

Please ask for:

Lisa Young

Direct dial:

(023) 9254 5340

E-mail:

Lisa.young@gosport.gov.uk

15 September 2015

S U M M O N S

MEETING: Policy and Organisation Board
DATE: 23 September 2015
TIME: 6.00 pm
PLACE: Committee Room 1, Town Hall, Gosport
Democratic Services contact: Lisa Young

LINDA EDWARDS
BOROUGH SOLICITOR

MEMBERS OF THE COMMITTEE

The Mayor (Councillor Farr) (ex officio)
Councillor Hook (Chairman)
Councillor Burgess (Vice-Chairman)

Councillor Chegwyn	Councillor Langdon
Councillor Mrs Cully	Councillor Philpott
Councillor Hicks	Councillor Ronayne
Councillor Jessop	Councillor Mrs Wright

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NOTE: Please note that mobile phones should be switched off or switched to silent for the duration of the meeting.

AGENDA

PART A ITEMS

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 disclosable pecuniary interest in any item(s) being considered at this meeting.

3. MINUTES OF THE MEETING OF THE BOARD HELD ON 1 JULY 2015

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, 21 September 2015. 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, 21 September 2015).

6. TREASURY MANAGEMENT ANNUAL REVIEW 2014/15, PROGRESS REPORT 2015/16, & PRUDENTIAL INDICATORS
The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity for 2014/15 together with a review of 2015/16 to date. The report also includes the Prudential Indicators for 2014/15 in accordance with the requirements of the Prudential Code.

PART II

Contact:
Julian Bowcher
5301

7. BUDGET STRATEGY 2016/17

Report to follow

8. EY – AUDIT RESULTS REPORT

Report to follow

9. FINAL ACCOUNTS

Report to follow

10. ANY OTHER ITEMS

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

Board	POLICY AND ORGANISATION BOARD
Date of meeting:	23 SEPTEMBER 2015
Title:	TREASURY MANAGEMENT ANNUAL REVIEW 2014/15, PROGRESS REPORT 2015/16, & PRUDENTIAL INDICATORS
Author:	BOROUGH TREASURER
Status:	FOR NOTING

Purpose

The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity for 2014/15 together with a review of 2015/16 to date. The report also includes the Prudential Indicators for 2014/15 in accordance with the requirements of the Prudential Code.

Recommendations

The Board note this report and the 2014/15 prudential indicators

1 Background

- 1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The Prudential indicators are contained in the tables throughout this report.
- 1.2 During 2014/15 the minimum reporting requirements were that the Council should receive the following reports:
 - an annual treasury strategy in advance of the year (Council 12 February 2014)
 - a treasury transaction review report (P&O 29 September 2014)
 - an annual review following the end of the year describing the activity compared to the strategy (this report)
 - this report also includes a treasury review to August 2015
- 1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This

report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2 Report

THE ECONOMY AND INTEREST RATES

(The following narrative was mainly provided by Capita Asset Services, the Council's treasury management advisors, as a general background description to the public sector treasury management environment in 2014/15).

- 2.1 The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.
- 2.2 Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk prior to the general election that took place in May 2015.

- 2.3 The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing throughout 2014/15.
- 2.4 The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth and falling gilt yields led to a reduction in the forecasts for total borrowing in the March budget.
- 2.5 The EU sovereign debt crisis had subsided since 2012 until the Greek election in January 2015 sparked a resurgence of fears. While the UK and its banking system has little direct exposure to Greece, it is much more difficult to quantify quite what effects there would be if contagion from a Greek exit from the euro were to severely impact other major countries in the EZ and cause major damage to their banks.

THE STRATEGY FOR 2014/15

- 2.6 The Council continued to take a cautious approach to its treasury strategy in light of the continuing uncertainty over future interest rates and the risks associated with treasury activity. The Borough Treasurer, under delegated powers, took the most appropriate form of borrowing or investing depending on the prevailing interest rates at the time and taking into account the criteria in the Council's Treasury Management strategy.
- 2.7 Long term borrowing through the Public Works Loans Board was not taken if it was more cost effective to use short term borrowing along with surplus cash flows to temporarily fund the Council's capital programme and to reduce counterparty risk. Investments were dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
- 2.8 The strategy confirmed that routine treasury management matters were delegated to the Borough Treasurer whilst adhering to approved performance indicators and limits.

THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2014/15

- 2.9 The Council undertakes capital expenditure on long-term assets. These activities may either be:
 - Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed

Capital Expenditure	2013/14 Actual £'000	2014/15 Revised £'000	2014/15 Actual £'000
<u>General Fund (GF)</u>			
Capital expenditure	1,670	4,058	1,860
Financed in year	(1,235)	(1,717)	(702)
Unfinanced capital expenditure	435	2,341	1,158
<u>Housing Revenue Account (HRA)</u>			
Capital expenditure	3,556	3,485	3,331
Financed in year	(3,556)	(3,485)	(3,331)
Unfinanced capital expenditure	0	0	0

THE COUNCIL'S OVERALL BORROWING NEED

- 2.10 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2014/15 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 2.11 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLb] or the money markets), or utilising temporary cash resources within the Council.
- 2.12 The General Fund CFR – the Council's (non HRA) underlying borrowing need - is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

2.13 The Council's 2014/15 MRP Policy (as required by CLG Guidance) was approved by Council as part of the Treasury Management Strategy Report for 2014/15 on 12 February 2014.

2.14 The Council's CFR for the year is shown below, and represents a key prudential indicator.

Capital Financing Requirement	2013/14 Actual £'000	2014/15 Revised £'000	2014/15 Actual £'000
CFR - General Fund	18,285	20,167	19,015
CFR - HRA	62,970	62,264	62,132
CFR - Total	81,255	82,431	81,147
Gross Borrowing Position	76,275	76,165	76,053

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

2.15 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2014/15) plus the estimates of any additional capital financing requirement for the current (2015/16) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2014/15. The table above highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator. The HRA CFR includes the effect of a PWLB debt repayment (a voluntary revenue provision) of £606,000, which was funded from HRA balances.

2.16 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2014/15 the Council has maintained gross borrowing within its authorised limit.

2.17 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Authorised Limit and Operational Boundary	2014/15 £'000
Authorised limit	93,300
Maximum gross borrowing position	78,165
Operational boundary	87,400
Average gross borrowing position	76,535

- 2.18 **Actual financing costs as a proportion of net revenue stream** - this prudential indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Actual %	2014/15 Revised %	2014/15 Actual %
General Fund	6.5%	6.8%	6.9%
HRA	31.3%	30.8%	34.9%

Following Housing Finance reform and in line with CIPFA guidance, HRA financing costs include depreciation and also, for 2014/15, the PWLB debt repayment of £606,000 (see 2.15). The comparable ratio without the latter is 30.6%.

THE TREASURY POSITION AS AT 31 MARCH 2015

- 2.19 The Council's treasury position was as follows (2013/14 is included for comparison)

2013/14	General Fund			HRA			Total		
	31-Mar £'000	Rate	Avg Life	31-Mar £'000	Rate	Avg Life	31-Mar £'000	Rate	Avg Life
Fixed rate funding:									
PWLB	13,184	3.18%	12.56	60,991	3.01%	26.88	74,175	3.04%	24.33
Market	1,500	1.40%	2.61	600	1.30%	2.59	2,100	1.37%	2.60
Variable rate funding:	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a
Gross borrowing	14,684			61,591			76,275		
CFR	18,285			62,970			81,255		
Over/ (under) borrowing	(3,601)			(1,379)			(4,980)		
Total investments							(6,986)		
Net borrowing							69,289		

2014/15	General Fund			HRA			Total		
	31-Mar £'000	Rate	Avg Life	31-Mar £'000	Rate	Avg Life	31-Mar £'000	Rate	Avg Life
Fixed rate funding:									
PWLB	13,635	3.12%	11.93	60,318	3.02%	26.05	73,953	2.98%	22.93
Market	1,500	1.40%	1.61	600	1.30%	1.59	2,100	1.37%	1.60
Variable rate funding:	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a
Gross borrowing	15,135			60,918			76,053		
CFR	19,015			62,132			81,147		
Over/ (under) borrowing	(3,880)			(1,214)			(5,094)		
Total investments							(15,050)		
Net borrowing							61,004		

2.20 Following Housing Finance reform, two separate pools are being operated for Council debt and these are set out above. Comparisons are also shown against the HRA and General Fund Capital Financing Requirements (CFRs) which show that both funds were under borrowed – this means that external borrowing was less than the underlying need to borrow externally, primarily because surplus cash flows were utilised instead of actually taking on more loans. The Council is also limited to a maximum HRA CFR of £63.067 million (the ‘debt cap’) through the HRA self-financing regime.

2.21 The maturity structure of the debt portfolio was

The Maturity Structure of the Debt Portfolio	31-Mar-14	2014/15 Limits	31-Mar-15
	Actual	(Maximum)	Actual
	%	%	%
Under 12 months (see note #)	3%	3%	4%
12 months and within 24 months	4%	13%	4%
24 months and within 5 years	16%	25%	17%
5 years and within 10 years	21%	27%	22%
10 years and above	56%	58%	53%

Note - the limit was slightly exceeded (3.9%) – this will be reviewed in the Treasury Strategy report to P&O Board in February 2016.

2.22 The maturity structure of the investment portfolio was

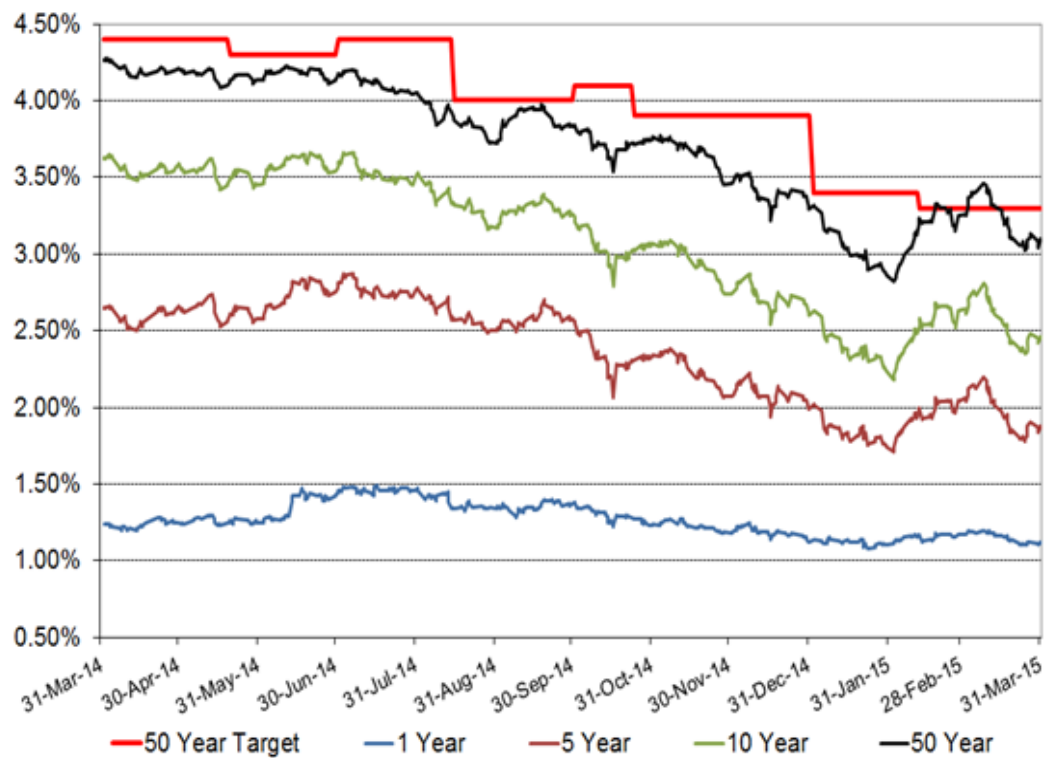
The Maturity Structure of the Investment Portfolio including cash and cash equivalents	31-Mar-14 Actual £'000	2014/15 Limits £'000	31-Mar-15 Actual £'000
Longer than 1 year	0	n/a	0
Under 1 year	(6,986)	n/a	(15,050)
Total	(6,986)	0	(15,050)

2.23 The exposure to fixed and variable rates was

The exposure to fixed and variable rates was as follows	2013/14 Actual £'000	2014/15 Limits %	2014/15 Actual £'000
Borrowing			
Fixed rate	76,275	100%	76,053
Variable rate	0	15%	0
Investments			
Fixed rate	0	100%	(8,900)
Variable rate	(6,986)	100%	(6,150)

BORROWING RATES IN 2014/15

2.24 PWLB borrowing rates - the graph below shows PWLB borrowing rates during the year.



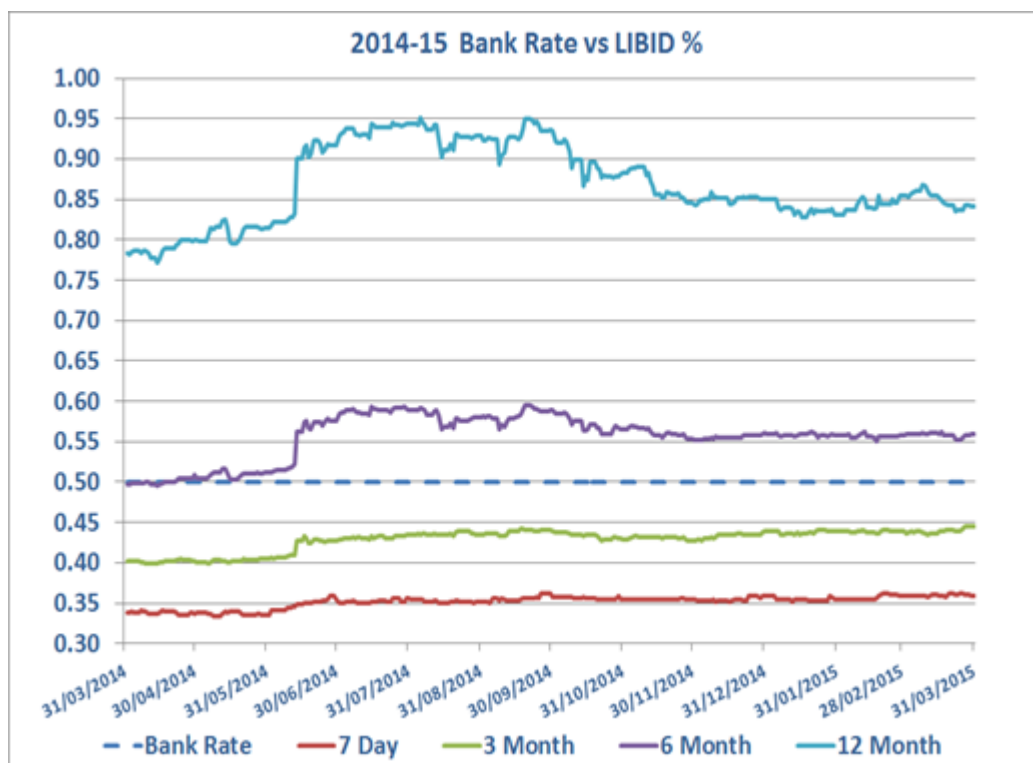
BORROWING OUTTURN FOR 2014/15

2.25 The following loans were taken and repaid during the year.

Lender	Principal £'000	Type - Fixed/Variable Interest	Interest %	Maturity	Date
Loans taken					
Public Works Loans Board	2,000	Fixed	2.47%	5 years	07-Oct-14
Loans repaid					
Public Works Loans Board	2,000	Fixed	2.82%	5 years	09-Dec-14
Public Works Loans Board	110	Fixed	2.90%	9 years	01-Sep-14
Public Works Loans Board	112	Fixed	2.90%	9 years	01-Mar-15

INVESTMENT RATES IN 2014/15

- 2.26 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year.



INVESTMENT OUTTURN 2014/15

- 2.27 In 2014/15 and in accordance with the Council's investment strategy and cash flow requirements, short term surplus funds were placed in a combination of money market funds, deposit accounts and external investments. This approach maintained an underborrowing position which reduced net interest payments and reduced the Council's exposure to counterparty risk
- 2.28 During 2014/15 the Council's average investment balance was £16.960 million and average return was 0.47%. Details of all investments undertaken during 2014/15 are shown at 2.29 below.
- 2.29 At 31 March 2015 short term surplus funds of £6.150 million were held in money market funds, with other local authorities and deposit accounts and £8.9 million was held in fixed rate investments - both in line with the Council's investment strategy. These are shown in the tables below.

Investments Undertaken	Average Investment £'000	Type - Variable Interest	Average Rate %		
National Westminster Bank (Main / Liquidity Select Account)	4,770	Variable	0.29%		
Bank of Scotland (Corporate Deposit Account)	248	Variable	0.40%		
Public Sector Deposit Fund	4,102	Variable	0.38%		
Investments Undertaken	Actual Investment £000's	Type - Fixed Interest	Interest Rate %	Investment Date	Maturity Date
Lloyds Commercial Banking	2,000	Fixed	0.80%	10-Apr-14	12-Jan-15
Lloyds Commercial Banking	950	Fixed	0.70%	02-Jul-14	02-Jan-15
Nationwide Building Society	3,000	Fixed	0.44%	28-Apr-14	30-Jun-14
Nationwide Building Society	3,000	Fixed	0.49%	30-Jun-14	30-Sep-14
Nationwide Building Society	3,000	Fixed	0.51%	30-Sep-14	05-Jan-15
Lancashire County Council	2,000	Fixed	0.70%	26-Sep-14	26-Jun-15
Chesterfield District Council	1,000	Fixed	0.50%	30-Sep-14	07-Oct-14
Barclays Bank	1,000	Fixed	0.60%	20-Oct-14	20-Apr-15
Barclays Bank	2,000	Fixed	0.53%	20-Oct-14	20-Feb-15
Moray Council	2,000	Fixed	0.50%	18-Nov-14	18-Mar-15
Nationwide Building Society	1,000	Fixed	0.50%	05-Jan-15	07-Apr-15
Lloyds Commercial Banking	2,900	Fixed	1.00%	12-Jan-15	12-Jan-16
Barclays Bank	2,000	Fixed	0.64%	16-Mar-15	16-Sep-15

THE TREASURY POSITION IN 2015/16

2.30 At 31 July 2015 the Council's treasury position was as follows

2015/16	General Fund			HRA			Total		
	31-Jul £'000	Rate	Avg Life	31-Jul £'000	Rate	Avg Life	31-Jul £'000	Rate	Avg Life
Fixed rate funding:									
PWLB	13,635	3.15%	11.60	60,318	3.02%	25.72	73,953	2.98%	22.60
Market	1,500	1.40%	1.28	600	1.30%	1.26	2,100	1.37%	1.27
Variable rate funding:	0	n/a	n/a	0	n/a	n/a	0	n/a	n/a
Gross borrowing	15,135			60,918			76,053		
CFR	19,015			62,132			81,147		
Over/ (under) borrowing	(3,880)			(1,214)			(5,094)		
Total investments							(19,510)		
Net borrowing							56,543		

2.31 **Borrowing** - there has been no change in the Council's borrowing since 31 March 2015.

2.32 **Investments** - the following table summarises the investments of short term surplus funds at 31 July 2015. All investments are in line with the Council's investment strategy.

Investments	Average Investment £'000	Type - Variable Interest	Average Rate %		
National Westminster Bank (Liquidity Select Account)	1,859	Variable	0.25%		
Bank of Scotland (Corporate Deposit Account)	11	Variable	0.40%		
Public Sector Deposit Fund	4,868	Variable	0.39%		
Investments Undertaken	Actual Investment £000's	Type - Fixed Interest	Interest Rate %	Investment Date	Maturity Date
Nationwide Building Society	2,000	Fixed	0.66%	01-Apr-15	01-Oct-15
Nationwide Building Society	1,000	Fixed	0.54%	07-Apr-15	07-Jul-15
Barclays Bank	1,000	Fixed	0.64%	20-Apr-15	20-Oct-15
Santander UK PLC	3,000	Fixed	0.69%	26-Jun-15	29-Dec-15
Nationwide Building Society	1,000	Fixed	0.50%	07-Jul-15	07-Oct-15

2.33 Capital Programme

The capital programme is currently being reviewed as part of the budget process. This will include updating the revenue implications (minimum revenue provision and interest) and the capital financing requirement projections. The annual Treasury Strategy report to Policy and Organisation Board and the Council will follow in February 2016.

OTHER ISSUES

2.34 **Training** – Capita Asset Services provided a training and briefing session for Members. This was well received and further sessions will be offered as necessary.

2.35 **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

Internal Audit & Risk Assurance is the Council's Money Laundering Reporting Officer to whom officers may report any suspicious transactions.

- 2.36 **External Service Provider** - the Council uses Capita Asset Services (formerly Sector Treasury Services Limited) as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The company provides a range of services to the Council which include:

- Technical support on treasury matters and capital finance issues,
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing and debt rescheduling

Following a joint procurement exercise with Fareham Borough Council in July 2012, Capita Asset Services were engaged for a further three plus one years at a reduced annual fee. A joint tendering exercise with neighbouring authorities is being explored for the treasury management advisory service beyond June 2016.

3 Risk Assessment

- 3.1 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.
- 3.2 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Capita Asset Services, the Council's advisers, has proactively managed the debt and investments over the year.

4 Conclusion

- 4.1 This report summaries the treasury activities and prudential indicators for 2014/15 and reviews the treasury activities for 2015/16 to date. It is a key governance report for the Treasury Management function.

Financial implications:	As contained in the report.
Legal implications:	It is a legal requirement that an annual Treasury Management report is considered by 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:	None
Report Author:	John Norman

AGENDA ITEM NO.7

Board/Committee:	POLICY & ORGANISATION BOARD
Date of Meeting:	23 SEPTEMBER 2015
Title:	BUDGET STRATEGY 2016/17
Author:	BOROUGH TREASURER
Status:	FOR DECISION

Purpose

To consider the strategy for preparation of the General Fund budget and Capital Programme for the next financial year in the light of the Medium Term Financial Strategy 2015-2020 approved by the Board in July 2015 and the current national and local financial situation.

Recommendation

That the Board note the Council's current financial position and agrees the Budget Strategy set out in Section 2 and Appendix A that will be used in the preparation of the budget for the 2016/17 financial year.

1 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 (MTFS) considered by the Board in July indicated that the reductions necessary to the Council's projected General Fund budget assuming no increase in current Council Tax levels and incorporating the latest inflation projections were estimated to be approximately £615,000 in 2016/17 with a further £1,905,000 for the 3 years from 2017/18. The MTFS did highlight that whilst this represents the best projection that can currently be made there is a very high level of uncertainty regarding future levels of Exchequer support. In addition to strong indications of a major reduction in the Revenue Support Grant over the next few years the income that the Council will receive under the Business Rate Retention Scheme is particularly difficult to forecast. The scheme is complex with many of the factors outside this Council's control such as the level and success rate of Business Rate appeals and the impact of any changes following the Government's current review of the scheme.
- 1.3 A further area of uncertainty relates to the future of the New Homes Bonus which totalled £796,039 in 2015/16. This grant is payable as a result of net growth in the tax base and each phase of grant awarded is received for a 6 year period. The MTFS currently allows for no

further tranches of this grant being awarded with the total grant receivable reducing in 2018/19 and 2019/20 as the 2012/13 and 2013/14 grant tranches fall out. Should the government decide to retain New Homes Bonus and grant new phases for 2016/17 and later years this could potentially improve the financial position although this is dependent on net growth in the tax base being achieved by the construction of new dwellings.

- 1.4 In addition to the considerable uncertainties highlighted above the international financial climate remains volatile and could impact on future funding, inflation and interest rates adding further difficulty to achieving accurate forecasting over the medium term.

2 Report

Budget Strategy 2016/17

- 2.1 Budget preparation will initially be in accordance with previous policy i.e. “zero-based” wherever possible and new bids will be heavily scrutinised. Maintenance proposals will be in accordance with Asset Management Plan requirements.
- 2.2 General inflation is expected to be approximately 2% during 2015/16, although it should be noted that pay inflation is expected to be lower.
- 2.3 Capital projects within the Capital Programme have been considered in terms of priority and affordability. The proposed levels of capital expenditure relating to the improvements to Housing Stock will be advised by the HRA Business Plan. The proposed Capital Programme 2016/17 to 2018/19 is attached (Appendix A).
- 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 by the Council next February after budget requirements and final Grant figures are confirmed. It is assumed that the requirement regarding the need to hold a referendum where the proposed Council Tax increase exceeds a specified level (2% for 2015/16) will continue.

Savings & Efficiencies

- 2.5 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. The Council has undertaken a series of service reviews achieving efficiency savings whilst still minimising the effect on services overall. These measures have helped achieve a balanced budget in the current financial year and gone some way to meeting the challenges faced for 2016/17.

- 2.6 Gosport has a track record of innovation and partnership working; many examples of joint working already exist and others will continue to be explored as and when opportunities arise. The Council will continue to seek opportunities to deliver services more efficiently through outsourcing, partnership, joint working and technology.
- 2.7 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).

- 2.8 The ongoing service reviews will continue particularly once a clearer position regarding resources available is known with the objectives of achieving a balanced budget for 2016/17 and to leave the Council best placed to meet the financial challenges anticipated for 2017/18 and later years. It is possible however that any further significant reductions in central government support (beyond those currently forecast within the strategy) may require additional measures such as additional increases in fees and charges and local tax rises in excess of the current policy, possibly requiring a local referendum.

3 Risk Assessment

- 3.1 Risk areas associated with the budget are outlined in the Council's Budget Book. The recently introduced changes to the financing of Local Government has resulted in an increase in risk borne by councils in such areas as Business Rate Retention, changes to Housing Benefit Reform and the new Council Tax Support Scheme (previously Council Tax Rebates). These risks in addition to the uncertainty relating to the level of Central Government Grant (particularly Revenue Support Grant and New homes Bonus) are considered the most significant areas of risk the Council faces at the current time. As a result of these and the continuing uncertainty relating to the international economy it is considered essential that a prudent Budget Strategy is adopted.

- 3.2 An additional area of uncertainty relates to the Hampshire and Isle of Wight Devolution proposal which could have a significant impact on the future funding levels available to this Council from 2017/18.

4 Conclusion

- 4.1 Preparation of the General Fund budget for 2016/17 in common with 2015/16 has begun against a backdrop of further pressure on resources, both nationally and locally. There remains considerable uncertainty regarding the level of external grants and business rate income likely to be received by the Council. 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.

Financial Services comments:	See report
Legal Services comments:	Set out in the report
Crime and Disorder:	Nil
Equality and Diversity:	Nil
Service Improvement Plan implications:	No direct implications
Corporate Plan:	Nil
Risk Assessment:	See paragraph 3.1
Background papers:	Medium Term Financial Strategy 2015-20
Appendices/Enclosures:	
Appendix 'A'	The Capital Programme 2016/17-2018/19
Report author/ Lead Officer:	Julian Bowcher

CAPITAL PROGRAMME 2015/16 TO 2018/19
COMMUNITY BOARD - HOUSING (HRA)

Item No	SCHEME	Progress Category	Project total (where appropriate) £,000	Revised 2015/16 £,000	Estimate 2016/17 £,000	Estimate 2017/18 £,000	Estimate 2018/19 £,000	Local Resources			
								2015/16	2016/17	2017/18	2018/19
								£,000	£,000	£,000	£,000
1	LA Tenants Disabled Persons Grant	E	-	50	50	50	50	50	50	50	50
2	Improvements to Housing Stock	E	-	3,510	3,590	3,450	3,250	3,510	3,590	3,450	3,250
3	St Vincent Road Development	I	2,375	1,400	900			1,400	900		
	Board Total			4,960	4,540	3,500	3,300	4,960	4,540	3,500	3,300

CAPITAL PROGRAMME 2015/16 TO 2018/19
COMMUNITY BOARD - HOUSING (GENERAL FUND)

Item No	SCHEME	Progress Category	Project total (where appropriate) £,000	Revised 2015/16 £,000	Estimate 2016/17 £,000	Estimate 2017/18 £,000	Estimate 2018/19 £,000	Local Resources			
								2015/16	2016/17	2017/18	2018/19
								£,000	£,000	£,000	£,000
1	Disabled Facilities	E	-	493	382	382	382		100	100	100
2	Housing Renewal	E	-	111	60	60	60	111	60	60	60
	Board Total			604	442	442	442	111	160	160	160

KEY TO PROGRESSION CATEGORIES

E. Exempt from progression categories

CAPITAL PROGRAMME 2015/16 TO 2018/19
COMMUNITY BOARD - NON HOUSING

Item No	SCHEME	Progress Category	Project total (where appropriate) £,000	Revised 2015/16 £,000	Estimate 2016/17 £,000	Estimate 2017/18 £,000	Estimate 2018/19 £,000	Local Resources			
								2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000
1	Alver Valley Country Park	P	1,040	966				321			
2	River Hamble to Portchester CFERM Strategy	E	-	77							
3	Car Park resurfacing & upgrading	E	-	135	40	40	40	135	40	40	40
4	Provide lighting to pathways within Leisure Parks, Gardens & Open Spaces	P	197	174							
5	Privett Park - Replacement 2nd Pavilion & paths (this scheme is subject to both S.106 developer contribution and equivalent match funding [each £350k] being identified - the capital programme funding projections currently assume that this will be the case or the scheme will not proceed)	I	700	700							
6	Leesland Skatepark - MUGA & skatepark improvements	P	58	2							
7	Lee Promenade resurfacing	P	45	45				45			
8	Public Conveniences refurbishment	E	-	142	80	80	80	142	80	80	80
9	Transfer of Play Areas at Priddys Hard	P	21	7							
10	Privett Park-Provision of High Protective Fence & Multi Use Games Facility	P	35	10				10			
11	Playgrounds - improvements to existing facilities	E	-	57	20	20	20	57	20	20	20
12	Kerbside & Glass Collection service	I	134		134				134		
13	Essential Paving Improvements & Upgrades	E	-	90	40	30	30	90	40	30	30
14	Stokes Bay - Wet & Dry Play Area	P	425	25		25		25		25	
15	Install permanent vehicle deterrents at various locations	P	33	33				33			
16	Gosport Park - replace bowling green hedge with fencing	P	14	12				12			
17	Stanley Park - phased refurbishment	P	80	49	20			49	20		
18	Renew interpretation boards across the Borough	P	39	30	9			30	9		
19	Ice Rink refurbishment & improvement	P	100	100				100			
20	Enclosure Football Pitch - automatic watering system	P	10	8				8			
21	Stokes Bay Golf Club - drainage works	p	35	35				35			
22	Ann's Hill Cemetery Waiting Room	I	20		20				20		
23	Bridgemary Skate Park (to include BMX & Scooters)(subject to match funding of £90k)	I	180		180				90		
24	Cockle Pond - water circulation scheme	I	100		100				100		
25	Cockle Pond - footway repairs	I	100			100				100	
26	Community Space - Manor Way	I	100		100				100		
27	Parham Road - flood measures	I	25		25				25		
Board Total				2,706	768	295	170	1,097	678	295	170

CAPITAL PROGRAMME 2015/16 TO 2018/19
ECONOMIC DEVELOPMENT BOARD

Item No	SCHEME	Progress Category	Project total (where appropriate) £,000	Revised 2015/16 £,000	Estimate 2016/17 £,000	Estimate 2017/18 £,000	Estimate 2018/19 £,000	Local Resources			
								2015/16	2016/17	2017/18	2018/19
								£,000	£,000	£,000	£,000
1	Waterfront Masterplanning	D	220	72				72			
2	Pumping Stations upgrade	P	15	15				15			
	Board Total			87				87			

POLICY & ORGANISATION BOARD

Item No	SCHEME	Progress Category	Project total (where appropriate) £,000	Revised 2015/16 £,000	Estimate 2016/17 £,000	Estimate 2017/18 £,000	Estimate 2018/19 £,000	Local Resources			
								2015/16	2016/17	2017/18	2018/19
								£,000	£,000	£,000	£,000
1	CCTV - Replacement & Upgrades	E	-	15	46	15	15	15	46	15	15
2	Hampshire High Speed Broadband Project	E	-	15				15			
3	IT - PC Replacement Programme	E	-	5	10	10	10	5	10	10	10
4	IT - Server Replacement	E	-	68	40	40	80	68	40	40	80
5	IT - Microsoft Licence	E	-	70	50	50	50	70	50	50	50
6	IT - System Upgrades	E	-	76	35	10	10	76	35	10	10
7	Town Hall Major Repairs - Electrics	E	-	75	10	10	10	75	10	10	10
8	Town Hall Major Repairs - Internal Decorations	E	-	40	15	15	15	40	15	15	15
9	Town Hall Major Repairs - Health & Safety	E	-	35	10	10	10	35	10	10	10
10	Town Hall Major Repairs - Adaptions	E	-	105	15	15	15	105	15	15	15
11	Town Hall Passenger Lift - major refurbishment / renewal	E	-	79				79			
12	Financial Management System V.5 Upgrade	I	-		45				45		
	Board Total			583	276	175	215	583	276	175	215

Item No	SCHEME	Progress Category	Project total (where appropriate) £,000	Revised	Estimate	Estimate	Estimate	Local Resources			
				2015/16	2016/17	2017/18	2018/19	2015/16	2016/17	2017/18	2018/19
				£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
	Total Capital Programme			8,940	6,026	4,412	4,127	6,838	5,654	4,130	3,845
				8,940	6,026	4,412	4,127	6,838	5,654	4,130	3,845

KEY TO PROGRESSION CATEGORIES

I - Inception
 D - Design
 T - Tender
 P - Progressing
 C - Complete
 F- Final
 E. Exempt from progression categories

SUMMARY FINANCING STATEMENT

	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	Total £'000
Specific Capital Grants - GF	493	282	282	282	1,339
Developer Contributions - Open Spaces - GF	866				866
Other Grants and Contributions - GF	743	90			833
Local Resources - Major Repairs Reserve - HRA	2,400	2,400	2,400	2,400	9,600
Local Resources - Revenue Contribution - HRA	1,160	1,240	1,100	900	4,400
Local Resources - Reserves - HRA	1,400	900			2,300
Local Resources - Capital Receipts - GF	710	135	135	635	1,615
Local Resources - Capital Funding Requirement - GF	1,168	979	495	(90)	2,552
Total Funding	8,940	6,026	4,412	4,127	23,505

AGENDA ITEM NO.8

Board/Committee:	Policy and Organisation Board
Date of Meeting:	23 September 2015
Title:	EY – Audit Results Report
Author:	Helen Thompson
Status:	For consideration and approval by the Policy and Organisation Board

Purpose

This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising to date from our audit of your financial statements and your arrangements to secure value for money in your use of resources.

Our report includes only matters of governance interest that have come to our attention in performing the audit under the requirements of the Audit Commission's Code of Audit Practice and International Standards of Auditing (ISAs).

This is an important report that is a requirement of ISA 260 and must be presented to you in your role as those charged with governance, before you approve the 2014/15 financial statements.

Recommendation

- Review and note the conclusions to date set out in the Audit Results Report
- Approve the letter of management representation (included with the Final Accounts 2014/15 agenda item).

1 Background

- 1.1 The Audit Commission's Code of Audit Practice require us to report to those charged with governance on the work we have carried out to discharge our statutory audit responsibilities, together with any governance issues identified.

2 Report

2.1 Financial statements

As of 15 September 2015, we expect to issue an unqualified audit opinion by the statutory deadline of 30 September 2015.

Work on the whole of government accounts return is progressing. We will provide a verbal update on progress at the Board meeting on 23 September 2015.

2.2 Value for money conclusion

We have completed our work on the value for money conclusion and intend to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

2.3 Audit certificate

At the date of this report, we expect to issue the audit certificate alongside the audit opinion and value for money conclusion.

2.4 Audit fees

We anticipate that the audit will be completed within the agreed audit fee of £70,725.

3 Risk Assessment

- 3.1 The Audit Results Report – ISA260 should be reviewed and noted as part of the Council's governance arrangements.

4 Conclusion

- 4.1 The Audit Results Report – ISA260 is attached for consideration and approval.

Financial Services comments:	N/A
Legal Services comments:	N/A
Crime and Disorder:	N/A
Equality and Diversity:	N/A
Service Improvement Plan implications:	N/A
Corporate Plan:	N/A
Risk Assessment:	N/A
Background papers:	N/A
Enclosures:	Audit Results Report 2014/15
Report author/ Lead Officer:	Helen Thompson, Executive Director, Ernst & Young

Gosport Borough Council

Policy and Organisation Board Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015



Building a better
working world

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Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Policy and Organisation Board – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report to the Policy and Organisation Board summarises the findings from the 2014/15 audit to date. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 15 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results to date demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements well.

Value for money

- ▶ We have completed our work on the value for money conclusion and intend to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ Work on the whole of government accounts return is progressing. We do not expect to report any significant matters to the National Audit Office (NAO) regarding the whole of government accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- ▶ The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ express an opinion on the 2014/2015 financial statements and the consistency of other information published with them;
 - ▶ report on an exception basis on the Annual Governance Statement;
 - ▶ consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion); and
 - ▶ discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the whole of government accounts work through the Assurance Statement to the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be, and should not be, used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>We are:</p> <ul style="list-style-type: none">▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;▶ reviewing accounting estimates for evidence of management bias, including PPE revaluations and indexation, the Business Rates Appeals provision and pensions (IAS19); and▶ evaluating the business rationale for significant unusual transactions.	<p>Our work to date has not identified any evidence of fraud or management bias, or any significant unusual transactions.</p> <p>This work is, however, still in progress and will be completed before we report to the Policy and Organisation Board on 23 September 2015.</p>

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ Our work programme is still in progress and will be completed prior to the Policy and Organisation Board meeting on 23 September 2015 by which time our work will be substantially completed. The remaining procedures include:
 - ▶ receipt of a Letter of Representation; and
 - ▶ assessment of the responses to our enquiries in respect of journals.
- ▶ Subject to the satisfactory resolution of our work programme, we anticipate that we will issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ To date, we have not identified any misstatements within the draft financial statements which management has chosen not to adjust.

Corrected misstatements

- ▶ During the audit a number of numerical and disclosure misstatements have been identified by our team or by management. These have been corrected during the course of our work and further details are provided of the most significant amendments at Appendix A .

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - ▶ qualitative aspects of your accounting practices; estimates and disclosures;
 - ▶ matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
 - ▶ any significant difficulties encountered during the audit; and
 - ▶ other audit matters of governance interest

There are certain circumstances relating to the housing finance aspect of the financial statements that indicate this is an area the Council should seek further improvement, although to an extent this is due to staff turnover.

We have no other matters we wish to report at the time of preparing this report and will update, if necessary, the Policy and Organisation Board at its meeting on 23 September 2015.

Financial statements audit – application of materiality

Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
Planning Materiality and Tolerable error	<p>We determined planning materiality to be £1.237 million (2014 £1.278 million), which is 2% of gross expenditure reported in the accounts of £61.872 million.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no prior year adjustments related to fraud and no material uncorrected errors in the prior period.</p>
Reporting Threshold	<p>We agreed with the Standards and Governance Committee that we would report all uncorrected audit differences in excess of £63,900. We have reduced this level marginally on assessing the draft financial statements to £62,000 (2014: £63,909).</p>

We also identified related party transactions as an area where misstatement at a level lower than our overall materiality level might influence the reader. Therefore we have substantively tested the disclosure of related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement to assess whether:
 - ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ it is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

- ▶ We plan to request a standard management representation letter to gain management's confirmation in relation to a number of matters.
- ▶ At the time of preparing this report we do not anticipate the need to request any additional representations. We will update the Policy and Organisation Board at its meeting on 23 September 2015.

Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ Work on the whole of government accounts return is progressing. We are currently carrying out our work in this area and will report any matters that arise to the Policy and Organisation Board.

Section 5

**Arrangements to
secure economy,
efficiency and
effectiveness**

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Gosport Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ Since presenting the Audit Plan to you we have reclassified 'financial resilience' as a significant risk to the value for money conclusion.
- ▶ We have no issues to report in relation to this criterion.

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks in relation to this criterion.
- ▶ We have no issues to report in relation to this criterion.

Our work in relation to these two value for money criteria is complete and we intend to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources. We have no other matters that we need to bring to your attention relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Addressing audit risks – significant value for money risks

We identified the following value for money risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the value for money conclusion is the risk that the auditor may issue the wrong value for money conclusion. Where auditors identify a significant value for money conclusion risk they will need to undertake additional audit work to enable them to reach an appropriate conclusion.

Value for money risk identified within our Audit Plan

Financial resilience

During our audit we reclassified financial resilience as a significant risk because the savings requirement for the next three years of £2.8 million is greater than our planning materiality of £1.2 million.

Our approach focused on assessing:

- ▶ whether the Council has good systems and processes in place to manage its financial risks and opportunities effectively; and
- ▶ the robustness of financial plans, including the assumptions made in the Medium Term Financial Strategy (MTFS).

The Council's net expenditure on general fund was £0.67 million lower planned in 2014/15. It transferred £0.65 million more to reserves than had been budgeted, increasing the Revenue Financing Reserve by £0.68 million and establishing a Stability & Resilience Reserve totalling £0.29 million.

We have reviewed your Medium Term Financial Strategy (MTFS). We consider your MTFS to be robust and underpinned by reasonable assumptions including the level of pay and non-pay inflation; the funding of capital schemes and the inclusion of their revenue implications; and realistic savings projected through to 2019/20. As with other councils there is a significant level of uncertainty over the future of central government funding. You have taken this into account in your assumptions about the level of central government funding over the period of the MTFS.

You are clearly looking to review services and to seek opportunities to collaborate with other councils to identify further efficiencies and savings.

We have concluded that you have appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 11 June 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Policy and Organisation Board on 23 September 2015.

- ▶ We confirmed that we have met the reporting requirements to the Standards and Governance Committee on 10 September 2015. We subsequently report to the Policy and Organisation Board on 23 September 2015, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 11 June 2015.

Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	70,725	70,725	0
Certification of claims and returns	18,270	18,270	0
Non-Audit work	N/A	N/A	N/A

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Section 7

Appendix A

Appendix A – corrected audit misstatements (1)

- ▶ The following corrected misstatements have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet, statement of comprehensive income and expenditure and disclosure notes.

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
1. Comprehensive Income and Expenditure Statement	Income and expenditure have both been overstated in total by £803,000, across: <ul style="list-style-type: none"> - Cultural and Related Services - Highways, Roads & Transport and - Housing Services 	F	N/A	Dr Income £803,000 Cr Expenditure £803,000
2. Balance sheet: Creditors and HRA Council Dwellings.	A creditor accrual for sheltered housing had been overstated by £121,000: <ul style="list-style-type: none"> - Reduce HRA creditors - Increase Revaluation Reserve (RR) -Increase Capital Adjustment Account (CAA) 	F	HRA creditors Dr £121,000 RR Cr £41,000 CAA Cr £80,000	N/A
3. Balance sheet: Debtors, CIES and HRA income	HRA debtors were understated by £106,000 and General Fund Housing (RAPS) debtors overstated by £81,000. Therefore: <ul style="list-style-type: none"> - Increase HRA debtors by £106,000 - Increase HRA charges for services and facilities by £106,000 - Reduce General Fund Housing debtors by £81,000 - Reduce CIES Housing services income by £81,000 		Dr HRA debtors Cr GF Housing debtors £81,000	Cr HRA income £106,000 Dr GF Housing income £81,000

Appendix A – corrected audit misstatements (2)

- ▶ The following corrected misstatements have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet, statement of comprehensive income and expenditure and disclosure notes.

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
4. Housing Revenue Account (HRA): Income and Expenditure Statement	Reclassify the correction of overstated HRA debtors as an adjustment to income, rather than expenditure on the face of the HRA: - Dr HRA Income £408,000 - Cr HRA Expenditure £408,000	F	N/A	Dr HRA Income £408,000 Cr HRA Expenditure £408,000
5. Housing Revenue Account (HRA): Income and Expenditure Account.	Correction of misstatement – Reduce: - Charges for services and facilities by £92,000 - Supervision & management by £92,000	F	N/A	Dr HRA income: Charges for services and facilities £92,000 Cr HRA expenditure: Supervision and management £92,000
6. Leases: Note 30 –Operating leases (Council as Lessee)	The disclosure of operating leases where the Council is a lessee. The note has been amended to include the properties leased by the Council for temporary accommodation. Added the disclosure of future estimated minimum lease payments of £2.5 million, and the disclosure of £2.475 million expenditure in 2014/15 which is already included in the cost of services in the Comprehensive Income & Expenditure Account.	F	N/A	N/A

Appendix A – corrected audit misstatements (3)

- ▶ The following corrected misstatements have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet, statement of comprehensive income and expenditure and disclosure notes.

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
7. Disclosure note 17: Cash and cash equivalents.	<p>Correct the analysis of cash and cash equivalents between 'Money Market Funds' and 'Call Accounts'. The corrected analysis will be:</p> <ul style="list-style-type: none"> - Money Market Funds £3.5 million - Call Accounts £2.65 million 	F	N/A	N/A
8. Disclosure note 14: Financial instruments	<p>Financial liabilities 'Trade Payables' have been reduced by £937,000, in order to remove the following statutory payable balances:</p> <ul style="list-style-type: none"> - Regional growth fund receipt in advance £820,000 - Collection find creditor for NDR £117,000 	F	N/A	N/A
9. Disclosure note 14: Financial instruments	<p>Financial assets 'Trade Receivables' have been reduced to take account of the bad debt provision for non-statutory debtors.</p> <ul style="list-style-type: none"> -Trade receivables reduced by £650,000 	F	N/A	N/A
10. Disclosure note 18: Creditors	<p>The footnote to note 18 Creditors has been amended to show that the Central Government Bodies creditor balance includes £2.069 million in relation to the Regional Growth Fund.</p>	F	N/A	N/A

Appendix A – corrected audit misstatements (4)

- ▶ The following corrected misstatements have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet, statement of comprehensive income and expenditure and disclosure notes.

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
11. Housing Revenue Account (HRA) –disclosure note 2	The value of dwellings has been reduced by £784,000 to remove the value of garages which is shown separately. The corrected balance is £354,491,000	F	N/A	N/A

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

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GOSPORT BOROUGH COUNCIL

BOARD:	POLICY & ORGANISATION BOARD
DATE OF MEETING:	23 SEPTEMBER 2015
TITLE:	FINAL ACCOUNTS 2014/15
AUTHOR:	BOROUGH TREASURER
STATUS:	FOR APPROVAL

Purpose

This report summarises the outturn position for the 2014/15 financial year and recommends the approval of the Statement of Accounts for 2014/15.

Recommendations

- The Board approve the accounting policies contained within the Statement of Accounts (Appendix G, page 18)
- The Board approves the Statement of Accounts for 2014/15 at Appendix G
- The Board note the outturn position contained in the report and Appendices including
 - The capital programme slippage detailed in Appendix D
 - The write offs approved under delegated authority at Appendix E
- The Board approve the Letter of Representation at Appendix F

1.0 Background

- 1.1 The Accounts and Audit Regulations 2011 require the annual Statement of Accounts to be formally approved by members after the external audit has taken place with the subsequent publication of the statement taking place by the end of September. Members therefore receive and approve a final Statement that has been amended for any items arising out of the audit

2.0 Report

- 2.1 The audit of the accounts was undertaken by Ernst and Young (the Council's external auditors) during August and September and formally concludes when the audit opinion is issued prior to publication of the statement.
- 2.2 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 Hampshire Independent and on the Council website.

- 2.3 Standards and Governance Committee considered Ernst and Young's Audit Results Report on 10 September (this is the formal report from the auditors to 'those charged with governance'). The report noted that, subject to satisfactory completion of the outstanding audit work, Ernst and Young planned to issue an unqualified audit opinion by 30 September after Policy and Organisation Board has formally approved the final financial statements.
- 2.4 The formal statutory Statement of Accounts for 2014/15 which includes any amendments arising from the external audit is included at Appendix G. The key points affecting the Council's finances are summarised below.

OUTTURN 2014/15

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

GENERAL FUND REVENUE BUDGET

- 2.6 The Council's revenue budget for 2014/15 before transfers to or from reserves was £9,653,620, the actual net expenditure for the year was £9,064,746 giving an under spending of £588,874.

Revenue budget carry forwards total £174,880 so the net underspending excluding carry forwards was £413,994 (approximately 0.6% of the gross budget)

- 2.7 Appendix B summarises the net expenditure or income by Board.
- 2.8 Appendix C sets out a summary of some of the main variances that comprise the overall £588,874 underspending.
- 2.9 Both appendices B and C exclude technical accounting entries.
- 2.10 The resulting net under spending has been transferred to the Revenue Financing Reserve (RFR) in line with Council policy.

GENERAL FUND RESERVES

2.11 The Council has three main General Fund revenue reserves

- The General Fund working balance at 31 March 2015 is £890,000 as projected in the Budget Report for 2015/16 and in line with Council policy.
- The Revenue Financing Reserve (RFR) - which is used to fund annual variations in expenditure and income, uninsurable risks and spend to save initiatives – is £2,665,455 at 31 March 2015. This includes the budgeted contribution into the reserve of £25,610 and the net underspending on the General Fund budget of £572,839 (this is £16,035 less than the figure at 2.6 owing to Business Rate accounting timing differences). The balance at year end of £2,665,455 includes the revenue carry forwards of £174,880.
- The Stability and Resilience Reserve – which is used to cover the risk and volatility arising from the Business Rate Retention and Council Tax Support schemes together with the uncertainties in future levels of Revenue Support Grant – is £291,440 at 31 March 2015, this being the budgeted transfer into the reserve for 2014/15.

HOUSING REVENUE ACCOUNT

2.14 The Housing Revenue Account (HRA) was forecast to have a revenue surplus of £411,000 for 2014/15 with this sum being transferred into the revenue New Build Reserve.

2.15 The actual surplus was £651,238 - an increase of £240,238. This was mainly due to an underspend on the repairs and maintenance budget offset by increased costs on several other budget areas including minor repairs, utilities and equipment.

2.16 The HRA has two revenue reserves

- The HRA balance – effectively the working balance carried forward – this is £991,738 at 31 March 2015, as budgeted.
- The New Build Reserve – a revenue reserve to provide a source of funding for construction of new housing – this is £1,501,188 at 31 March 2015 and includes the HRA surplus for the year of £651,238.

CAPITAL PROGRAMME

2.17 The revised Capital Programme for 2014/15 was budgeted at £7,542,500. The actual capital spend detailed in Appendix D is £5,190,859 and scheme slippage, carried forward into 2015/16 is £2,229,422.

- 2.18 The updated capital programme for 2015/16 and beyond is included in the Budget Strategy 2016/17 report to this Board.

TREASURY MANAGEMENT

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

31-Mar-14 £'000	31-Mar-15 £'000
0 Short Term Investments	8,918
6,459 Cash and Cash Equivalents	6,032
(2,398) Short Term Borrowing	(3,433)
(74,091) Long Term Borrowing	(72,825)
(70,030) Net Borrowing position	(61,308)

- 2.20 The Long Term Borrowing figure represents Public Works Loan Board borrowing payable after 2015/16. The borrowing figures include approximately £57 million taken in 2011/12 to finance the settlement payment to the government for HRA Self Financing.
- 2.21 The Board is receiving the Treasury Management Annual Review and progress report separately on the agenda.

COLLECTION FUND

- 2.22 Following the introduction of Business Rate Retention financing from 1 April 2013, the balance on the Collection Fund, now represents the difference between estimated and actual income for
- Council Tax (shared between Gosport Borough, Hampshire County Council, Hampshire Police and Crime Commissioner and Hampshire Fire and Rescue Authority) and
 - Business Rates (shared between Gosport Borough, Hampshire County Council, Hampshire Fire and Rescue Authority and the Government)
- 2.23 The year end balances included in the Statement of Accounts are
- Business Rates £1.543 million surplus
 - Council Tax £0.987 million surplus
- 2.24 The rates of Council Tax and Business Rates collection for 2014/15 were 95.3% (2013/14 95.6%) and 96.9% (2013/14 97.8%) respectively.

WRITE OFFS

- 2.25 Under Financial Regulations, the Borough Treasurer has delegated authority to approve write offs up to £20,000. These are summarised on Appendix E for 2014/15 along with figures for the previous year for comparison. The Council bears approximately 40% and 14% respectively of Business Rates and Council Tax write offs. 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.

LETTER OF REPRESENTATION

- 2.26 The Letter of Representation is a formal letter from the Council to the Council's external auditors (Ernst and Young) that provides assurances on key matters that are contained in the audited Statement of Accounts for 2014/15.
- 2.27 It is a requirement of the external audit to assist in determining whether the financial statements give a true and fair view of the financial position of the Council at 31 March 2015 and once approved it is signed by the Borough Treasurer and the Chairman of Policy and Organisation Board.
- 2.28 The letter has also been separately considered and agreed by Standards and Governance Committee on 10 September 2015.

3.0 RISK ASSESSMENT

- 3.1 The Council's budget for 2015/16 includes a risk assessment that considers the potential impact on the Council's financial position that certain budget areas may have. Generally, most budget variances correspond with this assessment which is kept under review.

4.0 CONCLUSION

- 4.1 This report summarises the outturn position for 2014/15 and requests members to approve the formal Statement of Accounts for 2014/15.

Financial Implications	As set out in the report
Legal Implications:	The Council is required to approve and publish the Statement of Accounts for 2014/15 by 30 September 2015
Service Improvement Plan	This report and the Statement of Accounts reflect both service improvement plans and the corporate plan.
Corporate Plan:	

Risk Assessment:	Section 3 of the report
Background papers:	Final Accounts working papers
Appendices/Enclosures:	A Outturn 2014/15 – Summary B Outturn 2014/15 – By Board and Service C General Fund Variances D Capital Programme 2014/15 E Write Offs F Letter of Representation G Statement of Accounts 2014/15
Report Author/Lead Officer	John Norman

GENERAL FUND			
REVENUE OUTTURN	REVISED 2014/15 £	ACTUAL 2014/15 £	VARIANCE £
GENERAL FUND			
Net Expenditure of Boards	9,653,620	9,064,746	(588,874)
Transfer to Reserves	317,050	889,889	572,839
Budget Total	9,970,670	9,954,635	(16,035)
Financed by			
Gosport Council Tax	(5,058,490)	(5,058,491)	(1)
Revenue Support Grant	(2,557,810)	(2,557,813)	(3)
Business Rates Retention	(2,354,370)	(2,338,331)	16,039
	(9,970,670)	(9,954,635)	16,035
MAIN REVENUE RESERVES	Actual 01-Apr-14 £	Revised 31-Mar-15 £	Actual 31-Mar-15 £
GENERAL FUND			
General Fund Balance	(890,000)	(890,000)	(890,000)
Revenue Financing Reserve	(2,067,006)	(2,092,612)	(2,665,455)
Stability & Resilience Reserve	0	(291,440)	(291,440)
	(2,957,006)	(3,274,052)	(3,846,895)

HOUSING REVENUE ACCOUNT			
REVENUE OUTTURN	REVISED 2014/15 £	ACTUAL 2014/15 £	VARIANCE £
HOUSING REVENUE ACCOUNT			
Net Surplus	(411,000)	(651,238)	(240,238)
MAIN REVENUE RESERVES	Actual 01-Apr-14 £	Revised 31-Mar-15 £	Actual 31-Mar-15 £
HOUSING REVENUE ACCOUNT			
Revenue Account Balance	(991,738)	(991,738)	(991,738)
New Build Reserve (Revenue)	(849,950)	(1,260,950)	(1,501,188)
	(1,841,688)	(2,252,688)	(2,492,926)

GENERAL FUND by BOARD by SERVICE		REVISED 2014/15 £	ACTUAL 2014/15 £	VARIATION £
1	COMMUNITY BOARD			
1A	LEISURE & CULTURE	2,177,600	2,069,694	(107,906)
1B	WASTE	1,338,410	1,308,889	(29,521)
1C	STREETSCENE	667,520	558,935	(108,585)
1D	COMMUNITY SAFETY	326,970	323,029	(3,941)
1E	ENVIRONMENTAL SERVICES	457,830	452,813	(5,017)
1F	MISC ENVIRONMENTAL & TRANSPORT	539,580	507,217	(32,363)
1G	CEMETERY	(15,700)	(17,817)	(2,117)
1H	HOME ADAPTATION GRANTS	7,790	7,874	84
1I	PRIVATE SECTOR HOUSING	115,760	114,578	(1,182)
1J	HOMELESSNESS	291,750	294,946	3,196
1K	OTHER GENERAL FUND HOUSING	(61,430)	(98,962)	(37,532)
		5,846,080	5,521,195	(324,885)
2	ECONOMIC DEVELOPMENT BOARD			
2A	ECONOMIC PROSPERITY	224,140	217,381	(6,759)
2B	MARKET	(44,820)	(53,265)	(8,445)
2C	TOWN HARBOUR FORESHORE	212,750	208,114	(4,636)
2D	EVENTS	63,840	63,373	(467)
2E	PROPERTIES	112,150	93,199	(18,951)
2F	MARKETING AND TOURISM	137,920	134,624	(3,296)
2G	LOCAL DEVELOPMENT FRAMEWORK	152,000	115,224	(36,776)
		857,980	778,649	(79,331)
3	POLICY AND ORGANISATION BOARD			
3A	REGISTRATION OF ELECTORS	191,290	174,271	(17,019)
3B	LOCAL LAND CHARGES	(22,480)	75,961	98,441
3C	CONCESSIONARY TRAVEL	400	304	(97)
3D	HOUSING BENEFITS	552,320	348,532	(203,788)
3E	LOCAL TAXATION	236,150	326,941	90,791
3F	DEVELOPMENT SERVICES	740,350	696,331	(44,019)
3G	LICENSING & REGISTRATION	46,240	39,636	(6,604)
3H	ASSISTANCE TO VOLUNTARY ORGS	199,150	198,729	(421)
3I	CORPORATE & CIVIC EXPENSES	1,163,690	1,055,949	(107,741)
3J	MISCELLANEOUS SERVICES	183,070	185,746	2,676
3K	OTHER CORPORATE AREAS	(340,620)	(337,496)	3,124
		2,949,560	2,764,901	(184,659)
		9,653,620	9,064,746	(588,874)
	Transfer to RFR	25,610	25,610	0
	Transfer to RFR		572,839	572,839
	Transfer to S&RR	291,440	291,440	0
		9,970,670	9,954,635	(16,035)
	Gosport Council Tax	(5,058,490)	(5,058,491)	(1)
	Revenue Support Grant	(2,557,810)	(2,557,813)	(3)
	Business Rates Retention	(2,354,370)	(2,338,331)	16,039
		(9,970,670)	(9,954,635)	16,035
		0	(0)	(0)

GENERAL FUND MAIN VARIANCES by BOARD by SERVICE		Revised £	Actual £	Variance £
COMMUNITY BOARD				
Leisure & Culture				
Open Spaces - D Day memorial gardens (C/Fwd)		62,300	48,437	(13,863)
Open Spaces - Maintenance of Grounds		32,500	26,395	(6,105)
Open Spaces - Redecking Ramparts Bridge (C/Fwd)		23,950	17,112	(6,838)
Open Spaces - Seats & Litter Baskets (inc Ramparts Bridge C/Fwd)		19,000	10,345	(8,655)
Investment Property - Consultants		160	6,729	6,569
Investment Property - Income		(265,210)	(275,752)	(10,542)
Play Areas - Safety surfacing replacement (C/Fwd)		18,000	6,148	(11,852)
Rugby - Purchase of equipment		5,000	0	(5,000)
Waste				
Supplies & Services		27,080	22,648	(4,432)
Contract Payments		1,329,370	1,305,692	(23,678)
Waste Income		(306,220)	(301,186)	5,034
Streetscene				
Car Parking - Premises		84,110	90,747	6,637
Car Parking - Supplies & Services - various		73,900	65,049	(8,851)
Car Parking - Income (all types)		(763,160)	(787,292)	(24,132)
Public Conveniences - Premises - mainly maintenance		74,800	47,782	(27,018)
Street Cleansing - Special maintenance & collections		33,000	77	(32,923)
Community Safety				
CCTV Shared costs - Repair & maintenance of buildings (C/Fwd)		5,310	192	(5,118)
Environmental Services				
Homecheck Scheme - Reduction in take up of scheme		18,000	8,747	(9,253)
Misc Environmental & Transportation				
Millenium Bridge - Equipment Maintenance		9,000	4,503	(4,497)
Slipways - GAFIRS Slipway works (C/Fwd)		19,000	1,340	(17,660)
Grange Farm Depot - Repair & maintenance of buildings		50	6,330	6,280
Coast Protection - Maintenance of seawalls		28,000	19,531	(8,469)
Bus Shelters - Maintenance of premises		35,000	21,216	(13,784)
Homelessness				
Net variance excluding admin		(235,750)	(232,554)	3,196
Other General Fund Housing				
Stokes Bay Mobile Home Park - Maintenance & utilities (C/Fwd)		41,400	19,530	(21,870)
Stokes Bay Mobile Home Park - Income from additional sales		(54,500)	(65,967)	(11,467)
ECONOMIC DEVELOPMENT BOARD				
Market				
Gosport Market - Income increase in quarter 4		(83,100)	(89,990)	(6,890)
Properties				
Investment Properties - Repair & maintenance of buildings		17,250	11,302	(5,948)
Wilmott Lane Depot - Damp works Westfield Road (C/Fwd)		20,000	7,940	(12,060)
Local Development Framework				
Consultants & studies & surveys (C/Fwd)		62,000	25,224	(36,776)
POLICY AND ORGANISATION BOARD				
Local Land Charges				
Set up provision for search fee compensation claims		0	96,300	96,300
Housing Benefits				
Net expenditure (income) after subsidy excluding admin		105,780	(95,795)	(201,575)
Local Taxation				
Net cost of increasing bad debt provision for costs & income		(292,000)	(264,487)	27,513
Development Services				
Studies & surveys, grant & partnership charges (incs C/Fwd)		129,960	99,104	(30,856)
Planning fees		(170,000)	(181,362)	(11,362)
Licensing & Registration				
Vehicle Licensing Income		(67,980)	(73,180)	(5,200)
Miscellaneous Services				
Grants - Autumn Statement measures admin grant & Transparency		0	(15,437)	(15,437)
Other Corporate Areas				
Financing inc interest paid & received, MRP & HRA Item 8 transfer		882,100	884,697	2,597
		918,100	470,112	(447,988)
ADMINISTRATION EXPENSES				(62,206)
ALL OTHER VARIATIONS				(78,680)
TOTAL				(588,874)

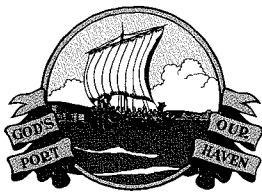
Item	CAPITAL PROGRAMME 2014/15	REVISED 2014/15 £	Actual 2014/15 £	Variance over(under) £	Slippage £
	COMMUNITY BOARD - HOUSING (HRA)				
1	LA Tenants Disabled Persons Grant	50,000	50,000.00	0.00	0
2	Improvements to Housing Stock	3,435,000	3,205,961.55	(229,038.45)	0
3	St Vincent Road Development	0	74,870.56	74,870.56	0
		3,485,000	3,330,832.11	(154,167.89)	0
	COMMUNITY BOARD - HOUSING (GENERAL FUND)				
1	Disabled Facilities	423,000	194,121.36	(228,878.64)	146,540
2	Housing Renewal	98,000	47,135.16	(50,864.84)	50,860
		521,000	241,256.52	(279,743.48)	197,400
	COMMUNITY BOARD - NON HOUSING				
1	Alver Valley Country Park	162,000	74,013.00	(87,987.00)	87,990
2	River Hamble to Portchester. CFERM Strategy	200,000	216,292.08	16,292.08	77,322
3	Waste Recycling - Project Integra Contribution	8,000	3,784.00	(4,216.00)	0
4	Car Park resurfacing & upgrading	104,000	8,695.60	(95,304.40)	95,300
5	Provide lighting to pathways within Leisure Parks, Gardens & Open Spaces	175,000	1,170.00	(173,830.00)	173,830
6	Privett Park - Replacement 2nd Pavilion & paths (this scheme is subject to both S.106 developer contribution and equivalent match funding [each £350k] being identified - the capital programme funding projections currently assume that this will be the case or the scheme will not proceed)	700,000	0.00	(700,000.00)	700,000
7	Leesland Skatepark - MUGA & skatepark improvements	10,000	8,500.00	(1,500.00)	1,500
8	Lee Promenade resurfacing	45,000	0.00	(45,000.00)	45,000
9	Public Conveniences refurbishment	141,000	79,128.89	(61,871.11)	61,870
10	Transfer of Play Areas at Priddys Hard	9,000	1,515.29	(7,484.71)	7,480
11	Privett Park-Provision of High Protective Fence & Multi Use Games Facility	10,000	0.00	(10,000.00)	10,000
12	Replacement Car Park machines	40,000	48,652.32	8,652.32	0
13	Cocklepond refurbishment	134,000	283,938.98	149,938.98	0
14	Playgrounds - improvements to existing facilities	50,000	13,032.00	(36,968.00)	36,970
16	Essential Paving Improvements & Upgrades	50,000	0.00	(50,000.00)	50,000
17	Relay Tarmac to Rowner Green Bowling Club Car Park	25,000	18,348.25	(6,651.75)	6,650
18	Remove Paving Slabs at Anglesey Gardens Bowling Club and Replace with Tarmac	11,000	13,992.00	2,992.00	0
19	Stokes Bay - Wet & Dry Play Area	82,000	56,673.85	(25,326.15)	25,330
20	Install permanent vehicle deterrents at various locations	33,000	0.00	(33,000.00)	33,000
21	Falklands Gardens fountain - refurbish & replace pumps	15,000	10,251.83	(4,748.17)	0
22	Foster Gardens - refurbish pond & boundaries	15,000	13,346.63	(1,653.37)	0
23	Gosport Park - replace bowling green hedge with fencing	21,000	2,237.34	(18,762.66)	18,760
24	Stanley Park - phased refurbishment	38,000	9,118.23	(28,881.77)	28,880
25	Renew interpretation boards across the Borough	20,000	0.00	(20,000.00)	20,000
26	Privett Park Enclosure irrigation	37,000	37,137.70	137.70	0
27	Ice Rink refurbishment & improvement	100,000	0.00	(100,000.00)	100,000
28	Enclosure Football Pitch - relaying	82,000	81,970.26	(29.74)	0
29	Enclosure Football Pitch - automatic watering system	10,000	2,306.00	(7,694.00)	7,690

Item	CAPITAL PROGRAMME 2014/15	REVISED 2014/15 £	Actual 2014/15 £	Variance over(under) £	Slippage £
30	Crown House - conversion to two flats	85,000	0.00	(85,000.00)	0
31	Stokes Bay Golf Club - drainage works	35,000	0.00	(35,000.00)	35,000
0	Landing Stage - replacement	0	(38,064.00)	(38,064.00)	0
0	Gosport Leisure Centre	0	(8,390.00)	(8,390.00)	0
0	Bus Shelters	4,000	0.00	(4,000.00)	4,000
0	Stokes Bay Promenade - maintenance of promenade	4,000	0.00	(4,000.00)	4,000
0	Kings Road Playscheme	1,000	0.00	(1,000.00)	1,000
		2,456,000	937,650.25	(1,518,349.75)	1,631,572
	ECONOMIC DEVELOPMENT BOARD				
1	Waterfront Masterplanning	72,000	0.00	(72,000.00)	72,000
2	Pumping Stations upgrade	15,000	0.00	(15,000.00)	15,000
3	High Street Improvements	176,000	175,204.66	(795.34)	0
		263,000	175,204.66	(87,795.34)	87,000
	POLICY & ORGANISATION BOARD				
1	CCTV - Replacement & Upgrades	15,000	15,605.00	605.00	0
2	Hampshire High Speed Broadband Project	30,000	30,000.00	0.00	0
3	Mobile Home Park - underground pipe renewal	58,000	59,936.72	1,936.72	0
4	Mobile Home Park - flooding alleviation	51,000	52,438.33	1,438.33	0
5	IT - PC Replacement Programme	112,000	132,363.43	20,363.43	
6	IT - Server Replacement	70,000	27,253.17	(42,746.83)	109,100
7	IT - Microsoft Licence	50,000	29,718.51	(20,281.49)	
8	IT - System Upgrades	146,000	79,560.62	(66,439.38)	
9	Town Hall Major Repairs - Electrics	64,500	0.00	(64,500.00)	
10	Town Hall Major Repairs - Internal Decorations	25,000	0.00	(25,000.00)	204,350
11	Town Hall Major Repairs - Health & Safety	25,000	0.00	(25,000.00)	
12	Town Hall Major Repairs - Adaptions	118,000	28,147.68	(89,852.32)	
13	Reprographics Equipment - replacement	48,000	46,835.00	(1,165.00)	0
0	Forton Lake Opening Bridge - major repairs	2,000	897.00	(1,103.00)	0
0	Upgrade GBC radio system	3,000	3,160.00	160.00	0
		817,500	505,915.46	(311,584.54)	313,450
		7,542,500	5,190,859.00	(2,351,641.00)	2,229,422

FINANCED BY			
HRA - Major Repairs Reserve	2,446,000.00	2,400,152.96	(45,847.04)
HRA - Revenue Contribution	1,039,000.00	930,679.15	(108,320.85)
GF - Developer Contributions - Open Spaces	535,000.00	9,670.00	(525,330.00)
GF - Other Grants & Contributions	741,000.00	388,505.71	(352,494.29)
GF - Capital Grants - Disabled Facilities	341,000.00	194,121.36	(146,878.64)
GF - Capital Receipts	100,000.00	109,494.31	9,494.31
GF - Borrowing - GF	2,340,500.00	1,158,235.51	(1,182,264.49)
	7,542,500.00	5,190,859.00	(2,351,641.00)

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CUMULATIVE WRITE OFFS UNDER DELEGATED AUTHORITY			2013/14 £	2014/15 £
Council Tax			68,474	65,173
NNDR			155,227	60,140
Housing Rents	HRA		37,976	34,342
	GF		95,832	105,295
Sundry Debtors			3,395	4,128
Housing Benefits			77,989	94,426
TOTALS			438,893	363,504



GOSPORT

Borough Council

Helen Thompson
Ernst & Young
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Town Hall, High Street,
Gosport, Hampshire, PO12 1EB.
DX136567 Gosport 2
Website: www.gosport.gov.uk
Switchboard: (023) 9258 4242
Chief Executive: Ian Lycett

Please ask for:

Julian Bowcher

Direct dial:

(023) 9254 5301

E-mail:

Julian.bowcher@gosport.gov.uk

My Ref:

JB/ks

23 September 2015

Dear Helen Thompson,

2014/15 LETTER OF REPRESENTATION

This representation letter is provided in connection with your audit of the financial statements of Gosport Borough Council ("the Council") for the year ended *31 March 2015*. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Gosport Borough Council as of *31 March 2015* and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Gosport Borough Council is committed to equal opportunities for all.

This document can be provided in large print, on CD or tape, in Braille or in another language, please ask.

*delivering
for Gosport*

2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.
4. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
- Additional information that you have requested from us for the purpose of the audit and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council, the Policy & Organisation Board and Standards & Governance Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date:

- Full Council [15 July 2015]
- Policy & Organisation Board [1 July 2015]
- Standards & Governance Committee [25 June 2015]

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. The Council has not provided financial guarantees to any third parties; therefore no specific disclosure is made within the financial accounts.

F. Subsequent Events

1. Other than described in Note 5 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except for matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency).

J Use of the Work of an Expert

1. IAS 19 valuation

We agree with the findings of the Aon Hewitt engaged to provide IAS 19 valuation services for the defined benefit pension scheme as set out in note 31 and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records.

We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours Faithfully,

Borough Treasurer – Julian Bowcher

I confirm that this letter has been discussed and agreed at the Policy & Organisation Board on 23 September 2015

Chairman of Policy & Organisation Board– Councillor Mark Hook



GOSPORT
Borough Council

STATEMENT OF ACCOUNTS

2014/15

STATEMENT OF ACCOUNTS 2014/15

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EXPLANATORY FOREWORD

1. Introduction

The Statement of Accounts provides an overview of the Council's financial position at 31 March 2015 and a summary of its income and expenditure in the year to 31 March 2015. It is, in parts, a complex document which sets out to ensure that the accounts of all Government funded bodies provide comparable and consistent information and comply with International Financial Reporting Standards. It meets the reporting and accounting requirements of the CIPFA Code of Practice on Local Authority Accounting 2014/15 (the Code) which is based on and compliant with International Financial Reporting Standards (IFRS).

2. The main financial statements

Statement of Responsibilities

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

Movement in Reserves Statement

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

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow Statement

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

Notes to the accounts including accounting policies

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

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

Housing Revenue Account and notes

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

Collection Fund and notes

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

Annual Governance Statement

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

3. Financial summary

General Fund

The Council's revenue budget for 2014/15 before transfers to or from reserves was £9,653,620, the actual net expenditure for the year was £9,064,746 giving an under spending of £588,874. The underspend reflects, in part, revenue budget carry forwards totalling £174,880 - the net underspending excluding these being £413,994 (approximately 0.8% of the gross budget).

The main areas of underspend and additional income include Homelessness £78,000, Benefits (subject to audit of the subsidy claim) £202,000 and Administration Costs including Salaries and Overheads £62,000.

General fund net interest paid was £74,413 (budgeted net interest paid £64,240) and the Minimum Revenue Provision (statutory revenue charge for debt outstanding) was £566,362 (budgeted £572,410)

The table below summarises the 2014/15 budget outturn, including how it is financed and the main reserves, in the same way that it is presented in the Budget Book, as opposed to the statutory reporting format in these financial statements.

The Council has three main General Fund revenue reserves which are shown below. Budgeted transfers of £317,050 into the Revenue Financing Reserve (RFR) and Stability and Resilience Reserves (SRR) were made as planned. Additionally, a further £572,839 was added to the RFR as set out below.

REVENUE OUTTURN	REVISED 2014/15 £	ACTUAL 2014/15 £	VARIANCE £
GENERAL FUND			
Net Expenditure of Boards	9,653,620	9,064,746	(588,874)
Transfer to Reserves	317,050	889,889	572,839
Budget Total	9,970,670	9,954,635	(16,035)
Financed by			
Gosport Council Tax	(5,058,490)	(5,058,491)	(1)
Revenue Support Grant	(2,557,810)	(2,557,813)	(3)
Business Rates Retention	(2,354,370)	(2,338,331)	16,039
	(9,970,670)	(9,954,635)	16,035
MAIN REVENUE RESERVES	Actual 01-Apr-14 £	Revised 31-Mar-15 £	Actual 31-Mar-15 £
GENERAL FUND			
General Fund Balance	(890,000)	(890,000)	(890,000)
Revenue Financing Reserve	(2,067,006)	(2,092,612)	(2,665,455)
Stability & Resilience Reserve	0	(291,440)	(291,440)
	(2,957,006)	(3,274,052)	(3,846,895)

Housing Revenue Account

REVENUE OUTTURN	REVISED 2014/15 £	ACTUAL 2014/15 £	VARIANCE £
HOUSING REVENUE ACCOUNT			
Net Surplus	(411,000)	(651,238)	(240,238)
MAIN REVENUE RESERVES	Actual 01-Apr-14 £	Revised 31-Mar-15 £	Actual 31-Mar-15 £
HOUSING REVENUE ACCOUNT			
Revenue Account Balance	(991,738)	(991,738)	(991,738)
New Build Reserve (Revenue)	(849,950)	(1,260,950)	(1,501,188)
	(1,841,688)	(2,252,688)	(2,492,926)

The Housing Revenue Account was forecast to have a revenue surplus of £411,000 for 2014/15 with revised revenue account balances totalling £2,252,688 at 31 March 2015. The actual surplus was £651,238 with revenue account balances of £2,492,926 being carried forward into 2015/16.

The main underspend was on the repairs and maintenance budget which was underspent by £262,000 mainly due to the delay in appointing a new contractor for the painting element of the budget, offset by increased costs on administration, minor repairs, utilities and equipment.

Capital

A summary of capital expenditure and financing for 2014/15 is shown below. This shows material schemes, additions and enhancements to the council's fixed assets together with scheme slippage into 2015/16.

SCHEME	REVISED 2014/15 £	ACTUAL 2014/15 £	SLIPPAGE £
BY BOARD			
Community Board - Housing (HRA)	3,485,000	3,330,832	0
Community Board - Housing (GF)	521,000	241,257	197,400
Community Board - Non Housing	2,456,000	937,650	1,631,572
Economic Development Board	263,000	175,205	87,000
Policy & Organisation Board	817,500	505,916	313,450
	7,542,500	5,190,860	2,229,422
BY MAJOR SCHEME			
Council Dwellings	3,485,000	3,330,832	0
Recreation, Sport & Play Area schemes	1,166,000	262,170	906,920
Disabled Facilities	423,000	194,121	146,540
Information Technology	378,000	268,896	109,100
Town Hall Major Repairs	232,500	28,148	204,350
River Hamble to Portchester. CFERM Strategy	200,000	216,292	77,322
Lighting in Parks	175,000	1,170	173,830
Car Park resurfacing & Pay & Display machines	144,000	57,348	95,300
Public Conveniences refurbishment	141,000	79,129	61,870
Cocklepond Refurbishment	134,000	283,939	0
Mobile Home Park	109,000	112,375	0
Ice Rink refurbishment	100,000	0	100,000
Housing Renewal	98,000	47,135	50,860
Stokes Bay - Wet & Dry Play Area	82,000	56,674	25,330
Stokes Bay Golf Club	35,000	0	35,000
All other schemes	640,000	252,631	243,000
	7,542,500	5,190,860	2,229,422
FINANCED BY			
HRA - Major Repairs Reserve	2,446,000	2,400,153	
HRA - Revenue Contribution	1,039,000	930,679	
GF - Capital Receipts	100,000	109,494	
GF - Developer Contributions - Open Spaces	535,000	9,670	
GF - Developer Contributions - Affordable Housing	0	0	
GF - Other Grants & Contributions	741,000	388,506	
GF - Capital Grants - Disabled Facilities	341,000	194,121	
GF - Borrowing - GF	2,340,500	1,158,236	
	7,542,500	5,190,860	

Pensions liability

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

The Balance Sheet and note show a poorer position compared to last year's net pension deficit by £4.04 million (£33.61 million to £37.65 million) mainly due to changes in actuarial assumptions in measuring fund liabilities. This is a volatile figure and has a tendency to vary by several millions from year to year depending on actuarial assumptions and government guidance.

31-Mar-14 £'000	31-Mar-15 £'000
(33,610) Net Pension Liability	(37,650)

Significant changes

Business Rates Retention

From April 2013, the national system of redistributing centrally pooled business rates to Local Authorities was replaced by a new system of Business Rates Retention whereby a proportion of Business Rates collected is retained locally by billing and precepting authorities and the balance is paid over to central government – there is therefore the potential reward of additional income - or indeed reduced income, subject to the safety net.

The scheme as legislated is subject to centrally set targets and thresholds as well as a system of tariffs, top-ups, safety nets and levies. There are also timing differences for the different income streams and factors outside of the Council's control may affect income (ie rating appeals).

While complex, the system has started to bed down in 2014/15 (year two of its operation) with all parties becoming more conversant with the scheme's features – although the government has now initiated a comprehensive review of the Business Rates financing regime.

Environmental Health Shared Service

As noted in last years statement, from April 2014 the Gosport and Fareham Environmental Health teams were restructured into a single team employed by Fareham in order to deliver efficiency savings of approximately £50,000 per annum for each authority. This has worked very successfully and the annual savings accruing to Gosport next year are anticipated to be approximately £100,000.

Borrowing and Cash

The table below summarises the Council's net borrowing position

31-Mar-14 £'000	31-Mar-15 £'000
0 Short Term Investments	8,918
6,459 Cash and Cash Equivalents	6,032
(2,398) Short Term Borrowing	(3,433)
(74,091) Long Term Borrowing	(72,825)
(70,030) Net Borrowing position	(61,308)

The Council's capital financing requirement (or the underlying need to borrow) is essentially a measure of the outstanding capital expenditure which has not yet been paid for from either revenue or capital resources is set out below.

31-Mar-14 £'000	31-Mar-15 £'000
81,255 Capital Financing Requirement	81,147

Resources

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

31-Mar-14 £'000	31-Mar-15 £'000
<u>Revenue</u>	
General Fund (GF)	
(890) GF - General Fund balance	(890)
(2,067) GF - Revenue Financing Reserve	(2,666)
0 GF - Stability and Resilience Reserve	(291)
(621) GF - Other	(588)
Housing Revenue Account (HRA)	
(992) HRA - Housing Revenue Account balance	(992)
(850) HRA - New Build Reserve (Revenue)	(1,501)
<u>Capital</u>	
General Fund (GF)	
(65) GF - Capital Receipts (Camden Allotments)	(65)
Housing Revenue Account (HRA)	
(724) Capital Receipts Reserve (HRA)	(1,151)
(622) Capital Receipts New Build (RTB)	(954)
0 HRA - Major Repairs Reserve	0
(6,831)	(9,098)

Additionally, the council also has £1.967 million at 31 March 2015 (£1.433 million at 31 March 2014) of developers' contributions that are available to spend. They are categorised as 'Grants

and contributions receipts in advance' 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.

The Future

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 2015/16.

The need to ensure that future council tax levels are acceptable and reserve levels remain adequate are priorities and prompt and measured action has been taken including service changes, and staffing reductions. Methods of service delivery have been rigorously examined, with the emphasis on maintaining front line services.

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

Following the national election, the new government's spending plans and July budget will be key influences on future service delivery.

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

23 September 2015

The Chief Finance Officer's responsibilities

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

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

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

The Chief Finance Officer has also:

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

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31st March 2015.

Mr Julian Bowcher
Borough Treasurer, Section 151 officer

23 September 2015

Movement in Reserves Statement

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

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

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2014 - b/fwd from previous page	(890)	(2,688)	(992)	(850)	(1,411)	0	(6,831)	(44,164)	(50,995)
Movement during 2014/15									
(Surplus)/Deficit on the provision of services	80		(1,663)				(1,583)		(1,583)
Other Comprehensive Income and Expenditure							0	50	50
Total Comprehensive Income and Expenditure	80	0	(1,663)	0	0	0	(1,583)	50	(1,533)
Adjustments between accounting basis & funding basis under regulations (Note 9)	(937)		1,012		(759)		(684)	684	0
Net (increase)/decrease before transfers to Earmarked Reserves	(857)	0	(651)	0	(759)	0	(2,267)	734	(1,533)
Transfers to/(from) Earmarked Reserves (Note 21)	857	(857)	651	(651)			0		0
Net (increase)/decrease in 2014/15	0	(857)	0	(651)	(759)	0	(2,267)	734	(1,533)
Balance at 31 March 2015	(890)	(3,545)	(992)	(1,501)	(2,170)	0	(9,098)	(43,430)	(52,528)

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.

2013/14			Notes	2014/15		
Gross Exp £000	Gross Income £000	Net Exp £000		Gross Exp £000	Gross Income £000	Net Exp £000
1,549	(575)	974	Central Services to the Public	1,770	(570)	1,200
3,097	(127)	2,970	Cultural and Related Services	2,887	(165)	2,722
4,374	(971)	3,403	Environment and Regulatory Services	4,165	(1,055)	3,110
2,183	(855)	1,328	Planning Services	2,311	(830)	1,481
776	(948)	(172)	Highways, Roads & Transport Services	847	(1,006)	(159)
10,758	(14,187)	(3,429)	Local Authority Housing (HRA)	9,984	(14,138)	(4,154)
35,279	(34,361)	918	Housing Services	34,350	(33,421)	929
1,656	(116)	1,540	Corporate & Democratic core	1,532	(22)	1,510
232	0	232	Non Distributed Costs	(438)	0	(438)
59,904	(52,140)	7,764	Cost Of Services	57,408	(51,207)	6,201
		291	Other Operating Expenditure	6		572
		4,080	Financing and Investment Income and Expenditure	7		3,203
	(11,364)		Taxation and Non-Specific Grant Income and Expenditure	8		(11,559)
		771	(Surplus)/Deficit on Provision of Services			(1,583)
	(1,926)		Surplus on revaluation of Property, Plant and Equipment assets	22		(3,377)
		5	Other recognised losses			67
	(12,970)		Actuarial losses / (gains) on pension assets / liabilities	22		3,360
	(14,891)		Other Comprehensive (Income)/Expenditure			50
	(14,120)		Total Comprehensive (Income)/Expenditure			(1,533)

Balance Sheet

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

31-Mar-14 £'000	Notes	31-Mar-15 £'000
145,796 Property, Plant & Equipment	10	148,220
209 Heritage Assets	11	316
6,938 Investment Properties	12	7,088
557 Intangible Assets	13	601
5,498 Long Term Debtors	16	5,467
158,998 Long Term Assets		161,692
0 Short Term Investments	14	8,918
5,703 Short Term Debtors	16	4,573
6,459 Cash and Cash Equivalents	17	6,032
12,162 Current Assets		19,523
(2,398) Short Term Borrowing	14	(3,433)
(7,277) Short Term Creditors	18	(11,243)
0 Short Term Liabilities	30	(19)
(1,305) Provisions	19	(1,477)
(10,980) Current Liabilities		(16,172)
(51) Provisions	19	(51)
(74,091) Long Term Borrowing	14	(72,825)
0 Other Long Term Liabilities	30	(22)
(7) Receipts in Advance - Revenue Grants	27	0
(1,426) Receipts in Advance - Capital Grants	27	(1,967)
(33,610) Net Pension Liability	31	(37,650)
(109,185) Long Term Liabilities		(112,515)
50,995 Net Assets		52,528
(6,831) Usable Reserves	21	(9,098)
(44,164) Unusable Reserves	22	(43,430)
(50,995) Total Reserves		(52,528)

The unaudited Statement was issued on 30 June 2015 and the audited Statement was issued on 23 September 2015.

Julian Bowcher CPFA,
Borough Treasurer
23 September 2015

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.

2013/14 £000	Notes	2014/15 £000
(771) Net surplus or (deficit) on the provision of services		1,583
12,665 Adjustments to surplus or deficit on the provision of services for non-cash movements	34	9,943
(2,522) Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	34	(1,738)
9,372 Net Cash flows from Operating Activities		9,788
(2,397) Net Cash flows from Investing Activities	34	(11,084)
(4,171) Net Cash flows from Financing Activities	34	869
2,804 Net increase or (decrease) in cash and cash equivalents		(427)
3,655 Cash and cash equivalents at the beginning of the reporting period		6,459
6,459 Cash and cash equivalents at the end of the reporting period		6,032

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year end of 31 March 2015.

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

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

b) Accruals of Income and Expenditure

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

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

c) Cash and Cash Equivalents

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

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

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

National Westminster Group Account consisting of

- Main Account

- Payments Account
- Online Account

Call Accounts

- Corporate Deposit Account
- Liquidity Select Account

Money Market Fund Accounts

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

Temporary Deposits

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

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

d) Employee Benefits

Benefits Payable During Employment

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

The accrual is calculated on the actual outstanding benefits at year end at current wage and salary rates and charged directly to the Surplus or Deficit on the Provision of Services. It is then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

Post Employment Benefits

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

The pension scheme is detailed in note 31 to the accounting statements and is accounted for as a defined benefits scheme.

- The liabilities of the LGPS attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 3.2% based on the current rate of return on high quality corporate bonds "of equivalent currency and term to the scheme liabilities".
- Assets of the LGPS attributable to the council are included in the balance sheet at their fair value.

The change in the Council's net pension liability is analysed into the following components

Service cost comprising	
Current service cost	The increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
Past service cost	The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
Net interest on the net defined benefit liability (asset) ie the net interest expense for the authority	The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
Remeasurements comprising	
The return on plan assets	Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
Actuarial gains and losses	Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
Employers' contributions payable to scheme	Cash paid as employers' contributions to the pension fund

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

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

e) Events after the Reporting Period

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

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

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

f) Exceptional Items

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

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

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

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

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

h) Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

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

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

i) Financial Instruments

Financial instruments can be described as contracts that give rise to a financial asset of one entity and a financial liability of another entity.

Financial Liabilities

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

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

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

Financial Assets

Financial assets are classified into two types:

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

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

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

The Council makes car loans, at an interest rate of 3.25%, available to certain employees as part of its recruitment and retention package

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

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

j) Government Grants and Contributions

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

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

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

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

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

k) Heritage Assets

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

The heritage assets largely comprise items of civic regalia and paintings as well as a mayoral chain and other miscellaneous items. They are all held in support of their primary objective of contributing to knowledge and culture and have cultural and historic associations that make their preservation for future generations important.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules in relation to heritage assets are permitted to be relaxed as detailed, together with a description of the assets held, in Note 11.

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

Acquisitions and donations are rare. Where they do occur, acquisitions are recognised at cost and donations are recognised at valuation ascertained in accordance with the Council's policy on valuation of heritage assets.

The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes in the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Heritage assets are considered to have an indefinite life and no depreciation is therefore charged.

There are no intangible heritage assets

l) Intangible Assets

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

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

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

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

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

m) Jointly Controlled Operations and Jointly Controlled Assets

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

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

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

n) Inventories and Long Term Contracts

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

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

o) Investment Properties

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

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

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

p) Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

q) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the *CIPFA Service Reporting Code of Practice 2014/15 (SerCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

r) Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

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

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

- Council Dwellings – based on the Major Repairs Allowance (MRA) used in the Government buyout determination for HRA self-financing
- Buildings - straight-line method over the useful life of the property as estimated by the Valuer
- Vehicles, Plant and Equipment - straight line method over the estimated useful life of the asset
- Infrastructure – straight line method over the estimated useful life of the asset

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

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

s) Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

t) Reserves

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

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

The Council's main reserves are described further in Notes 21 and 22 to the accounting statements

u) Revenue Expenditure funded from Capital under Statute

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

v) Value Added Tax

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

2. Accounting Standards that have been issued but have not yet been adopted

The Code requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

For this disclosure the standards introduced by the 2015/16 Code include:

- IFRS 13 Fair Value Measurement
- Annual Improvements to IFRSs 2011–2013
- IFRIC 21 Levies

It is anticipated that these will not have a material impact on the financial statements.

3. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The most significant are:

- **Future funding for local government** – while there is a high degree of uncertainty about future levels of funding for local government, the Council has determined that this uncertainty is not sufficient to provide an indication that the Council's assets might be impaired as a result of a need to close facilities and reduce levels of service provision.
- **Asset classifications** – the Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These are based on the main reason that the council is holding the asset with the classification determining the valuation method to be used.
- **Lease classifications** – the Council has made judgements on whether its lease arrangements are operating leases or finance leases. There is an element of subjectivity in these assessments and de-minimus levels have been applied. The accounting treatment for operating and finance leases is different (see accounting policy on Leases) and may have a significant effect on the accounts.
- **Contractual arrangements** - the Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Jointly Controlled Operation** – As a member of the Portchester Crematorium Joint Committee (PCJC) with a 25% share in the crematorium operation, the Council has made a judgement on the grounds of materiality to disclose its share of the assets and liabilities as part of the Related Parties disclosure note (Note 28) rather than incorporate them into the Comprehensive Income and Expenditure Statement. Group accounts have therefore not been prepared.
- **Potential Liabilities** - the Council has made judgements about the likelihood of potential liabilities and whether any provisions should be made. The judgements are based on the degree of certainty and an assessment of the likely impact. Note 19 refers.
- **Doubtful debts allowances** - the council has made judgements on a prudent level of allowances for doubtful debts. These are based on historical experience of debtor defaults and the current economic climate.

4 Uncertainties relating to Assumptions and Estimates used

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

The items in the Authority's Balance Sheet at 31 March 2015 for which material assumptions and estimates have been made are:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Business Rates	<p>The introduction of Business Rates Retention from 1 April 2013 has placed a significant risk for shortfalls in business rate funding onto the Council and precepting authorities. This is particularly true for factors outside of the Council's direct control such as rating appeals.</p> <p>A provision is held in the Collection Fund for the estimated total value of rating appeals that may require refunding but have not yet been formally agreed by the Valuation Office.</p>	<p>At 31 March 2015, the Council's share of the total provision of 3.452 million (£3.263 million in 2013/14) is £1.381 million (£1.305 million in 2013/14).</p> <p>The actual cost of appeals – whether above or below the provision - will impact on retained business rate income.</p>
Property, Plant and Equipment	<p>Assets are depreciated over useful lives that are dependent on assumptions about individual assets service delivery and level of repairs and maintenance. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance which may bring into doubt the useful lives assigned to assets.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate</p>	<p>The effects on the net pensions liability for funded LGPS benefits of changes in individual assumptions can be measured.</p>

	<p>used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>For instance, a 0.1% increase in the discount rate assumption may result in a decrease in the pension liability of £1.63 million.</p> <p>The assumptions interact in complex ways. During 2014/15, the Authority's actuaries advised that the net pensions liability had increased by £4.04 million – made up of actuarial remeasurements which increased the liability by £3.36 million and additional net in year liabilities of £0.68 million.</p>
Doubtful Debt Allowances	<p>The Council has made allowances for doubtful debts of £2.672 million in 2014/15 (£2.195 million in 2013/14) based on what it believes to be a prudent but realistic level.</p>	<p>If debt collection rates were to deteriorate or improve, a 5% change in the General Fund allowances would require an adjustment to the allowance of £134,000 (£106,600 in 2013/14).</p>

5. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Borough Treasurer on 30 June 2015. 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 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. Other Operating Expenditure

2013/14 £'000	2014/15 £'000
230 Payments to the Government Housing Capital Receipts Pool	255
61 (Gain) or Loss on the disposal of non-current assets	317
291	572

7. Financing and Investment Income and Expenditure

2013/14 £'000	2014/15 £'000
2,210 Interest payable and similar charges	2,278
1,880 Pension interest on net defined benefit liability	1,400
(315) Interest receivable and similar income	(352)
305 Net income and expenditure in relation to investment properties and changes in their fair value	(123)
4,080	3,203

8. Taxation and Non Specific Grant Income and Expenditure

2013/14 £'000	2014/15 £'000
(5,056) Council Tax Income	(5,140)
(1,775) Retained Business Rates	(2,403)
(4,225) Non-Ringfenced Government Grants	(3,827)
(308) Capital Grants and Contributions	(189)
(11,364)	(11,559)

£110,000 in respect of Enterprise Zone business rates income is incorrectly shown against Capital Grants and Contributions in 2013/14 and should be part of Retained Business Rates

9. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

2014/15	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total Usable Reserves £000	Movement in Unusable 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	(1,072)	(2,400)			(3,472)	3,472
Revaluation losses on Property Plant and Equipment	(108)	0			(108)	108
Movements in the fair value of Investment Properties	(275)	0			(275)	275
Amortisation of intangible assets	(102)				(102)	102
Capital grants and contributions applied	592				592	(592)
Revenue expenditure funded from capital under statute	(444)				(444)	444
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	(361)	(1,079)			(1,440)	1,440
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	566				566	(566)
Repayment of debt from revenue		606			606	(606)
Capital expenditure charged against the General Fund and HRA balances		1,052			1,052	(1,052)

2014/15	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total Usable Reserves £000	Movement in Unusable Reserves £000
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		1,146	(1,146)		0	0
Use of the Capital Receipts Reserve to finance new capital expenditure and reduce CFR			138		138	(138)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals		(23)	23		0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.		(255)	255		0	0
Transfer from Deferred Capital receipts Reserve upon receipt of cash			(29)		(29)	29
Adjustment involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to the HRA		2,400		(2,400)	0	0
Use of the Major Repairs Reserve to finance new capital expenditure				2,400	2,400	(2,400)
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 31)	(1,428)	(842)			(2,270)	2,270
Employer's pensions contributions and direct payments to pensioners payable in the year	1,180	410			1,590	(1,590)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements		513			513	(513)
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		2	(3)		(1)	1
Total Adjustments	(937)	1,012	(759)	0	(684)	684

2013/14	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total Usable Reserves £000	Movement in Unusable 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	(1,146)	(2,400)			(3,546)	3,546
Revaluation losses on Property Plant and Equipment	(80)	(164)			(244)	244
Movements in the fair value of Investment Properties	(581)	5			(576)	576
Amortisation of intangible assets	(90)				(90)	90
Capital grants and contributions applied	1,013				1,013	(1,013)
Revenue expenditure funded from capital under statute	(888)				(888)	888
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(173)	(1,400)			(1,573)	1,573
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	570				570	(570)
Capital expenditure charged against the General Fund and HRA balances		1,156			1,156	(1,156)
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	125	1,417	(1,542)		0	0
Use of the Capital Receipts Reserve to finance new capital expenditure and reduce CFR			249		249	(249)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals		(31)	31		0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.		(230)	230		0	0
Transfer from Deferred Capital receipts Reserve upon receipt of cash			(28)		(28)	28
Adjustment involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to the HRA		2,400		(2,400)	0	0
Use of the Major Repairs Reserve to finance new capital expenditure				2,400	2,400	(2,400)

2013/14	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total Usable Reserves £000	Movement in Unusable Reserves £000
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 31)	(2,405)	(1,085)			(3,490)	3,490
Employer's pensions contributions and direct payments to pensioners payable in the year	1,221	329			1,550	(1,550)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	221				221	(221)
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	46	3			49	(49)
Total Adjustments	(2,167)	0	(1,060)	0	(3,227)	3,227

10. Property, Plant and Equipment and Impairments

Depreciation

The table below summarises the methods of depreciation used for the Council's assets. In line with the CIPFA Code of Practice, land and investment properties are not depreciated.

Asset	Depreciation Method
Council Dwellings	Major Repairs Allowance (MRA) used in the Government buyout determination for HRA self-financing
Other Land & Buildings (Operational Property and Garages)	Straight line method over the estimated useful life of the asset Garages are not depreciated as it is the Council's view that most of the value is in the land
Infrastructure	Straight line method over the estimated useful life of the asset
Community Assets	No charge – it is the Council's view that most of the value of Community Assets is held in land and is not therefore depreciable

Movement in Plant, Property and Equipment for 2014/15	Council Dwellings	Land & Buildings	Vehicles, Plant & Equipment	Infrastructure	Community Assets	Surplus Assets	Assets Under Construction	Total Plant, Property & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2014	113,073	22,885	3,950	13,193	3,498	80	134	156,813
Additions	3,310	196	267	176	384	0	1	4,334
Revaluation increases/(decreases) to RR	552	3						555
Revaluation increases/(decreases) to SDPS	0	(110)						(110)
De-recognition - Disposals	(1,097)							(1,097)
De-recognition - Other		(116)	(412)	(176)	(46)			(750)
Assets reclassified		(177)			3		(3)	(177)
At 31 March 2015	115,838	22,681	3,805	13,193	3,839	80	132	159,568
Accumulated Depreciation & Impairment								
At 1 April 2014	(2,401)	(996)	(3,074)	(4,534)	0	(12)	0	(11,017)
Depreciation Charge	(2,400)	(528)	(187)	(357)				(3,472)
Depreciation & Impairment written out to RR	2,382	334						2,716
De-recognition - Disposals	18							18
De-recognition - Other		12	304	73				389
Assets reclassified		18						18
At 31 March 2015	(2,401)	(1,160)	(2,957)	(4,818)	0	(12)	0	(11,348)
Net Book Value								
At 31 March 2015	113,437	21,521	848	8,375	3,839	68	132	148,220

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

Capital Commitments

Significant commitments for future expenditure at 31 March 2015 include:

2013/14 £'000	2014/15 £'000
100 Gosport Leisure Park (Ice Rink)	100
82 Stokes Bay - Wet & Dry Play Area	25
182	125

Revaluations

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

	Historical	Fair Value - revalued when indicated					Total £'000
	£'000	2014/15 £'000	2013/14 £'000	2012/13 £'000	2011/12 £'000	2010/11 £'000	
Property, Plant & Equipment							
Council Dwellings		115,838					115,838
Operational Property		1,611	3,776	10,583	5,641	286	21,897
Garages	784						784
Equipment	3,805						3,805
Infrastructure	13,193						13,193
Community Assets	3,839						3,839
Surplus Assets	80						80
Assets under Construction	132						132
	21,833	117,449	3,776	10,583	5,641	286	159,568

Impairments

There were no general impairments identified in 2014/15 or 2013/14.

Any revaluation gains or losses for those assets that were reported on by the Council's valuers for 2014/15 have been reflected in the Revaluation Reserve or the Capital Adjustment Account (the latter through the Comprehensive Income and Expenditure Statement) as appropriate.

Assets Held For Sale

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

11. Heritage Assets

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

	Civic Regalia £'000	Mayoral Chain £'000	Paintings £'000	Other £'000	Total £'000
Cost or Valuation					
31-Mar-14	49	53	97	10	209
Revaluations	1	2	103		106
31-Mar-15	50	55	200	11	316

The Council's Heritage Assets are held by the Council in the Town Hall and are accounted for and valued as follows:

- Civic Regalia – annually updated insurance valuation
- Mayoral Chain and Badge – annually updated insurance valuation
- Paintings and Prints – a collection of 63 paintings and prints located throughout the Town Hall, valued by an annually updated insurance valuation
- Other Items – include a plaster cast of Nelson and D Day plaque at Stokes Bay are held at historic cost

A full inventory of Civic Regalia, Paintings and Prints has been undertaken in 2014/15 and the insurance cover has been re-evaluated.

The Council's Heritage Assets are considered to have an indefinite life and no depreciation is therefore charged.

In addition to the Council's heritage assets held in the Town Hall and included in this statement of accounts, a Gosport Museum collection is also held by the Hampshire County Council. Objects in the collection that were accessioned before 1 April 1991 are owned by Gosport Borough Council and are on loan to Hampshire County Council. These objects are now part of the Temporary Collection of items listed and detailed in the Hampshire County Council Accessions Register, which from 1 November 2014, the Commencement Date of the Hampshire Cultural Trust, are on loan from Hampshire County Council to the Trust. The majority of these objects are located in the stores or are on display at the Gosport Discovery Centre and some items are held separately in specialised storage conditions at Hampshire County Council premises outside of Gosport. The objects accessioned after this date are owned by Hampshire County Council. No total valuation exists for this collection which is covered by the County Council's insurance arrangements

12. Investment Properties

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

2013/14 £'000	2014/15 £'000
252 Direct operating expenses arising from investment property	202
(524) Rental income from investment property	(600)
(272) Net gain	(398)

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

2013/14 £'000	2014/15 £'000
7,216 Balance at the start of the year	6,938
36 Subsequent expenditure	266
(125) Disposals	0
(577) Net gains or (losses) from fair value adjustments	(275)
388 Transfers to or from Property, Plant and Equipment	159
6,938 Balance at the end of the year	7,088

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 £102,250 charged to revenue in 2014/15 (£90,480 in 2013/14) 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:

2013/14 £'000	2014/15 £'000
Balance at the start of the year	
1,476 Gross carrying amount	1,487
(907) Accumulated amortisation	(930)
569 Net carrying amount at the start of the year	557
89 Purchases	146
(78) Derecognition - gross carrying amount	(34)
67 Derecognition - amortisation	34
(90) Amortisation for the year	(102)
557 Net carrying amount at the end of the year	601
Comprising	
1,487 Gross carrying amount	1,599
(930) Accumulated amortisation	(998)

14. Financial Instruments

Categories of Financial Instruments

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

31-Mar-14		31-Mar-15	
Long Term	Current	Long Term	Current
£'000	£'000	£'000	£'000
<u>Financial Liabilities</u>			
(71,953)	(2,222)	(70,725)	(3,228)
	(151)	-	(156)
(38)	(15)	-	(38)
(2,100)		(2,100)	-
	(10)	-	(11)
(74,091)	(2,398)	(72,825)	(3,433)
	(1,929)		(2,179)
(74,091)	(4,327)	(72,825)	(5,612)
<u>Financial Assets</u>			
18	-	7	-
30	64	41	30
575	-	575	-
4,856	-	4,826	30
-	2,721	-	1,587
-	-	-	8,900
-	-	-	18
-	6,459	-	6,032
5,479	9,244	5,449	16,597

Income, Expense, Gains and Losses

31-Mar-14	31-Mar-15
£'000	£'000
<u>Financial Liabilities:</u>	
2,210 Interest from financial liabilities measured at amortised cost	2,278
<u>Financial Assets:</u>	
(47) Interest from loans and receivables	(105)
(233) Interest receivable from Finance Lease	(232)
(35) Discount received from debt restructuring	(15)
1,895 Included in the Surplus or Deficit on the Provision of Services	1,926

Fair Values of Assets and Liabilities

Financial assets and financial liabilities represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

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

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

31-Mar-14		31-Mar-15	
Carrying Amount	Fair Value	Carrying Amount	Fair Value
£'000	£'000	£'000	£'000
Financial Liabilities			
(76,489)	(79,015)	(76,258)	(93,083)
(1,929)	(1,929)	(3,236)	(3,236)
(78,418)	(80,944)	(79,494)	(96,319)
Financial Assets			
14,723	14,723	22,046	22,055
14,723	14,723	22,046	22,055

The fair value of the liabilities 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 higher than the rates available for similar loans in the market at the balance sheet date.

15. Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

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

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

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles

for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit Risk

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

- The key objectives of the Council's investment strategy are security, liquidity and yield in that order.
- The Council has determined that it will only use approved counterparties from the UK
- No Investments are to exceed 3 years although most will not exceed 364 days
- A £3m limit applies with any single group other than the Council's Bank or UK Regulated Qualifying Money Market Funds
- The Council utilises the creditworthiness service provided by Capita Asset Services to determine which institutions investments will be placed with and the duration of those investments. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
 - credit watches and credit outlooks from credit rating agencies;
 - CDS (Credit Default Swap) spreads to give early warning of likely changes in credit ratings;
 - sovereign ratings to select counterparties from only the most creditworthy countries

The Council's maximum exposure to credit risk in relation to its investments in financial institutions of £14.9 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2015 that this was likely to crystallise.

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

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

	Note	Amount at 31 March 2015 £'000	Historical experience of default %	Adjustment for market conditions at 31 March 2015 %	Estimated maximum exposure to default £
Short Term Investments	a	8,900	-	-	-
Cash and cash equivalents	a	6,032	-	-	-
General debtors	b	290	15%	15%	43
Housing rents	b	1,071	57%	57%	607
Other	b	6,403	0%	0%	0
In addition to the above Financial Instruments the Council is exposed to risk arising from non payment of statutory Housing Benefit Debt and Costs associated with Council Tax and Business Rates collection. The risks are shown below					
Overpaid Housing Benefits		2,139	80%	80%	1,712
Costs associated with Council Tax and Business Rates Collection		749	41%	41%	309
(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.					

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of it's counterparties in relation to deposits and bonds

Liquidity Risk

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

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

Re-financing and Maturity risk

The Council maintains a significant debt portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial liabilities as they mature. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Existing long term debt is repayable between 1 and 15 years ahead and over 40 years ahead. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk.

<u>Maturity Structure of Fixed Borrowings (excluding accrued interest & restructuring discount)</u>					
31-Mar-14		2014/15 Approved Limits		31-Mar-15	
Amount	Maturing within:-	Minimum	Maximum	Amount	
£'000		%	%	£'000	%
2,000	Up to 1 year	2%	3%	3,000	3.9%
3,000	Over 1 but not over 2 years	4%	13%	3,100	4.1%
12,275	Over 2 but not over 5 years	17%	25%	12,953	17.0%
16,000	Over 5 but not over 10 years	19%	27%	17,000	22.4%
12,000	Over 10 but not over 15 years	52%	58%	9,000	11.8%
-	- Over 15 but not over 20 years	52%	58%	-	-
-	- Over 20 but not over 25 years	52%	58%	-	-
-	- Over 25 but not over 30 years	52%	58%	-	-
-	- Over 30 but not over 35 years	52%	58%	-	-
-	- Over 35 but not over 40 years	52%	58%	-	-
-	- Over 40 but not over 45 years	52%	58%	2,000	2.6%
31,000	Over 45 years	52%	58%	29,000	38.2%
76,275				76,053	100.0%

Market Risk

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

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

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

The Council's Treasury Management Strategy currently includes as a source of borrowing the use of internal funds. The cash held in these funds can be used short term to fund capital expenditure or the repayment of debt, thus delaying the need to borrow externally and reducing the Council's overall interest cost.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable

interest rate exposure. The authority to respond to different interest rates throughout the financial year is delegated to the Borough Treasurer, Head of Accountancy and Group Accountant. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. Risk exposure to interest rate movements is limited to the effect that interest rate movements have on the marketplace generally when placing investments or raising loans. Cash flows and interest rate changes are actively monitored.

If average interest rates in 2014/15 had been 1% higher or lower (with all other variables constant) the financial effect would have been £151,700 (2013/14 £80,100) additional interest receivable and £9,600 (2013/14 £16,600) additional interest payable on new borrowing.

16. Debtors

Long Term Debtors

31-Mar-14 £'000	31-Mar-15 £'000
5,498 Other Entities and Individuals	5,467
5,498	5,467

Short Term Debtors (net of allowances for doubtful debts)

31-Mar-14 £'000	31-Mar-15 £'000
703 Central Government Bodies	310
1,825 Other Local Authorities	1,433
3,175 Other Entities and Individuals	2,830
5,703	4,573

17. Cash and Cash Equivalents

31-Mar-14 £'000	31-Mar-15 £'000
2,000 Money Market Funds	3,500
4,986 Call Accounts	2,650
74 Cash imprests / cash in hand	45
(601) Bank Overdraft (Grouped accounts)	(163)
6,459	6,032

18. Creditors

31-Mar-14 £'000	31-Mar-15 £'000
(4,770) Central Government Bodies	(7,568)
(928) Other Local Authorities	(1,948)
(1,579) Other Entities and Individuals	(1,727)
(7,277)	(11,243)

The balance of £7.568 million for Central Government Bodies at 31 March 2015 (2013/14 £4.770 million) includes £2.069 million (2013/14 £2.066 million) in respect of the Regional Growth Fund for the Daedalus Business Park held by the Council as accountable body

19. Provisions

31-Mar-14 £'000	31-Mar-15 £'000
0 Short Term - Land Charges	(96)
(1,305) Short Term - Business Rates - Valuation Appeals	(1,381)
(51) Long Term - MMI Scheme of Arrangement	(51)
(1,356)	(1,528)

A new provision has been created in 2014/15 to provide for the anticipated cost of refunding fees for personal searches of the local land charges register. This follows clarification of legislation and was previously reported as a Contingent Liability disclosure.

The provision for Business Rates valuation appeals is an ongoing requirement as part of accounting for the Business Rates Retention funding system - the Council's share of the total provision of £3.452 million is £1.381 million. The MMI Scheme of Arrangement provision continues unchanged.

An allowance for doubtful debts is included within Note 16.

20. Agency Services

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

31-Mar-14 £'000	31-Mar-15 £'000
63 Treework	59
81 Grasscutting	81
(145) Hampshire County Council contribution	(143)
(1)	(3)

21. Usable Reserves

Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (ie the Capital Receipts Reserve can only be used fund capital expenditure). The balances and movements on usable reserves are shown below:

	2013/14			2014/15		
	01-Apr-13	Transfers	Transfers	31-Mar-14	Transfers	Transfers
	£'000	In £'000	Out £'000	£'000	In £'000	Out £'000
Revenue						
General Fund Balance	(890)			(890)		
Earmarked General Fund Reserves						
Revenue Financing Reserve	(1,285)	(782)		(2,067)	(599)	
Stability & Resilience Reserve	0			0	(291)	
Cherque Farm Open Space	(177)		13	(164)		13
Regional Housing Grant	(138)		19	(119)		18
Priddys Play Area Maintenance	(92)		11	(81)		9
Building Control Partnership	(53)	(7)		(60)	(1)	
Preventing Repossessions	(52)		8	(44)		
High Street Innovations	(85)		43	(42)		6
Open Spaces Maintenance	(43)		5	(38)		5
Bus Shelter Maintenance	(30)			(30)		
Business Growth Incentive Grant	(22)			(22)		
Urbaser Contract Reserve	0			0	(19)	
Royan Twinning Fund	(9)			(9)		2
Cherque Farm Land Transfer	0	(9)	1	(8)		
Education Fund	(4)			(4)		
HPDG	(12)		12	0		
	(2,002)	(798)	112	(2,688)	(910)	53
Housing Revenue Account						
Housing Revenue Account	(981)	(11)		(992)		
New Build Reserve (Revenue)	(151)	(699)		(850)	(651)	
	(1,132)	(710)	0	(1,842)	(651)	0
Capital						
Capital Receipts Reserve (GF)	(65)	(125)	125	(65)		
Capital Receipts Reserve (HRA)	(170)	(1,417)	863	(724)	(1,146)	719
Capital Receipts New Build (RTB)	(116)		(506)	(622)		(332)
Major Repairs Reserve (HRA)	0	(2,400)	2,400	0	(2,400)	2,400
	(351)	(3,942)	2,882	(1,411)	(3,546)	2,787
Total Usable Reserves	(4,375)	(5,450)	2,994	(6,831)	(5,107)	2,840

The Council's main reserves are:

Revenue - General Fund

General Fund balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. It is effectively a working balance that is available for unforeseen events and to help stabilise annual fluctuations in Council Tax levels. The General Fund balance is not available to be applied to funding HRA services.

Revenue Financing Reserve

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

- ensuring that fluctuations in annual maintenance requirements can be met
- underwriting uninsured risks
- funding spend-to-save revenue and capital initiatives

Stability and Resilience Reserve

To cover the risk and volatility arising from the introduction of the Business Rate Retention and Council Tax Support Schemes together with the uncertainties in future levels of Revenue Support Grant.

Other Usable Reserves including Open Spaces, Play Areas, Bus Shelters, High Street Innovation and Urbaser Contract Reserve

Represent earmarked sums for contributing to specific service revenue expenditure.

Regional Housing Grant

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

Revenue - Housing Revenue Account

HRA balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years. It provides a working balance for Housing services and for unforeseen events.

Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

New Build Reserve

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

Capital – General Fund

The Capital Receipts reserve may only be utilised to fund capital expenditure. The General Fund balance of £65,000 at 31 March 2015 is in respect of the sale of Camden Allotments and must be applied in accordance with the provisions of Section 32 of the Smallholdings and Allotments Act 1908.

Capital – Housing Revenue Account

Capital reserves from retained right to buy receipts which are to be used for the repayment of debt or new capital financing and the construction of new affordable housing.

22. Unusable Reserves

31-Mar-14 £'000	31-Mar-15 £'000
(8,602) Revaluation Reserve	(11,997)
(63,643) Capital Adjustment Account	(63,081)
(5,478) Deferred Capital Receipts	(5,439)
33,610 Net Pension Reserve	37,650
(192) Collection Fund Adjustment Account	(705)
141 Accumulated Absences Account	142
(44,164)	(43,430)

Revaluation Reserve

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

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

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

2013/14 £'000	2014/15 £'000
(6,684) Balance at 1 April	(8,602)
(4,155) Upward revaluation of assets	(3,586)
2,229 Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	209
(1,926) Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(3,377)
8 Difference between fair value depreciation and historical cost depreciation	(18)
8 Amount written off to the Capital Adjustment Account	(18)
(8,602) Balance at 31 March	(11,997)

Capital Adjustment Account

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

aside by the Authority as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on Investment Properties and any gains recognised on any donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2013/14 £'000	2014/15 £'000
(65,164) Balance at 1 April	(63,643)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
3,546 Charges for depreciation, impairment of noncurrent assets	3,392
244 Revaluation losses on Property, Plant and Equipment	188
90 Amortisation of intangible assets	102
888 Revenue expenditure funded from capital under statute	444
1,573 Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,440
6,341	5,566
(8) Adjusting amounts written out of the Revaluation Reserve	18
Net written out amount of the cost of non-current assets consumed in the year	5,584
Capital financing applied in the year:	
(249) Use of the Capital Receipts Reserve to finance new capital expenditure and reduce CFR	(138)
(2,400) Use of the Major Repairs Reserve to finance new capital expenditure	(2,400)
(409) Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(460)
(604) Application of grants to capital financing from the Capital Grants Unapplied Account	(132)
(570) Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(566)
0 Additional lease liability in year	57
0 Repayment of debt by the HRA	(606)
(1,156) Capital expenditure charged against the General Fund and HRA balances	(1,052)
(5,388)	(5,297)
576 Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	275
(63,643) Balance at 31 March	(63,081)

Deferred Capital Receipts

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

2013/14 £'000	2014/15 £'000
(5,511) Balance at 1 April	(5,478)
33 Transfer to the Capital Receipts Reserve upon receipt of cash	39
(5,478) Balance at 31 March	(5,439)

Pensions Reserve

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

2013/14 £'000	2014/15 £'000
44,640 Balance at 1 April	33,610
(12,970) Remeasurements of the net defined benefit liability/(asset)	3,360
3,490 Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	2,270
(1,550) Employer's pensions contributions and direct payments to pensioners payable in the year	(1,590)
33,610 Balance at 31 March	37,650

Collection Fund Adjustment Account

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

2013/14 £'000	2014/15 £'000
29 Balance at 1 April	(192)
(221) Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(513)
(192) Balance at 31 March	(705)

Accumulated Absences Account

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

2013/14 £'000	2014/15 £'000
190 Balance at 1 April	141
(190) Settlement or cancellation of accrual made at the end of the preceding year	(141)
141 Amounts accrued at the end of the current year	142
141 Balance at 31 March	142

23. Reconciliation with amounts reported internally

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

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

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

Resource allocation and control during the financial year is by exception reporting to Council management team and leadership with further, generally quarterly, reports to Policy and Organisation board as necessary. These reports are generally presented as a summarised list of revenue variances together with a more detailed capital programme review. Budget monitors are available to all members through the Members Information Bulletins (MIBs) and are available on the Council's website at <http://www.gosport.gov.uk/sections/your-council/council-services/accounts/>

The outturn position for 2014/15 is being reported to members in the same format as the approved budget. Reconciling the approved and reported budgets - which provide the basis of budget monitoring and control and resource allocation - to that shown in the financial statements is complicated because as outlined above certain income and expenditure items are shown in different ways and in different places between the two documents. Some items have a financial impact on the council's finances and some do not.

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

The tables below show for 2014/15 and 2013/14

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

2014/15 - Subjective analysis of Comprehensive Income & Expenditure Statement	Cost of Services	Other Operating Expenditure	Financing and Investment Income & Expenditure	Taxation & Non Specific Grant Income	Total
	£'000	£'000	£'000	£'000	£'000
Employees	1,738	0	0	0	1,738
Premises	3,888	0	202	0	4,090
Transport	53	0	0	0	53
Supplies & Services	5,121	0	0	0	5,121
Third Party Payments	4,428	0	0	0	4,428
Transfer Payments	29,709	0	0	0	29,709
Support Services	8,236	0	1,400	0	9,636
Capital/Financing	4,027	572	4,418	0	9,017
	57,200	572	6,020	0	63,792
Income	(50,894)	0	(2,817)	(11,559)	(65,270)
	6,306	572	3,203	(11,559)	(1,478)

2014/15 - Reconciliation of reporting in Council Board structure & the CI&E Statement						
	GF Board Structure	Other Operating Expenditure	Financing & Investment Income & Expenditure	Taxation & Non Specific Grant	Movement in Reserves, Collection	SerCOP Cost of Services
	£'000	£'000	£'000	£'000	£'000	£'000
Community Economic Development	5,663		300		25	5,988
Policy & Organisation	796		87		7	890
	2,525	(361)	(1,310)	1,091	1,451	3,396
	8,984	(361)	(923)	1,091	1,483	10,274
Reserves	971				(971)	0
	9,955	(361)	(923)	1,091	512	10,274
	SerCOP Structure					
	£'000	£'000	£'000	£'000	£'000	
Cost of Services	10,274					10,274
Other Operating Expenditure	0	361				361
Financing and Investment income and Expenditure	0		923			923
Taxation and Non Specific Grant Income	0			(11,559)		(11,559)
Surplus or Deficit on the Provision of Services	10,274	361	923	(11,559)	0	(1) (1,477) (1,478)

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

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

	SerCOP Structure					General Fund	HRA	CI&E
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost of Services	11,097				96	11,193	(3,429)	7,764
Other Operating Expenditure	0	48				48	243	291
Financing and Investment income and Expenditure	0		1,604			1,604	2,476	4,080
Taxation and Non Specific Grant Income	0			(11,364)		(11,364)	0	(11,364)
Surplus or Deficit on the Provision of Services	11,097	48	1,604	(11,364)	96	1,481	(710)	771

24. Members' Allowances

The following amounts were paid to members during the year. A detailed breakdown is on the Council's website at <http://www.gosport.gov.uk/sections/democratic-services/members-allowances/>

2013/14 £000	2014/15 £000
232 Allowances	237
4 Expenses	5
236	242

25. Officers Remuneration

Number of employees 2013/14	Left during 2013/14	The number of employees (excluding senior officers which are disclosed individually in separate tables) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:	Number of employees 2014/15	Left during 2014/15
		Remuneration band		
5	2	£50,000 - £54,999	5	-
2	-	£55,000 - £59,999	-	-
-	-	£60,000 - £64,999	2	-
-	-	£65,000 - £69,999	-	-

2014/15 Senior Officer emoluments - Salaries more than £50,000 but less than £150,000 per year									
Post Title	Notes	Salary (Including Allow ances)	Bonuses	Expense Allow ances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2014/15	Pension Contributions	Total Remuneration including pension contributions 2014/15
		£	£	£	£	£	£	£	£
Chief Executive		101,034	-	-	-	-	101,034	13,213	114,247
Borough Solicitor & Deputy Chief Executive	1	88,877	-	-	-	-	88,877	11,661	100,538
Borough Treasurer		71,191	-	-	-	-	71,191	9,339	80,530
Housing Services Manager		64,629	-	-	-	-	64,629	8,455	73,084
		325,731	0	0	0	0	325,731	42,668	368,399

1. Returning Officer fees of £9,383 are included in the total.

2013/14		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 2013/14	Pension Contributions	Total Remuneration including pension contributions 2013/14
		£	£	£	£	£	£	£	£
Chief Executive		93,051	-	-	-	-	93,051	11,930	104,981
Borough Solicitor & Deputy Chief Executive	1	79,420	-	-	-	-	79,420	10,225	89,645
Borough Treasurer		69,164	-	-	-	-	69,164	9,007	78,171
Housing Services Manager		60,329	-	-	-	-	60,329	7,855	68,184
Community and Customer Services Manager	2	47,314	-	-	-	-	47,314	5,468	52,782
		349,278	0	0	0	0	349,278	44,485	393,763

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

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

Exit Packages

Exit package cost band (including special)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 £'000	2014/15 £'000
£0 - £20,000	13	0	0	0	13	0	119	0
£20,001 - £40,000	5	0	0	0	5	0	155	0
£40,001 - £60,000	1	0	0	0	1	0	45	0
£60,001 - £80,000	0	1	0	0	0	1	0	74
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
	19	1	0	0	19	1	319	74

The Authority terminated the contract of 1 employee in 2014/15 (19 in 2013/14), incurring liabilities of £74,000 (£319,000 in 2013/14). This includes both payments to the Local Government Pension Scheme and severance payments and has been largely financed by contributions from the Revenue Financing Reserve and salary savings achieved in the year.

26. External Audit Costs

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

2013/14 £000	2014/15 £000
Fee payable to Ernst & Young with regard to external audit services carried out by appointed auditors	
70 External audit services	71
20 Certification of grant claims and returns	18
90	89

27. Grant Income

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2014/15.

2013/14 (restated) £000	Grant Income	2014/15 £000
Included in Taxation and Non Specific Grant Income		
<u>Non-Ringfenced Government Grants</u>		
Department for Communities and Local Government:		
(3,289)	Revenue Support Grant	(2,558)
(56)	Council Tax Freeze Grant	(57)
(498)	New Homes Bonus Grant	(664)
(85)	New Burdens Grants - various	(169)
(17)	Capitalisation Provision Redistribution Grant	-
(259)	Autumn Statement Measures - Business Rate Relief Grants	(367)
Department for Work and Pensions		
(21)	Benefits Transition & Council Tax Reform Grants	(12)
(4,225)		(3,827)
<u>Capital Grants and Contributions</u>		
(198)	Developers Contributions - Open Spaces	(189)
(198)		(189)
Service Specific Revenue Grants and Contributions (included in cost of services)		
<u>Department for Work and Pensions</u>		
(30,237)	HB / CTB Subsidy	(29,552)
(664)	HB / CTB Administration	(604)
<u>Developers Contributions (Section 106)</u>		
(384)	Affordable housing	-
<u>Environment Agency</u>		
(156)	Coast Protection	(209)
<u>Department for Communities and Local Government</u>		
(275)	Disabled Facilities Grant	(194)
(82)	NNDR Cost of Collection	(82)
(31,798)		(30,641)

£110,000 in respect of Enterprise Zone business rates income was incorrectly included in this note last year – now removed - Note 8 also refers

In addition, the Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them which could require their return to the giver – a possibility that the Council seeks to mitigate by pro-actively managing the monies held. An analysis of these sums is shown below.

31-Mar-14 £'000	31-Mar-15 £'000
Receipts in Advance - Revenue Grants	
(7) INSPIRE Annex III New Burden funding	0
(7)	0
Receipts in Advance - Capital Grants	
(10) Affordable Housing	(10)
(857) Open Spaces and Play Areas	(1,084)
(137) Nimrod Drive Footpath	(137)
(359) Transport Contributions	(395)
0 Push - Highways	(113)
(63) Other grants and contributions	(228)
(1,426)	(1,967)

28. Related Parties

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

Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides significant funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (ie council tax bills, housing benefits). Grants received from government departments are included in Note 27.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2014/15 is shown in Note 24. There were no related party transactions during the year by members of the Council.

Officers

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

Gosport and Fareham Building Control Partnership

The Gosport and Fareham Building Control Partnership provides building control services to both Fareham and Gosport Borough Council. The Partnership has been in operation since 2003. During 2014/15, the Partnership charged Gosport Borough Council £132,465 (£157,931 in 2013/14) for statutory building control services. The Partnership has a policy of dividing generated surpluses between the two authorities based on fee generating work in each Authority area. At 31 March 2015, the balance of retained surplus for future investment in the service held by Fareham Borough Council was £78,065 (£77,378 in 2013/14) and £55,423 (£55,076 in 2013/14) held by Gosport Borough Council. The partnership is being expanded from April 2015 to include Portsmouth City Council.

Gosport and Fareham Environmental Services Partnership

The Gosport and Fareham Environmental Health Partnership provides environmental health services to both Fareham and Gosport Borough Council. The Partnership has been in operation since 2014. During 2014/15, the Partnership charged Gosport Borough Council £688,876 for statutory environmental health services. The Partnership has a policy of sharing expenditure (excluding internal recharges) on a 50/50 basis. All income is retained by the relevant authority.

Regional Growth Fund – Daedalus Business Park

The Council is the accountable body for administering the Regional Growth Fund (RGF) awarded by the Secretary of State for Business, Innovation and Skills. At 31 March 2015, £2.889 million was included in the balance sheet under Short Term Creditors in respect of RGF monies held but not yet distributed. This sum will be distributed on behalf of the Local Enterprise Partnership as grants or will be repayable with interest to the government.

Portchester Crematorium

The crematorium is a jointly controlled operation managed by the Council along with 3 neighbouring authorities through the Portchester Crematorium Joint Committee. The four constituent authorities: Gosport Borough Council, Fareham Borough Council, Havant Borough Council and Portsmouth City Council are equally represented – each having a 25% share. Further information can be obtained from: The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham.

During 2014/15 the Council received £150,000 (£150,000 in 2013/14) from the Joint Committee being its share of the distributable surpluses.

The Council's 25% share of the crematorium's assets, liabilities, income and expenditure for 2014/15 are shown below

2013/14 £'000	2014/15 £'000
Portchester Crematorium - Gosport share (25%)	
1,850 Long Term Assets	1,792
291 Current Assets	353
(18) Current Liabilities	(19)
(162) Long Term Liabilities	(194)
(273) Usable Reserves	(333)
(1,688) Unusable Reserves	(1,599)
0	0
(542) Income	(482)
468 Expenditure	421

Portsmouth Harbour Renaissance Ltd

The Council is one of three equal shareholders in Portsmouth Harbour Renaissance Ltd. Portsmouth Harbour Renaissance Ltd. does not operate independently, generate surpluses or own assets. It is merely an interface between the project partners (shareholders) and the Millennium Commission; collating the expenditure of the partners, submitting the claims, receiving and distributing the grant. Any administrative costs are charged to the partners quarterly. The accounts of PHR are audited independently and are available from Portsmouth City Council.

Other Public Bodies

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

2013/14 £000		2014/15 £000
26,455 Hampshire County Council		26,872
3,710 Hampshire Police & Crime Commissioners	Business Rates (excluding Hampshire Police & Crime Commissioners) and Council Tax precepts	3,825
1,616 Hampshire Fire & Rescue Authority		1,649
1,550 Hampshire County Council	Pension Fund payments	1,590
225 Building Control Partnership	Payments to Fareham Borough Council	207
(337)	Income from Fareham Borough Council	(288)
- Environmental Services	Payments to Fareham Borough Council	689
- Partnership	Income from Fareham Borough Council	(31)
(50) Internal Audit Partnership	Income from Eastleigh & Test Valley	(54)

29. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of any assets acquired under finance leases contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the 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.

2013/14 £'000	2014/15 £'000
81,418 Opening Capital Financing Requirement	81,255
<u>Capital Investment</u>	
4,212 Plant, Property & Equipment	4,334
36 Investment Properties	266
89 Intangible Assets	146
888 Revenue Expenditure funded from Capital under Statute	444
<u>Sources of Finance</u>	
(222) Capital Receipts	(109)
(1,013) Government Grants & Other Contributions	(592)
(3,556) HRA Revenue Financing / Major Repairs Reserve	(3,452)
<u>Other Adjustments</u>	
(27) Finance lease principal repayments and liabilities	28
(570) Sums set aside from Revenue (including Minimum and Voluntary Repayments of Principal)	(1,173)
81,255 Closing Capital Financing Requirement	81,147
Explanation of Movements in year	
434 Increase in underlying need to borrow (unsupported)	1,037
(597) (Decrease) in underlying need to borrow due to MRP, VRP and lease payments	(1,145)
(163) (Decrease) / Increase in Capital Financing Requirement	(108)

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
Housing Grants	0	241	(241)	0
Coast Protection Strategy	0	216	(216)	0
Other Capital Schemes	0	(13)	13	0
Total 2014/15	0	444	(444)	0
Total 2013/14	0	888	(888)	0

30. Leases

Council as Lessee

Finance Leases

The Council has an item of office equipment held under a finance lease.

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

	31-Mar-14 £'000	31-Mar-15 £'000
Vehicles, Plant, Furniture and Equipment	0	0
	0	0

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

	31-Mar-14 £'000	31-Mar-15 £'000
Finance lease liabilities		
current	0	19
non current	0	22
Finance costs payable in future years	0	2
Minimum lease payments	0	43

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

	Minimum Lease Payments		Finance Lease Payments	
	31-Mar-14 £'000	31-Mar-15 £'000	31-Mar-14 £'000	31-Mar-15 £'000
Not later than one year	0	20	0	19
Later than one year, not later than five years	0	23	0	22
Later than five years	0	0	0	0
	0	43	0	41

Operating Leases

The Council has lease arrangements for vehicles and data link lines. The Council also uses a number of properties for temporary accommodation for its clients under short term licence arrangements. (The 2013/14 figure including these would be £2,835k)

The future estimated minimum lease payments are:

	31-Mar-14 £'000	31-Mar-15 £'000
Not later than one year	35	2,524
Later than one year and not later than five years	57	34
Later than five years	7	7
	99	2,565

The expenditure charged to the Cost of Services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was: (The 2013/14 figure including these would be £2,974k)

	31-Mar-14 £'000	31-Mar-15 £'000
Minimum lease payments	35	2,499
	35	2,499

Council as Lessor**Finance Leases**

The Council has entered into a finance lease for the Gosport Ferry Landing Stage over a term of 50 years. The Landing Stage opened on 27 June 2011.

	31-Mar-14 £'000	31-Mar-15 £'000
Finance lease debtor		
current	29	30
non current	4,856	4,826
Unearned finance income	7,397	7,166
Gross investment in the lease	12,282	12,022

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

	Gross Investment in the Lease		Finance Lease payments	
	31-Mar-14 £'000	31-Mar-15 £'000	31-Mar-14 £'000	31-Mar-15 £'000
Not later than one year	260	260	260	260
Later than one year, not later than five years	1,040	1,040	1,040	1,040
Later than five years	10,982	10,722	10,982	10,722
	12,282	12,022	12,282	12,022

Operating Leases

The Council leases out land and property under operating leases primarily for:

- the provision of community services
- economic development purposes
- the lease of the seabed and dolphins for the ferry landing stage

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

	31-Mar-14 £'000	31-Mar-15 £'000
Not later than one year	534	588
Later than one year and not later than five years	2,136	2,228
Later than five years	15,392	15,402
	18,062	18,218

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

31. Defined Benefit Pension Scheme

Introduction

Funded - the disclosures below relate to the funded liabilities within the Hampshire County Council Pension Fund (the 'Fund') which is part of the Local Government Pension Scheme (the 'LGPS'). The LGPS is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'.

Unfunded - the unfunded pension arrangements established by Gosport Borough Council relate to termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS. No Pension Fund exists to meet these benefits

Funding / Governance Arrangements of the LGPS

The funded nature of the LGPS requires Gosport Borough Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement. The last actuarial valuation was at 31 March 2013 and the contributions to be paid until 31 March 2017 resulting from that valuation are set out in the Fund's Rates and Adjustment Certificate. An actuarial valuation of the Fund will be carried out at 31 March 2016 and as part of that valuation a new Rates and Adjustment Certificate will be produced for the three year period from 01 April 2017.

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

Risks associated with the Fund in relation to accounting

Asset volatility - the liabilities used for accounting purposes are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield this will create a deficit in the accounts. The Fund holds a significant proportion of growth assets which while expected to outperform corporate bonds in the long term creates volatility and risk in the short term in relation to the accounting figures.

Changes in Bond Yield - a decrease in corporate bond yields will increase the value placed on the liabilities for accounting purposes although this will be marginally offset by the increase in the assets as a result.

Inflation Risk - the majority of the pension liabilities are linked to either pay or price inflation. Higher inflation expectations will lead to a higher liability value. The assets are either unaffected or loosely correlated with inflation meaning that an increase in inflation will increase the deficit.

Life expectancy - the majority of the Fund's obligations are to provide benefits for the life of the member following retirement, so increases in life expectancy will result in an increase in the liabilities.

Exiting employers - employers who leave the Fund (or their guarantor) may have to make an exit payment to meet any shortfall in assets against their pension liabilities. If the employer (or guarantor) is not able to meet this exit payment the liability may in certain circumstances fall on other employers in the Fund. Further, the assets at exit in respect of 'orphan liabilities' may, in

retrospect, not be sufficient to meet the liabilities. This risk may fall on other employers. 'orphan liabilities' are currently a small proportion of the overall liabilities in the Fund.

Fund Actuaries

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

Estimated employer contributions for the year ending 31 March 2016

Funded - £1.40m, additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

Unfunded - £0.20m directly to beneficiaries

Assumptions

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

2013/14	Key assumptions (% per annum)	2014/15
	<u>Funded</u>	
4.3%	Discount rate	3.2%
2.3%	Pension increases	1.8%
n/a	Pension accounts revaluation rate	1.8%
3.8%	Rate of general increase in salaries **	3.3%
	<u>Unfunded</u>	
4.2%	Discount rate	3.2%
2.2%	Pension increases	1.8%

2013/14	Assumed life expectancy at age 65	2014/15
	<u>Males</u>	
24.4	Member aged 65 at accounting date	24.5
26.5	Member aged 45 at accounting date	26.6
	<u>Females</u>	
26.2	Member aged 65 at accounting date	26.3
28.5	Member aged 45 at accounting date	28.6

On 1 April 2014, 15 staff transferred to Fareham Borough Council as part of the Environmental Services shared service initiative. The effect of this transfer is reflected in the following disclosure notes as a settlement event.

Transactions Relating to Post-Employment Benefits

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

2013/14		Transactions relating to Post-employment Benefits	2014/15	
Funded £m	Unfunded £m		Funded £m	Unfunded £m
		<u>Comprehensive Income and Expenditure Statement</u>		
		Cost of Services		
1,580		Current service costs #	1,290	
30		Past service costs	60	
0		Settlement cost	(480)	
		Financing and Investment Income and Expenditure		
1,760	120	Interest on net defined benefit liability	1,280	120
3,370	120	Pension expense recognised in the Surplus or Deficit on the Provision of Services	2,150	120
		Remeasurements of the Net Defined Liability, comprising		
(3,270)		0 Return on plan assets (in excess of) / below that recognised in net interest	(5,710)	0
(7,820)	(140)	Actuarial (gains) / losses due to change in financial assumptions	9,510	160
(970)	80	Actuarial (gains) / losses due to changes in demographic assumptions	0	0
(810)	(40)	Actuarial (gains) / losses due to liability experience	(570)	(30)
(12,870)	(100)	Total amount recognised in Other Comprehensive Income and Expenditure	3,230	130
		Total included in Comprehensive Income and Expenditure Statement	5,380	250
(9,500)	20			
		<u>Movement in Reserves Statement</u>		
(3,370)	(120)	Reversal of charges made for retirement benefits	(2,150)	(120)
1,350	200	Inclusion of employers contributions payable	1,390	200
(2,020)	80	Total included in Movement in Reserves Statement	(760)	80
20		# Allowance for administration expenses included in current service cost	20	

2013/14 £m	2014/15 £m
<u>Employers contributions paid to Pension Fund</u>	
1,322 Normal Funded Contributions	1,330
28 Lump Sums for Early Retirements	60
<u>Employers contributions paid to Pensioners</u>	
200 Discretionary / Unfunded Added Years	200
1,550	1,590

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Council's obligation in respect of the LGPS is as follows

31-Mar-14 £m	Reconciliation to Balance Sheet	31-Mar-15 £m
<u>Funded</u>		
58.40	Fair value of assets	64.15
(89.16)	Present value of funded defined benefit obligation	(98.90)
(30.76)	Funded status	(34.75)
0.00	Impact of minimum funding requirement/asset ceiling	0.00
(30.76)	Pension liability recognised on the Balance Sheet	(34.75)
The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:		
29%	Active members	29%
13%	Deferred Pensioners	13%
58%	Pensioners	58%
<u>Unfunded</u>		
(2.85)	Present value of defined benefit obligation	(2.90)
(2.85)	Pension liability recognised on the Balance Sheet	(2.90)
(33.61)	Total	(37.65)

Assets

The assets allocated to the Employer in the Fund are notional and are assumed to be invested in line with the investments of the Fund for the purposes of calculating the return to be applied to those notional assets over the accounting period. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employer's liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole (based on data supplied by the Administering Authority) is shown in the disclosures split by quoted and unquoted investments.

The Administering Authority may invest a small proportion of the Fund's investments in the assets of some of the employers participating in the Fund if it forms part of their balanced investment strategy.

31-Mar-14			Asset allocation	31-Mar-15		
Quoted	Unquoted	Total		Quoted	Unquoted	Total
57.6%	3.2%	60.8%	Equities	54.9%	2.9%	57.8%
7.5%	0.0%	7.5%	Property	1.1%	6.9%	8.0%
23.5%	0.1%	23.6%	Government Bonds	25.0%	0.4%	25.4%
1.4%	0.2%	1.6%	Corporate Bonds	1.5%	0.1%	1.6%
3.8%	0.0%	3.8%	Cash	3.7%	0.0%	3.7%
0.2%	2.5%	2.7%	Other #	0.0%	3.5%	3.5%
94.0%	6.0%	100.0%	Total	86.2%	13.8%	100.0%

Movement in the present value of Pension Fund Obligations

2013/14 £m	Changes to the present value of the defined benefit obligation	2014/15 £m
<u>Funded</u>		
96.07	Opening defined benefit obligation	89.16
1.58	Current service cost	1.29
4.07	Interest expense on defined benefit obligation	3.72
0.43	Contributions by participants	0.43
(7.82)	Actuarial (gains)/losses due to change in financial assumptions	9.51
(0.97)	Actuarial (gains)/losses due to changes in demographic assumptions	0.00
(0.81)	Actuarial (gains)/losses due to liability experience	(0.57)
(3.42)	Net benefits paid out #	(3.43)
0.03	Past service cost	0.06
0.00	Settlements	(1.27)
89.16	Closing defined benefit obligation	98.90
<u>Unfunded</u>		
3.03	Opening defined benefit obligation	2.85
0.00	Current service cost	0.00
0.12	Interest expense on defined benefit obligation	0.12
(0.14)	Actuarial (gains)/losses due to change in financial assumptions	0.16
0.08	Actuarial (gains)/losses due to changes in demographic assumptions	0.00
(0.04)	Actuarial (gains)/losses due to liability experience	(0.03)
(0.20)	Net benefits paid out #	(0.20)
2.85	Closing defined benefit obligation	2.90
# Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums. Also includes an allowance for fund administration expenses of £0.02m		

Movement in the fair value of Pension Fund Assets

2013/14 £m	Changes to the fair value of assets	2014/15 £m
Funded		
54.46	Opening fair value of assets	58.40
2.31	Interest income on assets	2.44
3.27	Remeasurement gains/(losses) on assets	5.71
1.35	Contributions by the employer	1.39
0.43	Contributions by participants	0.43
(3.42)	Net benefits paid out #	(3.43)
0.00	Settlements	(0.79)
58.40	Closing fair value of assets	64.15
# Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums. Also includes an allowance for fund administration expenses of £0.02m		
Unfunded		
0.20	Contributions by the employer	0.20
(0.20)	Net benefits paid out	(0.20)
0.00	Closing fair value of assets	0.00

Actual return on Scheme Assets

2013/14 £m	Actual return on assets	2014/15 £m
2.31	Interest income on assets	2.44
3.27	Remeasurement gain/(loss) on assets	5.71
5.58	Actual return on assets	8.15

Sensitivity Analysis

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

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2015 and the projected service cost for the year ending 31 March 2016 is set out below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised on page 73.

Sensitivity of unfunded benefits is not included on materiality grounds.

Sensitivity analysis for funded LGPS benefits			
Discount rate assumption			
Adjustment to discount rate	+0.1% pa	Base figure	-0.1% pa
Present value of total obligation (£m's)	97.27	98.90	100.56
% change in present value of total obligation	-1.6%		1.7%
Projected service cost (£m's)	1.53	1.58	1.63
Approximate % change in projected service cost	-3.1%		3.1%
Rate of general increase in salaries			
Adjustment to salary increase rate	+0.1% pa	Base figure	-0.1% pa
Present value of total obligation (£m's)	99.21	98.90	98.60
% change in present value of total obligation	0.3%		-0.3%
Projected service cost (£m's)	1.58	1.58	1.58
Approximate % change in projected service cost	0.0%		0.0%
Rate of increase to pensions in payment and deferred pensions assumption and rate of revaluation of pension fund accounts			
Adjustment to pension increase rate	+0.1% pa	Base figure	-0.1% pa
Present value of total obligation (£m's)	100.26	98.90	97.56
% change in present value of total obligation	1.4%		-1.4%
Projected service cost (£m's)	1.63	1.58	1.53
Approximate % change in projected service cost	3.1%		-3.1%
Post retirement mortality assumption			
Adjustment to mortality age rate assumption #	-1 year	Base figure	+1 year
Present value of total obligation (£m's)	101.49	98.90	96.30
% change in present value of total obligation	2.6%		-2.6%
Projected service cost (£m's)	1.63	1.58	1.53
Approximate % change in projected service cost	3.4%		-3.4%
# A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them			

32. Contingent Liabilities

▪ Browndown Tip

The Council's officers are of the opinion that the Council could have substantial liabilities under the provisions of the Environmental Protection Act 1990 as a class B person namely the current owner / occupier of the land. The extent of the liability depends on the contamination, whether a class A person (one who caused or knowingly permitted the contamination) can be identified and the future use of the land. These matters continue to be investigated by the Environment Agency and a final report is still awaited at April 2015.

▪ Alver Valley Country Park

The Council owns land and has a 999 year lease of other land within the Country Park which was formally a gravel extraction quarry reclaimed as a landfill site. The land is, in parts, known

to be filled with both inert material and domestic waste. The Council may have cost liabilities in respect of discharges of gas or contaminated water.

- Regional Growth Fund – Daedalus Business Park

The Council is the accountable body for administering the Regional Growth Fund (RGF) for the Daedalus Business Park. At 31 March 2015, £2.889 million was included in the balance sheet under Short Term Creditors in respect of RGF monies held but not yet distributed. It is possible that there may be an interest cost if any grant monies received should not be distributed and instead become repayable with interest to the government.

33. Contingent Assets

- VAT

In conjunction with the Council's VAT advisors, the Council has protected its position regarding VAT collected for off street car parking charges by voluntarily declaring VAT income to HM Revenues and Customs (HMRC) from 2004/05 to 2014/15. The potential recovery of this sum is dependent on the outcome of a further appeal against the decision of the VAT Tribunal which ruled in favour of the HMRC. It is widely felt by advisors that the final decision will also fall in favour of the HMRC. The total VAT claim is £1,158,000. No claim has been made for any interest

- Landing Stage

The new Gosport Ferry Terminal opened on 27 June 2011. Final works and contract sums remain to be completed at 31 March 2015 and discussions regarding final payments and retentions will be concluded at the end of the defects period.

- Priddys Hard Profit Share

In 2009/10 the Portsmouth Naval Base Property Trust purchased the Priddys Hard Heritage Area, including the Explosion Museum, from the Council. Under the terms of the agreement the Council would receive a share of profits that may arise from future developments

34. Cash Flow Statement - notes

2013/14 £000	Adjustments to surplus or deficit on the provision of services for non-cash movements	2014/15 £000
3,546	Depreciation and Impairments	3,472
244	Impairment and Downward Valuations	108
90	Amortisation	102
2,006	Increase/(Decrease) in Creditors	3,755
1,430	(Increase)/Decrease in Debtors	(46)
1,940	Movement in Pension Liability	680
1,573	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	1,440
1,836	Other non-cash items charged to the net surplus or deficit on the provision of services	432
12,665	Net cash flow	9,943

2013/14 £000's	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	2014/15 £000
(1,509)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(1,146)
(1,013)	Any other items for which the cash effects are investing or financing cash flows	(592)
(2,522)		(1,738)

2013/14 £000	Net Cash Flow from Investing Activities	2014/15 £000
(4,642)	Purchase of property, plant and equipment, investment property and intangible assets	(4,529)
	- Purchase of short-term and long-term investments	(25,850)
1,542	Proceeds from the sale of property, plant and equipment, investment property, intangible assets (including deferred capital receipts)	1,185
	- Proceeds from short-term and long-term investments	16,950
703	Other receipts from investing activities	1,160
(2,397)	Net cash outflow from investing activities	(11,084)

2013/14 £000	Net Cash Flow from Financing Activities	2014/15 £000
5,100	Cash receipts of short and long-term borrowing	2,000
	- Cash payments for the reduction of outstanding liabilities relating to finance leases	(16)
(12,215)	Repayments of short and long-term borrowing	(2,222)
2,944	Other payments for financing activities	1,107
(4,171)	Net cash (inflow) / outflow from financing activities	869

2013/14 £000	The cash flows for operating activities include the following items:	2014/15 £000
314	Interest Received	317
(2,175)	Interest Paid	(2,269)
(1,861)	Net cash outflow from Interest and Dividends	(1,952)

35. Certification and authorisation of the Accounts

Statement of Accounts – unaudited draft authorised for issue

Signed

Date 30 June 2015

J. BOWCHER

Borough Treasurer, Section 151 officer

Statement of Accounts – audited statement authorised for issue

Signed

Date 23 September 2015

J. BOWCHER

Borough Treasurer, Section 151 officer

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

Signed

Date 23 September 2015

COUNCILLOR M. HOOK

Leader of the Council

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

Signed

Date 23 September 2015

J. BOWCHER

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 on HRA Reserves Statement

2013/14 £'000	HRA INCOME AND EXPENDITURE STATEMENT	2014/15 £'000	2014/15 £'000
	EXPENDITURE		
4,232	Repairs & Maintenance	3,650	
3,548	Supervision & Management	3,645	
357	Rents, Rates, Taxes & Other Charges	183	
2,564	Depreciation, Impairment and Revaluation Losses of Non Current Assets	2,402	
58	Debt Management Costs	38	
53	Movement in the Allowance for Bad or Doubtful Debts	(15)	
10,812	TOTAL EXPENDITURE		9,903
	INCOME		
(13,381)	Dwelling Rents	(13,668)	
(243)	Non Dwelling Rents	(236)	
(716)	Charges for Services and Facilities	(642)	
0	Debtors adjustment	408	
(14,340)	TOTAL INCOME		(14,138)
(3,528)	NET INCOME OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE STATEMENT		(4,235)
99	HRA Services' share of Corporate and Democratic Core		81
(3,429)	NET INCOME FOR HRA SERVICES		(4,154)
	HRA SHARE OF THE OPERATING INCOME AND EXPENDITURE INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE STATEMENT		
13	Loss on the disposal of HRA Non-Current Assets		(44)
230	Payments to the Governments Housing Capital Receipts Pool		255
1,876	Interest Payable and Similar Charges		1,869
(11)	Interest and Investment income		(18)
615	Pension interest on net defined benefit liability		429
(4)	Investment Properties changes in Fair Value		0
(710)	(SURPLUS) OR DEFICIT FOR THE YEAR ON HRA SERVICES		(1,663)

2013/14 £'000	MOVEMENT ON THE HRA STATEMENT	2014/15 £'000	2014/15 £'000
(981)	Balance on the HRA at the end of the previous year		(992)
(710)	(Surplus) or Deficit for the year on the HRA Income and Expenditure Account	(1,663)	
0	Adjustments between accounting basis and funding basis under statute (detailed below)	1,012	
(710)	Net increase before transfers to reserves		(651)
699	Transfers to Reserves		651
(11)	Increase in year on HRA		0
(992)	Balance on the HRA at the end of the current year		(992)

ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASES UNDER REGULATIONS			
2013/14 £'000		2014/15 £'000	2014/15 £'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
(164)	Impairment and Revaluation Losses of Plant, Property & Equipment (PPE)	0	
(13)	(Loss) on the disposal of HRA Non-Current Assets	44	
4	Investment Properties changes in Fair Value	0	
(230)	Contributions from the Capital Receipts Reserve to finance payments to the Governments Housing Capital Receipts Pool	(255)	
1,156	Capital Expenditure funded by the HRA	1,052	
0	Debt Repayment	606	
4	Net charges to Accumulated Absences Account	(3)	
(1,086)	Net charges made for retirement benefits in accordance with IAS19	(842)	
2,400	Depreciation transfer to Major Repairs Reserve	2,400	
(2,400)	Depreciation transfer from Capital Adjustment Account	(2,400)	
(329)			602
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
329	Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners	410	
329			410
0	Net additional amount required by statute to be credited to the HRA Balance for the year		1,012

The outturn for 2014/15 includes £408,000 in respect of a correction to the value of HRA debts held on the balance sheet and a Public Works Loans Board debt repayment of £606,000. Both of these amounts were provided for in the approved budget

NOTES TO THE HOUSING REVENUE ACCOUNT (HRA)

1. Local Government and Housing Act 1989

The Housing Revenue Account reflects a statutory obligation to maintain a separate revenue account for the provision of local authority housing in accordance with the Local Government and Housing Act 1989. It includes the credit and debit items to be taken into account in determining the surplus or deficit on the HRA for the year.

2. Value of Housing Revenue Account Property

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

31-Mar-14			31-Mar-15	
Number	Value £'000		Number	Value £'000
<u>Operational Assets</u>				
2,956	106,819	Standard Dwellings	2,937	109,551
237	3,853	Sheltered Housing	237	3,886
513	765	Garages and Parking Spaces	563	784
1	33	Community Asset	1	33
3,707	111,470		3,738	114,254
<u>Non Operational Assets</u>				
1	34	Premises	1	34
	111,504			114,288

The HRA asset base is valued annually – the 2014/15 stock valuation has been carried out by Savills (UK) Ltd on behalf of the Council and has been guided by the 'Stock Valuation for Resource Accounting: Guidance for Valuers – 2010' published by the Department for Communities and Local Government (DCLG) in January 2011 which requires the review of the housing stock to be undertaken at the commencement of the financial year 2014/15 on 1 April 2014.

The analysis below shows the value of dwellings within the HRA if they were sold on the open market with vacant possession and free from any legal or regulatory tenancies. The difference between the vacant possession value and the balance sheet value represents the economic cost to the government of providing Council Housing at less than market rents.

31-Mar-14 £'000	31-Mar-15 £'000
345,852 Dwellings	354,491
765 Other Land & Buildings	784
346,617	355,275

3. Housing Stock

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

31-Mar-14	31-Mar-15
<u>Numbers</u>	
1,290 Houses	1,273
441 Bungalows	441
1,445 Flats	1,443
3,176	3,157
<u>Analysis of bedroom type</u>	
1,560 1 bedroom	1,561
546 2 bedroom	539
985 3 bedroom	974
85 4 or more bedrooms	83
3,176	3,157
<u>Analysis of stock by age</u>	
264 Pre 1945	256
1,306 1945 - 1964	1,306
631 1965 - 1974	631
975 1974 onwards	964
3,176	3,157

The 31 March 2014 stock number was incorrectly stated and should be 3,174

4. Major Repairs Reserve

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

2013/14 £'000	2014/15 £'000
0 Balance at 1 April	0
2,400 HRA Depreciation	2,400
(2,400) HRA Capital Financed	(2,400)
0 Balance at 31 March	0

5. Housing Repairs

2013/14 £'000	2014/15 £'000
7,788 Expenditure on Repairs	6,980
5,324 Of which planned	4,564
68.4% % of Planned / Response	66.0%

£ 3.331 million of the 2014/15 expenditure (£3.556 million in 2013/14) on repairs was capital expenditure. The main categories of expenditure were overcladding, disabled adaptations, sheltered scheme improvements, kitchens, bathrooms and central heating installations.

6. Capital Expenditure

2013/14 £'000	2014/15 £'000
2,688 HRA Properties - capital repairs & maintenance	3,281
50 LA Tenants Disabled Persons Grants	50
818 Barclay Hostel	0
3,556	3,331

7. Capital Financing

2013/14 £'000	2014/15 £'000
2,400 Major Repairs Reserve	2,400
1,156 Revenue	931
3,556	3,331

8. Capital Receipts

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

2013/14 £'000	2014/15 £'000
1,418 Right to Buy sales	1,146
1,418	1,146

9. Depreciation and Impairments

The depreciation charged to the HRA has been based on the Major Repairs Allowance (MRA) used in the Government buyout determination for self- financing. The MRA may be used as a depreciation charge during a 5 year transitional period (ending in 2016/17) while local authorities develop asset systems that will allow componentised depreciation to become a real charge to the Housing Revenue Account.

2013/14 £'000	2014/15 £'000
2,400 Depreciation	2,400
2,400	2,400

The revaluation loss charged to the HRA in respect of reductions in the value the Council's housing stock which cannot be offset against a Revaluation Reserve balance was £82,000 (£164,000 in 2013/14)

2013/14 £'000	2014/15 £'000
164 Revaluation Loss and Impairments	2
164	2

10. Rent Arrears

2013/14 £'000	2014/15 £'000
174 Current Tenants	148
49 Former Tenants	60
1 Garages	0
224 Total Rent Arrears	208
(13,625) Gross Rent Income	(13,904)
1.6% Arrears as a % of Gross Rent Income	1.5%

The bad debt provision for all HRA debts at 31 March 2015 is £163,200 (£178,000 at 31 March 2014)

11. Pensions

The following transactions have been included in the HRA Income and Expenditure Statement and the Adjustments between Accounting and Funding bases under Regulations to the HRA Balance with no net residual cost to the HRA.

2013/14 £'000	2014/15 £'000
Net Cost of Services	
142 Current service costs and past service costs	3
Surplus or (Deficit) for the year on HRA Services	
615 Pension interest on net defined benefit liability	429
Statement of Movement on the HRA Balance	
(1,086) Reversal of net charges made for retirement benefits in accordance with IAS19	(842)
Actual amount charged against Rents	
329 Employers' contributions payable to scheme	410

COLLECTION FUND			
2013/14 £'000	-----2014/15-----		
	£'000	£'000	£'000
	Business Rates	Council Tax	Total
INCOME			
(36,746) Council Tax	-	(37,369)	(37,369)
Transfers from General Fund			
73 Council Tax Benefits	-	31	31
(14,874) Income collectable from Business Ratepayers	(15,711)	-	(15,711)
- Business Rates Deferred from Previous years	(76)	-	(76)
(34) Contributions towards previous year's Collection Fund Deficit	-	-	-
(51,581)	(15,787)	(37,338)	(53,125)
EXPENDITURE			
Apportionment of Previous Year Estimated Collection Fund Surplus			
- Central Government	757		757
- Gosport Borough Council	606	30	636
- Hampshire County Council	136	154	290
- Hampshire Police and Crime Commissioners	-	22	22
- Hampshire Fire and Rescue Authority	15	9	24
Precepts, Shares and Demands			
5,516 Central Government	6,325	-	6,325
9,387 Gosport Borough Council	5,060	5,028	10,088
26,455 Hampshire County Council	1,139	25,733	26,872
3,710 Hampshire Police and Crime Commissioners	-	3,825	3,825
1,616 Hampshire Fire and Rescue Authority	127	1,522	1,649
46,684	14,165	36,323	50,488
Charges to the Collection Fund			
190 write off of uncollectable amounts	44	101	145
422 Increase / (Decrease) in Bad Debt Provisions	72	326	398
3,263 Increase / (Decrease) in Provision for Appeals	189	-	189
82 Cost of collection	82	-	82
12 Transitional protection payments	8	-	8
3,969	395	427	822
50,653 TOTAL EXPENDITURE	14,560	36,750	51,310
(928) Surplus / (Deficit) arising during the year	(1,227)	(588)	(1,815)
MOVEMENTS ON THE COLLECTION FUND			
213 Deficit / (Surplus) at 1 April	(316)	(399)	(715)
(928) (Surplus) / Deficit for the year	(1,227)	(588)	(1,815)
(715) (Surplus) / Deficit at 31 March	(1,543)	(987)	(2,530)

NOTES TO THE COLLECTION FUND

1. The Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and businesses and distribution to local authorities and the Government of council tax and non-domestic rates

2. Council Tax

Council Tax income is calculated by estimating the amount of income required from the Collection Fund for Hampshire County Council, Hampshire Fire and Rescue Authority, the Police and Crime Commissioners for Hampshire and Gosport Borough Council. This is then divided by the tax base and multiplied by the ratio shown below to give the council tax for each band of property.

The Council's tax base is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings, calculated as follows:

Band	Estimated Number of Taxable Properties after Discounts	Ratio Equivalent	Band D Dwellings
Disabled	10	5/9	5.6
A	4,727.8	6/9	3,151.9
B	11,030.2	7/9	8,579.0
C	7,721.5	8/9	6,863.6
D	4,501.0	9/9	4,501.0
E	1,749.3	11/9	2,138.0
F	1,242.5	13/9	1,794.7
G	291.3	15/9	485.4
H	6.3	18/9	12.5
			<hr/> 27,531.7
Plus MOD contributions in lieu			792.7
Less adjustments for Council Tax Support			(3,288.8)
Less allowance for losses on collection			(351.9)
Add second homes adjustment			<hr/> 110.4
Tax Base for 2014/15			24,794.1
Tax base for 2013/14			24,532.4

The Band D Council Tax for a Gosport property in 2014/15 was £202.81 (£202.81 in 2013/14)

Distribution of the Council Tax surplus or deficit

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

collectability, including variations in the tax base, during the year cause a surplus or deficit to arise on the fund at year end.

For Council Tax, the year-end surplus or deficit on the Collection Fund is distributed between billing and precepting authorities on the basis of estimates of the year-end balance made by the preceding 15 January.

Estimated 2013/14 (surplus) /deficit (shared with preceptors 2014/15) £'000	Actual 31- Mar - 14 £'000		Estimated 2014/15 surplus/deficit (shared with preceptors 2015/16) £'000	Actual 31- Mar - 15 £'000
(154)	(284)	Hampshire County Council	(499)	(703)
(9)	(17)	Hampshire Fire & Rescue Authority	(30)	(42)
(22)	(42)	Hampshire Police and Crime Commissioners	(74)	(105)
(30)	(56)	Gosport Borough Council	(97)	(137)
(215)	(399)		(700)	(987)

The difference between the estimated surplus for 2014/15 and the actual will be shared with preceptors in 2016/17.

3. Non-Domestic Rates (NDR)

From 1 April 2013, the national system of redistributing centrally pooled business rates to Local Authorities was replaced by a new system of Business Rates Retention whereby a proportion of the business rates collected is retained locally by billing and precepting authorities and the balance is paid over to central government.

There is, therefore, the potential reward of additional income from an enhanced business rates base in the Borough. However, there is also the increased financial risk due to non-collection and the volatility of the NDR tax base – particularly due to factors outside of the Council's control such as successful rating appeals to the Valuation Office which may be backdated.

Non-Domestic or business rates are levied on businesses by reference to their rateable value multiplied by the NDR multiplier for the year which is set nationally by central government.

The NDR multiplier for the year was 48.2 pence (47.1p in 2013/14). The total non-domestic rateable value at the year-end was £40,454,845. (£40,347,250 in 2013/14).

Business Rates collected are then apportioned by shares to the following bodies as set out in legislation.

Central Government	50%
Gosport Borough Council	40%
Hampshire County Council	9%
Hampshire Fire and Rescue Authority	1%

Distribution of the Non Domestic Rates surplus or deficit

Estimates for business rates to be collected in the following financial year are required to be made in the January before the year starts. As with Council Tax, there will be differences between

the estimated and actual business rates collected leading to a Non-Domestic Rates surplus or deficit position within the Collection Fund at the year end. The year-end surplus or deficit on the Collection Fund is distributed between billing authority, precepting authorities and central government on the basis of estimates of the year-end balance made by the preceding 31 January.

This is then apportioned to the relevant precepting authorities, including the government, in the proportions set out above.

Estimated 2013/14 (surplus) /deficit (shared with preceptors 2014/15) £'000	Actual 31- Mar -14 £'000	Business Rates	Estimated 2014/15 surplus/deficit (shared with preceptors 2015/16) £'000	Actual 31- Mar -15 £'000
(757)	(159)	Government	(681)	(771)
(136)	(28)	Hampshire County Council	(122)	(139)
(15)	(3)	Hampshire Fire & Rescue Authority	(14)	(16)
(606)	(126)	Gosport Borough Council	(545)	(617)
(1,514)	(316)		(1,362)	(1,543)

(This is a new note for 2014/15)

The difference between the estimated surplus for 2014/15 and the actual will be shared with preceptors and central government in 2016/17.

4. Accounting for the Collection Fund balance

The Code requires that the Council Tax and National Domestic Rating Income included in the Comprehensive Income and Expenditure Account is the accrued income for the year rather than the amount included under regulations comprising for

- Council Tax - the approved annual precept plus or minus the estimate of the Collection Fund surplus or deficit made at the previous 15 January
- National Non-Domestic Rates - the relevant share of the estimated business rates to be collected as included within Council's approved budget plus or minus the estimate of the Collection Fund surplus or deficit made at the previous 31 January.

The difference between the accrued amount and the amount required to be included under regulations is adjusted through the Collection Fund Adjustment Account and as a reconciling item in the Movement in Reserves Statement.

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

The following Collection Fund balances relating to the Gosport Borough Council are included in the Council's balance sheet.

-----31-Mar-14-----			-----31-Mar-15-----			
£'000	£'000	£'000	£'000	£'000	£'000	
Business	Council	Total	Business	Council	Total	
Rates	Tax		Rates	Tax		
<u>Debtors</u>						
-	1,163	1,163	Hampshire County Council	-	943	943
-	69	69	Hampshire Fire & Rescue Authority	-	56	56
-	173	173	Hampshire Police and Crime Commissioners	-	144	144
-	227	227	Gosport Borough Council	443	184	627
<u>Creditors</u>						
(319)	-	(319)	Hampshire County Council	(414)	-	(414)
(35)	-	(35)	Hampshire Fire & Rescue Authority		-	
				(46)		(46)
(115)	-	(115)	Gosport Borough Council	(900)	-	(900)
(1,775)	-	(1,775)	Central Government	(2,297)	-	(2,297)
<u>Provisions</u>						
(1,305)	-	(1,305)	Gosport Borough Council	(1,381)	-	(1,381)
(3,549)	1,632	(1,917)		(4,595)	1,327	(3,268)

GOSPORT BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT 2014/15

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(3) of the Accounts and Audit Regulations 2011.

The purpose of the governance framework

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

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

The governance framework has been in place at Gosport Borough Council for the date of approval of the 2014/15 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:

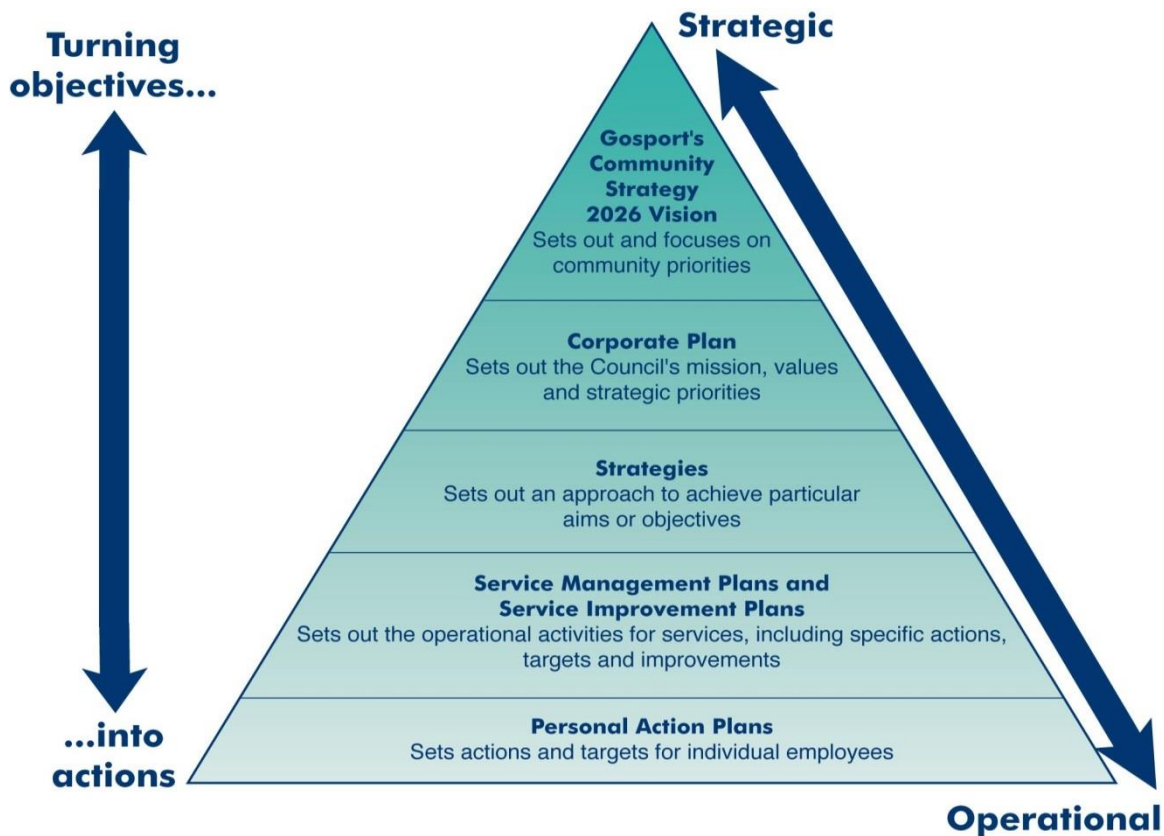
Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

The Council's update [Corporate Plan](#) (2013/16) sets out Gosport Borough Council's Mission and Values which will help us provide quality service delivery. The Corporate Plan also identifies the Council's strategic priorities (People, Places, Prosperity and Pursuit of Excellence), which are based on a combination of factors including what matters most to local people, national priorities set by the Government and the challenges from Gosport's changing social, economic and environmental context.

The Council's mission is:

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

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



The Council continues to have a well-developed Performance Management Framework (performance information & actions) which has continued to be enhanced within the Covalent (software) and the additional risk module has improved the wider outlook on both operational and strategic risks.

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

The Council maintains an objective and professional relationship with their appointed external auditors (Ernst & Young LLP) and statutory inspectors, as evidenced by the [Annual Audit Letter \(presented to Standards & Governance Committee 20.1.15\)](#).

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

The Council's Corporate Procurement Strategy (to be reviewed in 2015/16) continues to provide a consistent strategic framework within which to undertake and continuously develop procurement to deliver the Council's corporate objectives, to improve performance and deliver efficiencies. The Strategy encompasses the policy objectives of the National Procurement Strategy and adapts and prioritises them to meet the Council's local context. The Strategy recognises that the Council cannot achieve its objectives alone and emphasises the need to work in collaboration with public, private, social enterprise and voluntary sector partners. A core theme throughout the Strategy is the Council's commitment to social, economic and environmental sustainability. The new Strategy will encompass the new EU Procurement Directives brought out earlier in 2015.

The Council reviewed its Financial Procedure Rules and Contract Procedure Rules in 2011/12 and these are, incorporated in the Council's Constitution. These are both to be updated in 2015/16.

Risk management is monitored by the Corporate Risk Management Group (CRMG), which meets approximately six 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. The strategic risk register is reviewed each quarter by Council Management Team and CRMG (Chaired by the CFO) on a cyclical basis. Results are reported to the Standards and Governance Committee annually.

Operational and strategic Risks are reported by use of risk registers. Each section is required to update its own register. These registers are now held and managed on the Covalent system as previously mentioned. Extensive work throughout 2014/15 and into 2015/16 have assisted Section Heads in developing and maintaining their operational risk registers.

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

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

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

Decisions are made by Boards and Sub-Boards of the Council with the following having the responsibility for the majority of decision making:

Council
Policy and Organisation Board
Community Board
Economic Development Board
Regulatory Board
Licensing Board

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

In addition to the Boards, there is also a Standards and Governance Committee in place to promote and maintain the highest standards of conduct by members and officers of the Council. This Committee comprises eight Councillors. Additionally, an Assessment Committee comprising three Councillors of the Standards and Governance Committee have delegated powers to determine allegations of failure to comply with the Council's Code of Conduct, in accordance with the Council's arrangements for dealing with such allegations.

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

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

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

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

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

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

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

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

The financial management of the Authority is conducted in accordance with the financial rules set out in the Constitution and underpinned with Financial Procedure Rules. The Council has designated the Borough Treasurer as Chief Finance Officer complying with the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010) requiring the Chief Finance Officer to report directly to the Chief Executive and to be a member of the 'Management Team'.

The Council operates an Internal Audit section, which operates to the standards set out in the 'Public Sector Internal Audit Standards 2013'. This section continues to operate successfully under a partnership arrangement with Test Valley Borough Council. Eastleigh Borough Council decided to cease the seven year arrangement from 31st March 2015. The team was reduced as a result of staff turnover in 2014/15 but a full establishment has now been achieved.

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

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of Gosport Borough Council's risk management, control and governance processes. In our opinion, based upon the work undertaken, for the 12 months ended 31 March 2015 Gosport Borough Council has adequate and effective risk management control and governance processes to manage the achievement of the organisation's objectives.

The Council was subject to an inspection by the Office of Surveillance Commissioners in December 2014. The inspection was very positive about the Council's procedures and policies in place and recommended two actions which are now being addressed.

Service Action Plans are regularly updated by Unit and Line Managers and are a standing item on monthly team meetings. These plans incorporate Corporate Plan requirements into service activities.

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

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

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

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

In addition, the Council complies to the Transparency Code 2014 that came into effect in December 2014 later updated to the 2015 Code.

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

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

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

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

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

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

Review of effectiveness

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

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

1. The Borough Solicitor & Deputy Chief Executive (the "Monitoring Officer") has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes.
2. The Council has an Overview and Scrutiny Committee. They can establish sub-groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to the Board/Council.
3. Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate a three-year plan from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager. The report includes recommendations for improvements that are included within an action plan (and are graded as critical, essential, important & advisory) and requires agreement or rejection by service managers. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months.
4. An Internal Audit Annual Report is taken to the Standards & Governance Committee (as per the Accounts and Audit Regulations 2011) and this provides the overall opinion on the Council's internal control environment. This report is available through the following link [Standards and Governance Committee Agenda 25.6.15](#)

The Standards & Governance Committee also received Internal Audit monitoring reports throughout 2014/15 and an update on risk management.

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 2014/15 as a result of the review of arrangements and by the work of external and internal audit.

NO	ISSUE	ACTION/PROGRESS TO DATE
1	A reducing workforce.	Management to be aware of the loss of knowledge and expertise and short term pressure on the internal control environment.
2	To continue to identify efficiencies within the Council's operations to ensure continued value for money	Working with management to review those areas with opportunities to re-engineer and effectively deliver with reduced resources.
3	To ensure the Council comply fully to the updated 2015 Transparency Code	A Group established to review the updated Code and ensure full compliance with the new mandatory elements.
4	Ensure compliance with all new and updated legislation and guidance from Central Government.	To monitor closely all the amendments to both legislation and guidance in all areas and ensure compliance.
5	To regain a full internal audit staffing compliment to ensure the delivery of the 2015/16 audit plan	Two trainee internal auditors have been recruited and are being professionally trained throughout 2015/16.

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

Signed

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Leader of the Council

Chief Executive

GLOSSARY OF TERMS

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts
Accounting Policies	The principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are to be reflected in financial statements. Include <ul style="list-style-type: none"> ▪ recognising ▪ selecting measurement bases ▪ inclusion of assets, liabilities, gains, losses and changes to reserves
Accruals	The recognition of income and expenditure as it is earned or incurred, as opposed to when cash is received or paid.
Agency Services	Services performed by or for another authority or public body, where the principal (the authority responsible for the service) reimburses the agent (the authority doing the work) for the cost of the work carried out
Actuary	An expert on pension scheme assets and liabilities
Actuarial Gains & Losses	Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because: <ul style="list-style-type: none"> • events have not coincided with the actuarial assumptions made for the last valuation • the actuarial assumptions have changed
Asset	Something the Council owns that has a value ie premises, property, vehicles, equipment, cash or a debt
Authorised Limit	This represents the legislative limit on the Council's external debt under the Local Government Act 2003
Balance Sheet	A statement of the recorded assets, liabilities and other balances at the end of an accounting period
Billing Authority	A local authority empowered to collect Council Tax and Business Rates, and manage the collection fund, on behalf of itself, local authorities in its area and the government
Budget	A financial statement that expresses the Council's service delivery plans and capital programme in monetary terms
Capital Adjustment Account	The Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute). The balance on the account thus represents timing differences between the amount of the historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements.
Capital Expenditure	Expenditure on the acquisition of a non-current asset or, expenditure which adds to and not merely maintains the value of an existing non-current asset. The asset may not be owned by the authority. Expenditure that does not fall within this definition must be charged to a revenue account.
Capital Financing Charges	The annual charge to the revenue account in respect of interest and principal repayments and payments of borrowed money, together with leasing rentals
Capital Receipts	Income from the sale of fixed assets. Capital receipts cannot be used to fund revenue services.
Collection Fund	The separate fund, administered by billing authorities, recording the expenditure and income relating to Council Tax and Non Domestic Rates
Community Assets	Fixed Assets that the Council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. ie Parks

Componenti sation	The identification and recording of the components of an asset in order to more accurately charge depreciation - includes the separate identification and derecognition of components as they are replaced.
Contingency	Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income, and to provide for inflation where this is not included in individual budgets
Contingent Liabilities or Assets	Amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's accounts
Council Tax	The main source of local taxation to Local Authorities. Council Tax is levied on households within its area by the Billing Authority and the proceeds are paid into its Collection Fund for distribution to precepting Authorities and for use by its own General Fund
Council Tax Requirement	The estimated revenue expenditure on General Fund services that needs to be financed from Council Tax after deducting income from fees and charges, grants and any funding from reserves
Creditors	Amounts owed by the Council for goods and services received, but not paid for at the end of the financial year
Debtors	Amounts owed to the Council for work or services rendered but not paid for by the end of the financial year.
Deferred Liabilities	Liabilities payable beyond the next year at some point in the future or paid off by an annual sum over a period of time
Deferred capital receipts	Amounts from the sale of assets, which will be received in the future or in instalments over agreed periods of time
Depreciation	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset
Derecognition	Assets are removed from the Balance Sheet in total or in part when disposed of - whether by sale, demolition, abandonment, obsolescence etc Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.
Discounts	Discounts represent the outstanding discount received on the premature repayment of Public Works Loan Board loans. In line with the Code, gains arising from the repurchase or early settlement of borrowing are written back to revenue – but where the repurchase or borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains are recognised over the life of the replacement loan.
Expenditure	Amounts paid by the authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for
Exceptional Items	Material items deriving from events or transactions that fall within the ordinary activities of the Authority, but which need to be separately disclosed by virtue of their size and/ or incidence to give a fair presentation of the accounts.
Fair Value	Fair value is the price at which an asset could be exchanged in an arm's length transaction between knowledgeable willing parties
Finance Lease	A finance lease is a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee
Financial Instruments	Any item that will cause the Council to receive or pay money. Generally considered to be treasury management related but also include certain debtors and creditors but not with a statutory basis
Fixed Assets	Tangible or intangible assets that yield benefit to the Council for more than one year. Generally, further classified into Property, Plant and Equipment; Heritage Assets; Investment Property and Intangible Assets. Also known as Long Term or Non- Current Assets
Financial Regulations	The written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures

General Fund	The main revenue fund of the Council, it includes income and expenditure on the Council's day to day activities – excluding those of the Housing Revenue Account
Group Accounts	Group Accounts consolidate the financial results of the Council, any of its subsidiaries and/or associates. The Council is not required to produce these for the 2013/14 Statement of Accounts, due to materiality.
Heritage Assets	Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture
Housing Benefit	This is an allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Authority's own tenants are known as rent rebate and that paid to private tenants as rent allowances.
Housing Revenue Account (HRA)	Local Authorities are required to maintain a separate account - the HRA which sets out the income from and expenditure on the provision of council housing.
Impairment	A reduction in the value of a non-current asset below its carrying amount in the balance sheet. At the end of each reporting period, an assessment of assets must take place to identify any potential impairments
Infrastructure Assets	Fixed Assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. ie footpaths, bridges, coast protection works
International Financial Reporting Standards (IFRS)	Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.
Income	Amounts due to the Authority for goods supplied or services rendered of either a capital or revenue nature. This does not necessarily involve cash being received since income is deemed to have been earned once the goods or services have been supplied even if cash has not been received
Intangible Assets	Assets that do not have a physical form ie software and licences
Investment Properties	Properties that are held solely for appreciation or income generation
Leases - General	Where a rental is paid for the use of an asset for a specified period of time. There are two forms of lease – finance and operating. The lessor leases the asset to the lessee. The Council is both lessee and lessor
Leases - Finance Lease	A lease or lease type arrangement whereby the risks and rewards of ownership are considered to be borne by the lessee and therefore the asset concerned is included on the lessee's balance sheet
Lease - Operating Lease	Any lease or lease type arrangement which is not a finance lease. The assets concerned remain on the lessors balance sheet and the payments or income are dealt with as revenue income or expenditure
Liabilities	Amounts due to individuals or organisations payable at some time in the future. Current liabilities are usually payable within one year of the balance sheet date
Major Repairs Allowance (MRA)	The MRA was a government grant for capital expenditure to maintain the housing stock to a good standard. Now being phased out during a transitional period of conversion to fully componentised depreciation accounting
Major Repairs Reserve (MRR)	This reserve is restricted to being applied towards new capital expenditure, the repayment of HRA debt and meeting liabilities under credit arrangements
Minimum Revenue Provision (MRP)	The minimum amount that the council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes

National Non Domestic Rates (NNDR) (also known as Business Rates)	Effective from 1 April 2013, the Business Rates Retention enables a proportion of the Business Rates collected to be retained locally by billing and precepting authorities with the balance being paid over to central government. There is therefore the potential reward of additional income or indeed reduced income, subject to the safety net. The scheme is subject to centrally set targets and thresholds as well as a complex system of tariffs, top-ups, safety nets and levies.
Net Book Value (NBV)	The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation
Operational Boundary	This reflects the maximum anticipated level of external debt consistent with budgets and forecast cash flows.
Pension - Current Service Cost	The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period. ie the pension benefits "earned" by employees in the current year's employment net of contributions paid
Pension - Past service costs	The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years
Pension - Interest on the Net Defined Benefit Liability (Asset),	The change during the period in the net defined benefit liability (asset) that arises from the passage of time - calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
Pension - Actuarial gains and losses	Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions
Pension - Past Service Cost	Discretionary benefits awarded on early retirement are treated as past service costs
Pension – Strain on Pension Fund Contribution	Pension strain is a concept for the management of the pension fund finances arising from an employee retiring early, without actuarial reduction of pension. This causes lost contribution income and creates an interest cost arising from the associated earlier, increased cash flow
Pension - Curtailment	Curtailments show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year
Precepts	The method by which a non-charging authority obtains the income it requires by making a levy on the appropriate charging or billing authorities. Billing authorities, such as Gosport, will themselves precept on the Collection Fund to obtain their own income.
Prior Period Adjustments	These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors
Provision	An amount held in a reserve for a liability of uncertain timing or amount
Public Works Loan Board (PWLB)	An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities
Related Parties	Related parties are Central Government, other Local Authorities, precepting and levying bodies, any subsidiary and associated companies, elected members, all senior officers and the Pension Fund. For individuals, related parties includes members of the close family, or the same household; and partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.
Revaluation Reserve	The Reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward

	movements in value).
Revenue Contribution	The method of financing capital expenditure directly from revenue
Revenue Expenditure	Expenditure incurred on the day to day running of the Council. This includes employee costs, general running expenses and capital financing costs
Revenue Support Grant	A central government grant paid each year as a general contribution towards the cost of the Council's services
Service Reporting Code of Practice (SeRCOP)	Prepared and published by CIPFA , the Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP). It is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SeRCOP establishes proper practices with regard to consistent financial reporting for services and in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.
The Code	The CIPFA Code of Practice 2013/14 (the Code) which is based on and compliant with International Financial Reporting Standards (IFRS) and which governs the preparation of the Council's financial statements
Treasury Management	This is the process by which the Council controls its cash flow and its borrowing and lending activities
Treasury Management Strategy (TMS)	A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council
Usable Reserves	Reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure)
Unsupported (Prudential) Borrowing	This is borrowing for which no financial support is provided by Central Government. The borrowing costs are met from current revenue budgets
Unusable Reserves	Reserves that are not used to provide services - but that represent <ul style="list-style-type: none"> ▪ unrealised gains and losses (ie where amounts would only become available to provide services if the assets are sold) and ▪ timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' (ie depreciation)