historical Cost													
Council Dwellings	158,678	(4,295)	(3,519)	150,864	2,651	(185)	(2,312)	(2,541)	0	161,144	(6,836)	(5,831)	148,477
Other Land & Buildings	24,927	(1,657)	(521)	22,749	821	(5,307)	(137)	(139)	(89)	20,216	(1,796)	(522)	17,898
Vehicles, Plant, Equipment	4,480	(3,548)	0	932	584	(57)	0	(263)	0	5,007	(3,811)	0	1,196
Infrastructure	15,889	(3,634)	0	12,255	459	(2,423)	0	(32)	0	13,925	(3,666)	0	10,259
Community Assets	4,417	0	0	4,417	313	(1,600)	0	0	0	3,130	0	0	3,130
Assets under Construction	900	0	0	900	234	0	0	0	0	1,134	0	0	1,134
	209,291	**(13,134)**	**(4,040)**	**192,117**	**5,062**	**(9,572)**	**(2,449)**	**(2,975)**	**(89)**	**204,556**	**(16,109)**	**(6,353)**	**182,094**
Fair Value													
Council Dwellings	165,000	(2,161)	(6,523)	156,316	2,651	(183)	(9,867)	(383)	0	167,468	(2,544)	(16,390)	148,534
Other Land & Buildings	26,581	(1,349)	(576)	24,656	821	(5,307)	(154)	(217)	(89)	21,887	(1,566)	(611)	19,710
Vehicles, Plant, Equipment	4,480	(3,548)	0	932	584	(57)	0	(263)	0	5,007	(3,811)	0	1,196
Infrastructure	15,888	(3,634)	0	12,254	459	(2,424)	0	(32)	0	13,923	(3,666)	0	10,257
Community Assets	4,418	0	0	4,418	313	(1,601)	0	0	0	3,130	0	0	3,130
Assets under Construction	901	0	0	901	234	0	0	0	0	1,135	0	0	1,135
	217,268	**(10,692)**	**(7,099)**	**199,477**	**5,062**	**(9,572)**	**(10,021)**	**(895)**	**(89)**	**212,550**	**(11,587)**	**(17,001)**	**183,962**

Capital Commitments

Significant commitments for future expenditure at 31 March include**:**

2009/10 £'000		2010/11 £'000
600	PHA – Social Housing	300
116	Accommodation & IT	139
4,565	Landing Stage replacement	2,657
7,000	Gosport Leisure Park	6,801
12,281		**9,897**

Revaluations

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 Capita Symonds Ltd and the Council's Property Services Manager: Mr M. Pam MRICS BA. Council Dwellings are valued by Savills (L&P) Ltd on behalf of the Council. The valuations are gross balance sheet value before depreciation.

	Historical	**Fair Value - revalue when indicated**					
		2010/11	**2009/10**	**2008/09**	**2007/08**	**2006/07**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Property, Plant & Equipment							
Council Dwellings		169,509					169,509
Operational Property		1,877	8,477	1,907	2,040	6197	20,498
Garages	958						958
Equipment	4,928						4,928
Infrastructure	13,935						13,935
Community Assets	3,408						3,408
Assets under Construction	3,640						3,639
	26,869	**171,386**	**8,477**	**1,907**	**2,040**	**6,197**	**216,875**

Assets Held For Sale

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

13. Investment Property

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

2009/10 £'000		2010/11 £'000
176	Direct operating expenses arising from investment property	130
(406)	Rental income from investment property	(390)
(230)	**Net gain**	**(260)**

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

A desktop overview of the investment properties including their categorisation and valuation at 31 March 2011 was undertaken by Capita Symonds Ltd. For 2011/12 a full external inspection and valuation of the Council's investment property portfolio will be undertaken.

2009/10 £'000		2010/11 £'000
10,332	Balance at the start of the year	10,150
	Additions	
-	Purchases	-
-	Construction	-
48	Subsequent expenditure	7
-	Disposals	-
(319)	Net gains or losses from fair value adjustments	1,028
89	Transfers to or from Property, Plant and Equipment	52
10,150	**Balance at the end of the year**	**11,237**

14. Intangible Assets

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

The carrying amount of intangible assets is based on historic cost and is amortised on a straight-line basis on estimated lives of up to 10 years. The amortisation of £116,000 charged to revenue in 2010/11 (£86,000 in 2009/10) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

2009/10 £'000		2010/11 £'000
	Balance at the start of the year	
834	Gross carrying amount	1,170
(673)	Accumulated amortisation	(759)
161	**Net carrying amount at the start of the year**	**411**
336	Purchases	191
-	Derecognition - Gross carrying amount	(106)
-	Derecognition - Amortisation	106
(86)	Amortisation for the year	(116)
411	**Net carrying amount at the end of the year**	**486**
	Comprising	
1,170	Gross carrying amount	1,255
(759)	Accumulated amortisation	(769)

15. Financial Instruments

The purpose of the disclosure information for financial instruments is to provide information that enables users to evaluate:

- The significance of financial instruments for the authority's financial position and performance
- The nature and extent of risks arising from financial instruments to which the authority was exposed and how the authority manages those risks

Financial Liabilities

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

01-Apr-09		**31-Mar-10**			**31-Mar-11**	
Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**		**Carrying Amount**	**Fair Value**
£'000	**£'000**	**£'000**	**£'000**		**£'000**	**£'000**
(11,162)	**(11,155)**	**(15,287)**	**(15,699)**	**PWLB Debt**	**(17,060)**	**(17,753)**

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the balance sheet date. This commitment to pay interest below current market rates decreases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans. The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest

PWLB - Maturity Analysis

01-Apr-09 Amount £'000	Avge Rate %	31-Mar-10 Amount £'000	Avge Rate %	Maturing within:-	31-Mar-11 Amount £'000	Avge Rate %
0	0.000%	198	2.900%	Up to 1 year	1,203	1.653%
0	0.000%	1,203	1.653%	Over 1 but not over 2 years	2,209	2.031%
0	0.000%	6,646	2.443%	Over 2 but not over 5 years	7,665	3.160%
3,000	4.387%	4,953	3.851%	Over 5 but not over 10 years	1,725	3.828%
0	0.000%	0	0.000%	Over 10 but not over 15 years	0	0.000%
1,000	4.000%	0	0.000%	Over 15 but not over 20 years	0	0.000%
0	0.000%	0	0.000%	Over 20 but not over 25 years	0	0.000%
1,000	3.900%	0	0.000%	Over 25 but not over 30 years	0	0.000%
0	0.000%	0	0.000%	Over 30 but not over 35 years	0	0.000%
0	0.000%	0	0.000%	Over 35 but not over 40 years	0	0.000%
5,000	3.900%	0	0.000%	Over 40 but not over 45 years	0	0.000%
1,000	3.750%	2,000	4.720%	Over 45 years	4,000	4.430%
11,000	**4.028%**	**15,000**	**3.154%**	**Total of 10 Loans**	**16,802**	**3.274%**
11,155				Fair Value as at 31st March 2009		
		15,699		Fair Value as at 31st March 2010		
				Fair Value as at 31st March 2011	17,753	

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council makes interest free car loans available to certain employees as part of its recruitment and retention package. These constitute 'soft loans' being made at less than market rates. No accounting adjustment is made for these as the effect is not considered material. New loans are no longer interest free from April 2011.

The Council has no available for sale assets.

The table shows both Carrying and Fair Values of Fixed Rate Loans advances to Approved Third Parties

01-Apr-09 Long Term £'000	01-Apr-09 Current £'000	31-Mar-10 Long Term £'000	31-Mar-10 Current £'000		31-Mar-11 Long Term £'000	31-Mar-11 Current £'000
2,000	5,000	1,000	3,000	Loans and receivables (principal amount)	0	4,000
22	136	11	14	Accounting adjustments	0	31
2,022	**5,136**	**1,011**	**3,014**	Loans and receivables at amortised cost	**0**	**4,031**
2,162		**1,083**		Loans and receivables at fair value	**0**	

The financial asset and liability fair values have been ascertained using the present value of future cash flows, with the rate of discount equivalent to a similar financial asset or liability with a duration equivalent to the remaining period of the actual financial asset or liability.

Maturity Analysis of Financial Instruments

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
5,000	3,000	Less than 1 year	4,000
1,000	1,000	Between 1 and 2 years	-
1,000	-	Between 2 and 3 years	-
-	-	More than 3 years	-
7,000	**4,000**		**4,000**

The following analysis summarises the Authority's maximum exposure to credit risk. The table (composite defaults from Fitch, Standard & Poors and Moodys) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period since at least 1990 to 2009. Defaults shown are by long term rating category on all Council's Investments out to a maximum of 2 years, which were the most commonly held investments during the year.

	Amount at 31 March 2011 £'000 (a)	Historical experience of default % (b)	Adjustment for market conditions at 31 March 2011 % (c)	Estimated maximum exposure to default £ (d)
Deposits with banks and financial institutions				
AAA rated counterparties	7	0.00%	0.00%	0
AA rated counterparties	8	0.03%	0.03%	7
A rated counterparties	4,000	0.08%	0.08%	25,600
BBB+	-	-	-	-

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

Short Term Deposit Accounts

Temporary Investments and Short Term Borrowing are primarily treasury management and cash flow transactions with banks and building societies. This heading includes short term deposits through the Council's Global Treasury Fund (a money market fund) and the Corporate Deposit and Liquidity Select Call Accounts. These figures are disclosed are disclosed separately from the fixed investments described above.

01-Apr-09 £'000	**31-Mar-10 £'000**		**31-Mar-11 £'000**
2,000	1,000	Long Term Fixed Investments	0
22	11	Accrued Interest	0
2,022	**1,011**		**0**
5,000	3,000	Current Fixed Investments	4,000
136	14	Accrued Interest	31
1,277	797	Call Account and Money Market Fund Account	(509)
463	490	Accrued Interest	524
6,876	**4,301**		**4,046**
8,898	**5,312**	**Total Investments**	**4,046**

Financial Instrument Gains and Losses

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

01-Apr-09 £'000	**31-Mar-10 £'000**		**31-Mar-11 £'000**
		Financial Liabilities:	
372	417	Interest from financial liabilities measured at amortised cost	525
		Financial Assets:	
(667)	(318)	Interest from loans and receivables	(226)
(295)	**99**		**299**

There are no losses or gains on de-recognition, impairment or revaluation to disclose for any of the three above financial years.

16. Nature and Extent of Risks Arising from Financial Instruments

The authority's activities expose it to a variety of financial risks:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity Risk – the possibility that the authority might not have funds available to meet its commitments to make payments

- Market Risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the associated risks.

The procedures for risk management are set out through a legal framework that is included in the Local Government Act 2003 and associated regulations. Compliance with the CIPFA Prudential Code, the CIPFA Treasury Management Code of Practice and Treasury Management Strategy is compulsory.

Before the start of the forthcoming financial year and in conjunction with the annual budget approval process, the Council must formally adopt the Treasury Management Code of Practice, Treasury Management Strategy and Prudential Indicators.

The Treasury Management Strategy provides written principles for overall risk management as well as written policies covering specific areas such as borrowing, debt and investment strategy and was originally approved by Council on 3 February 2010.

- The Authorised Limit for 2010/11 was set at £26.1m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £24.8 m. This is the expected level of debt and other long term liabilities during the year.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits were not made with banks and financial institutions unless they conformed to the following investment criteria.

- all investments are to be fixed rate transactions
- no Investments are to exceed 3 years although most will not exceed 364 days
- investments to be placed with
    - the top three building societies
    - the Council's bank
    - the major British banks and their wholly owned subsidiaries (Royal Bank of Scotland, HSBC, Lloyds/HBOS, Barclays and Co-op)
- short term surplus funds to be invested in money market funds or deposit accounts as operated by the Royal Bank of Scotland and the Bank of Scotland
- a £3m limit with any single group other than the Council's bank
- The main principles governing the Council's investment criteria are the security and liquidity of its investments, although the yield or return on the investment will be a consideration, subject to adequate security and liquidity.

The Council has no history of default with any of its counterparties in relation to deposits made or received. No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council's debtors include Council Tax, Business Rates and Housing Benefits. These are all statutory debts for which the Council is the responsible body and cannot influence who the counterparties are. Statutory debts are not classed as financial instruments and are not included below.

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

	Note	Amount at 31 March 2011	Historical experience of default	Adjustment for market conditions at 31 March 2011	Estimated maximum exposure to default
		£'000	%	%	£
Deposits with banks and financial institutions	a	4,015	-	-	-
General debtors	b	958	29%	29%	276
Housing rents	b	803	61%	61%	488
Other	a	4,422	-	-	-

(a) The council does not expect any default in relation to these elements

(b) The council does not generally allow credit for customers and the estimated risks are covered by doubtful debt allowances which derive from aged debt analysis and historical experience.

Liquidity Risk

As the authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Existing long term debt is repayable between 1 and 10 years ahead and over 45 years ahead. While the Council has no short term debt, it does have ready access to borrow short term to cover any day to day cash flow requirements should the need arise. All trade and other payables are due to be paid in less than one year. The Council's payables (creditors) as included on the balance sheet are shown below.

01-Apr-09	31-Mar-10		31-Mar-11
£'000	**£'000**		**£'000**
6,681	**2,144**	**Payables**	**2,649**

Market Risk

Interest Rate Risk:
Movement in interest rates can have a complex impact on an authority, depending on the complexity and policies of treasury management activity employed. For instance, a rise in interest rates would have the following effects

- Borrowings at variable rates – the interest cost will rise
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest earned will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure or Movement in Reserves Statements. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Comprehensive Income and Expenditure Account and affect the General Fund balance £ for £. Movements in the fair value of fixed rate investments would be reflected in the Comprehensive Income and Expenditure and Movement in Reserves Statements.

The Council's Treasury Management Strategy (approved in February 2010 and 2011, reported on in September 2010 and revised in May 2011) currently states

- All long-term loans (in excess of 365 days) to be raised through the PWLB, Bond Issue or Loan Receipt (1989 Housing Act) and variable rate loans may be considered. There may also be opportunities to borrow from other public bodies
- In order to limit interest rate exposure all investments other than short term surplus funds are to be fixed rate transactions. No Investments are to exceed 3 years although most will not exceed 364 days

so while the Council has some risk exposure to interest rate movements, this is limited to the effect that interest rate movements have on the marketplace generally when placing investments or raising loans in relation to the annual budget. Cash flows and interest rate changes are actively monitored.

If average interest rates in 2010/11 had been 1% higher or lower then an additional £105,000 interest may have been earned or foregone. (£299,000 in 2009/10 and £137,000 in 2008/09).

Price Risk

The authority has no shareholdings and is therefore not exposed to losses from movements in the prices of shares.

Fair Value of Assets and Liabilities carried at Amortised Cost

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

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

17. Inventories

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
7	11	Stationery	-
38	25	Nursery	5
11	-	Explosion!	-
56	**36**		**5**

18. Debtors

Long Term Debtors

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
337	858	Other Entities and Individuals	782
337	**858**		**782**

Short Term Debtors (net of allowances for doubtful debts)

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
1,872	2,776	Central Government Bodies	2,311
1,156	2,083	Other Local Authorities	1,942
4,567	4,806	Other Entities and Individuals	4,720
7,595	**9,665**		**8,973**

19. Cash and Cash Equivalents

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
1,740	1,287	Money Market Funds	15
6	5	Cash imprests	6
(293)	(783)	Bank Overdraft (Grouped accounts)	(1,451)
1,453	**509**		**(1,430)**

20. Creditors

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
(3,886)	(4)	Central Government Bodies	(238)
-	-	Other Local Authorities	(545)
(2,795)	(2,140)	Other Entities and Individuals	(1,866)
(6,681)	**(2,144)**		**(2,649)**

21. Provisions

The Council has no provisions.
An allowance for doubtful debts is included within note 17.

22. Usable Reserves

Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure).

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

		2009/10				2010/11	
	01-Apr-09	Transfers In	Transfers Out	**31-Mar-10**	Transfers In	Transfers Out	**31-Mar-11**
	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Revenue							
General Fund Balance	**(890)**	**0**	**0**	**(890)**	**0**	**0**	**(890)**
Earmarked General Fund Reserves							
Revenue Financing Reserve	(757)	(804)	0	(1,561)	(366)	1,282	(645)
Civic	(1)	0	0	(1)	0	0	(1)
Royan Twinning Fund	(6)	0	2	(4)	(1)	0	(5)
Museum Purchases	(10)	0	0	(10)	0	0	(10)
Open Spaces maintenance	(99)	0	6	(93)	0	37	(56)
A32 Bus Shelter maintenance	(30)	0	0	(30)	0	0	(30)
Cherque Farm open space	(208)	0	0	(208)	(7)	0	(215)
Priddys Play Area maintenance	0	0	0	0	(124)	0	(124)
Greenskills Apprenticeship	0	0	0	0	(4)	0	(4)
HPDG usable reserve	0	0	0	0	(70)	0	(70)
Regional Housing Grant	(164)	(105)	53	(216)	(205)	53	(368)
LPSA2 revenue grant	0	(175)	0	(175)	0	175	0
English Heritage Outtreach	(4)	0	0	(4)	4	0	0
Education Fund	(4)	0	0	(4)	0	0	(4)
Risk Management	(3)	0	0	(3)	0	0	(3)
Business Growth Incentive Grant	(279)	(53)	91	(241)	0	188	(53)
Building Control Partnership	(62)	(10)	15	(57)	0	0	(57)
	(1,627)	**(1,147)**	**167**	**(2,607)**	**(773)**	**1,735**	**(1,645)**
Housing Revenue Account							
Housing Revenue Account	**(490)**	**0**	**132**	**(358)**	**(81)**	**0**	**(439)**
Capital							
Capital Receipts Reserve	(136)	(552)	623	(65)	(352)	352	(65)
Capital Grants Unapplied	0	(109)	0	(109)	0	109	0
	(136)	**(661)**	**623**	**(174)**	**(352)**	**461**	**(65)**
Total Usable Reserves	**(3,143)**	**(1,808)**	**922**	**(4,029)**	**(1,206)**	**2,196**	**(3,039)**

The purpose of each of the earmarked reserves held at 31 March 2011 is shown below:

General Fund balance
This represents the council's working balance and is effectively a general reserve that is available for unforeseen events and to help stabilise annual fluctuations in Council Tax levels.

Revenue Financing Reserve (RFR)
A reserve available for general use, although it is particularly targeted at

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

It is considered that maintaining a viable RFR is an essential element for improved management of the Council's finances and in order to achieve this, the approved Council policy is that the RFR receives General Fund Contributions from year end savings, a base budget contribution and Council Tax Collection Fund surpluses (subject to the working balance first being maintained at an appropriate level).

Open Spaces, Play Areas and Bus Shelter reserves
The Open Spaces maintenance, Bus Shelter maintenance, Cherque Farm open space and Priddys Play Area maintenance reserves are all earmarked sums for contributing to specific service revenue expenditure.

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

Housing Revenue Account
The statutory ringfenced account for the provision of Housing services providing a working balance and general reserve for unforeseen events.

Other Usable reserves
The remaining revenue reserves are utilised in the provision of specific council services.

Capital Receipts reserve
The Capital Receipts reserve may only be utilised to fund capital expenditure. The balance of £65,000 at 31 March 2010 and 2011 is in respect of the sale of Camden Allotments and must be applied in accordance with the provisions of Section 32 of the Smallholdings and Allotments Act 1908.

23. Unusable Reserves

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
(7,360)	(1,680)	Revaluation Reserve	(1,335)
(193,877)	(182,311)	Capital Adjustment Account	(139,136)
(77)	(638)	Deferred Capital Receipts	(612)
31,700	44,320	Net Pension Reserve	31,430
(56)	96	Collection Fund Adjustment Account	55
154	144	Short-term Accumulating Compensated Absences Account	138
(169,516)	**(140,069)**		**(109,460)**

Revaluation Reserve

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

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

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

2009/10 £'000		2010/11 £'000
(7,360)	Balance at 1 April	**(1,680)**
(4)	Upward revaluation of assets	(29)
5,575	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	261
5,571	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**232**
109	Difference between fair value depreciation and historical cost depreciation	113
109	Amount written off to the Capital Adjustment Account	**113**
(1,680)	**Balance at 31 March**	**(1,335)**

Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2009/10 £'000		2010/11 £'000
(193,877)	Balance at 1 April	**(182,311)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
4,064	Charges for depreciation and impairment of noncurrent assets	44,551
86	Amortisation of intangible assets	116
729	Revenue expenditure funded from capital under statute	1,295
8,570	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	438
13,449		**46,400**
(109)	Adjusting amounts written out of the Revaluation Reserve	(113)
13,340	**Net written out amount of the cost of non-current assets consumed in the year**	**46,287**
	Capital financing applied in the year:	
(623)	Use of the Capital Receipts Reserve to finance new capital expenditure	(84)
(957)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,533)
	Application of grants to capital financing from the Capital Grants Unapplied Account	(109)
(194)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(358)
(1,774)		**(2,084)**
	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**(1,028)**
(182,311)	**Balance at 31 March**	**(139,136)**

Deferred Capital Receipts

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

2009/10 £'000		2010/11 £'000
(77)	Balance at 1 April	(638)
(575)	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	
14	Transfer to the Capital Receipts Reserve upon receipt of cash	26
(638)	**Balance at 31 March**	**(612)**

Pensions Reserve

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

2009/10 £'000		2010/11 £'000
31,700	Balance at 1 April	44,320
10,720	Actuarial (gains) or losses on pensions assets and liabilities	(4,460)
3,670	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(6,480)
(1,770)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(1,950)**
44,320	**Balance at 31 March**	**31,430**

Collection Fund Adjustment Account

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

2009/10 £'000		2010/11 £'000
(56)	Balance at 1 April	96
152	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(41)
96	**Balance at 31 March**	**55**

Accumulated Absences Account

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

2009/10 £'000		2010/11 £'000
154	Balance at 1 April	144
(154)	Settlement or cancellation of accrual made at the end of the preceding year	(144)
144	Amounts accrued at the end of the current year	138
144	**Balance at 31 March**	**138**

24. Reconciliation with amounts reported internally

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

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

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

Resource allocation and control during the financial year is by exception reporting to Council management team and leadership with further, generally quarterly, reports to Policy and Organisation board as necessary. These reports are presented as a list of variances summarised by Board.

The outturn position for 2010/11 is being reported to members in the same format as the approved budget. Reconciling the approved and reported budgets - which provide the basis of budget monitoring and control and resource allocation - to that shown in the financial statements is complicated because as outlined above certain income and expenditure items are shown in different ways and in different places between the two documents. Some items have a financial impact on the council’s finances and some do not.

The analysis of income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified in the Best Value Accounting Code of Practice.

The reconciliations below show the movement between the Board based reports to members for 2009/10 and 2010/11 and the Comprehensive Income and Expenditure and Movement in Reserves statements in the Statement of Accounts.

The Code also requires a breakdown of the reporting segments by type of expenditure (ie employees, premises etc.). A full gross subjective analysis of income and expenditure is also shown for 2009/10 and 2010/11.

2009/10 £’000		**2010/11 £’000**
11,227	Employees	11,344
2,084	Premises	1,937
205	Transport	218
5,245	Supplies and Services	4,953
4,550	Third Party Payments	4,641
26,323	Miscellaneous	29,357
49,634		**52,450**
10,376	Support Services	11,540
2,138	Capital / Financing	1,653
(62,148)	Income	(65,643)
0		**0**

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2010/11	**GF Board Structure**	Other Operating Expenditure	Financing & Investment Income & Expenditure	Taxation & Non Specific Grant Income	Movement in reserves, Collection Fund deficit	**BVACOP Cost of Services**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Community & Environment	7,857		260		29	8,146
Housing	622					622
Policy & Organisation	5,277	(155)	(244)	511	(8,382)	(2,993)
	13,757	**(155)**	**16**	**511**	**(8,353)**	**5,776**
Reserves	(913)				1,040	127
	12,844	**(155)**	**16**	**511**	**(7,313)**	**5,903**

	BVACOP Structure					**General Fund**	**HRA**	**CI&E**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost of Services	5,776					5,776	42,590	48,366
Other Operating Expenditure		155				155	199	354
Financing and Investment income and Expenditure			(16)			(16)	492	476
Taxation and Non Specific Grant Income				(13,355)	(40)	(13,395)	0	(13,395)
Surplus or Deficit on the Provision of Services	**5,776**	**155**	**(16)**	**(13,355)**	**(40)**	**(7,480)**	**43,281**	**35,801**

2009/10	GF Board Structure	Other Operating Expenditure	Financing & Investment Income & Expenditure	Taxation & Non Specific Grant Income	Movement in reserves, Collection Fund deficit	BVACOP Cost of Services
	£'000			£'000	£'000	£'000
Community & Environment	7,480					7,480
Housing	478					478
Policy & Organisation	4,557	(7,291)	(1,795)		10,567	6,038
	12,515	**(7,291)**	**(1,795)**	**0**	**10,567**	**13,996**
Reserves	457				(457)	0
	12,972	**(7,291)**	**(1,795)**	**0**	**10,110**	**13,996**

	BVACOP Structure					General Fund	HRA	CI&E
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost of Services	13,996		(188)			13,808	2,133	15,941
Other Operating Expenditure		7,291				7,291	130	7,421
Financing and Investment income and Expenditure			1,983		(126)	1,857	792	2,649
Taxation and Non Specific Grant Income				(12,972)	(804)	(13,776)	0	(13,776)
Surplus or Deficit on the Provision of Services	**13,996**	**7,291**	**1,795**	**(12,972)**	**(930)**	**9,180**	**3,055**	**12,235**

25. Agency Services

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

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

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

31-Mar-10 £'000		31-Mar-11 £'000
34	Treework	30
101	Grasscutting	106
(123)	Hampshire County Council contribution	(138)
12		**(2)**

26. Members' Allowances

The Authority paid the following amounts to members of the council during the year

2009/10 £000		2010/11 £000
207	Allowances	210
7	Expenses	8
214		**218**

The Code requires the inclusion of expenses as well as allowances and these are now included with 2009/10 being restated to include expenses as well as allowances.

27. Officers Remuneration

2009/10		2010/11
	The number of employees (excluding senior officers which are disclosed individually in separate tables) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:	
	Remuneration band	
0	£50,000 - £54,999	1*
0	£55,000 - £59,999	2*
1*	£60,000 – £64,999	1*
0	£65,000 - £69,999	0
	* Figures represent employees who left during the year with severance payments	

2009/10		Senior Officers emoluments - Salary is more than £50,000 but less than £150,000 per year							
Post Title	Notes	Salary Including Allowances	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2009/10	Pension Contributions	Total Remuneration including pension contributions 2009/10
		£	£	£	£	£	£	£	£
Chief Executive		91,625	0	0	0	440	92,065	13,074	105,139
Deputy Chief Executive & Borough Treasurer		82,449	0	0	0	0	82,449	11,767	94,216
Borough Solicitor	1	58,882	0	0	0	0	58,882	10,498	69,380
Director of Planning and Economic Development Services	2	68,758	0	0	0	496	69,254	3,753	73,007
Financial Services Manager		63,848	0	0	0	318	64,166	9,338	73,504
Corporate Services Manager		63,400	0	0	0	0	63,400	2,686	66,086
Housing Services Manager		58,627	0	0	0	0	58,627	8,608	67,235
Leisure Services Manager		63,534	0	0	0	0	63,534	9,338	72,872
Development Services Manager	3	47,025	0	0	93,000	0	140,025	6,730	146,755
Environmental Services Manager		58,224	0	0	0	0	58,224	8,608	66,832
		656,372	**0**	**0**	**93,000**	**1,254**	**750,626**	**84,400**	**835,026**

1. The Borough Solicitor works 32 hours per week. The full time equivalent salary is £66,696. In addition, Returning Officer fees are included.
2. Post previously designated Director of Economic Development, Tourism & the Arts.
3. The Development Services Manager post became redundant 31 December 2009. The whole time equivalent salary is £61,884.

2010/11		Senior Officer emoluments - Salaries more than £50,000 but less than £150,000 per year							
Post Title	Notes	Salary (Including Allowances)	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2010/11	Pension Contributions	Total Remuneration including pension contributions 2010/11
		£	£	£	£	£	£	£	£
Chief Executive		92,165	0	0	0	568	92,733	13,074	105,807
Deputy Chief Executive & Borough Treasurer		82,251	0	0	0	0	82,251	11,767	94,018
Borough Solicitor	1	62,587	0	0	0	0	62,587	10,498	73,085
Director of Economic Regeneration	2	26,331	0	0	80,383	0	106,714	3,753	110,467
Financial Services Manager		65,350	0	0	0	0	65,350	9,338	74,688
Corporate Services Manager	3	18,610	0	0	0	0	18,610	2,686	21,296
Housing Services Manager		59,832	0	0	0	0	59,832	8,608	68,440
Leisure Services Manager		64,779	0	0	0	0	64,779	9,338	74,117
Environmental Services Manager		59,852	0	0	0	0	59,852	8,608	68,460
		531,757	**0**	**0**	**80,383**	**568**	**612,708**	**77,670**	**690,378**

1. The Borough Solicitor's remuneration was based on 34 hours per week.The full time equivalent salary is £69,468. Returning Officer fees of £10,444 are included in the total.
2. The Director of Economic Regeneration post became redundant 15 August 2010. The whole time equivalent salary is £69,280
3. The Corporate Services Officer Post was deleted 14 July 2010.The whole time equivalent salary is £64,404

28. External Audit Costs

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

2009/10 £000		2010/11 £000
	Fee payable to Mazars (2009/10) and the Audit Commission (2010/11) with regard to external audit services carried out by appointed auditors	
106	External audit services	114
9	Statutory inspection	0
54	Certification of grant claims and returns	57
6	Other services	2
175		**173**

29. Grant Income

The Authority credited the grants and contributions shown in the table on page 66 to the Comprehensive Income and Expenditure Statement in 2010/11

In addition to the grants received and / or applied in 2010/11 which were not subject to any outstanding conditions and which are reflected in the table below, the council also holds £2.518 million as at 31 March 2011 (£3.585 million as at 31 March 2010) of developers' contributions which are shown as Grants and Contributions Receipts in Advance in the Balance Sheet. These grants and contributions are categorised as liabilities because they are subject to conditions as to the nature and timescale of their use and could therefore be returnable. The Council manages these sums to mitigate that possibility and the sums are available to spend on appropriate capital schemes – at which point the liability will cease and the sums will be accounted for through the Comprehensive Income and Expenditure statement. An analysis of these sums is shown below

01-Apr-09 £'000	31-Mar-10 £'000	Grants and Contributions Receipts in Advance	31-Mar-11 £'000
(2,387)	(2,008)	Affordable Housing	(1,208)
(1,352)	(1,313)	Open Spaces and Play Areas	(1,167)
(181)		Priddys Hard	
(137)	(137)	Nimrod Drive Footpath	(137)
(178)	(101)	HPDG Capital	
(70)	(4)	Bus Shelters	(4)
(22)	(22)	Other grants and contributions	(2)
(4,327)	**(3,585)**		**(2,518)**

2009/10 £000	Grant Income	2010/11 £000
	Included in Taxation and Non Specific Grant Income	
	Non-Ringfenced Government Grants	
	Department for Communities and Local Government:	
(5,899)	Distribution from NNDR Pool	(6,372)
(1,361)	Revenue Support Grant	(925)
(53)	Local Authority Business Growth Incentive Grant	
(71)	Area Based Grant	(86)
(402)	Housing and Planning and Development Grant	
(7,786)		**(7,383)**
	Capital Grants and Contributions	
(255)	Developers Contributions - Open Spaces	(241)
(109)	LPSA2 Capital Grant	
	Housing and Planning and Development Grant	(101)
	HCC / PUSH - Waterfront Masterplan	(55)
(65)	HCC - A32 Bus Shelters	
0	Other Contributions	(26)
(429)		**(423)**
	Service Specific Revenue Grants and Contributions (included in cost of services)	
	Department for Work and Pensions	
(749)	HB / CTB Administration	(744)
(27,718)	HB / CTB Subsidy	(30,402)
	Developers Contributions (Section 106)	
(379)	Affordable housing	(800)
	Environment Agency	
	Coast Protection	(34)
	Department for Communities and Local Government	
(240)	Disabled Facilities Grant	(274)
(79)	Free Swimming Grant	(45)
(199)	Enhanced Bus Pass Scheme	(205)
(84)	NNDR Cost of Collection	(83)
(302)	Planning Delivery Grant	
	Hampshire County Council	
(123)	Grass Trees & Shrubs	(138)
	Fareham Borough Council	
(110)	Portchester Crematorium Joint Board	(135)
(341)	Building Control Partnership	(352)
(119)	CCTV	(97)
	Eastleigh Borough Council	
(46)	Audit services	(42)
(797)	Other	(831)
(31,286)		**(34,182)**

30. Related Parties

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

Central government
Central government has 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 council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 28.

Members
Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 25. As approved by Policy and Organisation Board in 2003, Councillor Hook and Mrs Hook entered into an agreement in 2004/05 with the council for the rent and insurance of office accommodation in their ownership for the provision of council services. The agreement was made in full compliance with the Council's standing orders and with proper declaration of interest. The value of rental payments from 1 April 2010 to 31 March 2011 was £7,980 and of insurance (for the period from 2004/05 to 2010/11) was £2,540. In 2010/11, the members' shop also successfully tendered for the supply of carpeting to the main reception and adjacent area in the sum of £8,315.

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

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

2009/10 £000			**2010/11 £000**
28,173	Hampshire County Council	Precept payments	28,645
1,772	Hampshire County Council	Pension Fund payments	1,950
3,932	Hampshire Police Authority	Precept payments	4,036
1,669	Hampshire Fire & Rescue Authority	Precept payments	1,694
236	Building Control Partnership	Payments to Fareham Borough Council	227
(341)	Building Control Partnership	Income from Fareham Borough Council	(352)

Entities controlled or significantly influenced by the Council

Portchester Crematorium: The Council along with 3 neighbouring authorities is part of the 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.
During 2010/11 the Council received £135,000 (£110,000 in 2009/10) from the Joint Committee being its share of the distributable surpluses.

Gosport Borough Council's share of the net assets of Portchester Crematorium Joint Committee are £1,337,170 (£1,137,050 in 2009/10) which equates to 1.2% of the Council's net assets at 31 March 2011.

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.

31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the table below.

Capital Financing Requirement

2009/10 £'000		2010/11 £'000
8,733	**Opening Capital Financing Requirement**	**10,534**
	Capital Investment	
4,864	Plant, Property & Equipment	5,470
48	Investment Properties	6
336	Intangible Assets	190
730	Revenue Expenditure funded from Capital under Statute	1,295
199	Assets acquired under Finance leases	-
	Sources of Finance	
(623)	Capital Receipts	(84)
(3,565)	Government Grants & Other Contributions	(3,607)
	Other Adjustments	
(57)	Finance lease reduction of long term liability	(59)
64	Refinancing of previous expenditure	-
(195)	Sum set aside from Revenue (MRP & VRP)	(299)
10,534	**Closing Capital Financing Requirement**	**13,446**
	Explanation of Movements in year	
1,788	Increase in underlying need to borrow (unsupported by Government	3,270
(129)	Decrease in underlying need to borrow because of Long Term Debtors, MRP & VRP and other adjustments	(299)
142	Increase or (reduction) in Finance Lease liability	(59)
1,801	Increase / (decrease) in Capital Financing Requirement	**2,912**

Revenue Expenditure Funded From Capital Under Statute

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

	Balance at 1 April	Expenditure	Charged to Revenue	Balance at 31 March
	£'000	£'000	£'000	£'000
Affordable Housing	0	800	(800)	0
Housing Grants	0	446	(446)	0
Other Capital Schemes	0	49	(49)	0
Total 2010/11	**0**	**1,295**	**(1,295)**	**0**
Total 2009/10	**0**	**730**	**(730)**	**0**

32. Impairment Losses

2009/10		2010/11
£'000		£'000
	136 Walpole Road - Car Park	-

The impairment relates to part of the Haslar Marina Car Park.

33. Leases

Authority as Lessee

Finance Leases

The Council has acquired two items of office equipment under finance leases.

The assets acquired under these leases are carried as Equipment in the Balance Sheet at the following net amounts:

	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000
Vehicles, Plant, Furniture and Equipment	37	177	119
	37	177	119

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000
Finance lease liabilities			
current	19	59	40
non current	21	123	83
Finance costs payable in future years	3	13	7
Minimum lease payments	43	195	130

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

	Minimum Lease Payments			Finance Lease payments		
	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000
Not later than one year	21	64	43	19	59	40
Later than one year and not later than five years	22	131	87	21	123	83
Later than five years						
	43	195	130	40	182	123

Operating Leases

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

The future estimated minimum lease payments are:	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000
Not later than one year	61	52	46
Later than one year and not later than five years	152	115	85
Later than five years	15	15	15
	228	182	146

The expenditure charged to the Cultural, Environmental, Regulatory and Planning Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2009/10 £'000	2010/11 £'000
Minimum lease payments	61	52
	61	52

Authority as Lessor

Finance Leases
The Authority has no finance leases.

Operating Leases
The Authority leases out land and property under operating leases primarily for:
- the provision of community services
- economic development purposes

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

	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000
Not later than one year	417	417	379
Later than one year and not later than five years	1,086	1,034	1,000
Later than five years	14,207	13,960	13,718
	15,710	15,411	15,097

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

34. Termination Benefits

The Authority terminated the contracts of approximately 30 employees in 2010/11, incurring liabilities of £732,000 (£234,000 in 2009/10). This includes both payments to the Local Government Pension Scheme and severance payments and has been largely financed by contributions from the Revenue Financing Reserve in recognition of substantial future salary savings.

35. Pension

The reported figures and disclosure note are predominantly supplied by Aon Hewitt Limited, the independent actuaries to the Hampshire County Council administered pension fund.

Introduction

The disclosures below relate to the funded and unfunded liabilities within the Hampshire County Council Pension Fund (the ‘Fund’) which is part of the Local Government Pension Scheme (the ‘LGPS’).

- Funded - the funded nature of the LGPS requires Gosport Borough Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Unfunded - the unfunded pension arrangements established by Gosport Borough Council comprise termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS.

Gosport Borough Council recognises gains and losses in full, immediately through Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year

2009/10 Funded £m	2009/10 Unfunded £m	Transactions relating to Post-employment Benefits	2010/11 Funded £m	2010/11 Unfunded £m
		Comprehensive Income and Expenditure Statement		
		Cost of Services		
1,080		Current service costs	1,480	
120		Past service costs	(9,190)	(270)
		Financing and Investment Income and Expenditure		
4,270	180	Interest Cost	(3,030)	
(1,980)		Expected return on scheme assets	4,380	150
3,490	**180**	**Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services**	**(6,360)**	**(120)**
		Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement		
10,720		Actuarial gains and losses	(4,460)	
14,210	**180**	**Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement**	**(10,820)**	**(120)**
		Movement in Reserves Statement		
(3,490)	(180)	Reversal of net charges made to the Surplus or deficit for the Provision of Services for post employment benefits in accordance with the code	6,360	120
		Actual amount charged against the General Fund Balance for pensions in the year		
1,580		Employers' contributions payable to scheme	**1,760**	
	190	Retirement benefits payable to pensioners		**190**

Following the UK Government's announcement on 22 June 2010, the inflation index to be used to derive statutory pension increases has been changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). Due to a number of differences between the indices, including both constituents and construction, CPI is expected to be less than RPI over the long-term which means that the defined benefit obligation has reduced. It is considered that this policy change constitutes a change to the constructive obligation to provide certain benefits to Scheme members, giving rise to the recognition of a negative past service cost. The change has been recognised at 22 June 2010.

In accordance with International Financial Reporting Standards, disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

Contributions for the accounting period ending 31 March 2012

- Funded - the Employer's regular contributions to the Fund for the accounting period 31 March 2012 are estimated to be £1.66M. In addition, Strain on Fund Contributions may be required.
- Unfunded - in the accounting period ending 31 March 2012 the Employer expects to pay £0.20M directly to beneficiaries

Assumptions

The latest actuarial valuation of Gosport Borough Council's liabilities took place as at 31 March 2010. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were

2008/09	2009/10		2010/11
		Principal financial assumptions (% per annum)	
		Funded	
6.7%	5.5%	Discount rate	5.5%
3.4%	3.9%	RPI Inflation	3.7%
N/A	N/A	CPI Inflation	2.8%
3.4%	3.9%	Rate of increase to pensions in payment *	2.8%
3.4%	3.9%	Rate of increase to deferred pensions	2.8%
4.9%	5.4%	Rate of general increase in salaries **	5.2%
		* In excess of Guaranteed Minimum Pension increases in payment where appropriate	
		** In addition, allowance has been made for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2010	
		Unfunded	
6.7%	5.5%	Discount rate	5.5%
3.4%	3.8%	RPI Inflation	3.6%
N/A	N/A	CPI Inflation	2.7%
3.4%	3.8%	Rate of increase to pensions in payment	2.7%

Mortality assumptions

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

2009/10		2010/11
	<u>Post retirement mortality (retirement in normal health)</u>	
	<u>Males</u>	
PNMA00 with allowance for MC improvement factors to 2007	Year of Birth base table	Standard SAPS Normal Health Light Amounts
0	Rating to above base table * (years)	0
110%	Scaling to above base table rates	100%
80% of Long Cohort (from 2007) subject to a minimum underpin to the improvement factors of 1.25% p.a.	Improvements to base table rates	CMI_2009 with a long term rate of improvement of 1.25% p.a.
22.3	Future lifetime from age 65 (aged 65 at accounting date)	23.8
24.7	Future lifetime from age 65 (aged 45 at accounting date)	25.6
	<u>Females</u>	
PNFA00 with allowance for MC improvement factors to 2007	Year of Birth base table	Standard SAPS Normal Health Light Amounts
0	Rating to above base table * (years)	0
110%	Scaling to above base table rates	100%
60% of Long Cohort (from 2007) subject to a minimum underpin to the improvement factors of 1.25% p.a.	Improvements to base table rates	CMI_2009 with a long term rate of improvement of 1.25% p.a.
24.3	Future lifetime from age 65 (aged 65 at accounting date)	24.8
26.5	Future lifetime from age 65 (aged 45 at accounting date)	26.7

* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

2009/10	2010/11
Commutation (Funded only)	
Each member assumed to exchange 25% of the maximum amount permitted of their pre 1 April 2008 pension entitlements.	Each member assumed to exchange 25% of the maximum amount permitted of their past service pension rights on retirement, for additional lump sum.
Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2008 pension entitlements	Each member assumed to exchange 75% of the maximum amount permitted of their future service pension rights on retirement, for additional lump sum

Expected return on assets

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return adopted by the Employer for the purposes of IAS 19.

01-Apr-09		31-Mar-10			31-Mar-11	
Long-term expected rates of return *	Asset Split	Long-term expected rates of return *	Asset Split		Long-term expected rates of return *	Asset Split
7.0%	55.2%	8.0%	61.3%	Equities	8.4%	63.4%
6.0%	7.3%	8.5%	6.1%	Property	7.9%	7.3%
4.0%	27.4%	4.5%	24.4%	Government Bonds	4.4%	23.3%
5.8%	3.9%	5.5%	2.4%	Corporate Bonds	5.1%	1.7%
1.6%	6.2%	0.7%	5.8%	Cash	1.5%	4.3%
1.6%	0.0%	8.0%	0.0%	Other **	8.4%	0.0%
5.7%	**100.0%**	**6.7%**	**100.0%**	**Total**	**7.1%**	**100.0%**

* The overall expected rate of return on Fund assets is a weighted average of the individual expected rates of return on each asset class, and is shown in the bottom row of the above table.
** Other holdings include hedge funds, currency holdings, asset allocation futures and other. It is assumed these will get a return in line with equities.

Basis used to determine expected return

Gosport Borough Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2011.

Reconciliation to Balance Sheet

01-Apr-09 £m	31-Mar-10 £m		31-Mar-11 £m
		Reconciliation to Balance Sheet	
		Funded	
35.10	46.34	Fair value of assets	48.10
(64.09)	(87.58)	Present value of funded defined benefit obligation	(76.81)
(28.99)	(41.24)	Pension liability before consideration of paragraph 58	(28.71)
0.00	0.00	Adjustment in respect of paragraph 58	0.00
(28.99)	**(41.24)**	Pension liability recognised on the Balance Sheet	**(28.71)**
		Unfunded	
(2.71)	(3.08)	Present value of defined benefit obligation	(2.72)
(2.71)	**(3.08)**	Pension liability recognised on the Balance Sheet	**(2.72)**
(31.70)	**(44.32)**	**Total**	**(31.43)**

Charges to the Surplus or Deficit on the Provision of Services

2009/10 £m		2010/11 £m
	Funded	
1.08	Current service cost	1.48
0.12	Past service cost	(9.19)
4.27	Interest cost	4.38
(1.98)	Expected return on assets	(3.03)
0.00	Curtailment cost	0.00
0.00	Settlement cost	0.00
3.49	**Expense recognised**	**(6.36)**
	Unfunded	
0.00	Current service cost	0.00
0.00	Past service cost	(0.27)
0.18	Interest cost	0.15
0.00	Expected return on assets	0.00
0.00	Curtailment cost	0.00
0.00	Settlement cost	0.00
0.18	**Expense recognised**	**(0.12)**
3.67	**Total**	**(6.48)**

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

2009/10 £m		2010/11 £m
	Funded	
64.09	Opening defined benefit obligation	87.58
1.08	Current service cost	1.48
4.27	Interest cost	4.38
0.52	Contributions by participants	0.51
19.91	Actuarial (gains) / losses on liabilities *	(4.42)
(2.41)	Net benefits paid out #	(3.53)
0.12	Past service cost	(9.19)
0.00	Business combinations	0.00
0.00	Curtailments	0.00
0.00	Settlements	0.00
87.58	**Closing funded defined benefit obligation**	**76.81**
	Unfunded	
2.71	Opening unfunded defined benefit obligation	3.08
0.00	Current service cost	0.00
0.18	Interest cost	0.15
0.38	Actuarial (gains) / losses on liabilities *	(0.05)
(0.19)	Net benefits paid out	(0.19)
0.00	Past service cost	(0.27)
0.00	Business combinations	0.00
0.00	Curtailments	0.00
0.00	Settlements	0.00
3.08	**Closing unfunded defined benefit obligation**	**2.72**

* Includes changes to actuarial assumptions

Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

Changes to the fair value of assets during the accounting period

2009/10 £m		2010/11 £m
35.10	Opening fair value of assets	46.34
1.98	Expected return on assets	3.03
9.57	Actuarial gains / (losses) on assets	(0.01)
1.58	Contributions by the employer	1.76
0.52	Contributions by participants	0.51
(2.41)	Net benefits paid out #	(3.53)
0.00	Business combinations	0.00
0.00	Settlements	0.00
46.34	**Closing fair value of assets**	**48.10**

Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

Actual return on assets

2009/10 £m		2010/11 £m
1.98	Expected return on assets	3.03
9.57	Actuarial gain / (loss) on assets	(0.01)
11.55	**Actual return on assets**	**3.02**

Analysis of amounts recognised in Other Comprehensive Income and Expenditure

2009/10 £m		2010/11 £m
	Funded	
(10.34)	Total actuarial gains / (losses)	4.41
0.00	Adjustment in respect of paragraph 58	0.00
(10.34)	**Total gains / (losses)**	**4.41**
	Unfunded	
(0.38)	Total actuarial gains / (losses)	0.05
(0.38)	**Total gains (loss)**	**0.05**
(10.72)	**Total**	**4.46**

History of asset values, present value of defined benefit obligation and surplus / deficit

	2006/07 (restated) £m	2007/08 (restated) £m	2008/09 £m	2009/10 £m	2010/11 £m
Funded					
Fair value of assets	43.73	44.62	35.10	46.34	48.10
Present value of liabilities	(67.75)	(61.26)	(64.09)	(87.58)	(76.81)
Surplus / (deficit)	(24.02)	(16.64)	(28.99)	(41.24)	(28.71)
Unfunded liability	(2.91)	(2.67)	(2.71)	(3.08)	(2.72)
	(26.93)	**(19.31)**	**(31.70)**	**(44.32)**	**(31.43)**

History of experience gains and losses

	2006/07	2007/08		2008/09		2009/10		2010/11	
		Fund	Unfund	Fund	Unfund	Fund	Unfund	Fund	Unfund
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Experience gains / (losses) on assets	(0.06)	(1.63)		(12.01)		9.57		(0.01)	
Percentage of assets						20.7%		0.0%	
Experience gains / (losses) on liabilities #	(0.16)	(0.30)	0.30	(0.30)	(0.04)	0.84	0.08	2.68	(0.01)
Percentage of the present value of liabilities	-0.2%	-0.5%	11.2%	-0.5%	-1.5%	1.0%	2.6%	3.5%	-0.4%

This item consists of gains / (losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains of £4.46m (losses of £10.72m for 2009/10) have been included in the Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement. Cumulative actuarial gains and losses are £27.799m.

36. Contingent Liabilities

- Municipal Mutual Insurance Limited

It was previously forecast that a small surplus - part of which would have been distributed to Gosport Borough Council - would result from the winding up of the company. The actuaries have now reported that a small deficit may result - part of which will be recoverable from Gosport Borough Council. The latest available scheme statement is for the six months ended 31 March 2011.

- Browndown Tip

The Council’s officers are of the opinion that the Council could have substantial liabilities under the provisions of the Environmental Protection Act 1990 as a class B person namely the current owner / occupier of the land. The extent of the liability depends on the contamination, whether a class A person (one who caused or knowingly permitted the contamination) can be identified and the future use of the land. These matters continue to be investigated by the Environment Agency and a final report is awaited.

37. Contingent Assets

In conjunction with the Council’s VAT advisors, the Council has protected its position regarding vat collected for off street car parking charges by voluntarily declaring vat income to HM Revenues and Customs (HMRC) from 2004/05 to 2010/11. The potential recovery of this sum is dependent on the outcome of a case that is currently being reviewed by the VAT Tribunal, however it is widely felt by advisors that the decision will fall in favour of HMRC. The total VAT claim is £630,920. No claim has been made for any interest.

38. Cash Flow Statement – notes

2009/10 £000	Adjustments to surplus or deficit on the provision of services for non-cash movements	2010/11 £000
4,252	Depreciation and Impairments	44,551
86	Amortisation	116
(4,582)	Increase/Decrease in Creditors	70
206	Increase/Decrease in Debtors	2,693
20	Increase/Decrease in Inventories	31
169	Adjustment of Effective Interest Rates	(40)
3,670	Pension Fund Adjustments	(6,480)
8,570	Carrying amount of non-current assets sold	511
8,000	Carrying amount of short and long term investments sold	7,000
0	Movement in Investment Property Values	(1,028)
101	Miscellaneous Adjustments	(53)
20,492	**Net cash flow**	**47,371**

2009/10 £000	Interest and Dividends included in Operating Activities	2010/11 £000
(452)	Interest Received	(214)
391	Interest Paid	553
0	Dividends Received or Paid	0
(61)	**Net cash flows from Interest and Dividends**	**339**

2009/10 £000	Investing Activities	2010/11 £000
5,110	Purchase of property, plant and equipment, investment property and intangible assets	5,551
5,000	Purchase of short-term investments	7,000
336	Other payments from investing activities	191
	Movement on other Capital Creditors	(533)
(746)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(352)
(8,000)	Proceeds from short-term and long-term investments	
	Other receipts from investing activities	(7,000)
(7)	Capital grants received	(479)
1,693	**Net cash flows from investing activities**	**4,378**

2009/10 £000	Financing Activities	2010/11 £000
(12,000)	Cash receipts of short and long-term borrowing	(5,802)
2,034	Council Tax and NNDR adjustments	2,073
8,000	Repayments of short and long-term borrowing	4,000
(1,966)	**Net cash flows from financing activities**	**271**

39. Events after the Balance Sheet Date

During July 2011, a fraud came to light involving a former employee of the Council and affecting both 2010/11 and 2011/12 financial years. Although not considered material, appropriate adjustments have been made to the 2010/11 accounts. The sum involved is expected to be fully recovered by the Council in due course, following ongoing investigations by the Police and other external agencies.

40. Certification and authorisation of the Accounts

Statement of Accounts – unaudited draft authorised for issue

Signed

Date

P. WILSON

Deputy Chief Executive and Borough Treasurer, Section 151 officer

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

Signed

Date

COUNCILLOR M. HOOK

Leader of the Council

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

Signed

Date

P. WILSON

Deputy Chief Executive and Borough Treasurer, Section 151 officer

HRA INCOME AND EXPENDITURE STATEMENT

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

2009/10 £'000		2010/11 £'000	2010/11 £'000
	EXPENDITURE		
2,596	Repairs & Maintenance	2,742	
2,571	Supervision & Management	2,823	
45	Rents, Rates, Taxes & Other Charges	47	
2,909	Negative HRA Subsidy Payable	3,395	
2,543	Depreciation of Non Current Assets	1,965	
2,312	Impairment of Non Current Assets	42,936	
33	Debt Management Costs	30	
0	Movement in the Allowance for Bad or Doubtful Debts	0	
13,009	**TOTAL EXPENDITURE**		**53,938**
	INCOME		
(10,271)	Dwelling Rents	(10,640)	
(228)	Non Dwelling Rents	(228)	
(377)	Charges for Services and Facilities	(431)	
(10,876)	**TOTAL INCOME**		**(11,299)**
2,133	**NET COST OF HRA SERVICES AS INCLUDED IN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**		**42,639**
0	HRA Services share of Corporate & Democratic Core		0
2,133	**NET COST OF HRA SERVICES**		**42,639**
	HRA SHARE OF THE OPERATING INCOME AND EXPENDITURE INCLUDED IN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT		
(24)	Gain or (Loss) on the disposal of HRA Non-Current Assets		(52)
154	Payments to the Governments Housing Capital Receipts Pool		251
166	Interest Payable and Similar Charges		174
(12)	Interest and Investment income		(18)
638	Pensions Interest Cost and Expected Return on Pensions Assets		306
3,055	Deficit for the year on the HRA Income and Expenditure Account		**43,300**

2009/10 £'000	MOVEMENT ON THE HRA STATEMENT	2010/11 £'000	2010/11 £'000
(490)	Balance on the HRA at the end of the previous year		(358)
3,055	Deficit for the year on the HRA Income and Expenditure Account	43,300	
(2,923)	Adjustments between accounting basis and funding basis under statute	(43,362)	
132	Net (increase) or decrease before transfers to or from reserves		(62)
0	Transfers to or (from) Reserves		(19)
132	(Increase) or decrease in year on HRA		(81)
(358)	Balance on the HRA at the end of the current year		(439)

NOTES TO THE HOUSING REVENUE ACCOUNT (HRA)

1. Local Government and Housing Act 1989

The Housing Revenue Account reflects a statutory obligation to maintain a separate revenue account for the provision of local authority housing in accordance with the Local Government and Housing Act 1989. 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 CODE rather than in accordance with statutory and non-statutory proper practices. The HRA statement has two parts in order to reconcile these two approaches – 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 Movement on the HRA Statement.

2. Adjustments between Accounting and Funding bases under regulations

ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASES UNDER REGULATIONS

2009/10 £'000			2010/11 £'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
(2,312)	Impairment of Plant, Property & Equipment (PPE)	(42,936)	
24	Gain on the disposal of PPE	52	
(154)	Contributions from the Capital Receipts Reserve to finance payments to the Governments Housing Capital Receipts Pool	(251)	
(916)	Net charges made for retirement benefits in accordance with IAS19	(608)	
(3,358)			**(43,743)**
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
435	Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners	381	
435			**381**
(2,923)	**Net additional amount required by statute to be credited to the HRA Balance for the year**		**(43,362)**

3. Charges for Services and Facilities

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

4. Housing Stock

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

01-Apr-09	31-Mar-10		31-Mar-11
		Numbers	
1,320	1,318	Houses	1,315
441	440	Bungalows	441
1,461	1,461	Flats	1,435
3,222	**3,219**		**3,191**
		Analysis of bedroom type	
1,587	1,585	1 bedroom	1,561
541	542	2 bedroom	540
1,008	1,006	3 bedroom	1,005
86	86	4 or more bedrooms	85
3,222	**3,219**		**3,191**
		Analysis of stock by age	
266	268	Pre 1945	256
1,329	1,327	1945 - 1964	1,312
659	659	1965 - 1974	659
968	965	1974 onwards	964
3,222	**3,219**		**3,191**

5. Value of Housing Revenue Account Property

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

01-Apr-09		31-Mar-10			31-Mar-11	
Number	Value £'000	Number	Value £'000		Number	Value £'000
				Operational Assets		
2,976	150,773	2,974	143,215	Standard Dwellings	2,974	101,842
246	5,543	245	5,319	Sheltered Housing	245	3,782
811	875	763	896	Garages and Parking Spaces	763	896
1	33	1	33	Community Asset	1	33
4,034	**157,224**	**3,983**	**149,463**		**3,983**	**106,553**
				Non Operational Assets		
2	74	2	74	Premises	6	84
	157,298		**149,537**			**106,637**

The HRA asset base is valued annually – the 2010/11 stock valuation has been carried out by Savills (L&P) Chartered Surveyors on behalf of the Council and has been guided by the 'Stock Valuation for Resource Accounting: Guidance for Valuers – 2010' published by the Department for Communities and Local Government (DCLG) in January 2011 which requires the review of the housing stock to be undertaken at the commencement of the financial year 2010/11 on 1 April 2010.

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.

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
347,372	330,072	Dwellings	330,072
875	896	Other Land & Buildings	896
348,247	**330,968**		**330,968**

6. Major Repairs Reserve

The major repairs reserve was set up in 2001/02 to account for the new government subsidy for major repairs to council dwellings – the major repairs allowance (MRA).

2009/10 £'000		2010/11 £'000
0	Balance at 1 April	0
2,543	Receipts in year	1,965
(2,543)	Expenditure in year	(1,965)
0	**Balance at 31 March**	**0**

7. Housing Repairs

2009/10 £'000		2010/11 £'000
4,658	Expenditure on Repairs	5,071
3,408	Of which planned	3,584
73.2%	% of Planned / Response	70.1%

£ 2.329 million of the 2010/11 expenditure (£2.663 million in 2009/10) on repairs was capital expenditure.
The main categories of expenditure were central heating, window and door replacement and the modernisation of kitchens and bathrooms.

8. Capital Expenditure

2009/10 £'000		2010/11 £'000
2,613	HRA Properties - capital repairs & maintenance	2,279
50	LA Tenants Disabled Persons Grants	50
2,663		**2,329**

9. Capital Financing

2009/10 £'000		2010/11 £'000
2,543	Major Repairs Reserve	1,965
120	Borrowing	364
2,663		**2,329**

10. Capital Receipts

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

2009/10 £'000		2010/11 £'000
232	Right to Buy sales	283
0	Auction sales	0
0	Land sales	0
232		**283**

11. Depreciation and Impairments

The depreciation charged to the HRA which is equal to the Major Repairs Allowance was

2009/10 £'000		2010/11 £'000
2,543	Depreciation	1,965
2,543		**1,965**

The impairment charge to the HRA in respect of reductions in the value the Council’s housing stock which cannot be offset against a Revaluation Reserve balance was £42.936 million. The reduction is due to a decrease in the discount factor applied in the stock valuation and because of the size of the fall in value, has been disclosed on a separate line in the HRA Statement and as an exceptional item on the face of the Comprehensive Income and Expenditure Statement on page 15.

2009/10 £'000		2010/11 £'000
2,312	Impairments	42,936
2,312		**42,936**

12. Subsidy

2009/10 £'000		2010/11 £'000
(5,271)	Management & Maintenance	(5,493)
(2,243)	Major Repairs Allowance	(2,265)
8	Interest on Receipts	2
10,715	Rent Income	10,851
(300)	HRA Adjustment pre budget	300
2,909		**3,395**

13. Rent Arrears

2009/10 £'000		2010/11 £'000
202	Current Tenants	172
72	Former Tenants	64
1	Garages	1
275	Total Rents	**237**
(10,271)	Gross Rent Income	(10,640)
2.6%	Arrears as a % of Gross Rent Income	**2.2%**

The provision for HRA bad debts at 31 March 2011 is £ 125,000 (£125,000 at 31 March 2010)

14. Rent Income from Dwellings

2009/10 £'000		2010/11 £'000
(10,413)	Full rental income from dwellings	(10,780)
109	Less rent due on void properties	111
33	Write offs	29
(10,271)	Total Rent Arrears	**(10,640)**

15. Service Charge Breakdown

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

2009/10 £'000			2010/11 £'000
56	Service Charges	Leaseholders	65
172	Housing Care	Care element of sheltered rent	155
39	Insurance	Leaseholders insurance repayments	49
16	Water / Alarms	Sheltered accommodation recharge	17
7	Court Costs	From tenants	6
15	Service Charges	Tenants	13
50	Management	Non care element sheltered rent	49
22	Other		77
377			**431**

16. Pensions

The following transactions have been included in the HRA Income and Expenditure Statement and the Adjustments between Accounting and Funding bases under regulations (note 2) on the HRA Balance with no net residual cost to the HRA.

2009/10 £'000		2010/11 £'000
	Net Cost of Services	
(157)	Current service costs and past service costs	(79)
	Surplus or (Deficit) for the year on HRA Services	
638	Pensions interest cost and expected return on Pensions Assets	306
	Statement of Movement on the HRA Balance	
(916)	Reversal of net charges made for retirement benefits in accordance with IAS19	(608)
	Actual amount charged against Rents	
435	Employers' contributions payable to scheme	381

COLLECTION FUND

2009/10 £'000		2010/11 £'000
	INCOME	
(34,180)	Council Tax	(34,613)
	Transfers from General Fund	
(5,133)	Council Tax Benefits	(5,482)
(13,984)	Income collectable from Business Ratepayers	(11,064)
-	Contribution to previous years estimated deficit	(350)
(53,297)		**(51,509)**
	EXPENDITURE	
39,386	Precepts and demands from County and District	39,973
	Business Rate	
13,900	Payment to National Pool	10,980
84	Costs of Collection	84
	Bad and Doubtful Debts	
(50)	Write Offs	(102)
340	Provisions	292
705	Release of previous years estimated surplus	-
54,365	**TOTAL EXPENDITURE**	**51,227**
1,068	**MOVEMENT ON FUND BALANCE**	**(282)**
	COLLECTION FUND (SURPLUS) OR DEFICIT	
(392)	(Surplus) at 1 April	676
1,068	Deficit for the year	(282)
676	Deficit at 31 March	**394**

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.

Council tax is normally set before the financial year on the basis of estimates that would result in the Collection Fund balancing to zero. Inevitable changes in yield and assumptions about collectability during the year cause a surplus or deficit to arise on the fund at year end.

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	4,779.6	6/9	3,186.4
B	10,735.7	7/9	8,350.0
C	7,586.3	8/9	6,743.4
D	4,236.5	9/9	4,236.5
E	1,739.8	11/9	2,126.4
F	1,246.2	13/9	1,800.1
G	300.0	15/9	500.0
H	4.8	18/9	9.5
			26,952.3
Plus MOD contributions in lieu			852.1
Less allowance for losses on collection			(297.5)
Add second homes adjustment			93.0
Tax Base for 2010/11			**27,599.9**
Tax base for 2009/10			27,670.7

The Band D Council Tax for a Gosport property in 2010/11 was £202.81 (£202.81 in 2009/10]

3. Non-Domestic Rateable Value

The NNDR multiplier for the year was 41.4 pence (48.5p 2009/10). The total non-domestic rateable value at the year-end was £40,514,370. (£32,072,810 2009/10).

4. Precepts and Demands

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
27,405	28,173	Hampshire County Council	28,645
1,598	1,669	Hampshire Fire & Rescue Authority	1,694
3,718	3,932	Hampshire Police Authority	4,036
5,428	5,612	Gosport Borough Council	5,598
38,149	**39,386**		**39,973**

5. Collection Fund balance

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
276	506	Hampshire County Council	(250)
16	30	Hampshire Fire & Rescue Authority	(15)
36	69	Hampshire Police Authority	(35)
55	100	Gosport Borough Council	(50)
383	**705**		**(350)**

In 2009/10, £705,000 was released from the Collection Fund as an estimated surplus to the precepting authorities. In 2010/11, £350,000 was contributed by the precepting authorities to the deficit balance.

6. Accounting for the Collection Fund balance

Council Tax

The Code requires that the Council Tax included in the Comprehensive Income and Expenditure Account is the accrued income for the year rather than, as previously, the amount included under regulations comprising the approved annual precept plus the estimate of the Collection Fund surplus made at the previous 15th January. The difference between the accrued amount and the amount required to be included under regulations (the precept plus estimated Collection Fund surplus or deficit) is adjusted through the Collection Fund Adjustment Account and as a reconciling item in the Movement in Reserves Statement.

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

The following amounts are included in the balance sheet

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
		Debtors	
963	1,736	Hampshire County Council	1,618
136	244	Hampshire Fire & Rescue Authority	228
57	103	Hampshire Police Authority	96
248	245	Gosport Borough Council	261
(56)	96	Collection Fund Adjustment Account	55
1,348	**2,424**		**2,258**

Non Domestic Rates

The Code recognises that the collection of National Non Domestic Rates by billing authorities is undertaken under an agency arrangement and is to be accounted for accordingly.

Therefore, NNDR income billed and collected, associated impairment allowances, debtor and creditor balances and cash flows are not assets and liabilities of the billing authority and are not recognised in the billing authority's financial statements as such.

Under the Code, the correct debtor / creditor position that is recognised in the billing authority's balance sheet is the net amount of cash collected from NNDR taxpayers that has either not yet been paid to the government or which has been overpaid to the government.

The cost of collection allowance received by billing authorities continues to be included as income in Comprehensive Income and Expenditure Statement.

The following amount is included in the 2010/11 accounts in respect of the above transactions.

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
		NNDR National Pool	
(3,869)		Creditor (owing by the Council to the National Pool)	
	1,107	Debtor (owing to the Council from the National Pool)	2,214
(3,869)	**1,107**		**2,214**

GOSPORT BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT 2010/11

Scope of responsibility

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

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

Gosport Borough Council has completed the Corporate Governance Compliance Checklist which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

This statement explains how Gosport Borough Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

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

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

The governance framework has been in place at Gosport Borough Council for the date of approval of the 2010/11 Statement of Accounts.

The governance framework

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

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

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;

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

4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;

5. Developing the capacity and capability of members and officers to be effective; and

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

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

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

The Sustainable Community Strategy sets out Gosport's 2026 Vision which has been developed in parallel with the Local Development Framework (which sets out future land use in the Borough).

The first stage in developing the Vision involved extensive data collection on a range of quality of life issues which provided a statistical picture of the Borough. This is the data baseline. The second stage involved a large-scale community consultation, 'Make your Mark', which allowed residents, businesses and visitors to comment and prioritise the key issues. Over 1200 people took part in this highly successful participation event and the results were used to inform the Vision.

In addition to this key service providers were consulted and other consultation findings and local and regional plans and strategies were assessed.
Drawing on the information obtained from the research and consultations Gosport's 2026 Vision was produced.

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

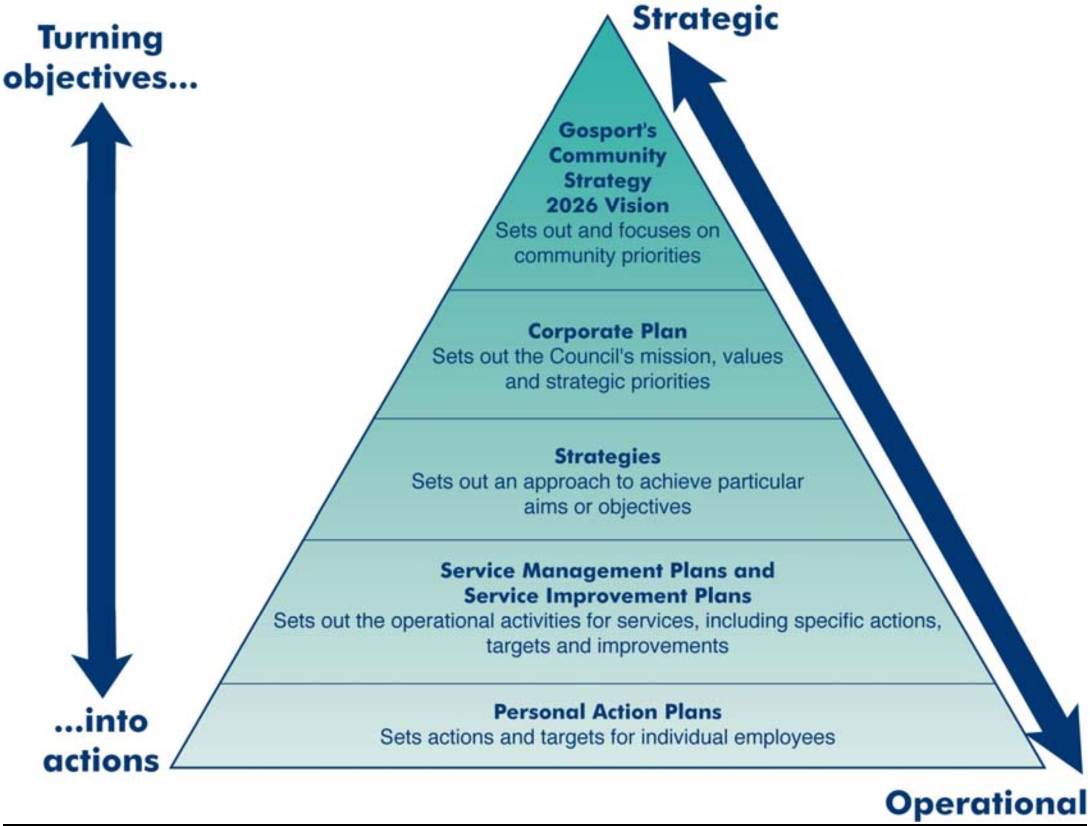
The Council's Corporate Plan sets out Gosport Borough Council's Mission and Values which will help us provide quality service delivery. The Corporate Plan also identifies the Council's strategic priorities (People, Places, Prosperity and Pursuit of Excellence), which are based on a combination of factors including what matters most to local people, national priorities set by the Government and the challenges from Gosport's changing social, economic and environmental context.

Much work has been completed around Climate Change and carbon reduction throughout the business and the signing of the Nottingham Declaration. This has culminated in a Climate Change Strategy being introduced.

The Council's mission is:

"To work with our community to improve everyone's quality of life and deliver a sustainable future for the Borough."

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



The Council has a well established Performance Management Framework which has been further enhanced by introducing Covalent (software) to maintain this key information.

The Overview & Scrutiny Committee and Performance Sub Group monitor and scrutinise progress against targets and performance in priority areas effecting relevant service areas, and consider corrective action where necessary, on a quarterly basis. The Performance Sub Group has now been disbanded as the culture of performance management has been embedded into the day to day operations of the Council.

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

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

The Council's Corporate Procurement Strategy, approved in 2009, provides a consistent strategic framework within which to undertake and continuously develop procurement to deliver the Council's corporate objectives, to improve performance and deliver efficiencies. The Strategy encompasses the policy objectives of the National Procurement Strategy and adapts and prioritises them to meet the Council's local context. The Strategy recognises that the Council cannot achieve its objectives alone and emphasises the need to work in collaboration with public, private, social enterprise and voluntary sector partners. A core theme throughout the Strategy is the Council's commitment to social, economic and environmental sustainability. This strategy was produced in 2009/10.

The Council has reviewed its Financial Regulations which were adopted in 2006 and these have been updated early in 2011/12 in a set of Financial Procedure Rules, incorporated in the Council's Constitution.

Risk Management is monitored by the Corporate Risk Management Group, which meets approximately four times a year. The Group reviews risk arrangements and advises Management Team on risk issues within the Council and on existing and planned risk controls.

Risks are reported by use of risk registers. Each section is required to update its own register. These registers will be further enhanced with the roll out of the "risk module" as part of the new performance management software in 2011/12. In addition, the Council's high level risks have been captured and agreed within the strategic risk register (December 2010) which has been agreed by CMT and Members in 2010/11. All Members were invited to attend risk management training in 2010/11 led by Zurich Municipal, the Council's insurers.

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

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

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

Decisions are made by Boards and Sub-Boards of the Council with the following having the responsibility for the majority of decision making (during 2010/11. Structure amended in 2011/12):

Council
Policy and Organisation Board
Community and Environment Board
Housing Board
Regulatory Board
Licensing Board

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

In addition to the Boards, there is also a Standards and Governance Committee in place to promote and maintain the highest standards of conduct by members and officers of the Council. The Committee comprises six Councillors and two Independent Members. Additionally, from May 2008 the Standards and Governance Committee is required to deal with complaints made about the conduct of Councillors as the majority of these cases will, from that point, be determined locally.

Officers give advice, implement decisions and manage the day-to-day delivery of its services. Some officers have specific duties to ensure that the Council acts within the law and uses its resources wisely. A code of practice governs the relationship between officers and members of the

Council. In certain circumstances, senior and other officers of the Council can make decisions under delegated authority, as detailed in the Borough's constitution.

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

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

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

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

- Code of Conduct for Members of Gosport Borough Council
- Code of Conduct for the Guidance of Employees
- Code of Conduct for Councillors in the Regulatory Process
- Protocol for Councillor/Officer Relationships
- Anti-Fraud and Corruption Policy
- Whistle Blowing Policy
- Protocol on Principles of Scrutiny

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

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

The Environmental Health Section has achieved accreditation under the Charter Mark standards, which is the Government's national standard for excellence in customer service.

The financial management of the Authority is conducted in accordance with the financial rules set out in the Constitution and underpinned with Financial Regulations. The Council has designated the Deputy Chief Executive and Borough Treasurer as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.

The Council operates an Internal Audit section, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. This section continues to operate under a partnership arrangement with Eastleigh Borough Council.

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

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

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

The Overview and Scrutiny Committee will accept and investigate formal requests for scrutiny and receive selected policies and strategies for review throughout the year.

The Standards and Governance Committee promotes monitors and enforces probity and high ethical standards amongst the Members, as well as providing a vessel for Audit and Risk issues to be considered.

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

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

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

There is a wide range of further training opportunities available to Members to increase their knowledge base from skills development (e.g. chairing skills, dealing with challenging people and media and image) to need-to-know subjects (e.g. Code of Conduct, planning issues and scrutiny) detailed in the ' Training Opportunities for Members' booklet within the Members Information Pack.

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

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

Review of effectiveness

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

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

1. The Borough Solicitor (the "Monitoring Officer") has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes.

2. The Council has an Overview and Scrutiny Committee. They can establish sub-groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to the Board/Council.

3. Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate a three-year plan from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager. The report includes recommendations for improvements that are included within an action plan (and are graded as critical, essential, important & advisory) and requires agreement or rejection by service managers. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months.

The Standards & Governance Committee also received Internal Audit monitoring reports throughout 2010/11.

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

Significant governance issues

The following governance issues were identified during 2010/11 as a result of the review of arrangements and by the work of external and internal audit.

NO	ISSUE	ACTION/PROGRESS TO DATE
1	Closely monitor the repairs contract budget.	Increased information and systems in place to ensure contract is financially

		controlled (This area has improved through the introduction of a robust control environment).
2	Homelessness debt management.	Working group established to streamline the process and reduce the level of arrears (this area (COMPLETED).
3	Accounting reconciliations require evidence of review.	Evidence to be retained on file (COMPLETED)
4	Review the current procurement strategy and contract standing orders.	Contract procedure rules to be updated in 2010/11 (COMPLETED).
5	Improve the risk management arrangements throughout the Council.	Ensure adequate resource is provided to support this key business process (IN PLACE).
6	Enhance governance arrangements in the Council's strategic partnership arrangements.	Run workshops and perform risk assessments with stakeholders to determine the strength of the governance arrangements and make improvements where necessary.
7	Controls operating over the Council's Debtors system at the time of the audit were poor and were not operating effectively.	Work to improve controls has been ongoing and regular meetings are held between audit and finance to monitor progress and discuss issues / solutions.
8	Improve the IT control environment following the 2010/11 External Audit Review.	Head of ICT to review outcomes and develop an improvement plan.
9	To consider response to the Government's consultation regarding the future of Public Audit and any future implications for the Council.	Will be kept under review.
10	To consider the impacts of the Localism Bill including the implementation of a revised standards regime for Councillors.	Will be kept under review.
11	Improve the controls throughout the new financial suite that the Council now operates.	Work is underway with the suppliers, senior finance staff and internal audit to improve its reporting mechanisms, management information and the overall control environment.

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

Signed …………………………   ………………………

Leader of the Council **Chief Executive**

AUDIT OPINION

GLOSSARY OF TERMS

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts.
Accruals Basis	The accounting basis whereby income is recorded when it is earned, rather than when it is actually received and expenses are recorded when the goods or services are actually received or when an obligation is entered into, rather than when the when payments are actually made. Income received in advance or payments made in advance – say for the next financial year – are credited or charged to that year and not to the year in which the income is received or the payment is made.
Agency Services	Services that are performed by or for another authority or public body, where the principal (the authority responsible for the service) reimburses the agent (the authority doing the work) for the cost of the work carried out.
Budget	A statement defining the council's policies over a specified period in terms of finance.
Capital Expenditure	Expenditure on the acquisition or improvement of tangible or intangible assets which yields benefit to the Council for more than one year. Expenditure that does not fall within this definition must be charged to a revenue account
Capital Receipts	Monies received from the sale of fixed assets, which may be used to finance new capital expenditure.
Collection Fund	The statutory fund maintained by a billing authority which must be kept separate from the main accounts of the council - used to record local taxes and non-domestic rates collected by the authority, along with payments to the precepting authorities (Hampshire County Council, Hampshire Police Authority and Hampshire Fire Authority and Gosport Borough Council), the national pool of non-domestic rates and its own general fund
Componentisation	The identification and recording of the components of an asset in order to more accurately charge depreciation. This includes the separate identification and derecognition of components as they are replaced.
Contingent Assets	A possible asset that arises from past events which may be confirmed by the occurrence or non-occurrence of an uncertain future event not wholly within the control of the authority.
Contingent Liabilities	A possible obligation that arises from past events which may be confirmed by the occurrence or non-occurrence of an uncertain future event not wholly within the control of the authority.
Creditors	Amounts owed by the authority for work done, goods received or services rendered within the accounting period, but for which payment was not made at the balance sheet date but for which the expenditure is included in the accounts of the financial year..
Debtors	Amounts owed for work or services rendered by the Authority within the financial year and which have not been paid but for which the income has been included in the accounts of the financial year.
Deferred Liabilities	These are liabilities which are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time

Depreciation	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.
Depreciation – Straight Line Method	The annual depreciation charge assumes an equal amount of wear of tear each year and the annual charge is therefore the same.
Expenditure	Amounts paid by the authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for.
Fair Value	The concept of fair value in asset valuation is used throughout the IFRS based Code. International Financial Reporting Standards do not have a consistent definition of fair value and different definitions apply in different circumstances
Financial Instruments	These represent any item that will cause the Council to receive or pay money. Generally considered to be treasury management related but also include certain debtors and creditors but not with a statutory basis.
Fixed Assets	Tangible assets which yield benefit to the Authority for a period of more than one year. They can be further classified into: ▪ Plant property and equipment ▪ Investment properties ▪ Intangible assets
General Fund	The main revenue fund of the Council which includes the net cost of all services financed by local taxpayers and government grants. Spending on the provision of housing, however, must be charged to a separate Housing Revenue Account
Impairment	An impairment loss is the amount by which the carrying value of an asset exceeds its recoverable amount. At the end of each reporting period, an assessment of assets must take place to identify any potential impairments. A downward valuation of an asset resulting from changes in market value does not necessarily result in an impairment.
Income	Amounts due to the Authority for goods supplied or services rendered of either a capital or revenue nature. This does not necessarily involve cash being received since income is deemed to have been earned once the goods or services have been supplied even if cash has not been received.
Intangible Assets	Assets that do have a physical form ie software and licences
Investment Properties	Properties that are held solely for appreciation or income generation
Lease - General	Where a rental is paid for the use of an asset for a specified period of time. There are two forms of lease – finance and operating. The lessor leases the asset to the lessee. The Council is both lessee and lessor.
Lease - Finance Lease	A lease or lease type arrangements whereby the risks and rewards of ownership are considered to be borne by the lessee and therefore the asset concerned is included on the lessee's balance sheet. The income or expenditure is subdivided into financing (principal) and interest elements and treated accordingly in the budget and accounts. Assets under finance leases are depreciated, revalued and impaired as necessary.

Lease - Operating Lease	Any lease or lease type arrangement which is not a finance lease. The assets concerned remain on the lessors balance sheet and the payments or income are dealt with as revenue income or expenditure
Liabilities	Amounts due to individuals or organisations payable at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the *Local Government and Housing Act 1989* - effectively the repayment of underlying capital debt.
National Non Domestic Rates (NNDR)	Businesses pay Non-Domestic rates instead of Council Tax. Each year, the Government sets the charge based on a fixed percentage of the business's rateable value, and the charge is collected by the billing authority. Business rates are pooled nationally and a share is given back to local authorities broadly based on the number of people living in the area.
Pensions - Actuarial Gains & Losses	Actuaries assess financial and non-financial information provided by the Council or pension fund administering authority to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because ▪ events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) ▪ the actuarial assumptions have changed.
Pensions - Current Service Cost	The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.
Pensions - Expected Rate of Return on (Pension Fund) Assets	The average rate of return expected over the remaining life of the related obligation on the actual assets held by the pension scheme.
Pensions - Interest on Pension Scheme Liabilities	The expected increase during the period in the present value of the scheme liabilities because the benefits are one year closer to settlement.
Pensions - Past Service Cost	Discretionary benefits awarded on early retirement are treated as past service costs.
Pensions – Strain on Pension Fund Contributions	Pension strain is a concept for the management of the pension fund finances arising from an employee retiring early, without actuarial reduction of pension. This causes lost contribution income and creates an interest cost arising from the associated earlier, increased cash flow
Precepts	The method by which a non-charging authority obtains the income it requires by making a levy on the appropriate charging or billing authorities. Billing authorities, such as Gosport, will themselves precept on the Collection Fund to obtain their own income.
Provision	An amount set aside for a liability of uncertain timing or amount.
Revenue Contributions	The method of financing capital expenditure directly from revenue.
Revenue Expenditure	Expenditure incurred on the day to day running of the Council. This includes employee costs, general running expenses and capital financing costs.
Revenue Support	A central government grant paid each year as a general contribution

Grant	towards the cost of the Council's services
Usable Reserves	Usable reserves are reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure).
Unusable Reserves	Unusable reserves may not be used to provide services. These represent unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' and include such items as depreciation and certain impairment and downward valuation costs.

AGENDA NO 8

Board	**POLICY AND ORGANISATION BOARD**
Date of meeting:	**28 SEPTEMBER 2011**
Title:	**TREASURY MANAGEMENT ANNUAL REVIEW 2010/11, PROGRESS REPORT 2011/12, & PRUDENTIAL INDICATORS**
Author:	**FINANCIAL SERVICES MANAGER**
Status:	**FOR DECISION**

Purpose

The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity for 2010/11 together with a review of 2011/12 to date. The report also includes the Prudential Indicators for 2010/11 in accordance with the requirements of the Prudential Code.

Recommendations

The Board note this report and approve the 2010/11 prudential indicators.

1.0 BACKGROUND

1.1 Treasury management activities are defined as the management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Activities are strictly regulated by statutory requirements and the CIPFA code of practice. It is an important part of the overall financial management of the Council's affairs.

1.2 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance. These are summarised in Appendix A.

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the requirements set out in Appendix A. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken on a prudent, affordable and sustainable basis.

The Code requires as a minimum the regular reporting of treasury management activities to:

- forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report); and

- review actual activity for the preceding year (this report).

1.3 **Prudential Indicators**

The purpose of the indicators is to provide a framework for capital expenditure decision-making. The indicators highlight the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure the activity remains affordable, prudent and sustainable. This report also contains treasury prudential indicators.

1.4 **Money Laundering**

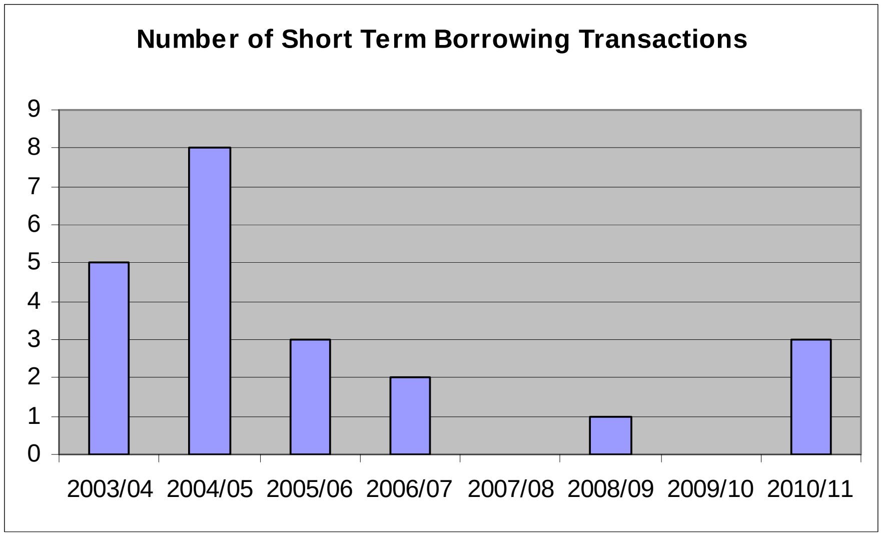
Anti money laundering is now a key issue for all organisations that deal with large amounts of money and although Councils fall outside the scope of the Money Laundering Regulations 2003 they are not immune to the risks surrounding money laundering. The Council has accepted the CIPFA Treasury Management Code of Practice, which includes TMP9. TMP9 states that the Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The Council has a very restricted list of counter parties for treasury activities who are contacted mainly through the approved brokers. Knowing who is being dealt with reduces the risk of crime. The Head of Audit and Risk Management is the Council's Money Laundering Reporting Officer to whom officers may report any suspicious transactions.

2.0 ANNUAL REVIEW 2010/11

2.1 Treasury Management

2.1.1 Short Term Borrowing

There were three short term borrowing transactions during 2010/11 – one of £2m for 20 days and two for £1m each for 8 days. These were to aid daily cash management at the end of the year. There was no short term debt outstanding at the year end. The chart below shows a history of the number of short term borrowing transactions over the past six years.



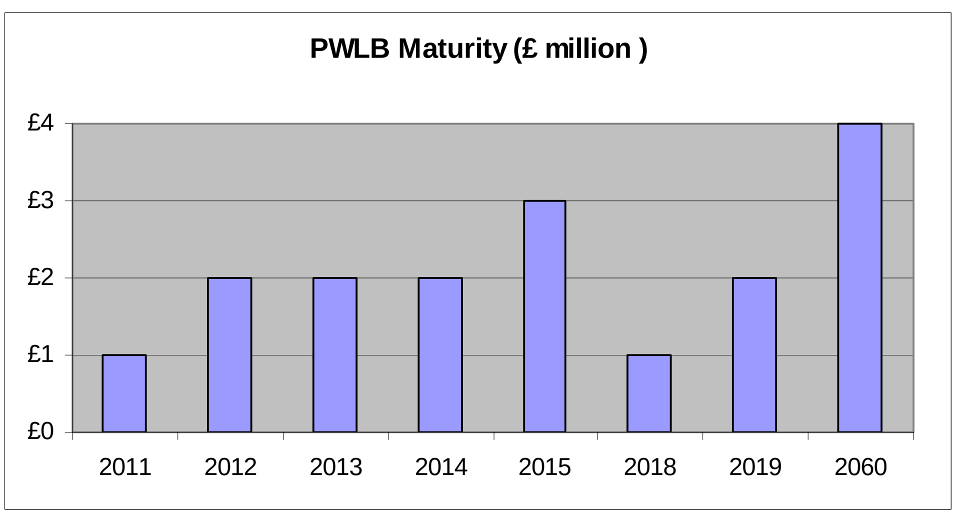
2.1.2 Long Term Borrowing

The Council's long term debt with the Public Works Loans Board (PWLB) at 1st April 2010 was £15 million.

Additional borrowing of £2 million was taken on 19 August 2010 for a period of 50 years. This transaction took advantage of favourable interest rates and was in line with the need to forward fund major capital projects.

Long term borrowing currently remains at £17 million.

The chart below shows the profile of when the individual loans mature – all fall due for repayment upon maturity except for the £2 million fully maturing in 2019 which is repaid on an annuity basis (instalments of principal and interest).



2.1.3 Investments

The Council maintains two broad types of investments.

- Funds that do not warrant by size or need to be invested in short or long term investments are invested in money market funds or deposit accounts as operated by the Royal Bank of Scotland, the Bank of Scotland and UK Regulated Qualifying Money Market Funds. These offer immediate deposit and withdrawal facilities but still at advantageous rates of interest.

- Investments placed with counterparties in accordance with the criteria contained in the Treasury Management policy (approved annually by Council) and have fixed interest rates.

2.1.4 The Treasury Position at the Year End

The Council had £4 million invested at 1 April 2010 and during the year invested and had repaid a further £7 million so that the year end balance remained at £4 million.

The average weekly fixed interest investment balance during the year was £7.2m earning an average return of 2.67% which compares very favourably with the average 7 day LIBID rate of 0.43%.

Total investments at 31st March 2011 were £4 million, all of which matures (becomes repayable to the Council) in 2011/12.

The overall treasury position at 31 March 2011 compared with the previous year was:

	31-Mar-10			**31-Mar-11**		
	Principal £m	**Average Annual £m**	**Average Annual %**	**Principal £m**	**Average Annual £m**	**Average Annual %**
Short Term	-	-	-	-	-	-
Long Term	15.000	11.340	3.15%	17.000	16.227	3.23%
Total Borrowing	**15.000**	**11.340**	**3.15%**	**17.000**	**16.227**	**3.23%**
Fixed Interest	(4.000)	(6.356)	(4.59%)	(4.000)	(7.203)	(2.67%)
Variable Interest	(1.287)	(1.853)	(1.12%)	(0.015)	(4.247)	(0.80%)
Total Investments	**(5.287)**	**(8.209)**	**(3.80%)**	**(4.015)**	**(11.436)**	**(1.98%)**

At 31st March 2011, the Council had investments of £4.015 million, comprising £4 million invested with banks and building societies and £0.015 million short term investments placed through the Council's money market and deposit accounts, and was therefore in a net borrowing position of £13.0 million at the end of the financial year.

2.2 Prudential Indicators

2.2.1 Treasury Position and Prudential Indicators

The Council is required by the Prudential Code to report the estimated and actual prudential indicators after the year-end. Appendix B provides a schedule of all the mandatory prudential indicators (subject to audit).

Certain of these indicators provide either an overview or a limit on treasury activity, and these are shown below:

2.2.2 Net External Borrowing

	2009/10 Actual £'000	**2010/11 Revised £'000**	**2010/11 Actual £'000**
Net borrowing position	9,713.0	13,000.0	12,984.8
Capital Financing Requirement	10,351.8	16,761.6	13,519.8

The Capital Financing Requirement (CFR) shows the Council’s underlying need to borrow for a capital purpose, and this is an indication for the Council’s net borrowing position shown above

In order to ensure that over the medium term borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the short term, exceed the total CFR in the preceeding year plus estimates of any additional CFR for the current and next two financial years.

The table above shows that the Council has complied with this requirement.

2.2.3 Borrowing Limits

	2010/11 Actual £'000
Indicator – Authorised Limit	23,000.00
Indicator – Operational Boundary	22,000.00
Maximum gross borrowing position during the year	17,000.00
Minimum gross borrowing position during the year	15,000.00

The Authorised Limit is the “Affordable Borrowing Limit” required by s3 of the Local Government Act 2003. This is the limit beyond which borrowing is prohibited and needs to be set and revised by the Council. It is the expected maximum borrowing need which includes some headroom for unexpected movements.

The Operational Boundary is not a limit but it is an indicator of probable external debt during the year. Actual borrowing may vary above or below this boundary for short periods of time providing the Authorised Limit is not breached.

2.3 **Economic Background for 2010/11**

The base rate remained at 0.5% throughout 2010/11 and inflation rates (CPI) remained higher than expected above the Bank of England's target rate of 2%.

UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although it slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term as increases in world oil prices helped to dampen international prospects. Planned Government spending cuts are also expected to have an impact on growth.

Local authorities were presented with an unexpected change of government policy on Public Works Loan Board (PWLB) lending arrangements in October 2010 which resulted in an increase in new borrowing rates of 0.75 to 0.85%.

Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government's debt reduction plans, especially in the light of Euro zone sovereign debt concerns. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures.

3.0 TREASURY MANAGEMENT IN 2011/12

3.1 The table below summarises the Council's treasury position at 31st July as compared to the end of the previous financial year.

	31-Mar-11			31-Jul-11		
	Principal £m	Average Annual £m	Average Annual %	Principal £m	Average Annual £m	Average Annual %
Short Term	-	-	-	-	-	-
Long Term	17.000	16.227	3.23%	17.000	17.000	3.30%
Total Borrowing	**17.000**	**16.227**	**3.23%**	**17.000**	**17.000**	**3.30%**
Fixed Interest	(4.000)	(7.203)	(2.67%)	(4.000)	(2.959)	(3.36%)
Variable Interest	(0.015)	(4.247)	(0.80%)	(0.514)	(2.829)	(0.26%)
Total Investments	**(4.015)**	**(11.436)**	**(1.98%)**	**(4.514)**	**(5.788)**	**(1.85%)**

The council's net debt position is expected to continue as funds are required and utilised in funding the capital programme. Additional borrowing may be necessary.

The extra cost of borrowing money as opposed to the interest that can be earned on investing it, means that it is very important to co-ordinate the council's cash management and capital programme and this is one of the key objectives in the continuous review of capital schemes.

The Bank of England base rate continues to remain at 0.5%.

3.2 The Council's investment strategy was updated at Council on 19 May 2011 and is reproduced below

Investment Strategy 2011/12 to 2013/14

The key objectives of the Council's investment strategy are security, liquidity and yield in that order.

In order to limit interest rate exposure all investments other than short term surplus funds are to be fixed rate transactions. No Investments are to exceed 3 years although most will not exceed 364 days.

New investments to be placed with:-

- The top three building societies (currently Nationwide, Coventry and Yorkshire)
- The Council's bank – NatWest (part of the RBS Group)
- The major British banks and their wholly owned subsidiaries (Royal Bank of Scotland, HSBC, Lloyds/HBOS, Barclays and Co-op)

Short term surplus funds are to be invested in either deposit accounts as operated by the Royal Bank of Scotland and the Bank of Scotland or UK Regulated Qualifying Money Market Funds.

- A £3m limit applies with any single group other than the Council's Bank.

Whilst credit ratings may be considered, undue reliance will not be placed on these. There is a clear operational difficulty arising from the current banking situation. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness and interest rates suggests short dated investments may provide lower exposure to risk.

4.0 RISK AND PERFORMANCE

4.1 The Council has complied with the relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

4.2 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Sector, the Council's advisers, has proactively managed the debt and investments over the year.

4.3 Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, while the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

4.4 The economic climate and low interest rates have significantly reduced the Council's revenue investment income stream and will continue to do so in the short to medium term. It is anticipated that most of the current investments will be applied to the capital programme over the next 12 months which will therefore reduce the exposure to low interest rate returns.

5.0 MEMBER AWARENESS TRAINING

5.1 A Treasury Management training and briefing session took place before the budget Council meeting in February 2011. This was well received and similar sessions will be held in future.

5.2 Members are encouraged to notify the Financial Services Manager if they wish to attend this session and of any particular issues that they would like to see covered.

Financial implications:	As contained in the report.
Legal implications:	It is a legal requirement that an annual Treasury Management report is considered by a representative body of the Council.
Service Improvement Plan implications:	This report is required in order that to fulfil statutory requirements associated with the achievement of both service improvement plan and corporate plan targets.
Corporate Plan	
Risk Assessment	As contained in the report
Background papers:	Budget and Final Accounts working papers
Appendices/Enclosures:	Appendix A – Treasury Management Codes & Guidance Appendix B – Estimated and Actual Treasury position and Prudential Indicators
Report Author / Lead Officer	John Norman

Appendix A

Treasury Management - codes and guidance

- The Local Government Act 2003, which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing, which may be undertaken.

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Sector;

- Under the Act the ODPM has issued Investment Guidance to structure and regulate the Council's investment activities.

Appendix B

		2009/10 Actual £'000	2010/11 Revised £'000	2010/11 Actual £'000
1	**Capital Expenditure**	5,976.7	11,011.0	7,035.4
	Financed by:			
	Capital receipts	623.1	360.0	83.7
	Grants & Contributions	1,022.4	2,118.0	1,642.0
	Major Repairs Allowance	2,543.0	1,824.0	1,965.4
	Total financing	**4,188.5**	**4,302.0**	**3,691.1**
	Net financing need	1,788.2	6,709.0	3,344.3
2	**Capital Financing Requirement (CFR) at 31st March**			
	Housing	4,130.3	4,270.3	4,494.1
	Non - Housing	6,221.5	12,491.3	9,025.7
	Total	**10,351.8**	**16,761.6**	**13,519.8**
3	**Treasury Position at 31st March**			
	Borrowing	15,000.0	17,000.0	17,000.0
	Other long term liabilities	0.0	0.0	0.0
	Total debt	**15,000.0**	**17,000.0**	**17,000.0**
	Investments	(5,287.0)	(4,000.0)	(4,015.2)
	Net borrowing (investments)	**9,713.0**	**13,000.0**	**12,984.8**
4	**Authorised Limit (against maximum position)**	15,000.0	23,000.0	17,000.0
5	**Operational Boundary**	15,000.0	22,000.0	17,000.0
6	**Ratio of financing costs to net revenue stream**			
	Non - Housing	-0.3%	3.2%	2.9%
	Housing	1.4%	1.3%	1.6%

Appendix B

		2009/10 Actual		2010/11 Actual	
		Upper		Upper	
8	**Limits on Activity**	**Investments £'000**	**Borrowing £'000**	**Investments £'000**	**Borrowing £'000**
	Limits on fixed interest rates	(8,000.0)	15,000.0	(11,000.0)	19,000.0
	Limits on variable interest rates	(8,360.4)	0.0	(7,914.0)	0.0
9	**Maturity Structure of fixed rate borrowing**				
	Under 12 months		0%		6%
	12 months to 2 years		0%		12%
	2 years to 5 years		0%		41%
	5 years to 10 years		87%		18%
	10 years and above		13%		24%
10	**Maximum percentage of principal sums invested for over 364 days**	19%		100%	
11	**Compliance with CIPFA Code of Practice for Treasury Management in the Public Services**	Yes		Yes	

AGENDA NO. 9

GOSPORT BOROUGH COUNCIL

REFERENCE

TO: **POLICY AND ORGANISATION BOARD – 28 SEPTEMBER 2011**

FROM: **STANDARDS AND GOVERNANCE COMMITTEE – 15 SEPTEMBER 2011**

TITLE: **ANNUAL GOVERNANCE REPORT**

AUTHOR: **AUDIT COMMISSION**

Attached are copies of the reports that were considered by the Standards and Governance Committee on the 15 September 2011 (Appendices A, B & C). A full copy of the extract Minute on this item from the Standards and Governance Committee is given in Appendix D.

The Board is requested to consider the decision of the Standards & Governance Committee which is given below.

RESOLVED: That the Committee in approving the Annual Governance Report:

(i) notes the adjustments to the financial statements which are set out in Appendix 2,

(ii) agrees to the Borough Treasurer signing the letter of representation on behalf of the council in the next two weeks,

(iii) agrees the proposed Action Plan detailed in Appendix 6, and

(iv) agrees the additional audit fees in the sum of £7,000 as detailed above.

APPENDIX A

Meeting:	**Gosport Borough Council** **Standards and Governance Committee**
Item no:	
Date:	15 September 2011
Author:	Patrick Jarvis
Subject:	**Annual Governance Report 2010/11**

1. Purpose and Rationale

This report summarises the findings from the 2010/11 audit which is substantially complete.

My report includes only matters of governance interest that have come to my attention in performing my audit. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

This is an important report, it is a requirement of ISA260 and must be presented to you in your role as those charged with governance before you and the Policy and Organisation Board consider the financial statements.

The auditing standards require specific information to be reported to those charged with governance, for example all non trivial adjustments and deficiencies in internal control. These matters are included in this report to enable you to perform your role in your capacity as those charged with governance.

This report is issued in draft as I am required to reflect your comments in the final version of this report, as well as the letter of management representation, which will be signed as close as possible to the audit opinion date.

2. Summary

My work on the financial statements is now substantially complete. The areas where work remains outstanding are set out in this report. I expect to complete any remaining work in September.

Audit opinion and financial statements

The Council dealt successfully with the challenges posed by the implementation of International Financial Reporting Standards (IFRS) in 2010/11.

Subject to satisfactory completion of the remainder of my audit work, I plan to issue an unqualified opinion on the financial statements by the statutory deadline of 30 September 2011.

A number of amendments are required to meet the more onerous IFRS disclosure requirements and adjust for expenditure which has recently been identified as fraudulent. These are set out in Appendix 2. Management has agreed to amend the accounts. At this time there are no unadjusted errors which I need to draw to your attention.

I have identified a small number of qualitative aspects of your financial reporting that I wish to draw to your attention. These are detailed on page 18 of this report. Key is the arrangements supporting the disclosure of lease rentals in the accounts.

I noted significant internal control weaknesses in your general IT controls and some weaknesses in the new COA e-financials accounts payable and debtors systems. Management have confirmed that they have already begun to strengthen internal controls and have also agreed to strengthen their responses to my IT action plan. I have raised recommendations for improvement in the detail of this report.

During the year the Council suffered an internal fraud identified in July 2011 which is currently under investigation. Management are pursuing an insurance claim and anticipate no loss to the Council. I am satisfied that management has responded promptly and properly.

I have also received two questions from members of the public which I am considering.

Value for money

I intend to issue an unqualified value for money conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council has made good progress in delivering its savings plans through staff reductions and a major contract procurement exercise. The Council acknowledges that it has low levels of reserves, but has plans to address this over the medium term. This means it has less flexibility than councils with larger reserves to manage the financial challenges it faces in the current economic climate.

The Council also needs to move its low housing rents closer to the government's notional rent levels over the period to 2016/17 and has plans to address this.

Robust management of the significant capital programme will be required to ensure capital projects are delivered on time to minimise the impact on revenue and ensure effective use of cash resources.

Maintaining robust governance arrangements as financial resources and staff numbers reduce significantly is very important. Members and officers should ensure they continue to receive regular and timely monitoring information to facilitate effective scrutiny and challenge of the Council's operational and financial performance.

Audit fees

I ask the Standards and Governance Committee to note that additional audit fees will be required currently estimated at £7,000. I have carried out additional audit work over the completeness of expenditure in the accounts given the internal fraud; and to respond to questions received from two members of the public. This figure is the best estimate at this time and may change if I can not complete the outstanding work as quickly as anticipated.

3. Recommendations

In total I make 19 recommendations in this report. All have been accepted by management, these are set out in the agreed action plan at Appendix 6.

4. Link to Assurance Framework

Strengthening governance, financial reporting and internal controls at the Council.

5. Action for Standards and Governance Committee

I ask the Standards and Governance Committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors in the letter of representation (Appendix 3) (currently there are none);
- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (Appendix 6);
- note that additional audit fees (estimated at £7,000) will be required as additional audit work has been required to provide audit assurance over the completeness of expenditure in the accounts given the internal fraud; and respond to questions received from two members of the public.

Annual governance report

Gosport Borough Council

Audit 2010/11

Contents

Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Significant weaknesses in internal control	◆
Proper arrangements to secure value for money	●

Audit opinion and financial statements

The Council dealt successfully with the challenges posed by the implementation of International Financial Reporting Standards (IFRS) in 2010/11. Re-stating the accounts to comply with the requirements of IFRS is a complex task, which has caused significant difficulties for a number of local government bodies. Despite concerns over capacity to deal with IFRS reported in my opinion plan, my review has confirmed that your financial statements were prepared satisfactorily and supported by good quality working papers. A number of amendments are required to meet the more onerous IFRS disclosure requirements and adjust for expenditure which has recently been identified as fraudulent. These are set out in Appendix 2.

I have identified a small number of qualitative aspects of your financial reporting that I wish to draw to your attention. These are detailed on page 18 of this report. Key is the arrangements supporting the disclosure of lease rentals in the accounts. Poor internal controls over the review of leases could mean that values disclosed in the accounts are understated. Further audit work has confirmed the understatement to be in the region of £215,000 which is not material.

Subject to satisfactory completion of the remainder of my audit work, I plan to issue an unqualified opinion on the financial statements by the statutory deadline of 30 September 2011.

Weaknesses in internal control

I noted significant internal control weaknesses in your general IT controls and some weaknesses in the new COA e-financials accounts payable and debtors systems. Management have confirmed that they have already begun to strengthen internal controls and have also agreed to strengthen their responses to my IT action plan. I have raised recommendations for improvement in the detail of this report.

During the year the Council suffered an internal fraud identified in July 2011 which is currently under investigation. Management are pursuing an insurance claim and anticipate no loss to the Council.

Value for money

I intend to issue an unqualified value for money conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council has reviewed its corporate priorities and identified new strategies to help it manage its financial position in the medium term. Officers and political leaders have taken tough decisions and acted promptly to address the financial challenges faced by the Council which is on course to deliver its savings plans.

The Council takes a strategic approach to prioritisation of resources and achievement of cost reductions through improved efficiency and productivity. It has made good progress in delivering its savings plans through staff reductions and a major contract procurement exercise. The Council acknowledges that it has low levels of reserves, but has plans to address this over the medium term. This means it has less flexibility than councils with larger reserves to manage the financial challenges it faces in the current economic climate.

The Council also needs to move its low housing rents closer to the government's notional rent levels over the period to 2016/17. Its new Housing Revenue Account (HRA) business planning model aims to help it do this.

The Council has an ambitious capital programme of over £38 million over the period to 2014/15. Capital receipts, maturing investments and borrowing will be required to fund it over the medium term. There was significant slippage in the 2010/11 capital programme, the key factor being delays to the new landing stage project. Robust management will be required to ensure capital projects are delivered on time to minimise the impact on revenue and ensure effective use of cash resources.

Maintaining robust governance arrangements as financial resources and staff numbers reduce significantly is very important. Whilst good progress is being made against plans strong governance, risk management and financial management arrangements are required going forward. The Council is introducing new performance management and risk management arrangements in 2011/12 to strengthen existing financial management arrangements. As staff numbers reduce members and officers should ensure they continue to receive regular and timely monitoring information to facilitate effective scrutiny and challenge of the Council's operational and financial performance.

Before I complete my audit

I confirm to you	My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you. **Independence** I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.
I ask you to confirm to me	**I ask the Standards and Governance Committee to:** ■ take note of the adjustments to the financial statements which are set out in this report (Appendix 2); ■ agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors in the letter of representation (Appendix 3) (currently there are none); ■ approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; and ■ agree your response to the proposed action plan (Appendix 6).
I ask you to note the additional audit fee	**I ask the Standards and Governance Committee to:** ■ note that additional audit fees (estimated at £7,000) will be required as additional audit work has been required to provide audit assurance over the completeness of expenditure in the accounts given the internal fraud; and ■ respond to questions received from two members of the public.

Financial statements

Subject to satisfactory completion of the remainder of my audit work, I plan to issue an unqualified opinion on the financial statements.

Opinion on the financial statements

My work on the financial statements is now substantially complete. The areas where work remains outstanding are;

- review of treasury management arrangements;
- assessing the impact of the understated lease income;
- review of the final version of the financial statements to ensure all agreed amendments have been processed;
- completion of my work in response to questions from the public; and
- completion of my work on the whole of government accounts return.

I expect to complete any remaining work in September. Subject to satisfactory completion of the outstanding work I plan to issue an unqualified audit opinion by the 30 September 2011 statutory deadline after the P&O Committee has formally approved the revised accounting policies adopted under IFRS, approved the adjusted financial statements, and the letter of representation. Appendix 1 contains a copy of my draft audit report.

Implementation of International Financial Reporting Standards (IFRS)

This is the first year the Council has been required to prepare financial statements under IFRS. Preparing IFRS accounts has involved a significant amount of work for the Council's finance team, including

- review of transactions to identify the appropriate accounting treatment under the new framework;
- restatement and reformatting of all the prime statements;
- restatement of the comparatives for both 1 April 2009 and 31 March 2010; and
- production of a number of new disclosure notes.

Re-stating the accounts to comply with the requirements of IFRS is a complex task, which has caused significant difficulties for many local government bodies. Both the level of disclosure and size of financial statements have increased significantly because of the introduction of IFRS. For example, your accounts have increased by approximately 25 per cent in length compared to the previous period. Given our previous concerns over capacity within the finance department, you have performed well in producing good quality financial statements which comply with the requirements of IFRS in accordance with your planned timetable.

Errors in the financial statements

I detected a number of errors during the course of the audit that I am required to draw to your attention. Under international auditing standards I am required to report all non-trivial errors to those charged with governance irrespective of whether the Council has adjusted the financial statements or not.

My audit of the Council's accounts seeks to ensure the accounts are materially correct and present a true and fair view of the financial transactions of the Council in 2010/11. Materiality is defined in the glossary of this report. I set the threshold of materiality for the audit at £1,485,000. I also set, under International Standards on Auditing, a threshold below which I judge any errors to be 'trivial' and do not seek any amendments to the accounts. The trivial threshold for my audit was set at £14,000. Any errors in excess of £14,000 are classes as non trivial errors and are reported to those charged with governance irrespective of whether the Council has adjusted the financial statements or not.

My audit identified some errors and internal inconsistencies in the disclosure of figures in the accounts. I also recommended a number of presentational changes. Management agreed to adjust the financial statements for all of the amendments I recommended. All non-trivial amendments (over £14,000) are in appendix 2 for information.

Management also identified an internal fraud which impacted on reported expenditure in 2010/11 and 2011/12 and this has been promptly and properly dealt with. Whilst the value of fraudulent transactions was not in itself material in each year, the value was non trivial and requires reporting in this report. Correction of the fraudulent expenditure also impacts on the Council’s reported results. Management has agreed to amend the financial statements. The correction required are summarised in Appendix 2. The Council are pursuing full recovery.

All errors officers chose not to amend are in appendix 3. Currently there are no unadjusted errors. If any arise as I complete my work I will ask management to explain their reasons for not amending the financial statements in their final letter of representation (presented with this report).

The Council's accounts were supported by a comprehensive electronic file of working papers, which provided a good audit trail for testing. The accounts were produced and signed by the S151 officer before the 30 June 2011 deadline and presented for audit on 1 July 2011. This was a good achievement given implementation of IFRS in 2010/11.

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Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. These are detailed below.

Key audit risk and our findings

Key audit risk	Finding
Implementation of IFRS All councils were required to produce their 2010/11 financial statements under International Financial Reporting Standards (IFRS). The new standards required restatement of both opening and closing balances from the previous year as well as additional disclosures. Due to the complexity of the changes involved I considered this to be a significant risk area. Councils which were not well prepared for the new requirements would not succeed in preparing the necessary information in time. As this was a major change in accounting, I tested whether your financial statements comply in all material respects with the requirements of IFRS.	I monitored the Council's IFRS implementation throughout 2010/11. Progress against the Council's implementation plans was assessed as "red- not on track "in January 2011. The key reasons for this assessment were the slippage in the IFRS implementation plans and concerns over staff capacity within the Finance department to implement such a major change in accounting. Following my assessment good progress was made by the Council. On the 8 April 2011, the Council provided me with its accounting policies under IFRS, and on 15 April 2011, the Council provided its draft of the 2010/11 statement of accounts which included the 2009/10 IFRS adoption figures. I carried out a high level review and fed back my comments to the Council. The Council produced its full IFRS compliant accounts by the 30 June deadline. These were of a good standard and supported by comprehensive electronic working papers. I have, however, noted a number of disclosure errors, and errors of internal inconsistency. Most of these were of a relatively minor nature. These are noted in appendix 2 of this report.
The introduction of new financial systems In 2010/11 the Council introduced new financial systems.	I carried out audit work to document the system changes and assess the impact on my audit. This included tests of the accuracy and completeness of opening

Key audit risk	Finding
The COA e-financials information system went live from 1st of April 2010. COA e-financials provides the general ledger, accounts receivable and accounts payable systems. The risks to my opinion were two fold: - opening balances are not completely or accurately transferred; and -income and expenditure during the year is not recorded with the result that the income and expenditure is mis-reported in the financial statements.	information transferred and transactions processed during the year. I am satisfied that opening balances were transferred completely and accurately to the new COA e-financial systems. However, my work identified weaknesses in internal controls in the accounts payable system, the debtors system and in the general ledger system (journal controls). My findings are reported later in this report. As I could not fully rely on system controls in the new systems additional substantive audit procedures were required at year end to provide the audit assurance required. This included increasing my audit sample sizes, checking expenditure passing through the accounts payable system to supporting documentation, as well as checking all material year end journals and a sample of journals during the year to supporting information. I also carried out a review of your general IT controls. There is scope to improve system access controls, password security and general IT controls. I reported my findings in my opinion plan to management in April 2011. My findings are also reported in detail in the next section of this report along with management comments on the agreed action plan. Following further consideration of our report on IT security, management acknowledge there is scope to further improve IT access controls and agreed to revisit and strengthen their response to my IT action plan. I plan to use my IT expert to review general IT controls again in 2011/12 to assess the effectiveness of the system changes and internal controls implemented by management in response to the internal fraud.
Management restructure costs A significant management restructure was undertaken by the Council during 2010/11. The risk to my opinion is that the Council fails to account for redundancy and exit packages accurately or completely in its 2010/11 accounts.	I reviewed your accounting treatment and I am satisfied that it complies with recommended accounting requirements.
Debtors The system controls in the new system have operated	I carried out additional audit work to gain assurance the debtors values are correctly stated in the accounts. I am satisfied that income and debtors values are materially

Key audit risk	Finding
effectively for part of the year only. I need assurance over the full year.	accurate in the Council's accounts.

Financial statements

Significant weaknesses in internal control

I noted significant internal control weaknesses in your general IT controls and in the new COA e-financials accounts payable and debtors systems.

A material weakness in internal control is a deficiency in design or operation which could adversely affect the Council's ability to record, process, summarise and report financial and other relevant data.

The weaknesses reported here are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

The reliable operation of internal controls in the main financial systems provides assurance to management and members. It also allows me to complete my audit more efficiently. However, where weaknesses in internal control have been identified I am not able to rely on the operation of controls to gain assurance for my audit opinion. I therefore need to take a more time consuming substantive audit approach. I was unable to rely fully on internal controls in the following areas. Additional audit processes were carried out to gain the audit assurance I required.

- General ledger (journal controls);
- Accounts payable;
- Debtors – controls operated for part of the year only.

My work to test financial controls was co-ordinated with that of Internal Audit to maximise efficiency and minimise any duplication of effort. I was able to rely on the work of Internal Audit which was delivered on time and to an acceptable standard. I also asked internal audit to help me with some of the additional substantive testing on expenditure passing through the accounts payable system required as a result of the internal fraud.

Internal control issues and my audit findings

Description of weakness	Potential effect	Management Comments
1. General ledger Partial controls assurance was received on journals and suspense accounts as internal system controls did not operated consistently through year given system changes and changes of personnel.	Income and expenditure could be mis-classified and mis-stated in the financial statements. Substantive audit processes were required at year end to provide the audit assurance required.	The new COA e-financial system will be fully operational in 2011/12. Appropriate training will be given to staff to mitigate the risks arising from changes in personnel.
2. Debtors The following key system controls were operational for part of the year only. ■ The invoice request form must be signed by an authorised signatory. ■ For periodic income (such as quarterly rent) a periodic invoice request form must be completed for the first invoice period (or e-mail for leaseholders set up). In addition control weaknesses were noted by IA during the year. These have been reported to those charged with governance and are not repeated here. I carried out specific audit work to test that income had been accounted for correctly. 34 out of 35 of the sample were correctly classified. However, one failed, a debtor of £20,000 was a swimming grant relating to 2009/10 to Gosport Recreation Centre. As such it should not be	Income could be mis – classified and mis-stated in the financial statements.	The next version of the COA e-financial systems will be implemented during 2011/12. The debtor system will change and internal controls will be further strengthened. IA identified a number of weaknesses in the debtors system and management action is in progress to address their findings.

Description of weakness	Potential effect	Management Comments
classified as part of the debtor balance for 2010/11. Extrapolation of the error amounts to £91,000. As the value is clearly not material I did not ask management to amend the accounts.		
3. Accounts payable system A number of weaknesses were identified relating to the authorisation and processing of creditor payments. Working with Internal audit additional audit work was undertaken. Expenditure through the accounts payable system was substantively tested to supporting documentation at year end. All of the 27 payments in the test sample were verified as genuine, correctly classified and reported within the correct financial year.	Controls ensure payments made are for valid purchases. Controls are likely to prevent and detect material misstatement of expenditure in the financial statements.	■ Lessons will be learnt from the ongoing special investigation. The next version of the COA e-financial systems will be implemented during 2011/12. This will enhance internal system controls and system exception reporting functionality. ■ IT access controls will be reviewed and enhanced in 2011/12. ■ Routine IA checks will be implemented on bank account changes. ■ Staff will be reminded of the importance of regular budget monitoring processes in identifying unexpected and unusual payments. ■ A formal contracts register will be considered to strengthen controls over procurement. ■ Staff and member awareness seminars are planned to promote a greater awareness of the importance of password security, and an awareness of inherent system risks within the key financial systems of the Council. ■ Seminars will also promote an awareness of the Council's whistle blowing policies. ■ The Council fraud and corruption strategy has recently been reviewed and approved (July 2011). ■ The Council agreed to reflect this incident as an adjusting post balance sheet event in the 2010/11 financial statements, and review its annual governance statement.

Description of weakness	Potential effect	Management Comments
The year end bank reconciliation for the online account was not signed off as complete and did not agree back to the amount included in the financial statements, however the difference of £236 was clearly trivial.	Bank reconciliations are an essential check to confirm completeness of financial reporting. They are capable of 100% reconciliation.	
3. General IT controls **1. IT Entity level controls** Due to the small size of the IT department there is high dependency on individuals and no succession plan is in place. Many tasks and responsibilities are shared amongst the team and most of the IT officers have privileged / administrator level access on network operating system, DB and network devices. There is no vetting process in place for the IT staff. Adequate policies and procedures are in place meeting the government connect requirements but there is scope to extend these policies further to make them more comprehensive. Incident and problem management processes are not formally documented. There is no formal process of IT risk management. No IT risk register is maintained.	IT entity level controls are controls over the operating responsibilities of the IT department. Weaknesses in this area could impact on the validity and accuracy of financial reporting.	The Council shares knowledge and back up between two staff, and applications knowledge is shared between two different staff. The Council accepts that due to the size of the department many tasks are shared. This risk is due to resource pressure. All council staff are vetted at time of recruitment. Some IT staff are also covered by the Government Connect Code of Connection (Co-Co) standards vetting procedures. This could be rolled out to cover all IT staff. The Council meets the Government Connect Code of Connection. Problem management is covered by the use of Track-it and vendor supported Helpdesk system, IT Security Incidents are covered by IT Security policy in place as part of Co-Co compliance Awaiting development of the risk module on Covalent.

Description of weakness	Potential effect	Management Comments
2. Access security controls. Most of the IT officers have privileged / administrator level access on network operating system, DB and network devices. There is a risk unauthorised changes can be made. A number of IT officers have access to COA e-financials production environment. Whilst for COA e-financial there have been no significant changes to the system since its implementation there is a risk that any changes made may go undetected in the absence of formal procedures and stringent controls. Access control procedures are not documented. Whilst reviewing a list of network (Active Directory) users, we found that 105 of 932 users have non-expiring passwords. This includes both system IDs (agents etc.) as well as named IDs - this is a high number and should be justified for named IDs. This users figure of 932 reflects the fact that employers use a number of systems and have a separate system log in for the various systems in use.	These are the mechanisms that specify what users on a system can and cannot do. Weaknesses in these controls can compromise the integrity of the data through unauthorised access, malicious intent or fraud.	There are limited staff resources so unauthorised changes could be traced back to the originator using other means. 2/7 is the minimum we need to continue to provide support to the end user. Under implementation COA project team are making changes. Accepted, under review. Note that some ID’s are required for system processes.
3. Data centre and network controls. Data centre key physical and environmental controls could be improved. Visitors log is not maintained.	These controls protect the computers, system programmes and communications equipment that stores and processes	Will review on a cost versus risk basis. Will implement. All visitors are escorted currently.

Description of weakness	Potential effect	Management Comments
Smoke detector is installed but there is no automatic fire suppression system. One fire extinguishing cylinder is placed near the server rack. Network and backup controls are adequate. No Business Continuity Plan (BCP) or Data Recovery Plan was provided to the auditor. No record that operating system software and key application systems have been fully restored from backup media in the current accounting period.	the data necessary to support business operations. Insufficient controls over processing accuracy may result in inaccurate financial results and loss of integrity, confidentiality and availability of the business critical IT systems and data.	Accepted risk. The previous gas solution was removed because it was a health and safety concern. Agree IT have a BCP plan that acts as their DR Plan. In addition, GBC have a contract with ICM to restore key systems from the Wilmott Lane Depot. This is correct but the recovery mechanism works as IT have restored data from back up tapes in this period.
4. Program change controls, new systems acquisition and development. Program change procedures are not formally documented though all changes / problems are logged on to the supplier support system as well as the Council's internal help desk system.	These controls reduce the risk of introducing errors to financial systems and data.	IT use the Track-it system (problem/fix system). IT application support team have their diaries.
5. End user controls Notification of leavers using the e-financials system. There is scope to strengthen controls further in this area by automatically sending a copy of each leaver form from HR to IT. Currently leavers are identified from salary monitoring prints reviewed on an ad hoc basis. There can	End user computing is the term applied to small scale office-system developments by user departments, e.g. spreadsheets developed by the Finance department as part of the financial reporting process. An assessment of	Strengthening the leaver notification process from HR to ensure all key system administrators (set up a local group) are notified through a formal email once the leaver has terminated their employment.

Description of weakness	Potential effect	Management Comments
be a delay between the actual leaving date and removal of leavers from the system.	the general controls applied to end user computing is required to gain assurance that there will be no adverse impact on the financial statements.	

Recommendations

Recommendation
R1 Further strengthen internal controls in the debtors system as soon as possible. This may be achieved by implementing the planned new debtors system in 2011/12 and addressing the recommendations reported by internal audit.
R2 Strengthen internal controls within the accounts payable and budget monitoring systems.
R3 Strengthen general IT controls to reduce the risk of unauthorised system access.
R4 Complete and sign off bank reconciliations promptly, and ensure all differences are investigated and corrected.

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. The Council's financial statements were of a satisfactory standard and were supported by good quality working papers. In particular, you have coped well with the requirement to produce statements that comply with IFRS for the first time. I have identified a small number of qualitative aspects of your financial reporting that I wish to draw to your attention.

I am satisfied that these issues were identified in the process of producing the financial statements and are not caused by underlying accounting errors.

Quality issues

Issue	Findings and recommendations
1. Leases records Lessor rental values disclosed in the accounts are understated.	Poor internal controls over the review of leases could mean that lessor rental values disclosed in the accounts are understated. My review of operating leases which support the financial information disclosed in Note 32 of the financial statements where the council is the lessor, confirmed there are a significant number of properties where there are either: ■ no lease in place or no lease details known, but rental income has been received in 2010/11; or ■ no current lease in place, the lease has expired but lease income has been received in 2010/11; or ■ a current lease exists but no rent is being charged. It is very important that accurate lease records exists when calculating the figures for the financial statements under IFRS. In Note 32 only the annual lease payment is included so where there is no lease in place, or no current lease in place, no values are included in the operating leases income figures for one year to 5 years and more than 5 years. Therefore, the figures in Note 32 are understated. In the absence of up to date lease records it is

Issue	Findings and recommendations
	difficult to estimate these figures accurately. However, further audit work has confirmed the understatement to be in the region of £215,000 which is not material. Internal Audit highlighted this matter in their review of fixed assets and management are taking action to increase officer capacity in property services to address this matter urgently. I also checked the date of the last rent reviews and there are a number of properties where the rent has not been reviewed for a considerable length of time (e.g. since 2000 in some cases). With the current levels of inflation the council could be losing significant amounts of income if the rent is not increased in line with RPI on a regular basis.
2. Accounting policies Significant revision to accounting policies has been required to reflect IFRS.	My review of accounting policies confirmed that the Council's accounting policies are in line with the Code and IAS8, but have yet to receive formal approval by the P&O Committee. This is planned for September 2011.
3. Provision for bad debts The bad debt provision of £1.4m is netted off against current debtors only as the Council considers all uncollected debts to be collectable within 12 months.	Under IFRS the Council is required to disclose corporate debtors as either current debtors (less than 1 year) or long term corporate debtors (more than 1 year). It follows therefore that the Council's provision for bad debts should also be set off against both short term and long term debtors. Currently the bad debt provision of £1.4m is netted off against current debtors only. The Council are currently analysing their bad debts by type of debtor to assess if there are significant bad debts relating to long term debtors. This adjustment is a disclosure issue only and has no impact on the Council's outturn position.
4. Analysis of creditors Additional analysis codes are required to ensure disclosures are appropriate.	Testing of receipts in advance highlighted that some items would have been more appropriately disclosed in the 'other LA' category within creditors. Discussion with officers confirmed that during 2010/11 the Council had not used sufficient analysis codes to facilitate separate reporting of each creditor into the relevant disclosure category. In 2011/12 the Council plan to create sub-analysis codes so that creditor amounts can be correctly assigned on a real-time basis. Alternatively, the Council could undertake a single analysis exercise as part of the year-end close-down procedures to ensure that creditors are fully analysed over relevant categories.
5. Fixed assets register	When reviewing property records as part of the accounts close down Officers realised that

Issue	Findings and recommendations
To ensure completeness of the new fixed asset register in 2011/12 reconcile it to property records.	there were 20 assets with a net book value of £685,000 identified as being investment properties which were either included at zero value in the fixed asset register in previous years and required reanalysis; or were omitted from the fixed asset register in previous years. With the implementation of the new e-financials fixed asset module during 2011/12 the council should reconcile the fixed asset register in full with its property records to ensure completeness.
6. Depreciation of infrastructure assets The Council did not review the assets lives, residual values, or depreciation method for infrastructure assets.	Depreciation is an estimate and as such the Council should be able to demonstrate that it has reviewed the basis of this estimate each year. I recommend Council include a review of the asset life, residual value, and depreciation method for all asset types as part of its close down plan. I note that a new fixed asset register will be introduced during 2011/12 and the Council will review all asset information as it is transferred to the new system including assets lives, residual values, or depreciation method.
7. Council Tax and NNDR control account Officers need to evidence their prompt review of control account reconciliations.	My audit work identified scope to improve the timeliness of authorising of the Council Tax reconciliation. In my earlier systems testing the P12 reconciliation was not appropriately authorised by a senior officer and this was still the case as at the time of the audit in August. Control account reconciliations are essential system controls and should be subject to a senior officer review in a timely manner.

Recommendations

Recommendation
R5 Confirm whether the Council legally has the right to continue to collect lease rentals when no lease exists or the lease has expired.
R6 Review all properties where there are no known lease details or the lease has expired and re-negotiate a lease as soon as possible.

Recommendation

R7 Review all properties rents to ensure rents are in line with Council policy and deliver value for money. Where no rent is being paid the Council should ensure that lessees are eligible for peppercorn rents under the Council's current policies.

R8 Approve formally your accounting policies.

R9 Review the arrangements for classifying bad debts for 2011/12 and consider whether the bad debt provision should be split between current and long term debtors.

R10 Ensure the council's financial reporting systems can provide sufficient analysis of creditors to meet CIPFA Code reporting requirements.

R11 Reconcile the new fixed asset register with property records in full in 2011/12 to ensure completeness and accuracy of the new fixed asset register.

R12 Review asset life, residual value, and depreciation method for all asset types as part of the annual accounts close down plan.

R13 Review and evidence Council Tax and NNDR control account reconciliations in a timely manner.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A copy of the draft letter of representation prepared by management is presented with this report for your approval. It will be signed as close as possible to the date of the audit opinion.

Financial statements

Significant matters that were discussed with management

International standards of auditing require that I report to you significant matters discussed with management during the audit. There were two significant matters discussed with officers during the year:

- Accounting arrangements for Portchester Crematorium Joint Committee; and
- The Audit Commission Fraud and Corruption survey.

Portchester Crematorium Joint Committee

Historically the district council partners of the Joint Committee have not prepared group accounts (on grounds of materiality) but Portsmouth City Council has prepared group accounts. Each member council has a 25% interest in this Joint Committee. For 2010/11, I noted that Portchester Crematorium's asset base had increased significantly. The Committee now has gross assets of around £5.5 million, and net assets of £4.5 million. The 25% interest in these assets brings the Councils share close to my indicative materiality levels for the audit of your financial statements. I accept this is only an indicator of 'importance' and not a absolute test.

The decision as to which accounting treatment to adopt is that of each Council. I asked management to provide a clear statement setting out the thought process and judgements behind its decision not to adopt group accounts in 2010/11.

Officers confirmed the Council does not propose to prepare group accounts on the grounds of materiality. Gosport's interest in the PCJC represents less than 1% of the net worth of Gosport's balance sheet. In addition, a full Statement of Accounts is needed to produce group accounts and under the Audit and Accounts Regulations 2011, PCJC falls under the small entity accounting regime. In 2010/11 it has produced an annual return rather than full Statement of Accounts.

Officers also considered the risks facing the Council. The PCJC operates a crematorium which is a discretionary service and not statutory. PCJC is not a listed body under Part 1 of the Local Government Act and therefore cannot undertake to enter into borrowing or investing on their own under the Prudential Code. Therefore there are no risks of PCJC producing off-balance sheet financing.

Officers were satisfied that the Council's accounts fully disclosed its relationship with PCJC in Note 29, Related Parties.

I considered these arguments carefully, on both qualitative and quantitative grounds and, in my professional view, the Council has presented a persuasive argument supporting the decision not to prepare group accounts. In making this decision, I am particularly swayed by the crematoriums inability to take advantage of the borrowing freedoms set out in the prudential code. Therefore there is no risk of significant 'off balance sheet' finance that is not disclosed. This reduces the operational risk to the Council of its associate relationship. I have not asked the Council to prepare group accounts for PCJC for 2010/11.

Audit Commission Fraud and Corruption Survey

The Audit Commission regularly publishes reports on fraud and corruption entitled “Protecting the Public Purse”. These are based on information gathered by its annual fraud and corruption surveys of local government and related bodies.

Councils were required to complete the 2010/11 survey by 31 May 2011. I was asked to review this information by 29 July 2011. The Council updated its original information in the light of a material internal fraud discovered in July 2011. Key messages from the survey responses for your Council are set out below: I wish to bring them to your attention as there has been no formal reporting of internal fraud to those charged with governance in 2010/11.

During 2010/11 there were:

- 80 cases of housing benefit and council tax benefit fraud cases with a value of £8,878;
- cases of council tax fraud but numbers and values were not recorded;
- one fraud where an officer abused his position in 2010/11, requiring formal reporting to the Audit Commission (AF70 return);
- Prosecutions: There were 20 during the year, of which 18 were found guilty;
- No fraud cases involved Councillors.
- The Council had a whistle blowing policy but did not actively raise awareness of it among staff and members.
- Those Charged with Governance (TCWG) do not review the whistle blowing policy annually.
- The Council has fidelity guarantee insurance, and made one claim which will cover two financial years 2010/11 and 2011/12.
- There was no annual report to TCWG on fraud and corruption activity for 2010/11 which also assessed the effectiveness of the Council’s arrangements. In previous years the Internal Audit Annual Report has included this information. It did not in 2010/11 but will in future years.

Recommendations

Recommendation
R14 Present an annual summary of the Council’s anti fraud and corruption activities to those charged with governance to facilitate scrutiny and challenge.
R15 Review annually the effectiveness of the Council’s whistle blowing, fraud and corruption strategy and other related policies.

Other significant matters relevant to the reporting process

Members of the public have the right to ask the auditor questions about the accounts. I am currently considering two questions raised by members of the public. These relate to:

- The dial a ride scheme; and
- Taxi licence fees.

This work is currently in progress. I will report the results of this work as soon as I have completed my enquiries. I anticipate this work will complete in September 2011. If it does not my audit opinion and certificate may be delayed as I am unable to certify closure of the Council's financial statements when there are outstanding challenge issues.

Audit fees

I ask the Standards and Governance Committee to note that additional audit fees will be required currently estimated at £7,000. This figure is the best estimate at this time and may change if I can not complete the outstanding work as quickly as anticipated. I have carried out additional audit work over the completeness of expenditure in the accounts given the internal fraud; and to respond to questions received from two members of the public.

In my opinion plan presented to the June 2011 Committee I set out the proposed audit fee of £122,500 for my opinion audit work. This fee was based on my estimation of the work required to meet my statutory responsibilities. At that time I did not anticipate the matters noted above which have required additional audit work. I have worked with Internal Audit where possible to keep the additional audit fees to a minimum.

The Commission has a statutory duty to prescribe scales of fees under section 7 of the Audit Commission Act and section 12 of the Local Government Act. Annually the Audit Commission consults widely on its proposed audit fees and publishes its work programme and scale of fees. In law, audit fees are not a fee for audit services, but a levy to fund the costs of the Commission, out of which it meets the costs of audits and its other statutory functions. It has a statutory duty to cover its costs, taking one year with another.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of these areas is set out below.

I intend to issue an unqualified conclusion stating that in 2010/11 the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Council has a good understanding of its financial position. Members scrutinise and challenge performance and hold officers to account. The Council is introducing new performance management and risk management arrangements in 2011/12 to strengthen existing arrangements. The Council has refreshed its corporate priorities in 2010/11 and 2011/12 and reviewed and updated its medium term financial plan because of these priorities and the current economic climate. The Council achieved a £239,000 budget under spend in 2010/11 despite significant budget pressures. It also reduced the deficit position on its collection fund in year from £676,000 at start of year to £394,000 at year end by reducing its cost base in year. This represents good performance given the current economic climate and has been achieved despite worsening

Criterion	Findings
	collection rates due to the economic situation. Collection rates for council tax worsened slightly from 97.3% in 2009/10 to 97.1% in 2010/11 and NNDR rates moved from 99% to 97.5% over the same period. Like many Councils the level of reserves fell during 2010/11 to meet staff termination costs and other restructuring costs. At 31 March 2011 it had useable general fund balances and reserves of £2,408,000 (GFB of £890k+ RFR of £518k+ GF other of £1000k), which is in line with budget expectations. However, the Council's level of reserves is low compared to most other local authorities. This means it has less flexibility than councils with larger reserves to manage the financial challenges it faces in the current economic climate. Its medium term financial plan aims to ensure that the Council maintains an adequate level of general reserves to meet unforeseen events and reduce vulnerability to significant fluctuations in Council Tax levels. The Council has developed a 30 year Housing Revenue Account (HRA) business planning model which highlights major issues and pressures affecting the HRA. In particular the level of future rent increases, maintaining adequate balances and meeting the costs of maintenance and improvement of the housing stock. Currently council house rents are lower than the government calculated notional rents by around £2.74 per week. The government assumes the Council charges notional rents when it allocates HRA subsidy. This means that there is an annual loss to the HRA by not charging notional rent levels of £454,000. The Council needs to move its housing rents closer to the notional rent levels over the period to 2016/17. Its HRA business planning model aims to help it do this. The HRA working balance at 31 March 2011 of £439,000 is significantly lower than the target of £800,000. The balance should improve in 2011/12 to £700,000 provided anticipated expenditure pressures can be managed. The medium term financial plan aims to improve working balances over the medium term. The Council has an ambitious capital programme of over £38 million over the period to 2014/15. Capital receipts, maturing investments and borrowing will be required to fund it over the medium term. The capital programme for 2010/11 was budgeted at £11 million. Actual spend totalled £7million as slippage totalled £4.3million. This level of slippage (39% of the initial budget) is significant. However, £2.6 million slippage related to the new ferry landing stage, which was delayed by a few weeks only.

Criterion	Findings
	Robust management will be required to ensure capital projects are delivered on time to minimise the impact on revenue and ensure effective use of cash resources. The Council recognises the importance of effective risk management arrangements to manage its significant business risks. Further development of the risk management process remains a key priority of the Council and significant resource has been earmarked for this purpose. The Council has an agreed Risk Management Strategy in place. All capital schemes are risk assessed as part of the scheme approval process. Risk registers are in use at both departmental and corporate levels. The Corporate Risk Management Group regularly reviews and monitors the corporate risk register and assesses the effectiveness of planned actions to reduce and manage the risks identified. The Council is strengthening its business planning and underpinning risk management and governance arrangements. These new arrangements should provide an effective process for continuing achievement of financial resilience and value for money in 2011/12. However, some of the underpinning arrangements, including those for managing risks and savings, are still under development and will need continued focus in 2011/12.
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	**The Council takes a strategic approach to setting priorities and achieving cost cuts through improved efficiency and productivity.** The Council has reviewed its corporate priorities and identified new strategies to help it manage its financial position in the medium term. Officers and political leaders have taken tough decisions and acted promptly to address the financial challenges faced by the Council which is on course to deliver its savings plans. My work has confirmed that: ■ the council used responses to public consultations to inform its 2011/12 budget; ■ there is evidence that the council has based its budget decisions for 2011/12 on appropriate information on local needs and delivery costs; ■ there is evidence that the council has used options appraisal via its financial models to evaluate proposals for spending reductions in 2011/12; and ■ the council has challenged the way services are delivered (for example, through consideration of whether services are best delivered in-house, outsourced or through shared service arrangements). Significant efficiencies were built into the 2010/11 budget. Debt restructuring, staff

Criterion	Findings
	reductions and lower administration and support service costs reduced the required 2010/11 budget by more than £300,000. In 2010/11 the Council had a saving plan of £410,000. During the year good progress has been made by reducing staff costs in year so the Council received the impact of cost reductions as early as possible. Staff reductions have been made in three waves during the year. In total the Council has removed 11% of its staff or 46 posts (40 FTEs) in just over a year against an establishment of 346. The senior management team has also reduced from ten to six posts in the last two years. Opportunities for further management cost reductions are likely to arise in future years. The full impact of staff savings will impact in 2012/13. Payroll costs in 2012/13 will reduce by over £800,000. The Council also increased fees and charges in the middle of 2010/11 to ensure it maximised its income and obtained the impact as early as possible. The Comprehensive Spending Review reduced the Council's grant for 2011/12 by 11.9% with a further reduction to come in 2012/13. As a consequence, savings in the order of £1.5 million are required from the Council's general budget over the next 2 years. In response the Council has reviewed its corporate priorities and identified new strategies to help it manage its financial position in the medium term. A revised medium term financial plan was approved in June 2011. A new council committee structure and a new constitution were introduced in early 2011/12. Revised management structures have also been drafted to support the new committee structures. These actions are designed to support the delivery of the council's savings plans in 2011/12 and 2012/13. Significant savings will also arise in 2011/12 and future years as a result of the major contracts procurement exercise in 2010/11 which covered the main council services. The new service contracts take effect from 1 April 2011, and savings built into 2011/12 budget total £300,000. These contracts will deliver improved service specifications and are expected to save Council around £10 million over the next 10 to 15 yrs. The Council continues to investigate opportunities for service efficiencies, for example through shared services arrangements with the other local District Councils (e.g. shared internal audit services). Maintaining robust governance arrangements as financial resources and staff numbers

Criterion	Findings
	reduce significantly is very important. Whilst good progress is being made against plans strong governance, risk management and financial management arrangements are required going forward. The Council is introducing new performance management and risk management arrangements in 2011/12 to strengthen existing financial management arrangements. As staff numbers reduce members and officers should ensure they continue to receive regular and timely monitoring information to facilitate effective scrutiny and challenge of the Council's operational and financial performance.

Recommendations

Recommendation
R16 Bring the level of general fund and housing revenue reserves in line with those held by other local councils over the medium term through robust management of the Council's finances.
R17 Implement the planned enhancements to risk management arrangements during 2011/12.
R18 Minimise the revenue impact of any slippage through strong management of the capital program.
R19 Review reporting arrangements to ensure Members and officers continue to have regular and timely monitoring information to facilitate effective scrutiny and challenge of the Council's operational and financial performance.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Earlier in this report I noted the impact of weak arrangements for the management of leases as this impacted on the financial disclosures in the accounts. These weak arrangements also impact on my value for money assessment. During 2010/11 the Council did not have proper arrangements in place to effectively manage leases and the failure to carry out regular rent reviews suggests that the Council is not maximising income from property.

The recommendations made earlier in this report apply and are not repeated here.

Appendix 1 – Draft audit report

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

Opinion on the Authority accounting statements

I have audited the accounting statements of Gosport Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Gosport Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Deputy Chief Executive and Borough Treasurer 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. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword[i] to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements
In my opinion the accounting statements:

- give a true and fair view of the state of Gosport Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters
In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception
I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities
I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Basis of conclusion
I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Gosport Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Patrick Jarvis, Officer of the Audit Commission

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Date:

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

The financial statements submitted for audit were complete and internally consistent in the majority of areas. However, I identified some casting errors in the accounts, some internal inconsistencies and some errors in the classification of items. Management agreed to amend the statements to resolve all the issues I highlighted.

The key adjustment impacting on the financial statements related to correction of fraudulent capital and revenue expenditure of £146,263. This impacted on a number of statements and disclosures and changes the reported outturn.

I recommended some presentational changes to the financial statements to disclose two exceptional items separately on the face of the comprehensive income and expenditure statement and the housing revenue account. These related to the following mandated changes in 2010/11:

- the large impairment of housing stock values due to a decrease in the housing discount factor applied in the valuation of council dwellings from 45 percent to 32 percent; and
- the gain from the recalculation of the pension past service cost using the CPI instead of the RPI.

I also identified some disclosure errors which have been discussed with officers and summarised in Appendix 2.

My technical team reviewed the accounts and identified a number of internal inconsistencies with information within the main statements and supporting notes, or between different notes within the financial statements. These have also been discussed with officers who agreed to investigate and amend them. The amendments affected the following:

- the explanatory foreword;
- movement in reserves statement for 2009/10 and 2010/11
- Comprehensive income and expenditure statement

- Note 8 Financing and investment income
- Note 13 Intangible assets
- Note 15 Nature and extent of risks arising from financial instruments
- Note 22 Capital adjustment account
- Note 22 Revaluation reserve.
- Note 23 Reconciliation with amounts reported internally.

The key amendments are detailed in the table below:

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Comprehensive income and expenditure statement (CIES): Classification error: Negative Past Service Costs arising as a result of the change from RPI to CPI for future pension increase of £9,458K were correctly classified as non distributed costs in the statement but were adjusted in error on the Corporate & Democratic Core line instead of the Central Services to the Public line. This classification error has no impact on the reported results.	Corporate & Democratic Core Central Services to the Public	9,458	 9,458		
Comprehensive income and expenditure statement (CIES): Exceptional items. I requested the following items be classified as exceptional items on the face of the	Non distributed costs Exceptional item HRA impairment loss	9,458 42,936	 9,458		

		Comprehensive income and expenditure statement		Balance sheet	
CIES due to their nature and size. Non distributed costs of £9,458K Housing Revenue Account impairment loss of £42,936K This reclassification has no impact on the reported results.	Exceptional item		42,936		
Correction of fraudulent entries in 2010/11 Expenditure of £146,263 during 2010/11 was identified as being fraudulent. To correct this, expenditure has been written out of the accounts in anticipation of recovery. Amendments were required to both capital and revenue expenditure. The changes impact on the CIES, Balance sheet, Movement in Reserves statement (MIRS), Capital adjustment account (CAA) and VAT control.					

Disclosure errors and omissions

Movement in reserves statement

The statement was amended to include the transfers to/from earmarked reserves notes, as required by the Cipfa Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Comprehensive Income and Expenditure statement

The 2009/10 figure for surplus/deficit on revaluation of property plant and equipment differed to that reported in Note 22 Revaluation reserve by £209,000. Officers agreed to investigate this internal inconsistency.

Cash flow statement.

The cash flow statement did not have a note disclosing separately the interest received, paid and the dividends received as required by the Cipfa Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Annual governance statement

Management agreed to update the disclosures in the AGS to ensure that internal control weaknesses highlighted by the internal fraud were detailed. The AGS also needs to be signed before I can issue my audit opinion. This is planned for September 2011.

Note 12 Investment properties

Additional disclosures were made to disclose the use of an expert, the method and significant assumptions applied in determining the fair value.

Note 21 Useable reserves

Additional disclosures were required to highlight the transfers to and from earmarked reserves as required by the Code.

Note 23 Segmental analysis

The note included information relating to the reserve movement and how it has been funded. This information is not required as its purpose is to reconcile the note back to the CIES. Management agreed to remove this additional information.

Note 34 Pensions

The disclosure of IAS19 information was amended to ensure it complied with the disclosure requirements set out in the Code.

Note 35 Contingent assets

Management agreed to reflect as contingent assets outstanding VAT claims of £630,920.

Note 27 External Audit Costs

This note was overstated by the inclusion of £71,000 of audit fees for grant claim work which related to the previous year, and £9,000 of inspection fees accrued in error. The note has been restated.

Note 38 Events after the balance sheet date

This note has been amended to refer to the internal fraud identified in July 2011.

Note 29 Related Party Transactions

Management agreed to extend this note to identify the member who supplied carpets to the Council and rents an office to the Council.

Note 8 Finance and investment income and expenditure

Debt restructuring discount of £40,000 had been netted off incorrectly in this note. It had been applied (as a negative) to: Interest payable and similar charges including finance lease rentals payable and debt restructuring premiums. It should have been applied to Interest Income including finance lease rentals receivable and debt rescheduling discounts.

Other minor disclosure errors

I reported a number of minor disclosure errors such as casting errors, missing text, page numbers, out of date references e.g. STRGL, or incorrect note references which officers agreed to amend. These impacted on the following:

- Accounting policies
- Note 10 Adjustments between accounting basis and funding basis under regulations
- Note 15: Nature and extent of risks arising from financial instruments
- Note 19 Creditors
- Note 25 Members allowances
- Note 26: Officer remuneration
- Note 31: Impairment losses
- Note 32 Leases
- Note 34: Pensions
- Housing Revenue Account Note 2, Note 7, Note 13, Note 14, and Note 15
- Collection fund.

Appendix 3 – Unadjusted misstatements to the financial statements

Currently there are no unadjusted errors.

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Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;

- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 Letter of representation

The letter of representation will be provided as close to the date of the opinion as possible. It will be inserted here in the final version of this report.

Appendix 6 Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
17	**R1** Further strengthen internal controls in the debtors system as soon as possible. This may be achieved by implementing the planned new debtors system in 2011/12 and addressing the recommendations reported by internal audit.	3	Deputy Chief Executive and Borough Treasurer	Y	Implementation of the new debtors system is complete. IA monitor action taken against their audit recommendations.	October 2011
17	**R2** Strengthen internal controls within the accounts payable and budget monitoring systems.	3	Deputy Chief Executive and Borough Treasurer	Y	Version 4 of the software has been installed which improves internal controls and reporting flexibility.	Implemented August 2011
17	**R3** Strengthen general IT controls to reduce the risk of unauthorised system access.	3	Deputy Chief Executive and Borough Treasurer	Y	Facility on the system to prevent concurrent user log in has been activated.	Implemented August 2011
17	**R4** Complete and sign off bank reconciliations promptly, and ensure all differences are investigated and corrected.	3	Deputy Chief Executive and Borough Treasurer	Y		December 2011

20	**R5** Confirm whether the Council legally has the right to continue to collect lease rentals when no lease exists or the lease has expired.	3	Borough Solicitor	Y		December 2011
20	**R6** Review all properties where there are no known lease details or the lease has expired urgency and a re-negotiate the lease as soon as possible.	3	Housing Services Manager	Y		December 2011
20	**R7** Review all properties rents to ensure rents are in line with Council policy and deliver value for money. Where no rent is being paid the Council should ensure that lessees are eligible for peppercorn rents under the Council's current policies.	3	Housing Services Manager	Y		March 2012
20	**R8** Approve formally your accounting policies.	3	P&O Committee	Y		September 2011
21	**R9** Review the arrangements for classifying bad debts for 2011/12 and consider whether the bad debt provision should be split between current and long term debtors.	2	Deputy Chief Executive and Borough Treasurer	Y		September 2011
21	**R10** Ensure the council's financial reporting systems can provide sufficient analysis of creditors to meet CIPFA Code reporting requirements.	2	Deputy Chief Executive and Borough Treasurer	Y		March 2012
21	**R11** Present an annual summary of the Council's anti fraud and	3	Deputy Chief Executive and Borough Treasurer	Y	This was an oversight in 2010/11 and will be reported	June 2012

	corruption activities to those charged with governance to facilitate scrutiny and challenge.				in the IA Annual Report for 2011/12 and routine quarterly reports from Q3 2011/12.	
21	**R12** Reconcile the new fixed asset register with property records in full in 2011/12 to ensure completeness and accuracy of the new fixed asset register.	3	Deputy Chief Executive and Borough Treasurer and Housing Services Manager	Y		March 2012
21	**R13** Review asset life, residual value, and depreciation method for all asset types as part of the annual accounts close down plan.	3	Deputy Chief Executive and Borough Treasurer	Y		March 2012
23	**R14** Review and evidence Council Tax and NNDR control account reconciliations in a timely manner.	3	Deputy Chief Executive and Borough Treasurer	Y		December 2011
23	**R15** Review annually the effectiveness of the Council's whistle blowing, fraud and corruption strategy and other related policies.	3	Deputy Chief Executive and Borough Treasurer	Y	These policies were reviewed in 2011/12 (June 2011). Next review is planned for June 2012.	June 2012
29	**R16** Bring the level of general fund and housing revenue reserves in line with those held by other local councils over the medium term through robust management of the Council's finances.	3	Deputy Chief Executive and Borough Treasurer	Y	The level of reserves is reviewed regularly during the year as part of budget setting and MTFP reviews. The level of HRA reserves will be increased as a priority.	March 2013
29	**R17** Implement the planned enhancements to risk management arrangements during 2011/12.	3	Chief Executive	Y	Implementation is preceding via Co-valent system	March 2012

29	**R18** Minimise the revenue impact of any slippage through strong management of the capital program.	3	Deputy Chief Executive and Borough Treasurer	Y	Regular monitoring reports are prepared on the capital program and presented to management team and members by the Financial Services Manager	Ongoing
29	**R19** Review reporting arrangements to ensure Members and officers continue to have regular and timely monitoring information to facilitate effective scrutiny and challenge of the Council's operational and financial performance.	3	Deputy Chief Executive and Borough Treasurer	Y		March 2012

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

audit commission

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September 2011

GOSPORT
BOROUGH COUNCIL

DRAFT

STATEMENT OF ACCOUNTS

2010/11

STATEMENT OF ACCOUNTS 2010/11

EXPLANATORY FOREWORD

1. Introduction

The Statement of Accounts for 2010/11 meet the reporting and accounting requirements that are required by the CIPFA Code of Practice 2010/11 (the Code). The Code is a major departure from the previous annual CIPFA Statements of Recommended Practice (SORP) in that it completes the transition to International Financial Reporting Standards (IFRS).

2. The main financial statements are

Statement of Responsibilities

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

Movement in Reserves Statement

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

Comprehensive Income and Expenditure Statement

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

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. These are Usable Reserves - ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use - and Unusable Reserves – ie those that the Council is not able to use to provide services. The latter category includes reserves that hold unrealised gains and losses (ie revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents to the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

Notes to the accounts including accounting policies

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

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

Housing Revenue Account and notes

The Housing Revenue Account (HRA) reflects the statutory obligation to maintain a separate revenue account for income and expenditure on council housing and related activities in accordance with the Local Government and Housing Act 1989. This specifies the credit and debit items to be taken into account in determining the surplus or deficit on the HRA for the year. The notes provide further explanation about the HRA.

Collection Fund and notes

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

Annual Governance Statement

The Accounts and Audit Regulations 2003 require the Council to conduct a review at least once a year of the effectiveness of its system of internal control, and to include a statement reporting on the review with the Statement of Accounts.

3. Financial performance

General Fund

The Council’s revenue budget for 2010/11 before transfers to or from reserves was £13,907,720, the actual net expenditure for the year was £13,668,350 an under spending of £239,370

Two major staffing reports were approved in October 2010 and January 2011 resulting in severance costs in 2010/11 in exchange for future ongoing employee savings. The costs of these are included in the 2010/11 accounts. An additional report was approved in April 2011 which is not included in the accounts. An additional contribution from reserves of £215,900 has been made to meet the severance payments.

General fund net interest paid was £77,687 (budgeted £115,100).

The statutory revenue charge for debt outstanding in 2010/11 was £358,195.

The table below summarises 2010/11 in the format of the Council’s board and service structure as reflected in the approved budget book as opposed to the statutory reporting format in the financial statements. A more extensive analysis including variations is included in the outturn report to Policy and Organisation Board.

	REVISED 2010/11 £	ACTUAL 2010/11 £	VARIANCE 2010/11 £
GENERAL FUND			
Community & Environment	7,800,440	7,624,332	(176,108)
Housing	667,700	643,018	(24,682)
Policy & Organisation	5,439,580	5,616,908	177,328
Total Net Expenditure	13,907,720	13,884,258	(23,462)
GF Working Balance, contribution to / (from) reserve	0	0	0
RFR, contribution to / (from) reserve	(719,770)	(935,670)	(215,900)
RFR, contribution to / (from) reserve - underspend		239,367	239,367
Non specific grant income	(343,850)	(343,855)	(5)
Budget Total	12,844,100	12,844,100	0
FINANCED BY			
Gosport Council Tax	(5,597,517)	(5,597,517)	
Revenue Support Grant	(925,169)	(925,169)	
Non Domestic Rates Distribution	(6,371,283)	(6,371,283)	
Collection Fund Surplus (Deficit)	49,869	49,869	
	(12,844,100)	(12,844,100)	

General Fund Reserves

The General Fund working balance at 31 March 2011 is £890,000 as projected in the Budget Report for 2011/12.

The Revenue Financing Reserve (RFR) is being used to fund spend to save initiatives including severance costs. The future savings arising from these will contribute towards acceptable budget levels and the maintenance of adequate reserves. The RFR at 31 March 2011 is £518,250.

Housing Revenue Account

The Housing Revenue Account was forecast to have a revenue surplus of £164,000 for 2010/11 with a revised account balance of £522,290 at 31 March 2011. The actual position for the year was a reduced surplus of £81,080 with a resulting account balance of £439,370 at 31 March 2011. This balance needs to be increased to a more adequate level as soon as possible.

The major variations were the increased expenditure on repairs and void works totalling £62,000 and an overspend on debt repayment costs of approximately £35,000 due to the additional capital expenditure brought forward during the year. An overspend on mobilisation and procurement costs included under housing management were offset by savings made elsewhere within the budget.

4. Material assets acquired or liabilities incurred

A summary of capital expenditure and financing for 2010/11 is shown below. This shows material schemes, additions and enhancements to the council’s fixed assets.

SCHEME	REVISED 2010/11 £	ACTUAL 2010/11 £	SLIPPAGE £
BY BOARD			
Housing Board (HRA)	1,964,000	2,329,200	0
Housing Board (GF)	1,577,000	1,246,134	(331,600)
Community & Environment Board	6,578,000	2,809,430	(3,788,793)
Policy & Organisation Board	892,000	650,711	(250,540)
	11,011,000	**7,035,475**	**(4,370,933)**
BY MAJOR SCHEME			
Council Dwellings	1,964,000	2,329,200	0
Landing Stage replacement - completion June 2011	4,786,000	2,129,225	(2,656,780)
Gosport Leisure Park	727,000	225,819	(501,180)
Cemetery	50,000	2,340	(47,660)
Privett Enclosure / GBFC Improved Facilities	150,000	840	(149,160)
Marine Parade West Public Convenience refurb	77,000	0	(77,000)
Lee Promenade - rolling programme of resurfacing	45,000	0	(45,000)
Privett Park - Protective Fence & Multi Use Facility	62,000	0	(62,000)
Waterfront Masterplanning	180,000	94,000	(86,000)
Information Technology	363,000	285,209	(79,450)
Town Hall Major Repairs	288,000	228,487	(59,510)
All other schemes	2,319,000	1,740,354	(607,193)
	11,011,000	**7,035,475**	**(4,370,933)**
FINANCED BY			
Major Repairs Allowance	1,824,000	1,965,400	
Capital Receipts	360,000	83,673	
Developer Contributions - Open Spaces	303,000	116,616	
Other Grants & Contributions	1,545,000	1,251,253	
Capital Grants	270,000	274,100	
Borrowing	6,709,000	3,344,433	
	11,011,000	**7,035,475**	

5. Pensions liability

The Statement of Accounts complies with International Accounting Standard (IAS)19 – the financial reporting standard on Retirement Benefits. This is expanded on in note 34 in the Notes to the Financial Statements. The reported figures are supplied by independent actuaries to the Hampshire County Council administered pension fund.

The Balance Sheet and note show an improved position compared to last year's net pension deficit by £12.89 million (£44.32 million to £31.43 million) primarily due to the change in the inflation index to be used (as notified by the government) to derive statutory pension increases leading to a reduction in defined benefit obligations.

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
(31,700)	**(44,320)**	**Net Pension Liability**	**(31,430)**

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

There were no material or unusual charges or credits in the accounts in 2010/11. In 2009/10 income of £332,341 was received in respect of the Fleming Case VAT reclaim, note 6 in the Notes to the Financial Statements refers.

7. Significant changes in accounting policies

From 2010/11, the financial statements have been prepared on an IFRS basis which reflects the fundamental changes required to previous practice. The adoption of IFRS includes the restatement of comparatives and the previous opening and closing figures on the balance sheet.

The accounting policies applied for 2010/11 and retrospectively for 2009/10 are at note 1, page 18 in the Notes to the Financial Statements.

The significant policy changes are

Government grants and contributions

Government grants and third party contributions are recognised in the Comprehensive Income and Expenditure Statement as due to the Council when there is reasonable assurance that any attached conditions will be complied with. There is no longer a Grants Deferred Account to hold and release grant income over the life of the asset.This change in policy has created major changes in the Income and Expenditure statement.

Cash and Cash Equivalents

Cash and cash equivalents include cash, bank accounts and investments repayable without penalty within one day. This new definition is reflected in the balance sheet.

Investment Properties

This class of fixed assets is more narrowly defined than previously and has resulted in a transfer of assets previously included as Investment properties to Plant Property and Equipment with associated changes in valuation and depreciation practices.

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

The Council has not been affected by any change in statutory functions during the financial year 2010/11.

Future developments in service delivery include

Revenue

- The adoption from 1 April 2011 by Hampshire County Council of responsibility for the concessionary travel function.
- The embedding of structural change following staffing reductions and a review of the Council's constitution.
- The Council has undertaken a major contract procurement exercise for waste, grounds and building maintenance services. The new contracts are effective from April 2011.
- Planning for implementation of HRA reform from April 2012.

Capital

- The opening of the new Gosport Ferry landing stage in June 2011.
- The progression of the planning and construction of the new Gosport Leisure Park due for opening in the summer of 2012.

9. Current borrowing facilities and capital borrowing

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

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
2,022	1,011	Long Term Investments	0
5,136	3,014	Short Term Investments	4,031
1,453	509	Cash and Cash Equivalents	0
0	0	Cash and Cash Equivalents/Bank Overdraft	(1,430)
0	(198)	Short Term Borrowing	(1,203)
(11,162)	(15,089)	Long Term Borrowing	(15,857)
(2,551)	**(10,753)**	**Net Borrowing position**	**(14,459)**

Additional long term (Public Works Loan Board) borrowing of £2 million was taken during the year to take advantage of favourable interest rates and to fund the Council's capital programme.

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

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
8,733	**10,534**	**Capital Financing Requirement**	**13,520**

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

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

<u>Usable Reserves</u>

Usable reserves are reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure). These are summarised below:

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
(890)	(890)	General Fund balance	(890)
(757)	(1,561)	Revenue Financing Reserve	(518)
(490)	(358)	Housing Revenue Account	(439)
(870)	(1,046)	General Fund - Other	(1,000)
(136)	(65)	Capital Receipts Reserve	(65)
0	(109)	Capital Grants Unapplied	0
(3,143)	**(4,029)**		**(2,912)**

Grants and contributions receipts in advance

In addition to these ‘usable’ reserves the council also has £2.518 million as at 31 March 2011 (£3.585 million as at 31 March 2010) of developers' contributions that are available to spend. They are categorised separately to Usable Reserves as they are subject to conditions as to the nature and timescale of their use and could therefore be returnable. The Council manages these sums to mitigate that possibility.

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

There are no provisions, contingencies or material write-offs to report for 2010/11.

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

There are no material events to report

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

Against the background of public sector expenditure reductions and an uncertain national economic position, the Council’s overall financial position remains stable and a balanced budget has been set for 2011/12.

The need to ensure that future council tax levels are acceptable and reserve levels remain adequate is a priority and prompt and measured action has been taken including service changes, fee increases and staffing reductions. While the emphasis is on maintaining front line services, the methods of delivery have been, and continue to be, examined. ie in conjunction with the recent major contract procurement process.

The reductions necessary to the Council’s projected General Fund budget to achieve Council Tax increases of 2.5% (below likely capping level) incorporating latest inflation projections amount to approximately £0.25 million over the next 4 years, including £220,000 in 2014/15.

There is a lot of uncertainty regarding future levels of Exchequer support, inflation and interest rates. The most optimistic current forecast beyond 2012/13 is that modest additional expenditure may be possible in some years working within Council Tax rises of 2.5%p.a., whilst the worst scenario is for ongoing annual budget cuts of between £50,000 and £450,000 being required.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- approve the Statement of Accounts.

Councillor M. Hook
Chair of Policy and Organisation Board 2011

The Chief Finance Officer's responsibilities

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

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

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

The Chief Finance Officer has also:

- kept proper accounting records which 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 a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011.

Mr Peter Wilson
Deputy Chief Executive and Borough Treasurer 2011

Movement in Reserves Statement

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

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2009	**(890)**	**(1,627)**	**(490)**	**(136)**	**0**	**(3,143)**	**(169,516)**	**(172,659)**
Movement during 2009/10								
Deficit on the provision of services	9,180		3,055			**12,235**		**12,235**
Other Comprehensive Income and Expenditure						**0**	**16,326**	**16,326**
Total Comprehensive Income and Expenditure	**9,180**	**0**	**3,055**	**0**	**0**	**12,235**	**16,326**	**28,561**
Adjustments between accounting basis & funding basis under regulations (Note 10)	(10,160)	0	(2,923)	71	(109)	**(13,121)**	**13,121**	**0**
Net (increase)/decrease before transfers to Earmarked Reserves	**(980)**	**0**	**132**	**71**	**(109)**	**(886)**	**29,447**	**28,561**
Transfers to/(from) Earmarked Reserves (Note 21)	980	(980)				**0**		**0**
Net (increase)/decrease in 2009/10	**0**	**(980)**	**132**	**71**	**(109)**	**(886)**	**29,447**	**28,561**
Balance at 31 March 2010	**(890)**	**(2,607)**	**(358)**	**(65)**	**(109)**	**(4,029)**	**(140,069)**	**(144,098)**

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Movement during 2010/11								
(Surplus)/Deficit on the provision of services	(7,280)		43,300			**36,020**		**36,020**
Other Comprehensive Income and Expenditure					109	**109**	**(4,311)**	**(4,202)**
Total Comprehensive Income and Expenditure	**(7,280)**	**0**	**43,300**	**0**	**109**	**36,129**	**(4,311)**	**31,818**
Adjustments between accounting basis & funding basis under regulations (Note 10)	8,369		(43,362)	0	0	**(34,993)**	**34,993**	**0**
Net (increase)/decrease before transfers to Earmarked Reserves	**1,089**	**0**	**(62)**	**0**	**109**	**1,136**	**30,682**	**31,818**
Transfers to/(from) Earmarked Reserves (Note 21)	(1,089)	1,089	(19)			**(19)**		**(19)**
Net (increase)/decrease in 2010/11	**0**	**1,089**	**(81)**	**0**	**109**	**1,117**	**30,682**	**31,799**
Balance at 31 March 2011	**(890)**	**(1,518)**	**(439)**	**(65)**	**0**	**(2,912)**	**(109,387)**	**(112,299)**

Comprehensive Income and Expenditure Statement

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

2009/10 Gross Exp £000	2009/10 Gross Income £000	2009/10 Net Exp £000		Notes	2010/11 Gross Exp £000	2010/11 Gross Income £000	2010/11 Net Exp £000
6,799	(6,124)	675	Central Services to the Public		16,850	(6,067)	10,783
10,677	(2,160)	8,517	Cultural, Environmental, Regulatory & Planning services		11,084	(2,219)	8,865
2,771	(1,061)	1,710	Highways, Roads & Transport services		2,797	(1,316)	1,481
37,151	(34,458)	2,693	Housing Services		81,440	(37,875)	43,565
2,537	(125)	2,412	Corporate & Democratic core		(6,601)	(123)	(6,724)
122		122	Non Distributed Costs		(9,458)	0	(9,458)
60,057	**(43,928)**	**16,129**	**Cost Of Services**		**96,112**	**(47,600)**	**48,512**
		7,421	Other Operating Expenditure	**7**			427
		2,461	Financing and Investment Income and Expenditure	**8**			476
		(13,776)	Taxation and Non-Specific Grant Income	**9**			(13,395)
		12,235	**Deficit on Provision of Services**				**36,020**
		5,592	Surplus or deficit on revaluation of Property, Plant and Equipment assets				232
		14	Other recognised gains or losses				(83)
		10,720	Actuarial (gains) / losses on pension assets / liabilities				(4,460)
		16,326	**Other Comprehensive (Income) and Expenditure**				**(4,311)**
		28,561	**Total Comprehensive Income and Expenditure**				**31,709**

Balance Sheet

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

01-Apr-09 £'000	31-Mar-10 £'000		Notes	31-Mar-11 £'000
199,477	183,962	Property, Plant & Equipment	11	142,195
10,332	10,150	Investment Property	12	11,237
161	411	Intangible Assets	13	486
0	0	Assets Held for Sale	11	0
2,022	1,011	Long Term Investments	14	0
337	858	Long Term Debtors	17	782
212,329	**196,392**	**Long Term Assets**		**154,700**
5,136	3,014	Short Term Investments	14	4,031
56	36	Inventories	16	5
7,595	9,665	Short Term Debtors	17	8,900
1,453	509	Cash and Cash Equivalents	18	0
14,240	**13,224**	**Current Assets**		**12,936**
0	0	Cash and Cash Equivalents/Bank Overdraft	18	(1,430)
0	(198)	Short Term Borrowing	14	(1,203)
(6,681)	(2,144)	Short Term Creditors	19	(2,776)
(19)	(59)	Short Term Liabilities	32	(40)
0	0	Provisions	20	0
(6,700)	**(2,401)**	**Current Liabilities**		**(5,449)**
(11,162)	(15,089)	Long Term Borrowing	14	(15,857)
(21)	(123)	Other Long Term Liabilities	32	(83)
(4,327)	(3,585)	Grants and Contributions Receipts in Advance	28	(2,518)
(31,700)	(44,320)	Net Pension Liability	34	(31,430)
(47,210)	**(63,117)**	**Long Term Liabilities**		**(49,888)**
172,659	**144,098**	**Net Assets**		**112,299**
(3,143)	(4,029)	Usable reserves	21	(2,912)
(169,516)	(140,069)	Unusable Reserves	22	(109,387)
(172,659)	**(144,098)**	**Total Reserves**		**(112,299)**

Cash Flow Statement

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

2009/10 £000		**Notes**	**2010/11 £000**
12,235	Net (surplus) or deficit on the provision of services		36,020
(20,492)	Adjustments to surplus or deficit on the provision of services for non-cash movements		(47,590)
9,474	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		8,860
1,217	Net Cash flows from Operating Activities		**(2,710)**
1,693	Net Cash flows from Investing Activities	37	4,378
(1,966)	Net Cash flows from Financing Activities	37	271
944	Net (increase) or decrease in cash and cash equivalents		**1,939**
1,453	Cash and cash equivalents at the beginning of the reporting period		509
509	Cash and cash equivalents at the end of the reporting period		(1,430)

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year end of 31 March 2011.

The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 which require the annual statement of accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

b) Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with the Councils main bank account.

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

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

National Westminster Group Account consisting of
- Main Account
- Payments Account
- Online Account

Call Accounts
- Corporate Deposit Account
- Liquidity Select Account

Money Market Fund Account
- Global Treasury Account

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

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

d) Employee Benefits

Benefits Payable During Employment

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

The accrual is made at the wage and salary rates applicable in the following accounting year (for practical purposes the average 2010/11 rates have been used), being the period in which the employee takes the benefit.

The accrual is calculated on the actual outstanding benefits at year end and charged directly to the Surplus or Deficit on the Provision of Services (based on the revised budget for 2010/11), but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Post Employment Benefits

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

The pension scheme is detailed in note 31 to the accounting statements.

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 earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of x% based on …….
- 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 pension liability is analysed into 7 components

Current service costs	The increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Account to the services for which the employees worked
Past service costs	The increase in liabilities arising from current year's decisions whose effect relates to years of service earned in earlier years – charged to Non-Distributed Costs in the Comprehensive 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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account
Expected return on assets	The annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account
Gains or losses on settlements and curtailments	The result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
Actuarial gains and losses	Changes in the pension liability that arises because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
Employers' contributions payable to scheme	Cash paid as employers' contributions to the pension fund

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

e) <u>Events after the Balance Sheet Date</u>

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

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

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

f) <u>Exceptional Items</u>

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

g) <u>Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors</u>

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

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

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

h) <u>Charges to Revenue for Non-Current Assets</u>

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

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

i) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

Discounts are apportioned over the lifetime of replacement loans with the unapportioned balance being included on the balance sheet within the carrying amount of the outstanding loans.

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

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

The Council makes interest free car loans available to certain employees as part of its recruitment and retention package. These constitute 'soft loans' being made at less than market rates. No accounting adjustment is made for these as the effect is not considered material.

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

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

j) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement

k) Intangible Assets

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

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

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

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

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

l) Interests in Companies and Other Entities

The Authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that require it to prepare group accounts.

The Council has an interest in an entity that does not require the production of group accounts and this is disclosed in note 9 to the accounting statements.

m) Inventories and Long Term Contracts

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

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

n) Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

o) Leases

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

<u>The Authority as Lessor</u>

Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

<u>Policy on reclassifying leases under IFRS</u>

The adoption of IFRS requires all lease and ‘lease type’ arrangements in which the Council has an interest (i.e. both as lessee and lessor) to be reviewed to ensure that the substance of transactions is properly reflected in the accounts. There is no clear cut guidance on the classification of leases, rather a series of tests which can be applied to indicate whether a lease is operating or finance

All leases and lease type arrangements have been assessed as being operating or finance leases where the annual revenue flow (rent paid or rent received) is greater than £10,000 and lease period is 15 years or more for property or 5 years or more for vehicles and equipment.

In line with Financial Regulations, where a leased asset with the Council as lessee is identified as a finance lease, only those assets with a net book value of £10,000 or more are brought onto the balance sheet.

Contracts with an annual value in excess of £50,000 have been reviewed for embedded leases.

p) <u>Overheads and Support Services</u>

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 f Practice 2010/11* (BVACOP). 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 Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

q) Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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

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

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

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

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

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

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

<u>Impairment</u>

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

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

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

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

<u>Depreciation</u>

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

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

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

- Council Dwellings - equal to the Major Repairs Allowance. This represents a capital sum that is allowed annually to maintain the council's housing stock and in 2009/10 is £2.543 m
- Buildings - straight-line allocation over the useful life of the property as estimated by the Valuer
- Vehicles, Plant and Equipment - straight line allocation over 4 to 10 years depending on the asset
- Infrastructure – straight-line allocation over 20 to 50 years depending on the asset

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

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

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets Held for Sale must meet certain criteria including that they are likely to be sold in current condition within a year and are being actively being marketed.

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

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

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

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

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

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

r) Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

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

Contingent Liabilities

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

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

Contingent Assets

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

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

s) Reserves

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

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

The Council's main reserves are described further in notes 21 and 22 to the accounting statements

t) Revenue Expenditure funded from Capital under Statute

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

u) Value Added Tax

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

2. Significant changes resulting from the adoption of IFRS

The financial statements for 2010/11 are the first to be prepared on an International Financial Reporting Standards (IFRS) basis, adapted for the public sector by the Code of Practice on Local Authority Accounting (The Code). This has resulted in the restatement of some opening balances and transactions, with the result that some prior year comparative figures in the financial statements for 2010/11 are different from the equivalent figures presented in the financial statements for 2009/10.
The most significant differences and reasons for the differences are explained below:

Investment Property Revaluation Gains

The Code requires that any changes in the value of Investment Properties are shown in the Comprehensive Income and Expenditure Statement. The effect of this on the Balance Sheet is that revaluation gains on Investment Property previously credited to the Revaluation Reserve are now credited to the Comprehensive Income and Expenditure Statement and adjusted out in the Movement in Reserves Statement to the Capital Adjustment Account.

Cash and Cash Equivalents

The revised definition for Cash and Cash Equivalents is included in the Accounting Policies in Note 1 Accounting Policies. This may affect how the totality of the Council's cash and investments are shown in the balance sheet and will fluctuate from year to year.

Grants and Contributions

Grants and contributions are now recognised as income when they become receivable – that is when any conditions relating to the grant have been met.
Previously, grants and contributions awarded for the purpose of capital expenditure were held in a grants deferred account and recognised as income over the life of the assets that they were used to fund. As a result of the transition to IFRS the balance on the Government Grants Deferred Account has been transferred to the Capital Adjustment Account and the previous release of credits to services does not take place.

Reclassification of Leases

The transition to IFRS required an examination of leases and lease type arrangements. For two leases, where the Council is the lessee, this necessitated a re-classification from operating leases to finance leases. The impact of this is that the assets included under those leases are included as equipment on the Council's Balance Sheet and the present value of future lease rentals payable are shown as creditors.

Accumulated Absences

The Code requires the Council to calculate the value of leave and flexitime accrued by employees at the Balance Sheet date that has not been taken. This accrual is shown as a creditor and is offset by the Accumulated Absences Adjustment Account in the Unusable Reserves section of the Balance Sheet.

The major areas of impact of these changes on the Balance Sheet as at 31st March 2009 and 2010 are:

	31-Mar-09		
	Balance in 2009/10 accounts	Comparative figure in 2010/11 accounts	Movement
	£'000	£'000	£'000
Vehicles, Plant & Equipment	895	932	37
Current Assets - Investments	6,876		(6,876)
Current Assets - Cash and Bank	7		(7)
Current Liabilities - Bank Overdrawn	(294)		294
Short Term Investments		5,136	5,136
Cash and Cash Equivalents		1,453	1,453
Government Grants Deferred Account	(13,358)	0	13,358
Revaluation Reserve	(9,427)	(7,360)	2,067
Capital Adjustment Account	(177,801)	(193,877)	(16,076)
Accumuated Absences Adjustment Account	0	154	154

	31-Mar-10		
	Balance in 2009/10 accounts	Comparative figure in 2010/11 accounts	Movement
	£'000	£'000	£'000
Vehicles, Plant & Equipment	1,019	1,196	177
Current Assets - Investments	4,301		(4,301)
Current Assets - Cash and Bank	5		(5)
Current Liabilities - Bank Overdrawn	(783)		783
Short Term Investments		3,014	3,014
Cash and Cash Equivalents		509	509
Government Grants Deferred Account	(11,548)	0	11,548
Revaluation Reserve	(3,747)	(1,868)	1,879
Capital Adjustment Account	(168,474)	(182,122)	(13,648)
Accumuated Absences Adjustment Account	0	144	144

3. New Accounting Standards – issued but not yet adopted

The Code requires the council to identify any accounting standards that have been issued but have yet to be adopted.

Financial Reporting Standard (FRS) 30 on Heritage Assets requires the recognition of Heritage Assets as a separate class of assets from 2011/12 financial year.

Heritage Assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for the contribution they make to knowledge and culture.

Some of these assets are currently included within other classes of asset (mainly Community Assets) and some of them may not be currently recognised in the Balance Sheet. It is not possible at this stage to estimate the value of these assets and the impact the changes will have on the Balance Sheet (for carrying values and revaluations) and the Comprehensive Income and Expenditure Statement (for depreciation and impairment charges).

The balances as at 31 March 2011 will be restated in the 2011/12 financial statements in order to provide comparative figures in the 2011/12 financial statements.

4. Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Asset reclassifications – the council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These are based on the main reason that the council is holding the asset with the classification determining the valuation method to be used.
- Lease classifications – the council has made judgements on whether its lease arrangements are operating leases or finance leases. There is an element of subjectivity in these assessments and de-minimus levels have been applied. The accounting treatment for operating and finance leases is different (see accounting policy on Leases) and may have a significant effect on the accounts.
- Production of Group Accounts – for 2010/11 it is not considered that there are any bodies that meet the requirements for Group Accounting and the financial statements therefore only represent Gosport Borough Council's transactions and balances in the year. As a member of the Portchester Crematorium Joint Committee (PCJC), the Council has an interest in the management of the Portchester Crematorium. The PCJC prepare a short form of accounts as a 'small entity' in line with the Accounts and Audit Regulations 2011 and full group accounts are not possible from this shortened form of accounts. (note 29 Related Parties also refers)
- Doubtful debts allowances - the council has made judgements on a prudent level of allowances for doubtful debts. These are based on historical experience of debtor defaults and the current economic climate.

5. Uncertainties relating to Assumptions and Estimates used

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

The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

Item	**Uncertainties**	**Effect if Actual Results Differ from Assumptions**
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.

	individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £5.6 million. However, the assumptions interact in complex ways. During 2010/11, the Authority's actuaries advised that the net pensions liability had decreased by £2.68 million as a result of estimates being corrected as a result of experience and decreased by £1.73 million attributable to updating of the assumptions.
Doubtful Debt Allowances	The council has made allowances for doubtful debts of £1.545 million in 2010/11 (£1.195 million in 2009/10) based on what it believes to be a prudent but realistic level.	If debt collection rates were to deteriorate or improve, a 5% change in the General Fund allowances would require an adjustment to the allowance of £71,000 (£53,500 in 2009/10).

6. Material Items of Income and Expense

Material items of income and expense incurred which are not disclosed on the face of the Comprehensive Income and Expenditure Statement at page 15 are shown below:

2010/11 - nil

2009/10 - VAT reclaim

As a result of retrospective changes in liability for VAT, the Council's retained VAT advisers successfully challenged and recovered payments made over a substantial number of years. The recovery which included sporting and cemetery services and bulky waste totalled £332,341 and included £162,811 in respect of compound interest. This total sum was included in the Council's revised budget and is included in the Cost of Services in the Comprehensive Income and Expenditure Statement.

7. Other Operating Expenditure

2009/10 £'000		2010/11 £'000
154	Payments to the Government Housing Capital Receipts Pool	251
7,267	Losses on the disposal of non-current assets	176
7,421		**427**

8. Financing and Investment Income and Expenditure

2009/10 £'000		2010/11 £'000
413	Interest payable & similar charges inc finance lease rentals payable & debt rescheduling premiums	493
2,470	Pensions interest cost and expected return on pensions assets	1,500
(323)	Interest income inc finance lease rentals receivable & debt rescheduling discounts	(229)
(99)	Net income in relation to investment properties and changes in their fair value	(1,288)
2,461		**476**

9. Taxation and Non Specific Grant Income

2009/10 £'000		2010/11 £'000
(5,561)	Council Tax Income	(5,589)
(5,899)	Non Domestic Rates	(6,372)
(1,887)	Non-Ringfenced Government Grants	(1,011)
(429)	Capital Grants and Contributions	(423)
(13,776)		**(13,395)**

10. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2010/11	**General Fund Balance £000**	**Housing Revenue Account £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Total Usable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(1,615)	(42,936)			
Movements in the market value of Investment Properties	1,028				
Amortisation of intangible assets	(116)				
Capital grants and contributions	1,533				
Revenue expenditure funded from capital under statute	(1,295)				
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(228)	52			

2010/11	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	358				
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure statement					
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement			(326)		
Use of the Capital Receipts Reserve to finance new capital expenditure			84		
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals			17		
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.		(251)	251		
Transfer from Deferred Capital receipts Reserve upon receipt of cash			(26)		
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)	7,088	(608)			
Employer's pensions contributions and direct payments to pensioners payable in the year	1,569	381			
Adjustments primarily involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	41				
Adjustment primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6				
Total Adjustments	**8,369**	**(43,362)**	**0**	**0**	**0**

2009/10	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(1,751)	(2,312)			
Amortisation of intangible assets	(86)				
Capital grants and contributions	1,130			(109)	
Revenue expenditure funded from capital under statute	(729)				
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7,359)	24			
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	195				
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement			(783)		
Use of the Capital Receipts Reserve to finance new capital expenditure			674		
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals			40		
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.		(154)	154		
Transfer from Deferred Capital receipts Reserve upon receipt of cash			(14)		
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)	(2,754)	(916)			
Employer’s pensions contributions and direct payments to pensioners payable in the year	1,335	435			

2009/10	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000
Adjustments primarily involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(151)				
Adjustment primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	10				
Total Adjustments	**(10,160)**	**(2,923)**	**71**	**(109)**	**0**

11. Property, Plant and Equipment

Depreciation

The table below summarises the methods of depreciation used for the Council's assets. In line with the CIPFA Code of Practice, land and investment properties are not depreciated. There have been no changes in depreciation methods in 2010/11.

Asset	Depreciation Method
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 hardware is assessed to provide an asset life.
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

The table below shows the movement on Plant, Property and Equipment for 2010/11 analysed between historic costs and fair value. The difference between the two total figures is the total in the Revaluation Reserve at 31 March 2011

Movement on Plant, Property and Equipment	**31st March 2010**				**Movement in 2010/11**					**31st March 2011**			
	Gross	Depreciation	Valuation Loss/Imp	Net Book Value	Additions	Disposals	Valuation Loss	Depreciation	Transfers	Gross	Depreciation	Valuation Loss/Imp	Net Book Value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Historical Cost													
Council Dwellings	161,144	(6,836)	(5,831)	148,477	2,329	(287)	(42,936)	(1,959)		163,186	(8,795)	(48,767)	105,624
Other Land & Buildings	20,216	(1,796)	(522)	17,898	228	(228)		(800)	(52)	20,164	(2,596)	(522)	17,046
Vehicles, Plant, Equipment	5,007	(3,811)	0	1,196	192	(271)		(76)		4,928	(3,887)	0	1,041
Infrastructure	13,925	(3,666)	0	10,259	11			(356)		13,936	(4,022)	0	9,914
Community Assets	3,130	0	0	3,130	278					3,408	0	0	3,408
Assets under Construction	1,134	0	0	1,134	2,506					3,640	0	0	3,640
	204,556	**(16,109)**	**(6,353)**	**182,094**	**5,544**	**(786)**	**(42,936)**	**(3,191)**	**(52)**	**209,262**	**(19,300)**	**(49,289)**	**140,673**
Fair Value													
Council Dwellings	167,468	(2,544)	(16,390)	148,534	2,329	(287)	(45,530)	578		169,510	(1,966)	(61,920)	105,624
Other Land & Buildings	21,887	(1,566)	(611)	19,710	228	(228)	(334)	(754)	(52)	21,454	(2,320)	(565)	18,569
Vehicles, Plant, Equipment	5,007	(3,811)	0	1,196	192	(271)		(76)		4,928	(3,887)	0	1,041
Infrastructure	13,923	(3,666)	0	10,257	11			(356)		13,934	(4,022)	0	9,912
Community Assets	3,130	0	0	3,130	278					3,408	0	0	3,408
Assets under Construction	1,135	0	0	1,135	2,506					3,641	0	0	3,641
	212,550	**(11,587)**	**(17,001)**	**183,962**	**5,544**	**(786)**	**(45,864)**	**(608)**	**(52)**	**216,875**	**(12,195)**	**(62,485)**	**142,195**

The table below shows the movement on Plant, Property and Equipment for 2009/10 analysed between historic costs and fair value. The difference between the two total figures is the total in the Revaluation Reserve at 31 March 2010

Movement on Plant, Property and Equipment	**31st March 2009**				**Movement in 2009/10**					**31st March 2010**			
	Gross	Depreciation	Valuation Loss/Imp	Net Book Value	Additions	Disposals	Valuation Loss	Depreciation	Transfers	Gross	Depreciation	Valuation Loss/Imp	Net Book Value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Historical Cost													
Council Dwellings	158,678	(4,295)	(3,519)	150,864	2,651	(185)	(2,312)	(2,541)	0	161,144	(6,836)	(5,831)	148,477
Other Land & Buildings	24,927	(1,657)	(521)	22,749	821	(5,307)	(137)	(139)	(89)	20,216	(1,796)	(522)	17,898
Vehicles, Plant, Equipment	4,480	(3,548)	0	932	584	(57)	0	(263)	0	5,007	(3,811)	0	1,196
Infrastructure	15,889	(3,634)	0	12,255	459	(2,423)	0	(32)	0	13,925	(3,666)	0	10,259
Community Assets	4,417	0	0	4,417	313	(1,600)	0	0	0	3,130	0	0	3,130
Assets under Construction	900	0	0	900	234	0	0	0	0	1,134	0	0	1,134
	209,291	**(13,134)**	**(4,040)**	**192,117**	**5,062**	**(9,572)**	**(2,449)**	**(2,975)**	**(89)**	**204,556**	**(16,109)**	**(6,353)**	**182,094**
Fair Value													
Council Dwellings	165,000	(2,161)	(6,523)	156,316	2,651	(183)	(9,867)	(383)	0	167,468	(2,544)	(16,390)	148,534
Other Land & Buildings	26,581	(1,349)	(576)	24,656	821	(5,307)	(154)	(217)	(89)	21,887	(1,566)	(611)	19,710
Vehicles, Plant, Equipment	4,480	(3,548)	0	932	584	(57)	0	(263)	0	5,007	(3,811)	0	1,196
Infrastructure	15,888	(3,634)	0	12,254	459	(2,424)	0	(32)	0	13,923	(3,666)	0	10,257
Community Assets	4,418	0	0	4,418	313	(1,601)	0	0	0	3,130	0	0	3,130
Assets under Construction	901	0	0	901	234	0	0	0	0	1,135	0	0	1,135
	217,268	**(10,692)**	**(7,099)**	**199,477**	**5,062**	**(9,572)**	**(10,021)**	**(895)**	**(89)**	**212,550**	**(11,587)**	**(17,001)**	**183,962**

Capital Commitments

Significant commitments for future expenditure at 31 March include**:**

2009/10 £'000		2010/11 £'000
600	PHA – Social Housing	300
116	Accommodation & IT	139
4,565	Landing Stage replacement	2,657
7,000	Gosport Leisure Park	6,801
12,281		**9,897**

Revaluations

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 Savills (L&P) Ltd on behalf of the Council. The valuations are gross balance sheet value before depreciation.

	Historical	**Fair Value - revalue when indicated**					
		2010/11	**2009/10**	**2008/09**	**2007/08**	**2006/07**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Property, Plant & Equipment							
Council Dwellings		169,509					169,509
Operational Property		1,877	8,477	1,907	2,040	6197	20,498
Garages	958						958
Equipment	4,928						4,928
Infrastructure	13,935						13,935
Community Assets	3,408						3,408
Assets under Construction	3,640						3,639
	26,869	**171,386**	**8,477**	**1,907**	**2,040**	**6,197**	**216,875**

Assets Held For Sale

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

12. Investment Property

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

2009/10 £'000		2010/11 £'000
176	Direct operating expenses arising from investment property	130
(406)	Rental income from investment property	(390)
(230)	**Net gain**	**(260)**

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

2009/10 £'000		2010/11 £'000
10,332	Balance at the start of the year	10,150
	Additions	
-	Purchases	-
-	Construction	-
48	Subsequent expenditure	7
-	Disposals	-
(319)	Net gains or losses from fair value adjustments	1,028
89	Transfers to or from Property, Plant and Equipment	52
10,150	**Balance at the end of the year**	**11,237**

13. Intangible Assets

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

The carrying amount of intangible assets is based on historic cost and is amortised on a straight-line basis on estimated lives of up to 10 years. The amortisation of £116,000 charged to revenue in 2010/11 (£86,000 in 2009/10) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

2009/10 £'000		2010/11 £'000
	Balance at the start of the year	
834	Gross carrying amount	1,170
(673)	Accumulated amortisation	(759)
161	**Net carrying amount at the start of the year**	**411**
336	Purchases	191
-	Disposals	0
-	Revaluation increases or decreases	-
-	Impairments	-
-	Recognised in Revaluation Reserve	-
-	Recognised in Surplus or Deficit on the Provision of Services	-
(86)	Amortisation for the year	(116)
411	Net carrying amount at the end of the year	**486**
	Comprising	
1,170	Gross carrying amount	1,255
(759)	Accumulated amortisation	(769)

14. Financial Instruments

The purpose of the disclosure information for financial instruments is to provide information that enables users to evaluate:

- The significance of financial instruments for the authority's financial position and performance
- The nature and extent of risks arising from financial instruments to which the authority was exposed and how the authority manages those risks

Financial Liabilities

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

01-Apr-09		**31-Mar-10**			**31-Mar-11**	
Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**		**Carrying Amount**	**Fair Value**
£'000	**£'000**	**£'000**	**£'000**		**£'000**	**£'000**
(11,162)	**(11,155)**	**(15,287)**	**(15,699)**	**PWLB Debt**	**(17,060)**	**(17,753)**

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the balance sheet date. This commitment to pay interest below current market rates decreases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans. The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest

PWLB - Maturity Analysis

01-Apr-09 Amount £'000	Avge Rate %	31-Mar-10 Amount £'000	Avge Rate %	Maturing within:-	31-Mar-11 Amount £'000	Avge Rate %
0	0.000%	198	2.900%	Up to 1 year	1,203	1.653%
0	0.000%	1,203	1.653%	Over 1 but not over 2 years	2,209	2.031%
0	0.000%	6,646	2.443%	Over 2 but not over 5 years	7,665	3.160%
3,000	4.387%	4,953	3.851%	Over 5 but not over 10 years	1,725	3.828%
0	0.000%	0	0.000%	Over 10 but not over 15 years	0	0.000%
1,000	4.000%	0	0.000%	Over 15 but not over 20 years	0	0.000%
0	0.000%	0	0.000%	Over 20 but not over 25 years	0	0.000%
1,000	3.900%	0	0.000%	Over 25 but not over 30 years	0	0.000%
0	0.000%	0	0.000%	Over 30 but not over 35 years	0	0.000%
0	0.000%	0	0.000%	Over 35 but not over 40 years	0	0.000%
5,000	3.900%	0	0.000%	Over 40 but not over 45 years	0	0.000%
1,000	3.750%	2,000	4.720%	Over 45 years	4,000	4.430%
11,000	**4.028%**	**15,000**	**3.154%**	**Total of 10 Loans**	**16,802**	**3.274%**
11,155				Fair Value as at 31st March 2009		
		15,699		Fair Value as at 31st March 2010		
				Fair Value as at 31st March 2011	17,753	

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council makes interest free car loans available to certain employees as part of its recruitment and retention package. These constitute ‘soft loans’ being made at less than market rates. No accounting adjustment is made for these as the effect is not considered material. New loans are no longer interest free from April 2011.

The Council has no available for sale assets.

The table shows both Carrying and Fair Values of Fixed Rate Loans advances to Approved Third Parties

01-Apr-09 Long Term £'000	01-Apr-09 Current £'000	31-Mar-10 Long Term £'000	31-Mar-10 Current £'000		31-Mar-11 Long Term £'000	31-Mar-11 Current £'000
2,000	5,000	1,000	3,000	Loans and receivables (principal amount)	0	4,000
22	136	11	14	Accounting adjustments	0	31
2,022	**5,136**	**1,011**	**3,014**	Loans and receivables at amortised cost	**0**	**4,031**
2,162		**1,083**		Loans and receivables at fair value	**0**	

The financial asset and liability fair values have been ascertained using the present value of future cash flows, with the rate of discount equivalent to a similar financial asset or liability with a duration equivalent to the remaining period of the actual financial asset or liability.

Maturity Analysis of Financial Instruments

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
5,000	3,000	Less than 1 year	4,000
1,000	1,000	Between 1 and 2 years	-
1,000	-	Between 2 and 3 years	-
-	-	More than 3 years	-
7,000	**4,000**		**4,000**

The following analysis summarises the Authority's maximum exposure to credit risk. The table (composite defaults from Fitch, Standard & Poors and Moodys) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period since at least 1990 to 2009. Defaults shown are by long term rating category on all Council's Investments out to a maximum of 2 years, which were the most commonly held investments during the year.

	Amount at 31 March 2011 £'000 (a)	Historical experience of default % (b)	Adjustment for market conditions at 31 March 2011 % (c)	Estimated maximum exposure to default £ (d)
Deposits with banks and financial institutions				
AAA rated counterparties	7	0.00%	0.00%	0
AA rated counterparties	8	0.03%	0.03%	7
A rated counterparties	4,000	0.08%	0.08%	25,600
BBB+	-	-	-	-

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

Short Term Deposit Accounts

Temporary Investments and Short Term Borrowing are primarily treasury management and cash flow transactions with banks and building societies. This heading includes short term deposits through the Council's Global Treasury Fund (a money market fund) and the Corporate Deposit and Liquidity Select Call Accounts. These figures are disclosed are disclosed separately from the fixed investments described above.

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
2,000	1,000	Long Term Fixed Investments	0
22	11	Interest Accrued	0
2,022	**1,011**		**0**
5,000	3,000	Current Fixed Investments	4,000
136	14	Accrued Interest	31
1,277	797	Call Account and Money Market Fund Account	(509)
463	490	Accrued Interest	524
6,876	**4,301**		**4,046**
8,898	**5,312**	**Total Investments**	**4,046**

Financial Instrument Gains and Losses

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

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
		Financial Liabilities:	
372	417	Interest from financial liabilities measured at amortised cost	525
		Financial Assets:	
(667)	(318)	Interest from loans and receivables	(226)
(295)	**99**		**299**

There are no losses or gains on de-recognition, impairment or revaluation to disclose for any of the three above financial years.

15. Nature and Extent of Risks Arising from Financial Instruments

The authority's activities expose it to a variety of financial risks:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity Risk – the possibility that the authority might not have funds available to meet its commitments to make payments

- Market Risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the associated risks.

The procedures for risk management are set out through a legal framework that is included in the Local Government Act 2003 and associated regulations. Compliance with the CIPFA Prudential Code, the CIPFA Treasury Management Code of Practice and Treasury Management Strategy is compulsory.

Before the start of the forthcoming financial year and in conjunction with the annual budget approval process, the Council must formally adopt the Treasury Management Code of Practice, Treasury Management Strategy and Prudential Indicators.

The Treasury Management Strategy provides written principles for overall risk management as well as written policies covering specific areas such as borrowing, debt and investment strategy and was originally approved by Council on 3 February 2010.

- The Authorised Limit for 2010/11 was set at £26.1m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £24.8 m. This is the expected level of debt and other long term liabilities during the year.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits were not made with banks and financial institutions unless they conformed to the following investment criteria.

- all investments are to be fixed rate transactions
- no Investments are to exceed 3 years although most will not exceed 364 days
- investments to be placed with
    - the top three building societies
    - the Council's bank
    - the major British banks and their wholly owned subsidiaries (Royal Bank of Scotland, HSBC, Lloyds/HBOS, Barclays and Co-op)
- short term surplus funds to be invested in money market funds or deposit accounts as operated by the Royal Bank of Scotland and the Bank of Scotland
- a £3m limit with any single group other than the Council's bank
- The main principles governing the Council's investment criteria are the security and liquidity of its investments, although the yield or return on the investment will be a consideration, subject to adequate security and liquidity.

The Council has no history of default with any of its counterparties in relation to deposits made or received. No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council's debtors include Council Tax, Business Rates and Housing Benefits. These are all statutory debts for which the Council is the responsible body and cannot influence who the counterparties are. Statutory debts are not classed as financial instruments and are not included below.

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

	Note	Amount at 31 March 2011	Historical experience of default	Adjustment for market conditions at 31 March 2011	Estimated maximum exposure to default
		£'000	%	%	£
		(a)	(b)	(c)	(d)
Deposits with banks and financial institutions	a	4,015	-	-	-
General debtors	b	958	29%	29%	276
Housing rents	b	803	61%	61%	488
Other	a	4,422	-	-	-

(a) The council does not expect any default in relation to these elements

(b) The council does not generally allow credit for customers and the estimated risks are covered by doubtful debt allowances which derive from aged debt analysis and historical experience.

Liquidity Risk

As the authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Existing long term debt is repayable between 1 and 10 years ahead and over 45 years ahead. While the Council has no short term debt, it does have ready access to borrow short term to cover any day to day cash flow requirements should the need arise. All trade and other payables are due to be paid in less than one year.

01-Apr-09	31-Mar-10		31-Mar-11
£'000	**£'000**		**£'000**
2,162	**1,459**	**Payables**	**2,776**

Market Risk

Interest Rate Risk:
Movement in interest rates can have a complex impact on an authority, depending on the complexity and policies of treasury management activity employed. For instance, a rise in interest rates would have the following effects

- Borrowings at variable rates – the interest cost will rise
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest earned will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure or Movement in Reserves Statements. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Comprehensive Income and Expenditure Account and affect the General Fund balance £ for £. Movements in the fair value of fixed rate investments would be reflected in the Comprehensive Income and Expenditure and Movement in Reserves Statements.

The Council's Treasury Management Strategy (approved in February 2010 and 2011, reported on in September 2010 and revised in May 2011) currently states

- All long-term loans (in excess of 365 days) to be raised through the PWLB, Bond Issue or Loan Receipt (1989 Housing Act) and variable rate loans may be considered. There may also be opportunities to borrow from other public bodies
- In order to limit interest rate exposure all investments other than short term surplus funds are to be fixed rate transactions. No Investments are to exceed 3 years although most will not exceed 364 days

so while the Council has some risk exposure to interest rate movements, this is limited to the effect that interest rate movements have on the marketplace generally when placing investments or raising loans in relation to the annual budget. Cash flows and interest rate changes are actively monitored.

If average interest rates in 2010/11 had been 1% higher or lower then an additional £105,000 interest may have been earned or foregone. (£299,000 in 2009/10 and £137,000 in 2008/09).

Price Risk
The authority has no shareholdings and is therefore not exposed to losses from movements in the prices of shares.

Fair Value of Assets and Liabilities carried at Amortised Cost

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

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

16. Inventories

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
7	11	Stationery	-
38	25	Nursery	5
11	-	Explosion!	-
56	**36**		**5**

17. Debtors

Long Term Debtors

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
337	858	Other Entities and Individuals	782
337	**858**		**782**

Short Term Debtors (net of allowances for doubtful debts)

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
1,872	2,776	Central Government Bodies	2,328
1,156	2,083	Other Local Authorities	1,942
4,567	4,806	Other Entities and Individuals	4,630
7,595	**9,665**		**8,900**

18. Cash and Cash Equivalents

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
1,740	1,287	Money Market Funds	15
6	5	Cash imprests	6
(293)	(783)	Bank Overdraft (Grouped accounts)	(1,451)
1,453	**509**		**(1,430)**

19. Creditors

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
(3,886)	(4)	Central Government Bodies	(2)
(2,795)	(2,140)	Other Entities and Individuals	(2,774)
(6,681)	**(2,144)**		**(2,776)**

20. Provisions

The Council has no provisions.
An allowance for doubtful debts is included within note 17.

21. Usable Reserves

Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure).

The balances and movements on usable reserves are shown below:

	01-Apr-09	**2009/10** Transfers In	Transfers Out	**31-Mar-10**	**2010/11** Transfers In	Transfers Out	**31-Mar-11**
	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Revenue							
General Fund balance	(890)	0	0	(890)	0	0	(890)
Revenue Financing Reserve	(757)	(804)	0	(1,561)	(239)	1,282	(518)
Civic	(1)	0	0	(1)	0	0	(1)
Royan Twinning Fund	(6)	0	2	(4)	(1)	0	(5)
Museum Purchases	(10)	0	0	(10)	0	0	(10)
Open Spaces maintenance	(99)	0	6	(93)	0	37	(56)
A32 Bus Shelter maintenance	(30)	0	0	(30)	0	0	(30)
Cherque Farm open space	(208)	0	0	(208)	(7)	0	(215)
Priddys Play Area maintenance	0	0	0	0	(124)	0	(124)
Greenskills Apprenticeship	0	0	0	0	(4)	0	(4)
HPDG usable reserve	0	0	0	0	(70)	0	(70)
Regional Housing Grant	(164)	(105)	53	(216)	53	(205)	(368)
LPSA2 revenue grant	0	(175)	0	(175)	0	175	0
English Heritage Outtreach	(4)	0	0	(4)	4	0	0
Education Fund	(4)	0	0	(4)	0	0	(4)
Risk Management	(3)	0	0	(3)	0	0	(3)
Business Growth Incentive Grant	(279)	(53)	91	(241)	0	188	(53)
Building Control Partnership	(62)	(10)	15	(57)	0	0	(57)
Housing Revenue Account	(490)	0	132	(358)	0	(81)	(439)
	(3,007)	**(1,147)**	**299**	**(3,855)**	**(388)**	**1,396**	**(2,847)**
Capital							
Capital Receipts Reserve	(136)	(552)	623	(65)	0	0	(65)
Capital Grants Unapplied	0	(109)	0	(109)	0	109	0
	(3,143)	**(1,808)**	**922**	**(4,029)**	**(388)**	**1,505**	**(2,912)**

The purpose of each of the earmarked reserves held at 31 March 2011 is shown below:

General Fund balance

This represents the council's working balance and is effectively a general reserve that is available for unforeseen events and to help stabilise annual fluctuations in Council Tax levels.

Revenue Financing Reserve (RFR)

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

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

It is considered that maintaining a viable RFR is an essential element for improved management of the Council's finances and in order to achieve this, the approved Council policy is that the RFR receives General Fund Contributions from year end savings, a base budget contribution and Council Tax Collection Fund surpluses (subject to the working balance first being maintained at an appropriate level).

Open Spaces, Play Areas and Bus Shelter reserves

The Open Spaces maintenance, Bus Shelter maintenance, Cherque Farm open space and Priddys Play Area maintenance reserves are all earmarked sums for contributing to specific service revenue expenditure.

Regional Housing Grant

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

Housing Revenue Account

The statutory ringfenced account for the provision of Housing services providing a working balance and general reserve for unforeseen events.

Other Usable reserves

The remaining revenue reserves are utilised in the provision of specific council services.

Capital Receipts reserve

The Capital Receipts reserve may only be utilised to fund capital expenditure. The balance of £65,000 at 31 March 2010 and 2011 is in respect of the sale of Camden Allotments and must be applied in accordance with the provisions of Section 32 of the Smallholdings and Allotments Act 1908.

22. Unusable Reserves

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
(7,360)	(1,868)	Revaluation Reserve	(1,523)
(193,877)	(182,123)	Capital Adjustment Account	(138,875)
(77)	(638)	Deferred Capital Receipts	(612)
31,700	44,320	Net Pension Reserve	31,430
(56)	96	Collection Fund Adjustment Account	55
154	144	Short-term Accumulating Compensated Absences Account	138
(169,516)	**(140,069)**		**(109,387)**

Revaluation Reserve

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

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

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

2009/10 £'000		2010/11 £'000
(7,360)	Balance at 1 April	**(1,868)**
(4)	Upward revaluation of assets	(29)
5,387	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	261
5,383	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**232**
109	Difference between fair value depreciation and historical cost depreciation	113
109	Amount written off to the Capital Adjustment Account	**113**
(1,868)	**Balance at 31 March**	**(1,523)**

Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2009/10 £'000		2010/11 £'000
(193,877)	Balance at 1 April	**(182,123)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
4,252	Charges for depreciation and impairment of noncurrent assets	44,551
86	Amortisation of intangible assets	116
729	Revenue expenditure funded from capital under statute	1,295
13,637		**46,473**
(109)	Adjusting amounts written out of the Revaluation Reserve	(113)
13,528	**Net written out amount of the cost of non-current assets consumed in the year**	**46,360**
	Capital financing applied in the year:	
(623)	Use of the Capital Receipts Reserve to finance new capital expenditure	(84)
(957)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,533)
	Application of grants to capital financing from the Capital Grants Unapplied Account	(109)
(194)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(358)
(1,774)		**(2,084)**
	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	**(1,028)**
(182,123)	**Balance at 31 March**	**(138,875)**

Deferred Capital Receipts

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

2009/10 £'000		2010/11 £'000
(77)	Balance at 1 April	(638)
(575)	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	
14	Transfer to the Capital Receipts Reserve upon receipt of cash	26
(638)	**Balance at 31 March**	**(612)**

Pensions Reserve

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

2009/10 £'000		2010/11 £'000
31,700	Balance at 1 April	44,320
10,720	Actuarial (gains) or losses on pensions assets and liabilities	(4,460)
3,670	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(6,480)
(1,770)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(1,950)**
44,320	**Balance at 31 March**	**31,430**

Collection Fund Adjustment Account

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

2009/10 £'000		2010/11 £'000
(56)	Balance at 1 April	96
152	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(41)
96	**Balance at 31 March**	**55**

Accumulated Absences Account

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

2009/10 £'000		2010/11 £'000
154	Balance at 1 April	144
(154)	Settlement or cancellation of accrual made at the end of the preceding year	(144)
144	Amounts accrued at the end of the current year	138
144	**Balance at 31 March**	**138**

23. Reconciliation with amounts reported internally

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

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

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

Resource allocation and control during the financial year is by exception reporting to Council management team and leadership with further, generally quarterly, reports to Policy and Organisation board as necessary. These reports are presented as a list of variances summarised by Board.

The outturn position for 2010/11 is being reported to members in the same format as the approved budget. Reconciling the approved and reported budgets - which provide the basis of budget monitoring and control and resource allocation - to that shown in the financial statements is complicated because as outlined above certain income and expenditure items are shown in different ways and in different places between the two documents. Some items have a financial impact on the council's finances and some do not.

The analysis of income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified in the Best Value Accounting Code of Practice.

The reconciliations below show the movement between the Board based reports to members for 2009/10 and 2010/11 and the Comprehensive Income and Expenditure and Movement in Reserves statements in the Statement of Accounts.

The Code also requires a breakdown of the reporting segments by type of expenditure (ie employees, premises etc.). A full gross subjective analysis of income and expenditure is also shown for 2009/10 and 2010/11.

2009/10 £'000		**2010/11 £'000**
11,227	Employees	11,344
2,084	Premises	1,937
205	Transport	218
5,245	Supplies and Services	5,080
4,550	Third Party Payments	4,641
26,323	Miscellaneous	29,357
49,634		**52,577**
10,376	Support Services	11,540
2,138	Capital / Financing	1,653
(62,148)	Income	(65,770)
0		**0**

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2010/11	**GF Board Structure**	Other Operating Expenditure	Financing & Investment Income & Expenditure	Taxation & Non Specific Grant Income	Movement in reserves, Collection Fund deficit	**BVACOP Cost of Services**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Community & Environment	7,920		260		29	8,209
Housing	622					622
Policy & Organisation	5,341	(228)	(244)	511	(8,309)	(2,929)
	13,884	**(228)**	**16**	**511**	**(8,280)**	**5,903**
Reserves	(1,040)				1,040	(0)
	12,844	**(228)**	**16**	**511**	**(7,240)**	**5,903**
Funded by						
Council Tax	(5,598)			5,598		0
Exchequer Grants	(7,296)			7,296		(0)
Collection Fund deficit	50			(50)		(0)
	0	**(228)**	**16**	**13,355**	**(7,240)**	**5,903**

	BVACOP Structure					**General Fund**	**HRA**	**CI&E**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost of Services	5,903					5,903	42,609	48,512
Other Operating Expenditure		228				228	199	427
Financing and Investment income and Expenditure			(16)			(16)	492	476
Taxation and Non Specific Grant Income				(13,355)	(40)	(13,395)	0	(13,395)
Surplus or Deficit on the Provision of Services	**5,903**	**228**	**(16)**	**(13,355)**	**(40)**	**(7,280)**	**43,300**	**36,020**
Movement in Reserves Statement					8,369	8,369	(43,381)	(35,012)
Transfer to (from) Reserves					(1,089)	(1,089)	0	(1,089)
Increase (Decrease) in General Fund / HRA Balance	**5,903**	**228**	**(16)**	**(13,355)**	**7,240**	**0**	**(81)**	**(80)**

2009/10	GF Board Structure	Other Operating Expenditure	Financing & Investment Income & Expenditure	Taxation & Non Specific Grant Income	Movement in reserves, Collection Fund deficit	BVACOP Cost of Services
	£'000			£'000	£'000	£'000
Community & Environment	7,480					7,480
Housing	478					478
Policy & Organisation	4,557	(7,291)	(1,795)		10,567	6,038
	12,515	**(7,291)**	**(1,795)**	**0**	**10,567**	**13,996**
Reserves	457				(457)	0
	12,972	**(7,291)**	**(1,795)**	**0**	**10,110**	**13,996**
Funded by						
Council Tax	(5,612)			5,612		0
Exchequer Grants	(7,260)			7,260		0
Collection Fund deficit	(100)			100		0
	0	**(7,291)**	**(1,795)**	**12,972**	**10,110**	**13,996**

	BVACOP Structure					General Fund	HRA	CI&E
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost of Services	13,996					13,996	2,133	16,129
Other Operating Expenditure		7,291				7,291	130	7,421
Financing and Investment income and Expenditure			1,795		(126)	1,669	792	2,461
Taxation and Non Specific Grant Income				(12,972)	(804)	(13,776)	0	(13,776)
Surplus or Deficit on the Provision of Services	**13,996**	**7,291**	**1,795**	**(12,972)**	**(930)**	**9,180**	**3,055**	**12,235**
Movement in Reserves Statement					(10,198)	(10,198)	(2,923)	(13,121)
Transfer to (from) Reserves					1,018	1,018	0	1,018
Increase (Decrease) in General Fund / HRA Balance	**13,996**	**7,291**	**1,795**	**(12,972)**	**(10,110)**	**0**	**132**	**132**

24. Agency Services

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

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

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

31-Mar-10 £'000		31-Mar-11 £'000
34	Treework	30
101	Grasscutting	106
(123)	Hampshire County Council contribution	(138)
12		**(2)**

25. Members' Allowances

The Authority paid the following amounts to members of the council during the year

2009/10 £000		2010/11 £000
207	Allowances	210
7	Expenses	8
214		**218**

The Code requires the inclusion of expenses as well as allowances and these are now included with 2009/10 being restated to include expenses as well as allowances.

26. Officers Remuneration

2009/10		2010/11
	The number of employees (excluding senior officers which are disclosed individually in separate tables) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:	
	Remuneration band	
0	£50,000 - £54,999	1*
0	£55,000 - £59,999	2*
1*	£60,000 – £64,999	1*
0	£65,000 - £69,999	0
	* Figures represent employees who left during the year with severance payments	

2009/10		Senior Officers emoluments - Salary is more than £50,000 but less than £150,000 per year							
Post Title	Notes	Salary Including Allowances	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2009/10	Pension Contributions	Total Remuneration including pension contributions 2009/10
		£	£	£	£	£	£	£	£
Chief Executive		91,625	0	0	0	440	92,065	13,074	105,139
Deputy Chief Executive & Borough Treasurer		82,449	0	0	0	0	82,449	11,767	94,216
Borough Solicitor	1	58,882	0	0	0	0	58,882	10,498	69,380
Director of Planning and Economic Development Services	2	68,758	0	0	0	496	69,254	3,753	73,007
Financial Services Manager		63,848	0	0	0	318	64,166	9,338	73,504
Corporate Services Manager		63,400	0	0	0	0	63,400	2,686	66,086
Housing Services Manager		58,627	0	0	0	0	58,627	8,608	67,235
Leisure Services Manager		63,534	0	0	0	0	63,534	9,338	72,872
Development Services Manager	3	47,025	0	0	93,000	0	140,025	6,730	146,755
Environmental Services Manager		58,224	0	0	0	0	58,224	8,608	66,832
		656,372	**0**	**0**	**93,000**	**1,254**	**750,626**	**84,400**	**835,026**

1. The Borough Solicitor works 32 hours per week. The whole time equivalent salary is £66,696. In addition, Returning Officer fees are included.
2. Post previously designated Director of Economic Development, Tourism & the Arts.
3. The Development Services Manager post became redundant 31 December 2009. The whole time equivalent salary is £61,884.

2010/11		Senior Officer emoluments - Salaries more than £50,000 but less than £150,000 per year							
Post Title	Notes	Salary (Including Allowances)	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2010/11	Pension Contributions	Total Remuneration including pension contributions 2010/11
		£	£	£	£	£	£	£	£
Chief Executive		92,165	0	0	0	568	92,733	13,074	105,807
Deputy Chief Executive & Borough Treasurer		82,251	0	0	0	0	82,251	11,767	94,018
Borough Solicitor	1	62,587	0	0	0	0	62,587	10,498	73,085
Director of Economic Regeneration	2	26,331	0	0	80,383	0	106,714	3,753	110,467
Financial Services Manager		65,350	0	0	0	0	65,350	9,338	74,688
Corporate Services Manager	3	18,610	0	0	0	0	18,610	2,686	21,296
Housing Services Manager		59,832	0	0	0	0	59,832	8,608	68,440
Leisure Services Manager		64,779	0	0	0	0	64,779	9,338	74,117
Environmental Services Manager		59,852	0	0	0	0	59,852	8,608	68,460
		531,757	**0**	**0**	**80,383**	**568**	**612,708**	**77,670**	**690,378**

1. The Borough Solicitor's remuneration was based on 34 hours per week.The whole time equivalent salary is £69,468. Returning Officer fees of £10,444 are included in the total.
2. The Director of Economic Regeneration post became redundant 15 August 2010. The whole time equivalent salary is £69,280
3. The Corporate Services Officer Post was deleted 14 July 2010.The whole time equivalent salary is £64,404

27. External Audit Costs

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

2009/10 £000		2010/11 £000
	Fee payable to Mazars (2009/10) and the Audit Commission (2010/11) with regard to external audit services carried out by appointed auditors	
106	External audit services	114
9	Statutory inspection	9
35	Certification of grant claims and returns	71
6	Other services	2
156		**196**

28. Grant Income

The Authority credited the grants and contributions shown in the table on page 66 to the Comprehensive Income and Expenditure Statement in 2010/11

In addition to the grants received and / or applied in 2010/11 which were not subject to any outstanding conditions and which are reflected in the table below, the council also holds £2.518 million as at 31 March 2011 (£3.585 million as at 31 March 2010) of developers' contributions which are shown as Grants and Contributions Receipts in Advance in the Balance Sheet. These grants and contributions are categorised as liabilities because they are subject to conditions as to the nature and timescale of their use and could therefore be returnable. The Council manages these sums to mitigate that possibility and the sums are available to spend on appropriate capital schemes – at which point the liability will cease and the sums will be accounted for through the Comprehensive Income and Expenditure statement. An analysis of these sums is shown below

01-Apr-09 £'000	31-Mar-10 £'000	Grants and Contributions Receipts in Advance	31-Mar-11 £'000
(2,387)	(2,008)	Affordable Housing	(1,208)
(1,352)	(1,313)	Open Spaces and Play Areas	(1,167)
(181)		Priddys Hard	
(137)	(137)	Nimrod Drive Footpath	(137)
(178)	(101)	HPDG Capital	
(70)	(4)	Bus Shelters	(4)
(22)	(22)	Other grants and contributions	(2)
(4,327)	**(3,585)**		**(2,518)**

2009/10 £000	Grant Income	2010/11 £000
	Included in Taxation and Non Specific Grant Income	
	Non-Ringfenced Government Grants	
	Department for Communities and Local Government:	
(5,899)	Distribution from NNDR Pool	(6,372)
(1,361)	Revenue Support Grant	(925)
(53)	Local Authority Business Growth Incentive Grant	
(71)	Area Based Grant	(86)
(402)	Housing and Planning and Development Grant	
(7,786)		**(7,383)**
	Capital Grants and Contributions	
(255)	Developers Contributions - Open Spaces	(241)
(109)	LPSA2 Capital Grant	
	Housing and Planning and Development Grant	(101)
	HCC / PUSH - Waterfront Masterplan	(55)
(65)	HCC - A32 Bus Shelters	
0	Other Contributions	(26)
(429)		**(423)**
	Service Specific Revenue Grants and Contributions (included in cost of services)	
	Department for Work and Pensions	
(749)	HB / CTB Administration	(744)
(27,718)	HB / CTB Subsidy	(30,402)
	Developers Contributions (Section 106)	
(379)	Affordable housing	(800)
	Environment Agency	
	Coast Protection	(34)
	Department for Communities and Local Government	
(240)	Disabled Facilities Grant	(274)
(79)	Free Swimming Grant	(45)
(199)	Enhanced Bus Pass Scheme	(205)
(84)	NNDR Cost of Collection	(83)
(302)	Planning Delivery Grant	
	Hampshire County Council	
(123)	Grass Trees & Shrubs	(138)
	Fareham Borough Council	
(110)	Portchester Crematorium Joint Board	(135)
(341)	Building Control Partnership	(352)
(119)	CCTV	(97)
	Eastleigh Borough Council	
(46)	Audit services	(42)
(797)	Other	(831)
(31,286)		**(34,182)**

29. Related Parties

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

Central government
Central government has 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 council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 28.

Members
Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 25. During 2004/05, a Council member entered into an agreement with the Council for the rent and insurance 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 rental payments from 1 April 2010 to 31 March 2011 was £7,980 and of insurance (for the period from 2004/05 to 2010/11) was £2,540. In 2010/11, the member's shop also successfully tendered for the supply of carpeting to the main reception and adjacent area in the sum of £8,315.

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

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

2009/10 £000			**2010/11 £000**
28,173	Hampshire County Council	Precept payments	28,645
1,772	Hampshire County Council	Pension Fund payments	1,950
3,932	Hampshire Police Authority	Precept payments	4,036
1,669	Hampshire Fire & Rescue Authority	Precept payments	1,694
99	Building Control Partnership	Income from Fareham Borough Council	93

Entities controlled or significantly influenced by the Council

Portchester Crematorium: The Council along with 3 neighbouring authorities is part of the 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.
During 2010/11 the Council received £135,000 (£110,000 in 2009/10) from the Joint Committee being its share of the distributable surpluses.

Gosport Borough Council's share of the net assets of Portchester Crematorium Joint Committee are £1,337,170 (£1,137,050 in 2009/10) which equates to 1.2% of the Council's net assets at 31 March 2011.

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.

30. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the table below.

Capital Financing Requirement

2009/10 £'000		2010/11 £'000
8,733	**Opening Capital Financing Requirement**	**10,534**
	Capital Investment	
4,864	Plant, Property & Equipment	5,544
48	Investment Properties	6
336	Intangible Assets	190
730	Revenue Expenditure funded from Capital under Statute	1,295
199	Assets acquired under Finance leases	-
	Sources of Finance	
(623)	Capital Receipts	(84)
(3,565)	Government Grants & Other Contributions	(3,607)
	Other Adjustments	
(57)	Finance lease reduction of long term liability	(59)
64	Refinancing of previous expenditure	-
(195)	Sum set aside from Revenue (MRP & VRP)	(299)
10,534	**Closing Capital Financing Requirement**	**13,520**
	Explanation of Movements in year	
1,788	Increase in underlying need to borrow (unsupported by Government	3,344
(129)	Decrease in underlying need to borrow because of Long Term Debtors, MRP & VRP and other adjustments	(299)
142	Increase or (reduction) in Finance Lease liability	(59)
1,801	Increase / (decrease) in Capital Financing Requirement	**2,986**

Revenue Expenditure Funded From Capital Under Statute

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

	Balance at 1 April	Expenditure	Charged to Revenue	Balance at 31 March
	£'000	£'000	£'000	£'000
Affordable Housing	0	800	(800)	0
Housing Grants	0	446	(446)	0
Other Capital Schemes	0	49	(49)	0
Total 2010/11	**0**	**1,295**	**(1,295)**	**0**
Total 2009/10	**0**	**730**	**(730)**	**0**

31. Impairment Losses

2009/10		**2010/11**
£'000		**£'000**
	136 Walpole Road - Car Park	-

32. Leases

Authority as Lessee

Finance Leases

The Council has acquired two items of office equipment under finance leases.

The assets acquired under these leases are carried as Equipement in the Balance Sheet at the following net amounts:

	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000
Vehicles, Plant, Furniture and Equipment	37	177	119
	37	177	119

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000
Finance lease liabilities			
current	19	59	40
non current	21	123	83
Finance costs payable in future years	3	13	7
Minimum lease payments	43	195	130

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

	Minimum Lease Payments			Finance Lease payments		
	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000
Not later than one year	21	64	43	19	59	40
Later than one year and not later than five years	22	131	87	21	123	83
Later than five years						
	43	195	130	40	182	123

Operating Leases

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

The future estimated minimum lease payments are:	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000
Not later than one year	62	53	46
Later than one year and not later than five years	152	115	85
Later than five years	15	15	15
	229	183	146

The expenditure charged to the Cultural, Environmental, Regulatory and Planning Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2009/10 £'000	2010/11 £'000
Minimum lease payments	61	54
	61	54

Authority as Lessor

Finance Leases
The Authority has no finance leases.

Operating Leases
The Authority leases out land and property under operating leases primarily for:
- the provision of community services
- economic development purposes

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

	01-Apr-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000
Not later than one year	417	417	379
Later than one year and not later than five years	1,086	1,034	1,000
Later than five years	14,207	13,960	13,718
	15,710	15,411	15,097

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

33. Termination Benefits

The Authority terminated the contracts of approximately 30 employees in 2010/11, incurring liabilities of £732,000 (£234,000 in 2009/10). This includes both payments to the Local Government Pension Scheme and severance payments and has been largely financed by contributions from the Revenue Financing Reserve in recognition of substantial future salary savings.

34. Pension

The reported figures and disclosure note are predominantly supplied by Aon Hewitt Limited, the independent actuaries to the Hampshire County Council administered pension fund.

Introduction

The disclosures below relate to the funded and unfunded liabilities within the Hampshire County Council Pension Fund (the ‘Fund’) which is part of the Local Government Pension Scheme (the ‘LGPS’).

- Funded - the funded nature of the LGPS requires Gosport Borough Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Unfunded - the unfunded pension arrangements established by Gosport Borough Council comprise termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS.

Gosport Borough Council recognises gains and losses in full, immediately through Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement.

Following the UK Government's announcement on 22 June 2010, the inflation index to be used to derive statutory pension increases has been changed from the Retail Prices Index

(RPI) to the Consumer Prices Index (CPI). Due to a number of differences between the indices, including both
constituents and construction, CPI is expected to be less than RPI over the long-term which means that the defined benefit obligation has reduced. It is considered that this policy change constitutes a change to the constructive obligation to provide certain benefits to Scheme members, giving rise to the recognition of a negative past service cost. The change has been recognised at 22 June 2010.

In accordance with International Financial Reporting Standards, disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

Contributions for the accounting period ending 31 March 2012

- Funded - the Employer's regular contributions to the Fund for the accounting period 31 March 2012 are estimated to be £1.66M. In addition, Strain on Fund Contributions may be required.
- Unfunded - in the accounting period ending 31 March 2012 the Employer expects to pay £0.20M directly to beneficiaries

Assumptions

The latest actuarial valuation of Gosport Borough Council's liabilities took place as at 31 March 2010. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were

2008/09	**2009/10**		**2010/11**
		Principal financial assumptions (% per annum)	
		Funded	
6.7%	5.5%	Discount rate	5.5%
3.4%	3.9%	RPI Inflation	3.7%
N/A	N/A	CPI Inflation	2.8%
3.4%	3.9%	Rate of increase to pensions in payment *	2.8%
3.4%	3.9%	Rate of increase to deferred pensions	2.8%
4.9%	5.4%	Rate of general increase in salaries **	5.2%
		* In excess of Guaranteed Minimum Pension increases in payment where appropriate	
		** In addition, allowance has been made for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2010	
		Unfunded	
6.7%	5.5%	Discount rate	5.5%
3.4%	3.8%	RPI Inflation	3.6%
N/A	N/A	CPI Inflation	2.7%
3.4%	3.8%	Rate of increase to pensions in payment	2.7%

Mortality assumptions

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

2009/10		2010/11
	Post retirement mortality (retirement in normal health)	
	Males	
PNMA00 with allowance for MC improvement factors to 2007	Year of Birth base table	Standard SAPS Normal Health Light Amounts
0	Rating to above base table * (years)	0
110%	Scaling to above base table rates	100%
80% of Long Cohort (from 2007) subject to a minimum underpin to the improvement factors of 1.25% p.a.	Improvements to base table rates	CMI_2009 with a long term rate of improvement of 1.25% p.a.
22.3	Future lifetime from age 65 (aged 65 at accounting date)	23.8
24.7	Future lifetime from age 65 (aged 45 at accounting date)	25.6
	Females	
PNFA00 with allowance for MC improvement factors to 2007	Year of Birth base table	Standard SAPS Normal Health Light Amounts
0	Rating to above base table * (years)	0
110%	Scaling to above base table rates	100%
60% of Long Cohort (from 2007) subject to a minimum underpin to the improvement factors of 1.25% p.a.	Improvements to base table rates	CMI_2009 with a long term rate of improvement of 1.25% p.a.
24.3	Future lifetime from age 65 (aged 65 at accounting date)	24.8
26.5	Future lifetime from age 65 (aged 45 at accounting date)	26.7

* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

2009/10	2010/11
Commutation (Funded only)	
Each member assumed to exchange 25% of the maximum amount permitted of their pre 1 April 2008 pension entitlements.	Each member assumed to exchange 25% of the maximum amount permitted of their past service pension rights on retirement, for additional lump sum.
Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2008 pension entitlements	Each member assumed to exchange 75% of the maximum amount permitted of their future service pension rights on retirement, for additional lump sum

Expected return on assets

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return adopted by the Employer for the purposes of IAS 19.

01-Apr-09		31-Mar-10			31-Mar-11	
Long-term expected rates of return	**Asset Split**	**Long-term expected rates of return**	**Asset Split**		**Long-term expected rates of return**	**Asset Split**
7.0%	55.2%	8.0%	61.3%	Equities	8.4%	63.4%
6.0%	7.3%	8.5%	6.1%	Property	7.9%	7.3%
4.0%	27.4%	4.5%	24.4%	Government Bonds	4.4%	23.3%
5.8%	3.9%	5.5%	2.4%	Corporate Bonds	5.1%	1.7%
1.6%	6.2%	0.7%	5.8%	Cash	1.5%	4.3%
1.6%	0.0%	8.0%	0.0%	Other **	8.4%	0.0%
5.7%	**100.0%**	**6.7%**	**100.0%**	**Total**	**7.1%**	**100.0%**

* The overall expected rate of return on Fund assets is a weighted average of the individual expected rates of return on each asset class, and is shown in the bottom row of the above table.
** Other holdings include hedge funds, currency holdings, asset allocation futures and other. It is assumed these will get a return in line with equities.

Basis used to determine expected return

Gosport Borough Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2011.

Reconciliation to Balance Sheet

01-Apr-09 £m	31-Mar-10 £m		31-Mar-11 £m
		Reconciliation to Balance Sheet	
		Funded	
35.10	46.34	Fair value of assets	48.10
(64.09)	(87.58)	Present value of funded defined benefit obligation	(76.81)
(28.99)	(41.24)	Pension liability before consideration of paragraph 58	(28.71)
0.00	0.00	Adjustment in respect of paragraph 58	0.00
(28.99)	**(41.24)**	Pension liability recognised on the Balance Sheet	**(28.71)**
		Unfunded	
(2.71)	(3.08)	Present value of defined benefit obligation	(2.72)
(2.71)	**(3.08)**	Pension liability recognised on the Balance Sheet	**(2.72)**
(31.70)	**(44.32)**	**Total**	**(31.43)**

Charges to the Surplus or Deficit on the Provision of Services

2009/10 £m		2010/11 £m
	Funded	
1.08	Current service cost	1.48
0.12	Past service cost	(9.19)
4.27	Interest cost	4.38
(1.98)	Expected return on assets	(3.03)
0.00	Curtailment cost	0.00
0.00	Settlement cost	0.00
3.49	**Expense recognised**	**(6.36)**
	Unfunded	
0.00	Current service cost	0.00
0.00	Past service cost	(0.27)
0.18	Interest cost	0.15
0.00	Expected return on assets	0.00
0.00	Curtailment cost	0.00
0.00	Settlement cost	0.00
0.18	**Expense recognised**	**(0.12)**
3.67	**Total**	**(6.48)**

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

2009/10 £m		2010/11 £m
	Funded	
64.09	Opening defined benefit obligation	87.58
1.08	Current service cost	1.48
4.27	Interest cost	4.38
0.52	Contributions by participants	0.51
19.91	Actuarial (gains) / losses on liabilities *	(4.42)
(2.41)	Net benefits paid out #	(3.53)
0.12	Past service cost	(9.19)
0.00	Business combinations	0.00
0.00	Curtailments	0.00
0.00	Settlements	0.00
87.58	**Closing funded defined benefit obligation**	**76.81**
	Unfunded	
2.71	Opening unfunded defined benefit obligation	3.08
0.00	Current service cost	0.00
0.18	Interest cost	0.15
0.38	Actuarial (gains) / losses on liabilities *	(0.05)
(0.19)	Net benefits paid out	(0.19)
0.00	Past service cost	(0.27)
0.00	Business combinations	0.00
0.00	Curtailments	0.00
0.00	Settlements	0.00
3.08	**Closing unfunded defined benefit obligation**	**2.72**

* Includes changes to actuarial assumptions

Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

Changes to the fair value of assets during the accounting period

2009/10 £m		2010/11 £m
35.10	Opening fair value of assets	46.34
1.98	Expected return on assets	3.03
9.57	Actuarial gains / (losses) on assets	(0.01)
1.58	Contributions by the employer	1.76
0.52	Contributions by participants	0.51
(2.41)	Net benefits paid out #	(3.53)
0.00	Business combinations	0.00
0.00	Settlements	0.00
46.34	**Closing fair value of assets**	**48.10**

Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

Actual return on assets

2009/10 £m		2010/11 £m
1.98	Expected return on assets	3.03
9.57	Actuarial gain / (loss) on assets	(0.01)
11.55	**Actual return on assets**	**3.02**

Analysis of amounts recognised in Other Comprehensive Income and Expenditure

2009/10 £m		2010/11 £m
	Funded	
(10.34)	Total actuarial gains / (losses)	4.41
0.00	Adjustment in respect of paragraph 58	0.00
(10.34)	**Total gains / (losses)**	**4.41**
	Unfunded	
(0.38)	Total actuarial gains / (losses)	0.05
(0.38)	**Total gains (loss)**	**0.05**
(10.72)	**Total**	**4.46**

History of asset values, present value of defined benefit obligation and surplus / deficit

	2006/07 (restated) £m	2007/08 (restated) £m	2008/09 £m	2009/10 £m	2010/11 £m
Funded					
Fair value of assets	43.73	44.62	35.10	46.34	48.10
Present value of liabilities	(67.75)	(61.26)	(64.09)	(87.58)	(76.81)
Surplus / (deficit)	(24.02)	(16.64)	(28.99)	(41.24)	(28.71)
Unfunded liability	(2.91)	(2.67)	(2.71)	(3.08)	(2.72)
	(26.93)	**(19.31)**	**(31.70)**	**(44.32)**	**(31.43)**

History of experience gains and losses

	2006/07	2007/08		2008/09		2009/10		2010/11	
		Fund	Unfund	Fund	Unfund	Fund	Unfund	Fund	Unfund
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Experience gains / (losses) on assets	(0.06)	(1.63)		(12.01)		9.57		(0.01)	
Percentage of assets						20.7%		0.0%	
Experience gains / (losses) on liabilities #	(0.16)	(0.30)	0.30	(0.30)	(0.04)	0.84	0.08	2.68	(0.01)
Percentage of the present value of liabilities	-0.2%	-0.5%	11.2%	-0.5%	-1.5%	1.0%	2.6%	3.5%	-0.4%

This item consists of gains / (losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains of £4.46m (losses of £10.72m for 2009/10) have been included in the Statement of Total Recognised Gains and Losses. Cumulative actuarial gains and losses are £27.799m.

35 Contingent Liabilities

- Municipal Mutual Insurance Limited

It was previously forecast that a small surplus - part of which would have been distributed to Gosport Borough Council - would result from the winding up of the company. The actuaries have now reported that a small deficit may result - part of which will be recoverable from Gosport Borough Council. The latest available scheme statement is for the six months ended 31 March 2011.

- Browndown Tip

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

36. Contingent Assets

There are no contingent assets.

37. Cash Flow Statement – activity notes

2009/10 £000	Investing Activities	2010/11 £000
5,110	Purchase of property, plant and equipment, investment property and intangible assets	5,551
5,000	Purchase of short-term investments	7,000
336	Other payments from investing activities	191
	Movement on other Capital Creditors	(533)
(746)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(352)
(8,000)	Proceeds from short-term and long-term investments	
	Other receipts from investing activities	(7,000)
(7)	Capital grants received	(479)
1,693	**Net cash flows from investing activities**	**4,378**

2009/10 £000	Financing Activities	2010/11 £000
(12,000)	Cash receipts of short and long-term borrowing	(5,802)
2,034	Council Tax and NNDR adjustments	2,073
8,000	Repayments of short and long-term borrowing	4,000
(1,966)	**Net cash flows from financing activities**	**271**

38. Events after the Balance Sheet Date

There were no material events 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.

39. Certification and authorisation of the Accounts

Statement of Accounts – unaudited draft authorised for issue

Signed

Date

P. WILSON

Deputy Chief Executive and Borough Treasurer, Section 151 officer

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

Signed

Date

COUNCILLOR M. HOOK

Leader of the Council

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

Signed

Date

P. WILSON

Deputy Chief Executive and Borough Treasurer, Section 151 officer

HRA INCOME AND EXPENDITURE STATEMENT

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

2009/10 £'000		2010/11 £'000	2010/11 £'000
	EXPENDITURE		
2,596	Repairs & Maintenance	2,742	
2,571	Supervision & Management	2,823	
45	Rents, Rates, Taxes & Other Charges	47	
2,909	Negative HRA Subsidy Payable	3,395	
4,855	Depreciation & Impairment of Non Current Assets	44,901	
33	Debt Management Costs	30	
0	Movement in the Allowance for Bad or Doubtful Debts	0	
13,009	**TOTAL EXPENDITURE**		**53,938**
	INCOME		
(10,271)	Dwelling Rents	(10,640)	
(228)	Non Dwelling Rents	(228)	
(377)	Charges for Services and Facilities	(431)	
(10,876)	**TOTAL INCOME**		**(11,299)**
2,133	**NET COST OF HRA SERVICES AS INCLUDED IN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**		**42,639**
0	HRA Services share of Corporate & Democratic Core		0
2,133	**NET COST OF HRA SERVICES**		**42,639**
	HRA SHARE OF THE OPERATING INCOME AND EXPENDITURE INCLUDED IN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT		
(24)	Gain or (Loss) on the disposal of HRA Non-Current Assets		(52)
166	Interest Payable and Similar Charges		174
(12)	Interest and Investment income		(18)
638	Pensions Interest Cost and Expected Return on Pensions Assets		306
2,901	Deficit for the year on the HRA Income and Expenditure Account		**43,049**

2009/10 £'000	MOVEMENT ON THE HRA STATEMENT	2010/11 £'000	2010/11 £'000
(490)	Balance on the HRA at the end of the previous year		(358)
2,901	Deficit for the year on the HRA Income and Expenditure Account	43,049	
(2,769)	Adjustments between accounting basis and funding basis under statute	(43,111)	
132	Net (increase) or decrease before transfers to or from reserves		(62)
0	Transfers to or (from) Reserves		(19)
132	(Increase) or decrease in year on HRA		(81)
(358)	Balance on the HRA at the end of the current year		(439)

NOTES TO THE HOUSING REVENUE ACCOUNT (HRA)

1. Local Government and Housing Act 1989

The Housing Revenue Account reflects a statutory obligation to maintain a separate revenue account for the provision of local authority housing in accordance with the Local Government and Housing Act 1989. 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 CODE rather than in accordance with statutory and non-statutory proper practices. The HRA statement has two parts in order to reconcile these two approaches – 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 Movement on the HRA Statement.

2. Adjustments between Accounting and Funding bases under regulations

ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASES UNDER REGULATIONS

2009/10 £'000			2010/11 £'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
(2,312)	Impairment of Fixed Assets	(42,936)	
24	Gain on the disposal of Fixed Assets	52	
(916)	Net charges made for retirement benefits in accordance with FRS17	(608)	
(3,204)			**(43,492)**
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
435	Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners	381	
435			**381**
(2,769)	**Net additional amount required by statute to be credited to the HRA Balance for the year**		**(43,111)**

3. Charges for Services and Facilities

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

4. Housing Stock

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

01-Apr-09	31-Mar-10		31-Mar-11
		Numbers	
1,320	1,318	Houses	1,315
441	440	Bungalows	441
1,461	1,461	Flats	1,435
3,222	**3,219**		**3,191**
		Analysis of bedroom type	
1,587	1,585	1 bedroom	1,561
541	542	2 bedroom	540
1,008	1,006	3 bedroom	1,005
86	86	4 or more bedrooms	85
3,222	**3,219**		**3,191**
		Analysis of stock by age	
266	268	Pre 1945	256
1,329	1,327	1945 - 1964	1,312
659	659	1965 - 1974	659
968	965	1974 onwards	964
3,222	**3,219**		**3,191**

5. Value of Housing Revenue Account Property

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

01-Apr-09		31-Mar-10			31-Mar-11	
Number	**Value £'000**	**Number**	**Value £'000**		**Number**	**Value £'000**
				Operational Assets		
2,976	150,773	2,974	143,215	Standard Dwellings	2,974	101,842
246	5,543	245	5,319	Sheltered Housing	245	3,782
811	875	763	896	Garages and Parking Spaces	763	896
1	33	1	33	Community Asset	1	33
4,034	**157,224**	**3,983**	**149,463**		**3,983**	**106,553**
				Non Operational Assets		
2	74	2	74	Premises	6	84
	157,298		**149,537**			**106,637**

The stock valuation has been carried out by Savills (L&P) Chartered Surveyors on behalf of the Council and has been guided by the 'Stock Valuation for Resource Accounting: Guidance for Valuers – 2010' published by the Department for Communities and Local Government (DCLG) in

January 2011 which requires the review of the housing stock to be undertaken at the commencement of the financial year 2010/11 on 1 April 2010.

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.

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
347,372	330,072	Dwellings	330,072
875	896	Other Land & Buildings	896
348,247	**330,968**		**330,968**

6. Major Repairs Reserve

The major repairs reserve was set up in 2001/02 to account for the new government subsidy for major repairs to council dwellings – the major repairs allowance (MRA).

2009/10 £'000		2010/11 £'000
0	Balance at 1 April	0
2,543	Receipts in year	1,965
(2,543)	Expenditure in year	(1,965)
0	**Balance at 31 March**	**0**

7. Housing Repairs

2009/10 £'000		2010/11 £'000
4,658	Expenditure on Repairs	5,071
3,408	Of which planned	3,584
73.2%	% of Planned / Response	70.1%

£ 2.329 million of the 2010/11 expenditure (£2.663 million in 2009/10) 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 Expenditure

2009/10 £'000		2010/11 £'000
2,613	HRA Properties - capital repairs & maintenance	2,279
50	LA Tenants Disabled Persons Grants	50
2,663		**2,329**

9. Capital Financing

2009/10 £'000		2010/11 £'000
2,543	Major Repairs Reserve	1,965
120	Borrowing	364
2,663		**2,329**

10. Capital Receipts

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

2009/10 £'000		2010/11 £'000
232	Right to Buy sales	283
0	Auction sales	0
0	Land sales	0
232		**283**

11. Depreciation and Impairments

The depreciation charged to the HRA which is equal to the Major Repairs Allowance was

2009/10 £'000		2010/11 £'000
2,543	Depreciation	1,965
2,543		**1,965**

The impairment charge to the HRA in respect of reductions in the value the Council's housing stock which cannot be offset against a Revaluation Reserve balance was

2009/10 £'000		2010/11 £'000
2,312	Impairments	42,936
2,312		**42,936**

12. Subsidy

2009/10 £'000		2010/11 £'000
(5,271)	Management & Maintenance	(5,493)
(2,243)	Major Repairs Allowance	(2,265)
8	Interest on Receipts	2
10,715	Rent Income	10,851
(300)	HRA Adjustment pre budget	300
2,909		**3,395**

13. Rent Arrears

2009/10 £'000		2010/11 £'000
202	Current Tenants	172
72	Former Tenants	64
1	Garages	1
275	Total Rent Arrears	**237**
(10,271)	Gross Rent Income	(10,640)
2.6%	Arrears as a % of Gross Rent Income	**2.2%**

The provision for HRA bad debts at 31 March 2011 is £ 125,000 (£125,000 at 31 March 2010)

13. Rent Income from Dwellings

2009/10 £'000		2010/11 £'000
(10,413)	Full rental income from dwellings	(10,780)
109	Less rent due on void properties	111
33	Write offs	29
(10,271)	Total Rent Arrears	**(10,640)**

14. Service Charge Breakdown

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

2009/10 £'000			2010/11 £'000
56	Service Charges	Leaseholders	65
172	Housing Care	Care element of sheltered rent	155
39	Insurance	Leaseholders insurance repayments	49
16	Water / Alarms	Sheltered accommodation recharge	17
7	Court Costs	From tenants	6
15	Service Charges	Tenants	13
50	Management	Non care element sheltered rent	49
22	Other		77
377			**431**

15. Pensions

The following transactions have been included in the HRA Income and Expenditure Statement and the Adjustments between Accounting and Funding bases under regulations (note 2) on the HRA Balance with no net residual cost to the HRA.

2009/10 £'000		2010/11 £'000
	Net Cost of Services	
(157)	Current service costs and past service costs	(79)
	Surplus or (Deficit) for the year on HRA Services	
638	Pensions interest cost and expected return on Pensions Assets	306
	Statement of Movement on the HRA Balance	
(916)	Reversal of net charges made for retirement benefits in accordance with IAS19	(608)
	Actual amount charged against Rents	
435	Employers’ contributions payable to scheme	381

COLLECTION FUND

2009/10 £'000		2010/11 £'000
	INCOME	
(34,180)	Council Tax	(34,613)
	Transfers from General Fund	
(5,133)	Council Tax Benefits	(5,482)
(13,984)	Income collectable from Business Ratepayers	(11,064)
-	Contribution to previous years estimated deficit	(350)
(53,297)		**(51,509)**
	EXPENDITURE	
39,386	Precepts and demands from County and District	39,973
	Business Rate	
13,900	Payment to National Pool	10,980
84	Costs of Collection	84
	Bad and Doubtful Debts	
(50)	Write Offs	(102)
340	Provisions	292
705	Release of previous years estimated surplus	-
54,365	**TOTAL EXPENDITURE**	**51,227**
1,068	**MOVEMENT ON FUND BALANCE**	**(282)**
	APPROPRIATIONS	
(392)	(Surplus) at 1 April	676
1,068	Deficit for the year	(282)
676	Deficit at 31 March	**394**

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.

Council tax is normally set before the financial year on the basis of estimates that would result in the Collection Fund balancing to zero. Inevitable changes in yield and assumptions about collectability during the year cause a surplus or deficit to arise on the fund at year end.

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	4,779.6	6/9	3,186.4
B	10,735.7	7/9	8,350.0
C	7,586.3	8/9	6,743.4
D	4,236.5	9/9	4,236.5
E	1,739.8	11/9	2,126.4
F	1,246.2	13/9	1,800.1
G	300.0	15/9	500.0
H	4.8	18/9	9.5
			26,952.3
Plus MOD contributions in lieu			852.1
Less allowance for losses on collection			(297.5)
Add second homes adjustment			93.0
Tax Base for 2010/11			**27,599.9**
Tax base for 2009/10			27,670.7

The Band D Council Tax for a Gosport property in 2010/11 was £202.81 (£202.81 in 2009/10]

3. Non-Domestic Rateable Value

The NNDR multiplier for the year was 41.4 pence (48.5p 2009/10). The total non-domestic rateable value at the year-end was £40,514,370. (£32,072,810 2009/10).

4. Precepts and Demands

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
27,405	28,173	Hampshire County Council	28,645
1,598	1,669	Hampshire Fire & Rescue Authority	1,694
3,718	3,932	Hampshire Police Authority	4,036
5,428	5,612	Gosport Borough Council	5,598
38,149	**39,386**		**39,973**

5. Collection Fund balance

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
276	506	Hampshire County Council	(250)
16	30	Hampshire Fire & Rescue Authority	(15)
36	69	Hampshire Police Authority	(35)
55	100	Gosport Borough Council	(50)
383	**705**		**(350)**

In 2009/10, £705,000 was released from the Collection Fund as an estimated surplus to the precepting authorities. In 2010/11, £350,000 was contributed by the precepting authorities to the deficit balance.

6. Accounting for the Collection Fund balance

Council Tax

The Code requires that the Council Tax included in the Comprehensive Income and Expenditure Account is the accrued income for the year rather than, as previously, the amount included under regulations comprising the approved annual precept plus the estimate of the Collection Fund surplus made at the previous 15th January. The difference between the accrued amount and the amount required to be included under regulations (the precept plus estimated Collection Fund surplus or deficit) is adjusted through the Collection Fund Adjustment Account and as a reconciling item in the Movement in Reserves Statement.

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

The following amounts are included in the balance sheet

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
		Debtors	
963	1,736	Hampshire County Council	1,618
136	244	Hampshire Fire & Rescue Authority	228
57	103	Hampshire Police Authority	96
248	245	Gosport Borough Council	261
(56)	96	Collection Fund Adjustment Account	55
1,348	**2,424**		**2,258**

Non Domestic Rates

The Code recognises that the collection of National Non Domestic Rates by billing authorities is undertaken under an agency arrangement and is to be accounted for accordingly.

Therefore, NNDR income billed and collected, associated impairment allowances, debtor and creditor balances and cash flows are not assets and liabilities of the billing authority and are not recognised in the billing authority's financial statements as such.

Under the Code, the correct debtor / creditor position that is recognised in the billing authority's balance sheet is the net amount of cash collected from NNDR taxpayers that has either not yet been paid to the government or which has been overpaid to the government.

The cost of collection allowance received by billing authorities continues to be included as income in Comprehensive Income and Expenditure Statement.

The following amount is included in the 2010/11 accounts in respect of the above transactions.

01-Apr-09 £'000	31-Mar-10 £'000		31-Mar-11 £'000
		NNDR National Pool	
(3,869)		Creditor (owing by the Council to the National Pool)	
	1,107	Debtor (owing to the Council from the National Pool)	2,214
(3,869)	**1,107**		**2,214**

GOSPORT BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT 2010/11

Scope of responsibility

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

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

Gosport Borough Council has completed the Corporate Governance Compliance Checklist which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

This statement explains how Gosport Borough Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

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

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

The governance framework has been in place at Gosport Borough Council for the date of approval of the 2010/11 Statement of Accounts.

The governance framework

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

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

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;

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

4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;

5. Developing the capacity and capability of members and officers to be effective; and

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

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

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

The Sustainable Community Strategy sets out Gosport's 2026 Vision which has been developed in parallel with the Local Development Framework (which sets out future land use in the Borough).

The first stage in developing the Vision involved extensive data collection on a range of quality of life issues which provided a statistical picture of the Borough. This is the data baseline. The second stage involved a large-scale community consultation, 'Make your Mark', which allowed residents, businesses and visitors to comment and prioritise the key issues. Over 1200 people took part in this highly successful participation event and the results were used to inform the Vision.

In addition to this key service providers were consulted and other consultation findings and local and regional plans and strategies were assessed.
Drawing on the information obtained from the research and consultations Gosport's 2026 Vision was produced.

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

The Council's Corporate Plan sets out Gosport Borough Council's Mission and Values which will help us provide quality service delivery. The Corporate Plan also identifies the Council's strategic priorities (People, Places, Prosperity and Pursuit of Excellence), which are based on a combination of factors including what matters most to local people, national priorities set by the Government and the challenges from Gosport's changing social, economic and environmental context.

Much work has been completed around Climate Change and carbon reduction throughout the business and the signing of the Nottingham Declaration. This has culminated in a Climate Change Strategy being introduced.

The Council's mission is:

"To work with our community to improve everyone's quality of life and deliver a sustainable future for the Borough."

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

The Council has a well established Performance Management Framework which has been further enhanced by introducing Covalent (software) to maintain this key information.

The Overview & Scrutiny Committee and Performance Sub Group monitor and scrutinise progress against targets and performance in priority areas effecting relevant service areas, and consider corrective action where necessary, on a quarterly basis. The Performance Sub Group has now been disbanded as the culture of performance management has been embedded into the day to day operations of the Council.

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

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

The Council's Corporate Procurement Strategy, approved in 2009, provides a consistent strategic framework within which to undertake and continuously develop procurement to deliver the Council's corporate objectives, to improve performance and deliver efficiencies. The Strategy encompasses the policy objectives of the National Procurement Strategy and adapts and prioritises them to meet the Council's local context. The Strategy recognises that the Council cannot achieve its objectives alone and emphasises the need to work in collaboration with public, private, social enterprise and voluntary sector partners. A core theme throughout the Strategy is the Council's commitment to social, economic and environmental sustainability. This strategy was produced in 2009/10.

The Council reviewed its Financial Regulations in 2006. These Regulations are planned to be updated in early 2011/12.

Risk Management is monitored by the Corporate Risk Management Group, which meets approximately four times a year. The Group reviews risk arrangements and advises Management Team on risk issues within the Council and on existing and planned risk controls.

Risks are reported by use of risk registers. Each section is required to update its own register. These registers will be further enhanced with the roll out of the “risk module” as part of the new performance management software in 2011/12. In addition, the Council’s high level risks have been captured and agreed within the strategic risk register (December 10) which has been agreed by CMT and Members in 2010/11. All Members were invited to attend risk management training in 2010/11 hosted by Zurich Municipal.

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

The Constitution sets out how the Borough Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The introduction of the Local Government Act 2000 made it the duty of every Council to review their political management structures. As part of the review Councils were required to consider the type of structure to be adopted and were given a choice of four models from which to choose. Councils with a population of less than 85,000 were offered the opportunity to adopt ‘alternative arrangements’ or what is sometimes referred to as the ‘fourth option’, and this is the option that was approved by Gosport Borough Council in 2000.

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

Decisions are made by Boards and Sub-Boards of the Council with the following having the responsibility for the majority of decision making (during 2010/11. Structure amended in 2011/12):

Council
Policy and Organisation Board
Community and Environment Board
Housing Board
Regulatory Board
Licensing Board

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

In addition to the Boards, there is also a Standards and Governance Committee in place to promote and maintain the highest standards of conduct by members and officers of the Council. The Committee comprises six Councillors and two Independent Members. Additionally, from May 2008 the Standards and Governance Committee is required to deal with complaints made about the conduct of Councillors as the majority of these cases will, from that point, be determined locally.

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

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

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

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

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

- Code of Conduct for Members of Gosport Borough Council
- Code of Conduct for the Guidance of Employees
- Code of Conduct for Councillors in the Regulatory Process
- Protocol for Councillor/Officer Relationships
- Anti-Fraud and Corruption Policy
- Whistle Blowing Policy
- Protocol on Principles of Scrutiny

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

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

The Environmental Health Section has achieved accreditation under the Charter Mark standards, which is the Government's national standard for excellence in customer service.

The financial management of the Authority is conducted in accordance with the financial rules set out in the Constitution and underpinned with Financial Regulations. The Council has designated the Deputy Chief Executive and Borough Treasurer as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.

The Council operates an Internal Audit section, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. This section continues to operate under a partnership arrangement with Eastleigh Borough Council.

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

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

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

The Overview and Scrutiny Committee will accept and investigate formal requests for scrutiny and receive selected policies and strategies for review throughout the year.

The Standards and Governance Committee promotes monitors and enforces probity and high ethical standards amongst the Members, as well as providing a vessel for Audit and Risk issues to be considered.

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

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

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

There is a wide range of further training opportunities available to Members to increase their knowledge base from skills development (e.g. chairing skills, dealing with challenging people and media and image) to need-to-know subjects (e.g. Code of Conduct, planning issues and scrutiny) detailed in the ' Training Opportunities for Members' booklet within the Members Information Pack.

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

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

Review of effectiveness

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

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

1. The Borough Solicitor (the "Monitoring Officer") has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes.

2. The Council has an Overview and Scrutiny Committee. They can establish sub-groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to the Board/Council.

3. Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate a three-year plan, and from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager. The report includes recommendations for improvements that are included within an action plan (and are graded as critical, essential, important & advisory) and requires agreement or rejection by service managers. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months.

The Standards & Governance Committee also received Internal Audit monitoring reports throughout 2010/11.

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

Significant governance issues

The following governance issues were identified during 2010/11 as a result of the review of arrangements and by the work of external and internal audit.

NO	ISSUE	ACTION/PROGRESS TO DATE
1	Closely monitor the repairs contract budget.	Increased information and systems in place to ensure contract is financially

		controlled (This area has improved through the introduction of a robust control environment).
2	Homelessness debt management.	Working group established to streamline the process and reduce the level of arrears (this area (COMPLETED).
3	Accounting reconciliations require evidence of review.	Evidence to be retained on file (COMPLETED)
4	Review the current procurement strategy and contract standing orders.	Contract procedure rules to be updated in 2010/11 COMPLETED).
5	Improve the risk management arrangements throughout the Council.	Ensure adequate resource is provided to support this key business process (IN PLACE).
6	Enhance governance arrangements in the Councils strategic partnership arrangements.	Run workshops and perform risk assessments with stakeholders to determine the strength of the governance arrangements and make improvements where necessary.
7	Controls operating over the Council's Debtors system at the time of the audit were poor and were not operating effectively.	Work to improve controls has been ongoing and regular meetings are held between audit and finance to monitor progress and discuss issues / solutions.
8	Improve the IT control environment following the 2010/11 External Audit Review.	Head of ICT to review outcomes and develop an improvement plan.
9	To consider response to the Government's consultation regarding the future of Public Audit and any future implications for the Council.	To keep under review.
10	To consider the impacts of the Localism Bill including the implementation of a revised standards regime for Councillors.	To keep under review.

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

Signed ………………………… ……….………………

Leader of the Council **Chief Executive**

AUDIT OPINION

GLOSSARY OF TERMS

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts.
Accruals Basis	The accounting basis whereby income is recorded when it is earned, rather than when it is actually received and expenses are recorded when the goods or services are actually received or when an obligation is entered into, rather than when the when payments are actually made. Income received in advance or payments made in advance – say for the next financial year – are credited or charged to that year and not to the year in which the income is received or the payment is made.
Agency Services	Services that are performed by or for another authority or public body, where the principal (the authority responsible for the service) reimburses the agent (the authority doing the work) for the cost of the work carried out.
Budget	A statement defining the council's policies over a specified period in terms of finance.
Capital Expenditure	Expenditure on the acquisition or improvement of tangible or intangible assets which yields benefit to the Council for more than one year. Expenditure that does not fall within this definition must be charged to a revenue account
Capital Receipts	Monies received from the sale of fixed assets, which may be used to finance new capital expenditure.
Collection Fund	The statutory fund maintained by a billing authority which must be kept separate from the main accounts of the council - used to record local taxes and non-domestic rates collected by the authority, along with payments to the precepting authorities (Hampshire County Council, Hampshire Police Authority and Hampshire Fire Authority and Gosport Borough Council), the national pool of non-domestic rates and its own general fund
Componentisation	The identification and recording of the components of an asset in order to more accurately charge depreciation. This includes the separate identification and derecognition of components as they are replaced.
Contingent Assets	A possible asset that arises from past events which may be confirmed by the occurrence or non-occurrence of an uncertain future event not wholly within the control of the authority.
Contingent Liabilities	A possible obligation that arises from past events which may be confirmed by the occurrence or non-occurrence of an uncertain future event not wholly within the control of the authority.
Creditors	Amounts owed by the authority for work done, goods received or services rendered within the accounting period, but for which payment was not made at the balance sheet date but for which the expenditure is included in the accounts of the financial year..
Debtors	Amounts owed for work or services rendered by the Authority within the financial year and which have not been paid but for which the income has been included in the accounts of the financial year.
Deferred Liabilities	These are liabilities which are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time

Depreciation	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.
Depreciation – Straight Line Method	The annual depreciation charge assumes an equal amount of wear of tear each year and the annual charge is therefore the same.
Expenditure	Amounts paid by the authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for.
Fair Value	The concept of fair value in asset valuation is used throughout the IFRS based Code. International Financial Reporting Standards do not have a consistent definition of fair value and different definitions apply in different circumstances
Financial Instruments	These represent any item that will cause the Council to receive or pay money. Generally considered to be treasury management related but also include certain debtors and creditors but not with a statutory basis.
Fixed Assets	Tangible assets which yield benefit to the Authority for a period of more than one year. They can be further classified into: ▪ Plant property and equipment ▪ Investment properties ▪ Intangible assets
General Fund	The main revenue fund of the Council which includes the net cost of all services financed by local taxpayers and government grants. Spending on the provision of housing, however, must be charged to a separate Housing Revenue Account
Impairment	An impairment loss is the amount by which the carrying value of an asset exceeds its recoverable amount. At the end of each reporting period, an assessment of assets must take place to identify any potential impairments. A downward valuation of an asset resulting from changes in market value does not necessarily result in an impairment.
Income	Amounts due to the Authority for goods supplied or services rendered of either a capital or revenue nature. This does not necessarily involve cash being received since income is deemed to have been earned once the goods or services have been supplied even if cash has not been received.
Intangible Assets	Assets that do have a physical form ie software and licences
Investment Properties	Properties that are held solely for appreciation or income generation
Lease - General	Where a rental is paid for the use of an asset for a specified period of time. There are two forms of lease – finance and operating. The lessor leases the asset to the lessee. The Council is both lessee and lessor.
Lease - Finance Lease	A lease or lease type arrangements whereby the risks and rewards of ownership are considered to be borne by the lessee and therefore the asset concerned is included on the lessee's balance sheet. The income or expenditure is subdivided into financing (principal) and interest elements and treated accordingly in the budget and accounts. Assets under finance leases are depreciated, revalued and impaired as necessary.

Lease - Operating Lease	Any lease or lease type arrangement which is not a finance lease. The assets concerned remain on the lessors balance sheet and the payments or income are dealt with as revenue income or expenditure
Liabilities	Amounts due to individuals or organisations payable at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the *Local Government and Housing Act 1989* - effectively the repayment of underlying capital debt.
National Non Domestic Rates (NNDR)	Businesses pay Non-Domestic rates instead of Council Tax. Each year, the Government sets the charge based on a fixed percentage of the business's rateable value, and the charge is collected by the billing authority. Business rates are pooled nationally and a share is given back to local authorities broadly based on the number of people living in the area.
Pensions - Actuarial Gains & Losses	Actuaries assess financial and non-financial information provided by the Council or pension fund administering authority to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because ▪ events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) ▪ the actuarial assumptions have changed.
Pensions - Current Service Cost	The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.
Pensions - Expected Rate of Return on (Pension Fund) Assets	The average rate of return expected over the remaining life of the related obligation on the actual assets held by the pension scheme.
Pensions - Interest on Pension Scheme Liabilities	The expected increase during the period in the present value of the scheme liabilities because the benefits are one year closer to settlement.
Pensions - Past Service Cost	Discretionary benefits awarded on early retirement are treated as past service costs.
Pensions – Strain on Pension Fund Contributions	Pension strain is a concept for the management of the pension fund finances arising from an employee retiring early, without actuarial reduction of pension. This causes lost contribution income and creates an interest cost arising from the associated earlier, increased cash flow
Precepts	The method by which a non-charging authority obtains the income it requires by making a levy on the appropriate charging or billing authorities. Billing authorities, such as Gosport, will themselves precept on the Collection Fund to obtain their own income.
Provision	An amount set aside for a liability of uncertain timing or amount.
Revenue Contributions	The method of financing capital expenditure directly from revenue.
Revenue Expenditure	Expenditure incurred on the day to day running of the Council. This includes employee costs, general running expenses and capital financing costs.
Revenue Support	A central government grant paid each year as a general contribution

Grant	towards the cost of the Council's services
Usable Reserves	Usable reserves are reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure).
Unusable Reserves	Unusable reserves may not be used to provide services. These represent unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' and include such items as depreciation and certain impairment and downward valuation costs.

APPENDIX 'D'

EXTRACT FROM THE MINUTES OF THE STANDARDS AND GOVERNANCE COMMITTEE MEETING 15 SEPTEMBER 2011

23. ANNUAL GOVERNANCE REPORT

NOTE: Councillor Hook declared a personal interest in this matter and remained in the meeting room.

Consideration was given to a covering report of the Audit Commission on the Annual Governance Report 2010/11. The Committee had before it the Annual Governance Report and the Draft Statement of Accounts for 2010/11 that had been publicly available since the end of June and which is the subject of the Annual Governance Report.

The Annual Governance Report summarised the findings from the 2010/11 audit which is substantially complete. The Report included matters of governance interest that had come to the District Auditor's attention in performing the audit. It included the messages arising from the District Auditor's audit of the council's financial statements and the results of the work he had undertaken to assess the council's arrangements to secure value for money in the council's use of resources. The Report was issued in draft as the District Auditor is required to reflect the council's comments in the final version of the report; as well as the letter of management representation, which would be signed as close as possible to the audit opinion date.

Under his covering report's heading 'Audit opinion and financial statements' the District Auditor advised that the council had dealt successfully with the challenges posed by the implementation of International Financial Reporting Standards (IFRS) 2010/11. A number of amendments were required to meet the more onerous IFRS disclosure requirements and necessary adjustments to expenditure (Appendix 2 of the Report).

Under the heading 'Value for money' the District Auditor stated that he intended to issue an unqualified value for money conclusion which would state that the council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The District Auditor requested the Committee to note that additional audit fees in the sum of £7,000 would be required to cover additional audit work over the completeness of expenditure in the accounts. In total 19 recommendations had been made in the Annual Governance Report. All had been accepted by management in the agreed Action Plan (Appendix 6 of the Report).

RESOLVED: That the Committee in approving the Annual Governance Report:

(i) notes the adjustments to the financial statements which are set out in Appendix 2,

(ii) agrees to the Borough Treasurer signing the letter of representation on behalf of the council in the next two weeks,

(iii) agrees the proposed Action Plan detailed in Appendix 6, and

(iv) agrees the additional audit fees in the sum of £7,000 as detailed above.