

# FAREHAM

BOROUGH COUNCIL

## AGENDA

### AUDIT AND GOVERNANCE COMMITTEE

**Date:** Monday, 25 September 2017

**Time:** 6.00 pm

**Venue:** Collingwood Room - Civic Offices

**Members:**

Councillor J E Butts (Chairman)

Councillor P J Davies (Vice-Chairman)

Councillors Mrs M Brady  
Mrs T L Ellis  
Miss T G Harper  
Mrs K Mandry  
S D Martin

**Deputies:** S Cunningham  
Mrs S M Bayford



- 1. Apologies**
- 2. Minutes (Pages 5 - 8)**

To confirm as a correct record the minutes of the Audit Committee meeting hold on 17 July 2017.
- 3. Chairman's Announcements**
- 4. Declarations of Interest and Disclosures of Advice or Directions**

To receive any declarations of interest from members in accordance with Standing Orders and the Council's Code of Conduct.
- 5. Deputations**

To receive any deputations of which notice has been lodged.
- 6. Overview of Complaints Against the Council (Pages 9 - 16)**

To consider a report by the Director of Finance and Resources on the Complaints received against the Council in the last 12 months.
- 7. External Audit - Audit Results Report (Pages 17 - 54)**

To consider a report by the Director of Finance Resources on the results of the audit carried out by the External Auditors in relation to the Council's financial statements.
- 8. Statement of Accounts (Pages 55 - 132)**

To consider a report by the Director of Finance and Resources on the audited Statement of Accounts for 2016/17.
- 9. Updates on Arrangements for Appointment of External Auditors**

To receive a verbal update from the Head of Finance and Audit updating the Committee on the new arrangements for the Appointment of our External Auditors.
- 10. Risk Management Monitoring Report (Pages 133 - 154)**

To consider the first Risk Management Monitoring Report collated by the Head of Finance and Audit.
- 11. Counter Fraud Progress Report (Pages 155 - 166)**

To consider a report by the Head of Finance and Audit on the Counter Fraud work carried out in 2016/17.
- 12. Quarterly Audit Report (Pages 167 - 178)**

To consider the latest Quarterly Audit report by the Head of Finance and Audit.
- 13. Review of the Work Programme (Pages 179 - 182)**

To consider a report by the Head of Finance and Audit on a review of the Work Programme and Training Plan.



P GRIMWOOD  
Chief Executive Officer  
Civic Offices  
[www.fareham.gov.uk](http://www.fareham.gov.uk)  
15 September 2017

**For further information please contact:  
Democratic Services, Civic Offices, Fareham, PO16 7AZ  
Tel:01329 236100  
[democraticservices@fareham.gov.uk](mailto:democraticservices@fareham.gov.uk)**



# FAREHAM

BOROUGH COUNCIL

## Minutes of the Audit and Governance Committee (to be confirmed at the next meeting)

**Date:** Monday, 17 July 2017

**Venue:** Collingwood Room - Civic Offices

**PRESENT:**

**Councillors:** J E Butts (Chairman)

P J Davies (Vice-Chairman)

**Councillors:** Mrs M Brady, Mrs T L Ellis, Miss T G Harper and  
Mrs S M Bayford (deputising for Mrs K Mandry)

**Also  
Present:**



**1. APOLOGIES**

Apologies of absence were received from Councillor Mrs K Mandry and Councillor S D Martin.

**2. MINUTES**

RESOLVED that the minutes of the Audit and Governance Committee meeting held on the 13 March 2017 be confirmed and signed as a correct record.

**3. CHAIRMAN'S ANNOUNCEMENTS**

There were no Chairman's announcements made at this meeting.

**4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS**

There were no declarations of interest made at this meeting.

**5. DEPUTATIONS**

There were no deputations made at this meeting.

**MATTERS CONSIDERED FOR CONFIRMATION**

**6. FINANCIAL REGULATION 19 - WRITE OFFS**

The Committee considered a report by the Director of Finance and Resources proposing an amendment to Financial Regulation 19 in respect of Write Offs.

Members sought clarity on some aspects of the report, in particular they asked the Head of Finance and Audit to expand on the information in paragraph 7. and subsequently Members asked this information be emphasised to Council when they are making the final decision to approve the revised regulation.

RESOLVED that the Committee: -

(a) consider the proposed changes; and

(b) that emphasis be made on the information given in paragraph 7 of the report to aid the Council to aid its decision in approving the revised regulation.

## **DECISIONS MADE UNDER DELEGATED POWERS**

### **7. EXTERNAL AUDIT PROGRESS UPDATE**

The Committee received a report by the Director of Finance and Resources summarising the work undertaken by the External Auditors since the last meeting.

RESOLVED that the Committee note the content of the report.

### **8. STATEMENT OF ACCOUNTS**

The Committee considered a report by the Director of Finance and Resources on the Statement of Accounts 2016/17.

The Finance Strategy and Development Manager explained in more detail to Members the key matters of interest and drew attention to some differences to the Statement of Accounts from last year, due to the changes in the Accounts and Audit Regulations highlighted within the report.

RESOLVED that the Committee note: -

- (a) the unaudited Statement of Accounts for the year ended 31 March 2017 in Appendix A;
- (b) the audited Statement of Accounts for the year ended 31 March 2017 will be approved at the next Audit and Governance Committee on the 25 September 2017; and
- (c) the timescales for producing, approving and publishing the Statement of Accounts will be brought forward in future years in order to meet the requirements of the Accounts and Audit Regulations 2015.

### **9. QUARTERLY AUDIT REPORTS**

The Committee considered the Quarterly Audit report by the Head of Finance and Audit.

RESOLVED that the Committee note the progress and findings arising from the internal audit work.

### **10. HEAD OF AUDITS ANNUAL OPINION**

The Committee considered a report by the Head of Finance and Audit on the Head of Audit's Annual Opinion.

Members commented on the small reduction in recommendations being implemented in 2016/17 compared to previous years. The Head of Finance and Audit reassured Members that the Audit Team are currently working to roll out a new action database to other services to help improve the awareness of,

then implementation of recommendations and assist in stronger assurance for next year.

The Chairman asked that members be updated at a future meeting on the progress being made on the following: -

- i) Framework agreements (para 25 a)
- ii) Roll out of the new approach to Risk Management (para 25 c)
- iii) Action plan following the contract completion audit (para 27g)

RESOLVED that the Committee: -

- (a) note the contents of the report as a source of evidence for the 2016/17 Annual Governance Statement; and
- (b) that the following progress updates be brought back to future meetings:
  - i) Framework agreements (para 25 a)
  - ii) Roll out of the new approach to Risk Management (para 25 c)
  - iii) Action plan following the contract completion audit (para 27g)

## **11. ANNUAL GOVERNANCE STATEMENT**

The Committee considered a report by the Head of Finance and Audit on the 2016/17 Annual Governance Statement.

Members asked that consideration could be made to amend the wording on page 153 – Risk Management, so that it is easier to understand the new approach to risk management.

RESOLVED that the Committee: -

- (a) approve the Annual Governance Statement for 2016/17, as attached in Appendix C of the report; and
- (b) approve the identified change required to amend the wording on page 153 – Risk Management.

## **12. REVIEW OF WORK PROGRAMME AND TRAINING PLAN**

The Committee considered a report by the Head of Finance and Audit reviewing the Work Programme for 2017/18.

RESOLVED that the Committee approve the work programme for the rest of the municipal year 2017/18, as shown in Appendix A.

(The meeting started at 6.00 pm  
and ended at 6.55 pm).



# FAREHAM

## BOROUGH COUNCIL

### **Report to Audit and Governance Committee**

**Date:** 25 September 2017

**Report of:** Director of Finance and Resources

**Subject:** OVERVIEW OF COMPLAINTS AGAINST THE COUNCIL

#### **SUMMARY**

This report informs members of the number of complaints made to the Council where these came by way of the Local Government and Social Care Ombudsman, and of any complaints in respect of breaches of the Code of Conduct for Members for the year up to 31 March 2017.

#### **RECOMMENDATION**

Members are now invited to note the contents of the report.

## **INTRODUCTION**

1. One of the functions of the Audit and Governance Committee, set out in the Constitution, is to advise on an internal framework of standards of conduct that should be followed by members and officers. To assist the Committee in carrying out this role, it is considered helpful to provide information concerning complaints made to, or about the Council, its members and officers.
2. Many matters which could be termed complaints might more properly be termed service requests and others are dealt with by the relevant departments as part of their normal duties (e.g. a missed refuse bin). Such requests are not covered by this report.
3. Where a matter has not been resolved straightaway, the Council's corporate complaints procedure is followed and the matter is dealt with as a formal complaint. The procedure applies to most complaints, but there are some cases which are treated in a different way. The Council lets the complainant know if this is the case.
4. The formal complaints procedure is a two-stage process. Under Stage 1, the Head of Service in the department responsible will investigate the complaint. If the matter remains unresolved it will proceed to Stage 2 where the Director, of the department responsible, will review the complaint.
5. A complainant who is still not satisfied with the Council's explanation or resolution, after both stages of the complaints process, has the right to contact the Local Government and Social Care Ombudsman (LGO). Such cases are considered in this report together with the Ombudsman's annual letter.
6. Complaints about the conduct of members which involve possible breaches of the Council's Code of Conduct for Members are not dealt with under the Council's formal complaints procedure. Since the implementation of the Localism Act the members' standards responsibility became the responsibility of the Audit and Governance Committee and its Standards Sub Committee.

## **COMPLAINTS TO THE LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN**

7. The LGO's annual review letter, [Appendix A](#), shows that no complaints were upheld against the Council in the last financial year.

### **Enquiries and Complaints Received**

8. In 2016/17 the LGO received a total of 8 complaints about the Council and made 10 decisions. The discrepancy between the figures is related to the LGO using the received date and decision date to determine the year for each. In 2015/16 there were 9 complaints and 8 decisions.
9. The complaints received related to several different service areas, which are summarised below. The titles are determined by the LGO so do not directly correlate with the services delivered by the Council.
  - a. Three for Benefits and Tax
  - b. Two for Corporate and Other Services
  - c. One for Environment Services
  - d. One for Housing

- e. One for Planning and Development
10. The points below provide details of the outcome of the decisions made, by the LGO, in 2016/17.
- a. Four Referred back for Local Resolution
  - b. Four Closed After Initial Enquiries
  - c. Two detailed investigations, both of which were Not Upheld
11. No complaints were upheld, against Fareham Borough Council, in 2016/17. This meant that there were no remedies that the Council needed to implement.

### **Performance of Hampshire District Councils**

12. For the year ended 31 March 2017 the LGO received 115 complaints and enquiries in respect of Hampshire District Councils, including Fareham Borough Council. The lowest number of complaints and enquiries was received by Hart District Council with 2. East Hampshire District Council received the highest number of complaints and enquiries, with a total of 22. Complaints and enquiries relating to Planning and development were the most frequent type, with 45, which is the same as 2015/16 and is more than double the number of the next most common type.
13. For the year ended 31 March 2017 the LGO made a total of 114 decisions in respect of Hampshire District Councils, including Fareham Borough Council. Hart District Council had the lowest number of decisions, with 2. East Hampshire District Council received the highest number of decisions, which resulted in 2 (out of 21) decisions being upheld. Fareham Borough Council was one of 6 councils in Hampshire to receive no upheld decisions in 2016/17.

### **COMPLAINTS IN RESPECT OF BREACHES OF THE MEMBERS CODE OF CONDUCT**

14. The Council has a duty to make arrangements to receive and consider complaints made against Councillors in Fareham. The responsibility for carrying out this function lies with the Monitoring Officer.
15. Complaints can be received in writing, via e-mail or by filling in a complaint form that is available on the Council's website. All complaints are taken seriously and are recorded and investigated by the Monitoring Officer, who evaluates each one against the code of conduct.
16. For the period 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017, eight formal complaints against members were received by the Monitoring Officer, an increase of three against the previous year. All of these were resolved at an early stage of the complaints procedure as it was established that no breach of the code had occurred.

### **RISK ASSESSMENT**

17. There are no significant risk considerations in relation to this report

## **CONCLUSION**

18. The overall level of complaints, to the Local Government Ombudsman and those about Councillors, are in line with recent trends and the Committee is recommended to note the report.

[Appendix A](#): Annual Review Letter, Local Government Ombudsman

### **Background Papers:**

The Local Government and Social Care Ombudsman's website provides copies of the annual review letters sent to all councils about their performance.

**Reference Papers:** None

### **Enquiries:**

For further information on this report please contact Annette Rickman, Customer Service Manager (Ext. 4418).

20 July 2017

*By email*

Peter Grimwood  
Chief Executive  
Fareham Borough Council

Dear Peter Grimwood,

### **Annual Review letter 2017**

I write to you with our annual summary of statistics on the complaints made to the Local Government and Social Care Ombudsman (LGO) about your authority for the year ended 31 March 2017. The enclosed tables present the number of complaints and enquiries received about your authority and the decisions we made during the period. I hope this information will prove helpful in assessing your authority's performance in handling complaints.

The reporting year saw the retirement of Dr Jane Martin after completing her seven year tenure as Local Government Ombudsman. I was delighted to be appointed to the role of Ombudsman in January and look forward to working with you and colleagues across the local government sector in my new role.

You may notice the inclusion of the '*Social Care Ombudsman*' in our name and logo. You will be aware that since 2010 we have operated with jurisdiction over all registered adult social care providers, able to investigate complaints about care funded and arranged privately. The change is in response to frequent feedback from care providers who tell us that our current name is a real barrier to recognition within the social care sector. We hope this change will help to give this part of our jurisdiction the profile it deserves.

### **Complaint statistics**

Last year, we provided for the first time statistics on how the complaints we upheld against your authority were remedied. This year's letter, again, includes a breakdown of upheld complaints to show how they were remedied. This includes the number of cases where our recommendations remedied the fault and the number of cases where we decided your authority had offered a satisfactory remedy during the local complaints process. In these latter cases we provide reassurance that your authority had satisfactorily attempted to resolve the complaint before the person came to us.

We have chosen not to include a 'compliance rate' this year; this indicated a council's compliance with our recommendations to remedy a fault. From April 2016, we established a new mechanism for ensuring the recommendations we make to councils are implemented, where they are agreed to. This has meant the recommendations we make are more specific, and will often include a time-frame for completion. We will then follow up with a council and seek evidence that recommendations have been implemented. As a result of this new process, we plan to report a more sophisticated suite of information about compliance and service improvement in the future.

This is likely to be just one of several changes we will make to our annual letters and the way we present our data to you in the future. We surveyed councils earlier in the year to find out, amongst other things, how they use the data in annual letters and what data is the most useful; thank you to those officers who responded. The feedback will inform new work to

provide you, your officers and elected members, and members of the public, with more meaningful data that allows for more effective scrutiny and easier comparison with other councils. We will keep in touch with you as this work progresses.

I want to emphasise that the statistics in this letter comprise the data we hold, and may not necessarily align with the data your authority holds. For example, our numbers include enquiries from people we signpost back to the authority, but who may never contact you.

In line with usual practice, we are publishing our annual data for all authorities on our website. The aim of this is to be transparent and provide information that aids the scrutiny of local services.

### **The statutory duty to report Ombudsman findings and recommendations**

As you will no doubt be aware, there is duty under section 5(2) of the Local Government and Housing Act 1989 for your Monitoring Officer to prepare a formal report to the council where it appears that the authority, or any part of it, has acted or is likely to act in such a manner as to constitute maladministration or service failure, and where the LGO has conducted an investigation in relation to the matter.

This requirement applies to all Ombudsman complaint decisions, not just those that result in a public report. It is therefore a significant statutory duty that is triggered in most authorities every year following findings of fault by my office. I have received several enquiries from authorities to ask how I expect this duty to be discharged. I thought it would therefore be useful for me to take this opportunity to comment on this responsibility.

I am conscious that authorities have adopted different approaches to respond proportionately to the issues raised in different Ombudsman investigations in a way that best reflects their own local circumstances. I am comfortable with, and supportive of, a flexible approach to how this duty is discharged. I do not seek to impose a proscriptive approach, as long as the Parliamentary intent is fulfilled in some meaningful way and the authority's performance in relation to Ombudsman investigations is properly communicated to elected members.

As a general guide I would suggest:

- Where my office has made findings of maladministration/fault in regard to routine mistakes and service failures, and the authority has agreed to remedy the complaint by implementing the recommendations made following an investigation, I feel that the duty is satisfactorily discharged if the Monitoring Officer makes a periodic report to the council summarising the findings on all upheld complaints over a specific period. In a small authority this may be adequately addressed through an annual report on complaints to members, for example.
- Where an investigation has wider implications for council policy or exposes a more significant finding of maladministration, perhaps because of the scale of the fault or injustice, or the number of people affected, I would expect the Monitoring Officer to consider whether the implications of that investigation should be individually reported to members.
- In the unlikely event that an authority is minded not to comply with my recommendations following a finding of maladministration, I would always expect the Monitoring Officer to report this to members under section five of the Act. This is an exceptional and unusual course of action for any authority to take and should be considered at the highest tier of the authority.

The duties set out above in relation to the Local Government and Housing Act 1989 are in addition to, not instead of, the pre-existing duties placed on all authorities in relation to Ombudsman reports under The Local Government Act 1974. Under those provisions, whenever my office issues a formal, public report to your authority you are obliged to lay that report before the council for consideration and respond within three months setting out the action that you have taken, or propose to take, in response to the report.

I know that most local authorities are familiar with these arrangements, but I happy to discuss this further with you or your Monitoring Officer if there is any doubt about how to discharge these duties in future.

### **Manual for Councils**

We greatly value our relationships with council Complaints Officers, our single contact points at each authority. To support them in their roles, we have published a Manual for Councils, setting out in detail what we do and how we investigate the complaints we receive. When we surveyed Complaints Officers, we were pleased to hear that 73% reported they have found the manual useful.

The manual is a practical resource and reference point for all council staff, not just those working directly with us, and I encourage you to share it widely within your organisation. The manual can be found on our website [www.lgo.org.uk/link-officers](http://www.lgo.org.uk/link-officers)

### **Complaint handling training**

Our training programme is one of the ways we use the outcomes of complaints to promote wider service improvements and learning. We delivered an ambitious programme of 75 courses during the year, training over 800 council staff and more 400 care provider staff. Post-course surveys showed a 92% increase in delegates' confidence in dealing with complaints. To find out more visit [www.lgo.org.uk/training](http://www.lgo.org.uk/training)

Yours sincerely



Michael King  
Local Government and Social Care Ombudsman for England  
Chair, Commission for Local Administration in England

For further information on how to interpret our statistics, please visit our website:  
<http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics>

## Complaints and enquiries received

Adult Care Services	Benefits and Tax	Corporate and Other Services	Education and Children's Services	Environment Services	Highways and Transport	Housing	Planning and Development	Other	Total
0	3	2	0	1	0	1	1	0	8

## Decisions made

Decisions made				Detailed Investigations			
Incomplete or Invalid	Advice Given	Referred back for Local Resolution	Closed After Initial Enquiries	Not Upheld	Upheld	Uphold Rate	Total
0	0	4	4	2	0	0%	10

### Notes

Our uphold rate is calculated in relation to the total number of detailed investigations.  
 The number of remedied complaints may not equal the number of upheld complaints. This is because, while we may uphold a complaint because we find fault, we may not always find grounds to say that fault caused injustice that ought to be remedied.

### Complaints Remedied

by LGO	Satisfactorily by Authority before LGO Involvement
0	0



# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 25 September 2017  
**Report of:** Director of Finance and Resources  
**Subject:** EXTERNAL AUDIT – AUDIT RESULTS REPORT

#### SUMMARY

The Committee is asked to consider the External Auditor's Annual Results Report (Appendix A), summarising the findings from the 2016/17 audit which is now substantially complete.

Having considered the findings of the External Auditor and the Statement of Accounts, a "letter of representation" will be sent from the Council's Section 151 Officer (Director of Finance and Resources). This will enable the External Auditor to issue their audit report on the Council's financial statements. The Statement of Accounts may then be published in advance of the statutory publication date, 30 September 2017.

#### RECOMMENDATION

It is recommended that the Committee: -

- (a) notes the contents of the Annual Results Report (Appendix A); and
- (b) the Director of Finance and Resources and the Chairman of the Audit and Governance Committee sign the Letter of Representation (Appendix B) after the agenda item presenting the revised Statement of Accounts.

#### Background Papers:

None

#### Reference Papers:

None

#### Enquiries:

For further information on this report please contact Andrew Wannell. (Ext 4620)



Fareham Borough Council

# Audit results report

Year ended 31 March 2017

Private and Confidential

13 September 2017

Dear Members

We have substantially completed our audit of Fareham Borough Council's (the Council) financial statements for the year ended 31 March 2017.

Subject to the adequate resolution of the outstanding matters listed in our report, we confirm that we anticipate being in a position to issue an unqualified audit opinion on the financial statements in the form that appears in Section 3, after your Audit and Governance Committee meeting on 25 September and well before the statutory deadline of 30 September 2017.

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of members and senior management, and should not be used for any other purpose nor given to any other party without our prior written consent.

We would like to thank your staff for the assistance provided to us during the engagement.

We look forward to the opportunity of discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Helen Thompson  
Executive Director

For and on behalf of Ernst & Young LLP  
United Kingdom

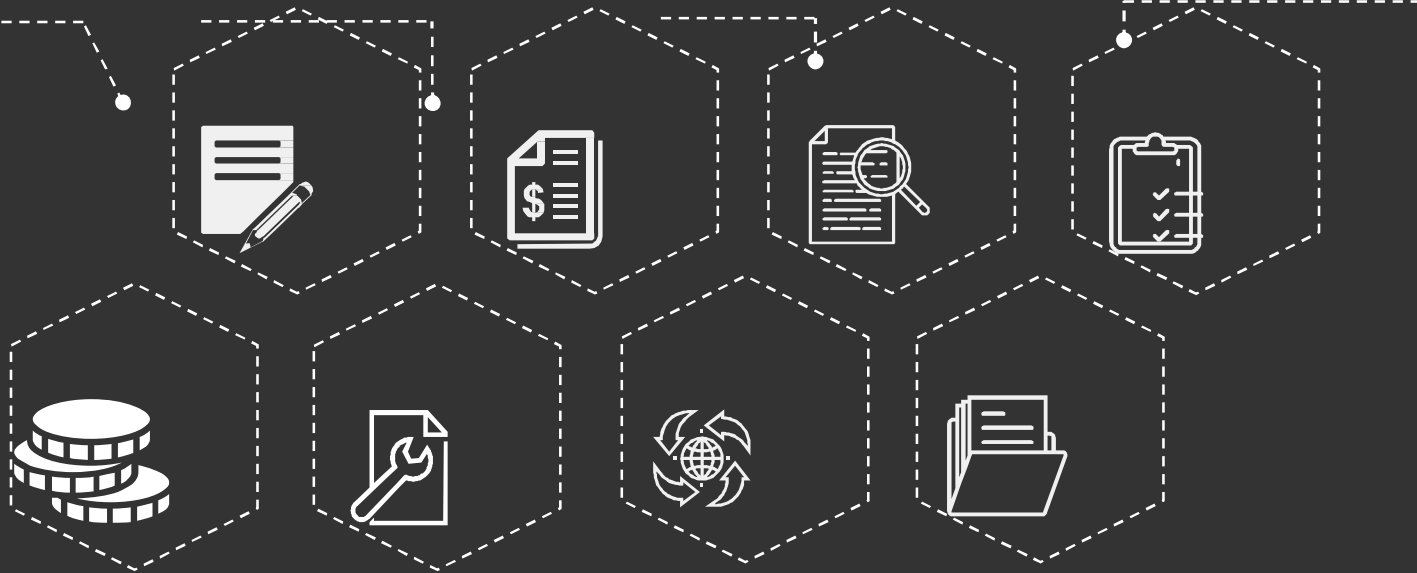
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06 Other Reporting Issues

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Members of Fareham Borough Council and management of the Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Council members and senior management for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



## Executive summary

### Overview of the audit

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### Scope and materiality

In our Audit Plan, presented at the 13 March 2017 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan. We note the following change to the Audit Plan:

- An additional significant risk was identified in relation to the valuation of Daedalus on receipt of the draft financial statements.

We planned our procedures using materiality of £1,185,620. We have reassessed this based on the actual results for the financial year and have decreased this amount to £1,182,760. The threshold for reporting audit differences has remained unchanged at £59,000. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

### Status of the audit

We are still in the process of completing our audit of the financial statements for the year ended 31 March 2017 and are performing the procedures outlined in our audit plan. Subject to satisfactory completion of the outstanding items we expect to issue an unqualified opinion on the Council's financial statements. However, it is possible that further matters requiring amendment may arise. We will provide an update to the Audit and Governance Committee at its meeting on 25 September 2017.

The following matters are outstanding at the time of writing this report:

- Completing our testing and review of the Expenditure and Funding Analysis.
- Concluding on the follow up matters identified in the Auditor's Specialist report on the valuation of Daedalus.
- Receipt of the signed Letter of Representation.
- Review of the final version of the financial statements.
- Completion of subsequent events review.
- Approval of the accounts by the Audit and Governance Committee on 25 September 2017.

We expect to issue the audit certificate at the same time as the audit opinion after the Audit and Governance Committee meeting on 25 September 2017.



### Executive summary (continued)

#### Audit differences – Adjusted

As at 13 September we have identified the following audit differences which management have corrected:

- Note 16: Property, Plant and Equipment. In year additions of £4,295,624 to Holly Hill Leisure Centre were classified as Other Land and Buildings - Additions. The additions should have been classified as Assets Under Construction - Additions and then transferred to Other Land and Buildings - Other movements within note 16.
- Note 16: Property, Plant and Equipment. During 2015/16 and 2016/17 the Council did not charge depreciation on assets which were revalued in year resulting in an understatement of depreciation of £1,084,236.
- Note 16: Property, Plant and Equipment. The Council's valuation of its HRA Dwellings was measured as at 1 April 2016 and this value was included in the draft financial statements. The Council did not have any process in place to ensure that the carrying amount of its Council Dwellings did not differ materially from that which would be determined using the current value at the end of the reporting date. Management subsequently performed an assessment on the carrying value as at 31 March 2017 which resulted in an estimated increase in the carrying value of £6,922,653.
- Note 16: Property, Plant and Equipment. We identified two developments within Council Dwellings that were included at cost and not existing use value for social housing. Consequently Council Dwellings were overstated and impairment expense understated by £4,296,247.
- Note 22: Short Term Debtors. A cash suspense account was cleared to creditors at year-end and not allocated to the individual debtor accounts resulting in the grossing up of debtors and creditors. Consequently, Short Term Debtors and Short Term Creditors were overstated by £2,154,000.
- Note 23: Short Term Creditors. We identified HRA expenditure of £70,467 relating to 2016/17 that was omitted from the financial statements. The expense and related creditor was recorded in 2017/18.
- Note 24: Provisions. The business rates appeal provision did not take into account properties that are due charitable relief. Consequently, provisions are overstated £324,979 being the Council's 40% share. Furthermore, the Council erroneously removed a GP surgery from the 2016/17 provision calculation, this appellant was refunded in 2017/18 but the provision was already released in 2016/17. Consequently, provisions are understated by £125,985, being the Council's 40% share.
- Collection Fund. Appeals refunds against the appeals provision of £2,335,119 was incorrectly included in Income – Non-Domestic Rates – Due. This should have been presented in Increase/(Decrease) in Appeals Provision.



# Executive Summary

## Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial statements. This report sets out our observations and conclusions on these areas. Our consideration of these matters and others identified is summarised in the "Areas of audit focus" section of this report.

We ask you to review these and the other matters in this report to ensure that:

- there are no residual further considerations or matters that could have an impact on these issues;
- you agree with the resolution of the issue;
- there are no further significant issues known to you which need to be considered before the financial report is finalised.

There are no matters that we believe need to be brought to the Audit and Governance Committee's attention, other than those reported by management or disclosed in this report.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result.

For the Whole of Government Accounts, as the Council is below the specified audit threshold of £350 million, we did not perform any audit procedures on the consolidation pack. We have no matters to report.

We have no other matters we wish to report.

## Value for money

We have considered your arrangements for taking informed decisions, deploying resources in a sustainable manner, and working with partners and other third parties. In our audit plan we identified one significant risk around these arrangements in terms of "Sustainable resource deployment - Medium term financial outlook".

As discussed, in Section 5, our work did not identify any issues that we needed to report to you in terms of your arrangements to secure economy efficiency and effectiveness in your use of resources.





# Executive Summary

## Control observations

We have adopted a fully substantive approach and so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no matters we wish to report.

## Independence

Please refer to Appendix B for our update on independence. There are no issues to report.

## Audit fees

Our planned fee, reported in the Audit Plan presented to the Audit and Governance Committee in March 2017, was £48,230. Our proposed final fee, of £49,730, will be confirmed following the presentation of this report at the Audit and Governance Committee, subject to the committee's agreement and subsequent agreement with Public Sector Audit Appointments Ltd. We have discussed the additional fee of £1,500 for the work our property experts carried out on the valuation of Daedalus, with the Responsible (S151) Officer when we met on 7 September 2017. Some discomfort was expressed around the fee for the additional work and the Responsible (S151) Officer, although acknowledging the additional work, had reservations in approving any additional fee and this will be taken to the committee for further discussion. Please refer to Section 2 "Areas of audit focus" for further details on the work we carried out and where we have provided further context for the work undergone and Appendix B for our update on audit fees.



02

## Areas of Audit Focus



## Audit issues and approach: Management override – significant risk

### Management override

#### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business

#### What is the risk?

##### Risk of management override

As identified in ISA 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. We identify and respond to this fraud risk on every audit engagement.

#### What did we do?

Our approach focused on:

- ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, e.g. senior managers entering journals (we would not normally expect this), journals posted at weekends and those not netting to zero, and journals with descriptions such as 'fraud' and 'error';
- ▶ testing the Movement in Reserves Statement to assess the appropriateness of amounts transferred from Earmarked Reserves and the Housing Revenue Account to the General Fund as well as the adjustments between accounting and funding basis which impact the Useable and Unusable Reserves;
- ▶ reviewing accounting estimates for evidence of management bias in how they had been arrived at, e.g. understating assumptions about accruals;
- ▶ evaluating the business rationale for significant unusual transactions, e.g. individual material items, anomalies in accounting treatment, transactions put through the ledger at unusual times; and
- ▶ reviewing the Minimum Revenue Provision policy and the appropriateness of charges made in the financial statements.

We found no issues to report.



# Areas of Audit Focus

## Audit issues and approach: Valuation of Daedalus – significant risk

### Valuation of Daedalus

This significant risk was not included in our audit plan and was identified on our review of the Council's draft financial statements

#### What is the risk?

Risk of misstatement of the value of various properties at Daedalus

Our review of the Council's draft financial statements showed that there was a 231% increase in the value of Daedalus within Other Land and Buildings in 2016/17 compared to a 1.98% increase in 2015/16. Given that there was also a change in valuer, and the complexity of the calculations and assumptions involved, we concluded that we needed to seek a view from our EY Real Estate Valuation specialists on the appropriateness of the valuation methodology used by the Council.

The valuation of Daedalus was carried out by an independent specialist. The valuer adopts the fair value basis to revalue Daedalus. Previously the valuation was done annually in-house by the Council's Estates team. The method adopted divides the overall property into five asset parcels, these being the Centre of Excellence for Engineering, Manufacturing and Advanced Skills Technology (CEMAST), the Innovation Centre, Daedalus East, Daedalus West and the Airfield including the control tower.

#### What did we do?

Our specialists performed the following procedures:

- Understanding the scope of the work performed
  - ▶ read the valuation analysis to gain an understanding of the scope of work performed;
  - ▶ held conversations with management about the facts and circumstances underlying the valuation analysis; and
  - ▶ corresponded with management and their specialist to discuss the valuation process, methods, and assumptions used in the analysis.

#### Evaluating the specialist

- ▶ researched and commented on the qualifications, experience, and reputation of the specialist (at the firm and individual professional levels); and
- ▶ commented on the relationship of the specialist to the Council.

#### Commenting on valuation methodology

- ▶ identified the methodology used in the work assessed;
- ▶ commented on whether or not the valuation methodology and techniques used were complete, adequate and consistent with appraisal methodology given the circumstances of the property in its market.

#### Identifying, verifying and testing significant assumptions

- ▶ identified the significant assumptions used in the work assessed;
- ▶ commented on whether the information used was complete, adequate and relevant;
- ▶ researched the market for data to compare to assumptions used in the work assessed; and
- ▶ assessed whether the assumptions used are supported by observable market data.

Our specialist also held discussions with management, the valuer and the assurance team regarding the valuation analysis.

The council had sought an independent specialist valuation of the developing assets at Daedalus to give them greater assurance that the delivery of the vision was achieving an appropriate increase in the asset value. The above work has validated the approach taken by management. We note that the Council should benefit from this in future years as delivery of the vision for Daedalus continues.

We propose an additional fee of £1,500 for this work as discussed in Appendix B.

#### What is our conclusion?

The basis of value and methodology adopted by the specialist is considered appropriate given the characteristics of the assets being measured and the specialist possessed the necessary qualifications and experience to perform the valuation analysis.

The significant assumptions used in developing the estimate were within a reasonable range given the facts and circumstances present as at the valuation date.

The total property value is considered to be reasonable and supported by reference to market evidence. As auditors we have assurance going forward that the valuation commissioned by management was robust and fairly reflects the valuation of Daedalus.



# 03 Audit Report



# Audit Report

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

### Opinion on the Fareham Borough Council's financial statements

We have audited the financial statements of Fareham Borough Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement; Balance Sheet; Movement in Reserves Statement; Cash Flow Statement; and the related notes 1 to 36, including the Expenditure and Funding Analysis (on page 44); the Housing Revenue Account and related notes 1 to 8; and the Collection Fund and related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Fareham Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fareham Borough Council and the Fareham Borough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

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Respective responsibilities of the Responsible Financial (S151) Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 3, the Responsible Financial (S151) Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fareham Borough Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial (S151) Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Council's Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2017 and of its expenditure and income for the year then ended; and



# Audit Report

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

## Opinion on other matters

In our opinion, the information given in the Council's Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we report by exception

### We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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## Conclusion on Fareham Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

### Council's responsibilities

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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



# Audit Report

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2016, as to whether the Fareham Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Fareham Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

## Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Audit General in November 2016, we are satisfied that, in all significant respects, Fareham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

## Certificate

We certify that we have completed the audit of the accounts of Fareham Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Helen Thompson (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor

Southampton

xx September 2017

The maintenance and integrity of the Fareham Borough Council's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.





# 04 Audit Differences



## Audit Differences

### Audit differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures, and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

#### Summary of adjusted differences

We have included all known amounts greater than £59,000 relating to Fareham Borough Council in our summary of misstatements below.

We highlight the following misstatements in the financial statements and disclosures identified during the audit. These have been corrected by management:

- Property, Plant and Equipment: A misclassification within Property, Plant and Equipment of £4,295,624 between Assets Under Constructions and Other Land and Buildings.
- Property, Plant and Equipment: An understatement of depreciation of £1,084,236 relating to assets revalued in year
- Property, Plant and Equipment: An understatement of £6,922,653 relating to the valuation of Council Dwellings
- Property, Plant and Equipment: An overstatement of £4,296,247 relating to Council Dwellings not impaired
- Short Term Debtors: An overstatement of £2,154,000 relating to Short Term Debtors and Short Term Creditors
- Short Term Creditors: An understatement of expenses and creditors of £70,467 due to a cut-off error
- Provisions: An overstatement of £324,979 and an understatement of £125,985 relating to the business rates appeal provision
- Collection Fund: A misclassification within the Collection Fund of £2,335,119 between Non-Domestic Rates Income and Increase/(Decrease) in Appeals Provision
- A small number of minor amendments to disclosure notes

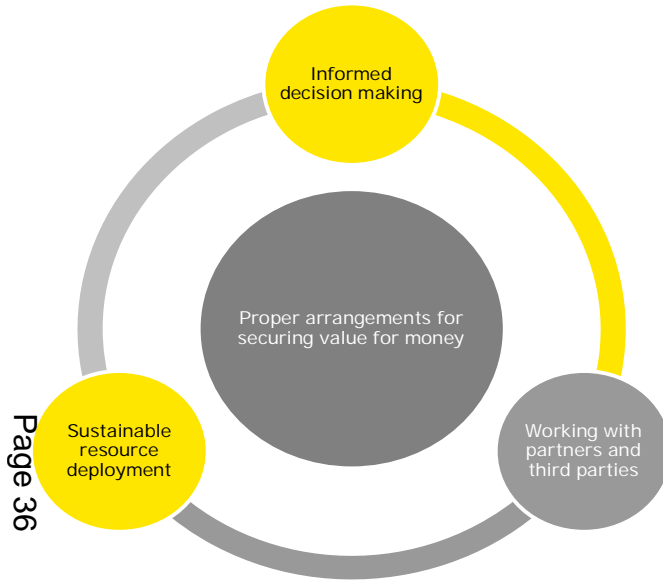
There were no uncorrected misstatements.



# 05 Value for Money



## Value for Money



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### Economy, efficiency and effectiveness

We are required to consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness in their use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

### Overall conclusion

We have considered your arrangements for taking informed decisions, deploying resources in a sustainable manner, and working with partners and other third parties. In our audit plan we identified one significant risk around these arrangements in terms of the "medium term financial outlook".

Our work focussed on the adequacy of the plans and arrangements the Council has put in place, in 2016/17, to secure financial resilience and the financial sustainability of the Council in the medium term.

As discussed, overleaf, our work did not identify any issues that we needed to report to you in terms of your arrangements to secure economy efficiency and effectiveness in your use of resources.



# Value for Money

## VFM risk - Sustainable Resource Deployment – Medium term financial outlook

We are only required to determine whether there are any risk that we consider significant within the Code of Audit Practice which defines significant as:  
*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*  
 Our risk assessment supports the planning of enough work for us to deliver a safe conclusion on arrangements to secure value for money, and enables us to determine the nature and extent of any further necessary work. If we do not identify any significant risk, there is no requirement to carry out further work.  
 The table below presents the findings of our work in response to the risk area in our Audit Plan.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
--	------------------------------------	------------------------

Our work focussed on the adequacy of the plans and arrangements the Council has put in place, in 2016/17, to secure financial resilience and the financial sustainability of the Council in the medium term.

Significant risk identification in the 2016/17 Audit Plan:

Financial pressures in the public sector continue to mount. As a result of these pressures there is increased focus and wider public interest in the financial resilience of Local Government.

The Council also has a number of ongoing developments and schemes which would need to be integrated into its revenue and capital budgets which could have a significant impact on the medium term finance.

Our findings:

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"> <li>○ Reviewing outturn against the 2016/17 budget. A strong history of managing service delivery to budget, provides comfort over the Council’s ability to set realistic and achievable budgets in the future.</li> </ul> | <ul style="list-style-type: none"> <li>○ Deploying resources in a sustainable manner</li> </ul> | <p>At 31 March 2017, the Council reported a robust outturn financial position. There were no recurring service overspends that would have a material impact on medium term financial planning. The Council has also maintained its reserves at a prudent level.</p> |
|---|---|---|



# Value for Money

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<ul style="list-style-type: none"> <li>○ Reviewing the reasonableness of the 2017/18 budget and 5 year Finance Strategy, including integration of Daedalus (and other significant capital projects) into the Council's revenue and capital budgets.</li> </ul>	<ul style="list-style-type: none"> <li>○ Deploying resources in a sustainable manner</li> </ul>	<p>The Council's Medium Term Financial Strategy (MTFS) is considered annually and was last approved by the Executive on 10 October 2016. The Council is in the process of updating this forecast. We have reviewed the assumptions in the 5 year Finance Strategy and the Council's 2017/18 budget and consider them reasonable at the time of preparation. The Council recognises the uncertainty in future funding levels from central government, and will need to fully incorporate Minimum Revenue Provision (MRP) when updating its MTFS given the increase in the number of Council schemes funded by borrowing.</p> <p>The Council has integrated Daedalus (and other significant capital projects) into its revenue and capital budgets and with a number of leases concluded and other income generation schemes potentially underway at Daedalus, the Council is confident in satisfying financial sustainability and meeting the subsidy gap.</p>
<ul style="list-style-type: none"> <li>○ Evaluating the progress made with, and achievability of, the efficiency plan intended to address budget shortfalls in future years.</li> </ul>	<ul style="list-style-type: none"> <li>○ Deploying resources in a sustainable manner</li> </ul>	<p>The Council has a sound record for delivering efficiency plans. Individual schemes underpinning the plan are developed and the Council is confident they are achievable. The Council has a strong history of achieving savings plans in advance of need.</p>



06

## Other reporting issues



## Other reporting issues

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### Other reporting issues

#### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Fareham Borough Council Statement of Accounts 2016/17 with the audited financial statements.

- We found that the financial information in the Fareham Borough Council Statement of Accounts for the Year ended 31 March 2017 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

- We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.





## Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Whole of Government Accounts

For the Whole of Government Accounts, as the Council is below the specified audit threshold of £350 million, we did not perform any audit procedures on the consolidation pack. We have no matters to report.

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### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you any findings from the audit or other matters significant to your oversight of the Council's financial reporting process. This includes the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit process;
- Any significant matters arising from the audit that were discussed with management;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations;
- Written representations we have requested;
- Expected modifications to the audit report; and
- Any other matters significant to the overseeing of the financial reporting process.

There were no matters to report.



07

## Assessment of Control Environment



## Assessment of control environment

### Financial controls

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 auditor is to consider whether the Council has adequate arrangements to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements of which they are not aware. However, we would like to bring the following matters to your attention:

- The year-end bank reconciliation identified reconciling items to the value of £0.539 million. However, evidence to support these reconciling items was not retained and alternative procedures had to be performed. We would recommend that as part of management's close down process, evidence supporting reconciling items on the year-end bank reconciliation is retained;
- The assurance letters from management, Head of Audit and those charged with governance were requested to be provided by 30 April. However, these were only received in August;
- The risk management arrangements was still under review during 2016/17 and the revised risk management policy was approved 13 March 2017. During the review period a corporate risk register was not reported to the Audit and Governance Committee as the policy needed review. The policy has now been reviewed and approved with the first full review to be presented to the Audit and Governance Committee on 25 September.



# 08 Appendices





# Appendix A

## Required communications with the Audit and Governance Committee

There are certain communications that we must provide to the audit committees of UK clients. We have done this by:

### Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Council of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	13 March 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	25 September 2017 Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or in aggregate, to raise any doubt about the Council's ability to continue for 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	25 September 2017 Audit Results Report

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# Appendix A



## Our Reporting to you

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the Audit and Governance Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any fraud that we have identified or information we have obtained that indicates that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees who have significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to Audit and Governance Committee responsibility.</li> </ul>	<p>We have asked management and those charged with governance about arrangements to prevent and/ or detect fraud.</p> <p>We have also focused our consideration of management override and revenue recognition towards higher risk areas, see Areas of audit focus in the report.</p> <p>We have not become aware of any fraud or illegal acts during our audit.</p>
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report
Subsequent events	<ul style="list-style-type: none"> <li>▶ Asking the Audit and Governance Committee, where appropriate, about whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have made enquiries of management and those charged with governance. We have no matters to report
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements and management refuses to make the revision.</li> </ul>	We have no matters to report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations



# Appendix A



## Our Reporting to you



## When and where

Required communications	What is reported?	When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off.</li> <li>▶ Asking the Audit and Governance Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements.</li> </ul>	We have not identified any material instances or non-compliance with laws or regulations as a result of asking the Audit and Governance Committee and management.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	25 September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that bear on EY's objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>13 March 2017 Audit Plan</p> <p>25 September 2017 Audit Results Report</p>
Fee Reporting	<p>Breakdown of fee information at the agreement of the initial audit plan</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work undertaken</p>	<p>13 March 2017 Audit Plan</p> <p>25 September 2017 Audit Results Report</p>
Certification work	Summary of certification work	Certification Report (due later this year)



## Independence

We confirm there are no changes in our assessment of independence since the confirmation in our audit plan of 13 March 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your members consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Governance Committee on 25 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

	Final fee 2015/16	Planned fee 2016/17	Scale fee 2016/17	Final fee 2016/17
Audit fee - code work	48,230	48,230	48,230	48,230
Certification of claims and returns	15,959	11,310	11,310	11,310**
Additional fee in relation to the valuation of Daedalus	0	0	0	1,500*
<b>Total audit fee</b>	<b>64,189</b>	<b>59,540</b>	<b>59,540</b>	<b>61,040</b>

\*The final fee for our audit work, of £49,730, will be confirmed following the presentation of this report at the Audit and Governance Committee. We have discussed the additional fee of £1,500, for the work our property experts carried out on the valuation of Daedalus, with the Responsible (S151) Officer when we met on 7 September 2017. This is still to be agreed and will be discussed at the Audit and Governance Committee meeting.

We will also need to agree the additional fee of £1,500 with PSAA Ltd.

\*\* Our final fee for our work on the Housing Benefit subsidy claim will be confirmed following completion of the work by the deadline of 30 November 2017; and reported in our certification report.





## Appendix C

# Management representation letter

### Management Representation Letter

[To be prepared on the entity's letterhead]

25 September 2017

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

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This letter of representation is provided in connection with your audit of the financial statements of Fareham Borough Council ("the Council") for the year ended 31 March 2017. 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 (or 'present fairly, in all material respects,') the financial position of the Authority as of 31 March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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) 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
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 2016/17 and are free of material misstatements, including omissions. We have approved the financial statements.



## Appendix C

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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 2016/17 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 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.

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### 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 Executive, and all committees including the Audit and Governance Committee.
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



## Appendix C

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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,

### F. Subsequent Events

1. 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. Expenditure Funding Analysis

1. That we have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the



## Appendix C

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Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.

2. We confirm that the financial statements reflect the operating segments reported internally to the Council.

I. 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.

J. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the Local Government Pension Fund balances and the valuation of Daedalus 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.

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Yours Faithfully,

---

Andrew Wannell  
Responsible Financial (S151) Officer

I confirm that this letter has been discussed and agreed at the Fareham Borough Council's Audit and Governance Committee on 25 September 2017.

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Councillor Jonathan Butts  
Chairman of the Fareham Borough Council's Audit and Governance Committee

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# FAREHAM

## BOROUGH COUNCIL

### **Report to Audit and Governance Committee**

**Date:** 25 September 2017

**Report of:** Director of Finance and Resources

**Subject:** STATEMENT OF ACCOUNTS

#### **SUMMARY**

Local Authorities have a duty to prepare and publish an annual Statement of Accounts in accordance with regulations issued by the Secretary of State. Members are requested to formally approve the annual Statement of Accounts for 2016/17 that is attached to this report. This is the version that has been adjusted for any changes arising from the external audit of the accounts undertaken by Ernst and Young LLP.

#### **RECOMMENDATION**

That the Committee approves the audited Statement of Accounts for 2016/17, attached as Appendix A, for publication by 30 September 2017.

## **INTRODUCTION**

1. Members of the Audit and Governance Committee received an unaudited version of the Statement of Accounts 2016/17 at the 17 July 2017 meeting. The covering report outlined the audit process, the new faster closedown process and key issues and matters of interest arising from the information contained in the Statement of Accounts.

## **THE AUDIT PROCESS**

2. The Statement of Accounts attached as Appendix A has now been audited. Before the audit opinion is certified the Council's external auditors, Ernst and Young LLP, will report to Members, in accordance with the International Standards of Auditing (ISA260), whether or not there are any issues arising from the audit of the accounts (see separate report on the agenda of this meeting).
3. The published Statement of Accounts will contain the external auditor's opinion on the accounts and their view as to whether the accounts are a true and fair view of the Council's financial position and performance for the year. The opinion will be included within the final published document and will be published by 30 September 2017.

## **CHANGES TO THE STATEMENT OF ACCOUNTS**

4. All audit differences identified during the audit, and listed in the external auditor's Audit Results Report, have been adjusted for. Changes made to the Statement of Accounts as a result are highlighted in yellow for ease of reference.

## **RISK ASSESSMENT**

5. There are no significant risk considerations in relation to this report.

## **CONCLUSION**

6. Members are asked to formally approve the Statement of Accounts for 2016/17.

**Background Papers:** None

**Reference Papers:** Code of Practice on Local Authority Accounting 2016/17

**Appendix A:** Statement of Accounts 2016/17

### **Enquiries:**

For further information on this report please contact Caroline Hancock. (Ext 4589)





Statement of Accounts  
Fareham Borough Council  
2016/17

**FAREHAM**  
BOROUGH COUNCIL



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# 1. Written Statements and Narrative Report

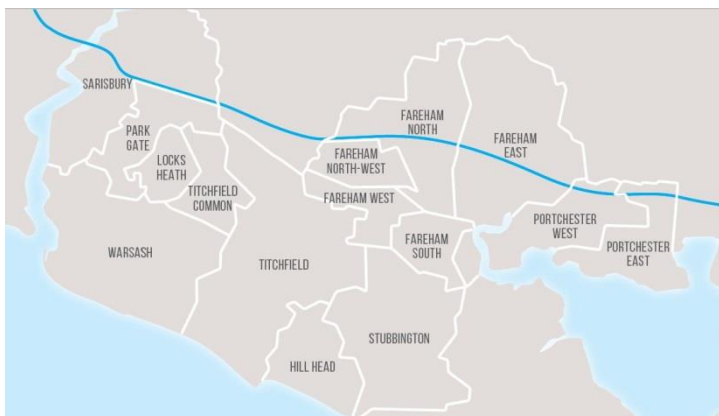
## Narrative Report

### An introduction to Fareham

Fareham is located in an area of some 30 square miles along the south coast of Hampshire between Portsmouth and Southampton. It is well connected to the M27 motorway, has good rail links to London and other major centres and easy access to the ferry ports and Southampton international airport.

With the town at its centre, the Borough covers the wards of Fareham, Portchester, Stubbington, Hill Head, Titchfield, Park Gate, Warsash, Locks Heath and Sarisbury.

Fareham has a proud heritage of being a market town and has the enviable position of the seafront to the south and open countryside to the north both within close proximity which opens up many leisure opportunities for residents and visitors.



### What does the Council do?

Fareham Borough Council's aim is to make Fareham a prosperous, safe and attractive place to live and work by promoting economic, social and environmental well-being and sustaining the quality of life that Fareham residents have come to enjoy.

The Chief Executive Officer is responsible for the overall co-ordination and management of Fareham Borough Council's services. He is supported by three departments which all carry

out a wide range of services. The majority of the departments are located in the Civic Offices, at the heart of the town centre.

### Political issues

The Council is currently made up of 31 councillors. The Borough is divided into 15 wards and there are 2 councillors representing each of them, except Portchester East which has 3 councillors as it has a larger population.

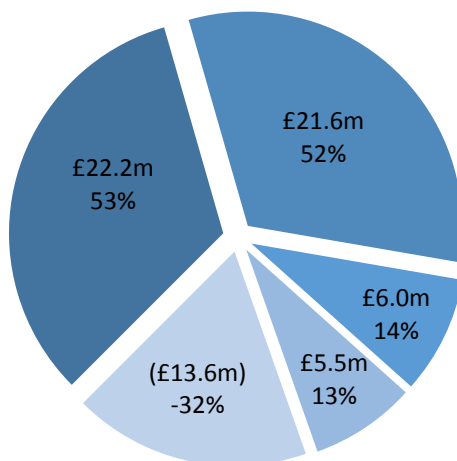
Each councillor is elected for a 4 year term of office. Elections are held every two years, with one half of the Council seats elected each time. There are currently three political groups within Fareham Borough Council; Conservative, Liberal Democrats and United Kingdom Independence Party and one Independent councillor.

This Narrative Report provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's financial position. The charts on the following pages show in broad terms where the Council's money comes from, what it is spent on and what services it provides.

### Where the money comes from

The main sources of the Council's income to pay for services.

#### Total Income £41.7 million

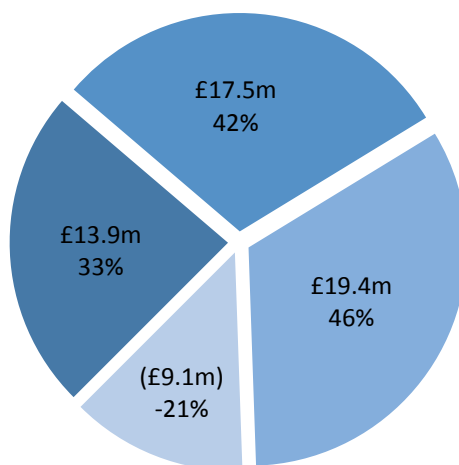


- Income from services
- Government grants to services
- Council tax payers
- Central government funding
- Use of reserves and corporate income

### What the money is spent on

The main types of expenditure on services.

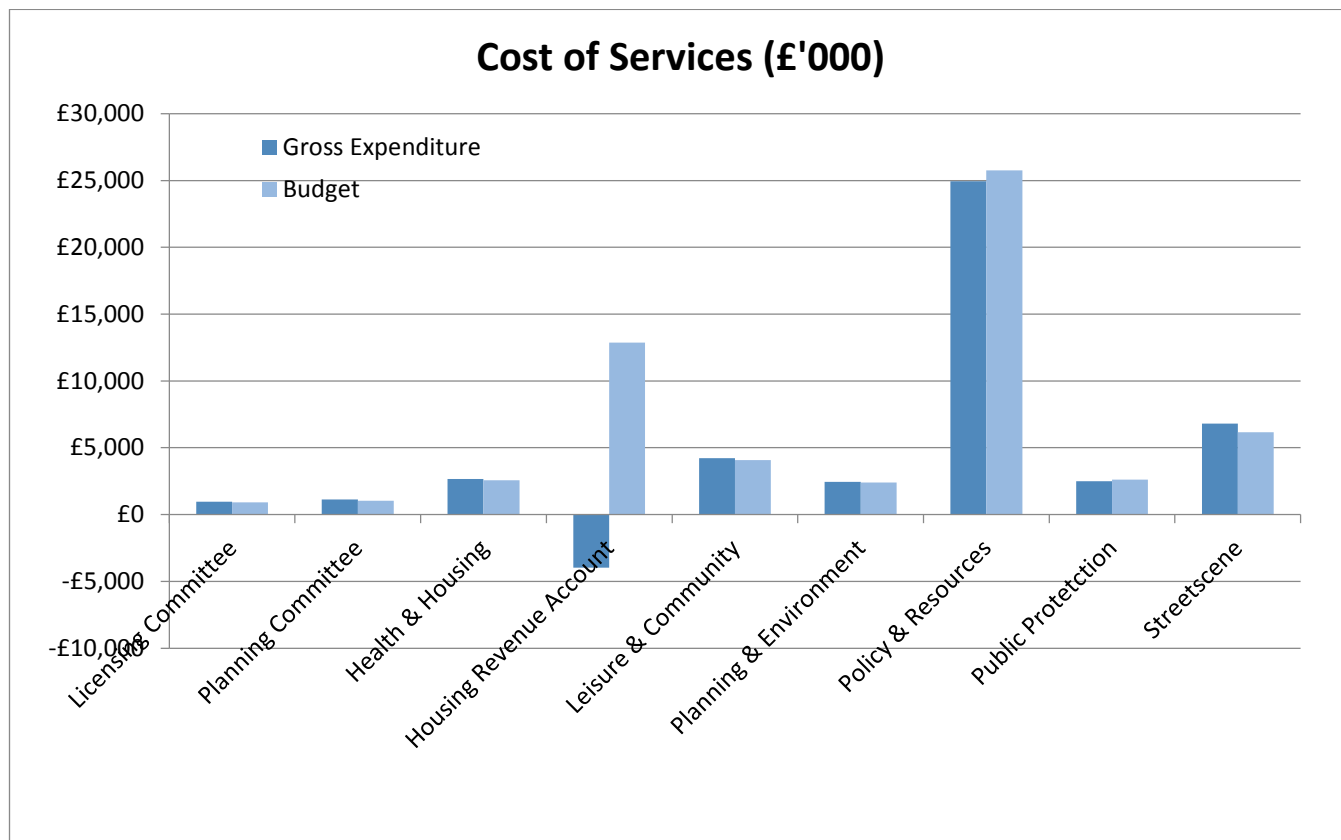
#### Total Spend £41.7 million



- Employees and Internal Support
- Running Expenses
- Transfer Payments
- Capital Charges and Costs

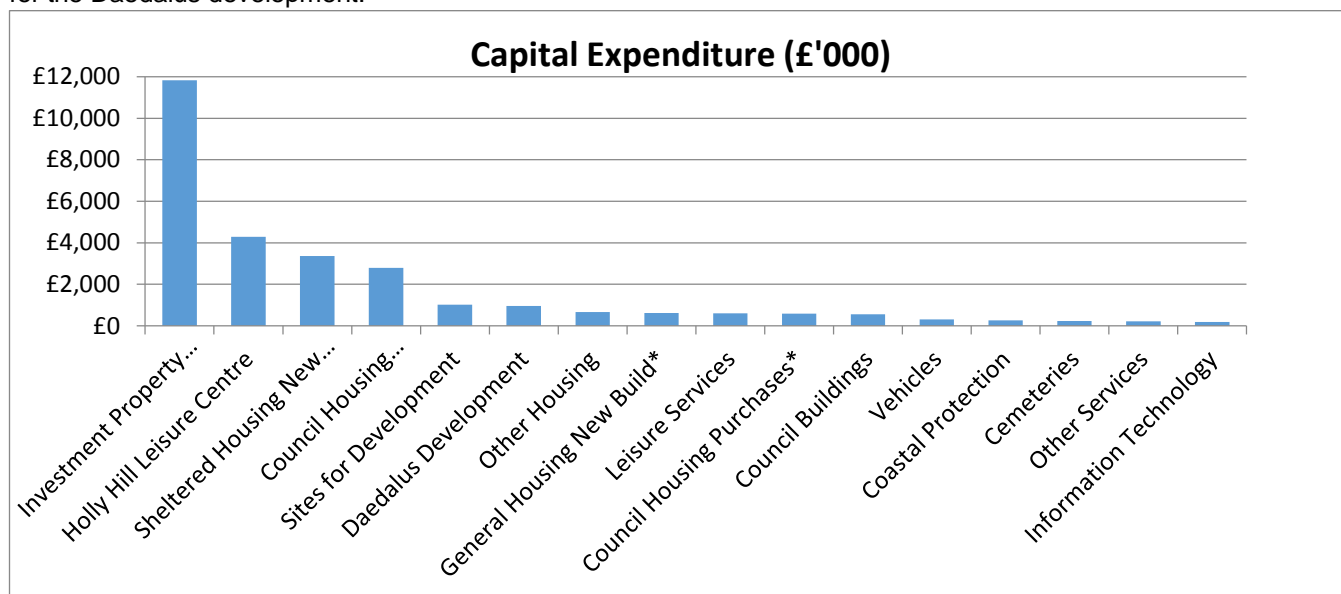
## Services provided

The gross expenditure of the main services provided by the Council and the revised budget for 2016/17:



## Capital

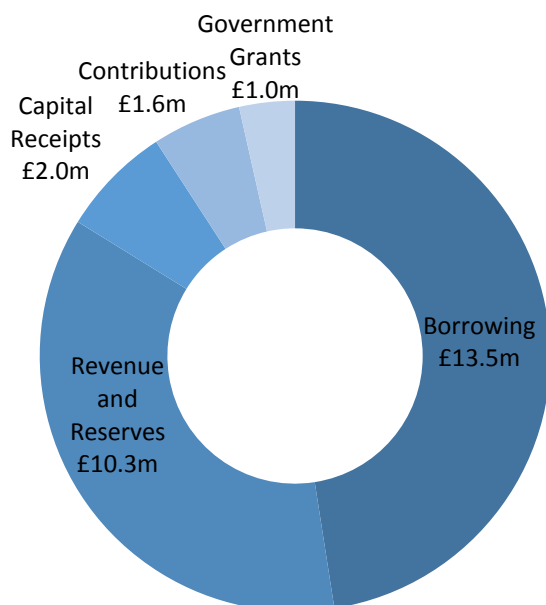
In 2016/17, the Council spent £28.4 million on projects in the capital programme, compared with a revised budget of £36.6 million. The net under spending of £8.2 million was mainly the result of the phasing of budgets for the Daedalus development.



\*Council Housing capital expenditure was financed by the Housing Revenue Account revenue and reserves (£6.8 million), capital receipts (£0.1 million) and government grants (£0.4 million).



## Capital Expenditure Financing



£1.7 million of the total capital expenditure was not capitalised and was charged to revenue.

Assets are shown on the Balance Sheet net of depreciation. The net book value of the Council's non-current assets at 31 March 2017 was **£261 million** (2015/16 £207 million).

## Local Service Agreements

The Council's strategic framework includes Local Service Agreements which provide details of actions delivered by individual services and an overview of how the Council is performing alongside the Corporate Strategy. The annual review of the Local Services Agreements was reported to the Executive on 4 September 2017 and can be viewed on the Council's website.

Overall, performance across the indicators is comparable to previous years. There have been some significant changes in several areas as outlined below:

- Recorded crime within Fareham increased 11.7% from the previous year.
- An additional 96,000 visitors were recorded as visiting a Leisure Centre. This increase follows the opening of Holly Hill Leisure Centre in October 2016.
- The time taken to re-let Council homes has reduced by 15 days. This is the second year of reporting following the Vanguard Intervention and follows a significant increase in the time taken, because of the new method of measuring the end-to-end times.
- There has been improvement in the time taken to complete housing repairs, between January and March 2017. The figures show an improvement of 3.7 days on the previous year.
- Expenditure on community funding has dropped by approximately £129,000 since 2015/16. There were also 21 fewer grants awarded in 2016/17 than 2015/16.

## Reserves

The Council's total usable reserves at 31 March 2017 amounted to **£31.9 million** (2015/16 £35.7 million). Against this, the actuarial valuation of the Council's share of pension fund assets and liabilities at 31 March 2017 indicated a £58.3 million (2015/16 £49.2 million) deficiency of assets compared with future liabilities to current members of the pension scheme. This liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. The actuarial valuation will be reviewed each year, and will reflect further payments into the fund, and movements in the value of investments of which a large proportion is held in equities. The deficiency could increase, decrease, or become a surplus before the majority of liabilities (pension benefits) become payable.

## Significant developments during the year

There were a number of significant developments during 2016/17.

### Holly Hill Leisure Centre

Holly Hill Leisure Centre was officially opened by Olympic gold medal winning swimmer, Adam Peaty, in October 2016. The £9 million facility in Sarisbury has a 25 metre pool with six swimming lanes and learner pool, a state of the art gym, exercise room and dance studio.



### Sylvan Court

A brand new sheltered housing scheme, Sylvan Court, was built during 2016/17 with assistance from a grant from the Homes and Communities Agency. The £4.8 million scheme includes 36 flats for people over 60 with long term support needs.

### Solent Airport and Business Parks

In June 2016, the Council unveiled its new branding for Daedalus. The airport was renamed Solent Airport at Daedalus, Daedalus East became Faraday Business Park and Daedalus West became Swordfish Business Park. Developments on the site during 2016/17 were:

- 100% occupation at the Innovation Centre and confirmation that a second business hub will follow in 2018.
- Road infrastructure at Faraday Business Park and Solent Airport
- New buildings completed



### Commercial Property Acquisitions

In November 2016, the Council acquired a new commercial property at Southampton Road, Segensworth, for £11 million bringing the total number of properties purchased under the Commercial Property Investment Acquisition Strategy to eight. The recent purchase complements other property interests that the Council already has on the retail park.

## Explanation to accounting statements

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2017. It comprises core supplementary statements, together with disclosure notes. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which in turn is underpinned by International Financial Reporting Standards.

The **Core Financial Statements** are:

### Comprehensive Income and Expenditure Statement

- Records all of the Council's income and expenditure for the year.
- Top half of the statement provides an analysis by Council Portfolio.
- Bottom half deals with corporate transactions and funding.

### Balance Sheet

- A snapshot of the Council's assets, liabilities, cash balances and reserves at the year-end date.

### Movement in Reserves Statement

- A summary of changes to the Council's reserves over the course of the year.
- Reserves are divided into "usable" which can be invested in capital projects or service improvement and "unusable" which must be set aside for specific purposes.

### Cash Flow Statement

- Shows the reason for changes in the Council's cash balances during the year and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

The **Notes** to these financial statements provide more detail about the Council's accounting policies and individual transactions.

The **Supplementary Financial Statements** are:

### Housing Revenue Account

- Separately identifies the Council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.

### Collection Fund

- Summarises the collection of council tax and business rates, and the redistribution of some of that money to central government, Hampshire County Council, Hampshire Fire and Rescue Authority and the Police and Crime Commissioner for Hampshire.

A **Glossary of key terms** can be found at the end of this publication.

## Statement of Responsibility for the Statement of Accounts

### THE COUNCIL'S RESPONSIBILITIES

The Council 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. This is the Directors of Finance and Resources;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts. Responsibility for this has been delegated to the Audit and Governance Committee.

### THE DIRECTOR OF FINANCE AND RESOURCES' RESPONSIBILITIES

The Director of Finance and Resources is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), are required respectively to present fairly the financial position of the Council at the accounting date and the income and expenditure for the year then ended.

In preparing this Statement of Accounts, the Director of Finance and Resources has:

- Selected suitable accounting policies and then applied them consistently except where policy changes have been noted in these accounts;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

The Director of Finance and Resources has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities,

Andrew Wannell CPFA

Director of Finance and Resources

Date: 25 September 2017

### APPROVAL OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts was approved by Fareham Borough Council's Audit and Governance Committee.

Councillor Jonathan Butts

Chairman of the Audit and Governance Committee

Date: 25 September 2017



## 2. Core Financial Statements

## 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 in note 7.

The 2015/16 figures have been restated as regulations require the income and expenditure to be based on how the financial performance of the Council is structured and monitored.

2015/16 (Restated)				2016/17		
Gross Exp £'000	Gross Income £'000	Net Exp £'000	Note	Gross Exp £'000	Gross Income £'000	Net Exp £'000
737	(348)	389	Licensing and Regulatory Affairs Committee	959	(430)	529
1,084	(499)	585	Planning Committee	1,136	(613)	523
2,487	(1,254)	1,233	Health and Housing Portfolio	2,660	(1,684)	976
7,189	(12,315)	(5,126)	Housing Revenue Account*	(3,972)	(12,540)	(16,512)
4,326	(1,569)	2,757	Leisure and Community Portfolio	4,223	(1,533)	2,690
2,090	(3,059)	(969)	Planning and Environment Portfolio	2,448	(2,749)	(301)
25,974	(22,083)	3,891	Policy and Resources Portfolio	24,939	(22,012)	2,927
2,317	(522)	1,795	Public Protection Portfolio	2,488	(521)	1,967
6,433	(2,077)	4,356	Streetscene Portfolio	6,804	(1,836)	4,968
<b>52,637</b>	<b>(43,726)</b>	<b>8,911</b>	<b>Cost of Services</b>	<b>41,685</b>	<b>(43,918)</b>	<b>(2,233)</b>
			<b>Other Operating Expenditure</b>			
		(811)	(Gain)/loss on disposal of assets			(399)
		199	Housing capital receipts			179
			<b>Financing and Investment Income and Expenditure</b>			
		1,405	Interest payable			1,405
		(382)	Interest receivable			(272)
		1,620	Pension net interest cost	15		1,630
			Changes in fair value of investment properties	17		1,708
		(2,451)	Investment properties rental and expenses	17		(3,283)
			<b>Taxation and Non-Specific Grant Income</b>			
		(5,867)	Council tax income			(6,121)
		(2,003)	Non-domestic rates income			(2,494)
		(5,908)	Grants and contributions not distributable to services	9		(7,075)
		<b>(5,769)</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>(16,955)</b>
			(Surplus)/deficit on revaluation of property, plant and equipment assets			(20,730)
		(4,752)	Pension liability re-measurements	15		7,346
		<b>(5,234)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(13,384)</b>
		<b>(11,003)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(30,339)</b>

\* A revaluation gain of £11.4 million in 2016/17 has been charged to the Housing Revenue Account under gross expenditure. See note 19 and the Housing Revenue Account note 7 for more details.

## Balance Sheet

The Balance Sheet shows the values of assets and liabilities held by the Council. The net assets are matched by the reserves. The reserves are presented within two categories, usable and unusable reserves. Usable reserves may be used to provide services subject to statutory limitations on their use and the need to maintain prudent level of reserves for financial stability. Unusable reserves cannot be used to fund Council services.

31 March 2016 £'000		Note	31 March 2017 £'000
	Property, Plant and Equipment	16	
99,386	- Council dwellings		120,144
50,939	- Other land and buildings		81,554
435	- Infrastructure		835
2,942	- Vehicles, plant and equipment		2,769
348	- Community assets		345
187	Heritage assets		198
44,335	Investment properties	17	54,413
7,999	Assets under construction		444
	- Surplus assets held for disposal		-
57	Intangible assets		34
3,000	Long term investments	29	-
72	Long term debtors		69
<b>209,700</b>	<b>Total long term assets</b>		<b>260,805</b>
27,229	Short term investments	29	9,068
341	Assets held for sale	18	341
75	Inventories		124
4,417	Short term debtors	22	6,451
178	Payments in advance		236
2,861	Cash and cash equivalents	21, 29	6,006
<b>35,101</b>	<b>Current assets</b>		<b>22,226</b>
(669)	Bank overdraft	21	(235)
(4,826)	Short term borrowing	29	(1,835)
(6,488)	Short term creditors	23	(9,760)
(33)	Depositors		(39)
(4,057)	Provisions	24	(3,008)
<b>(16,073)</b>	<b>Current liabilities</b>		<b>(14,877)</b>
(6,517)	Receipts in advance - capital grants	25	(7,525)
(1,163)	Receipts in advance - revenue grants	25	(334)
(40,000)	Long term borrowing	29	(40,000)
(3,369)	Long term creditors		(3,200)
(49,194)	Pension scheme liability	15	(58,271)
<b>(100,243)</b>	<b>Long term liabilities</b>		<b>(109,330)</b>
<b>128,485</b>	<b>Net assets</b>		<b>158,824</b>
35,705	Usable reserves	7, 26	31,853
92,780	Unusable reserves	28	126,971
<b>128,485</b>	<b>Total Reserves</b>		<b>158,824</b>

## Movement in Reserves Statement

The Movement in Reserves Statement shows the movement in year on reserve balances held by the Council analysed into usable reserves, which may be used to fund expenditure or reduce local taxation, and unusable reserves. The Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted practices and the statutory adjustments required to return to the amounts chargeable to council tax or rents for the year.

	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
<b>Balance at 31 March 2016</b>	6,038	20,000	3,688	-	4,631	1,348	35,705	92,780	128,485
<b>Movement in reserves in year</b>									
Total Comprehensive Income and Expenditure	1,638	-	15,317	-	-	-	16,955	13,384	30,339
Adjustments between accounting basis and funding basis under regulations	(3,966)	-	(18,059)	(17)	(931)	2,166	(20,807)	20,807	-
Transfers to/(from) earmarked reserves	3,240	(4,665)	1,424	24	(23)	-	-	-	-
<b>Increase/(decrease) in year</b>	<b>912</b>	<b>(4,665)</b>	<b>(1,318)</b>	<b>7</b>	<b>(954)</b>	<b>2,166</b>	<b>(3,852)</b>	<b>34,191</b>	<b>30,339</b>
<b>Balance at 31 March 2017</b>	<b>6,950</b>	<b>15,335</b>	<b>2,370</b>	<b>7</b>	<b>3,677</b>	<b>3,514</b>	<b>31,853</b>	<b>126,971</b>	<b>158,824</b>

	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
<b>Balance at 31 March 2015</b>	6,544	17,676	4,870	82	5,887	2,647	37,706	79,776	117,482
<b>Movement in reserves in year</b>									
Total Comprehensive Income and Expenditure	1,176	-	4,593	-	-	-	5,769	5,234	11,003
Adjustments between accounting basis and funding basis under regulations	1,374	-	(6,507)	(82)	(1,256)	(1,299)	(7,770)	7,770	-
Transfers to/(from) earmarked reserves	(3,056)	2,324	732	-	-	-	-	-	-
<b>Increase/(decrease) in year</b>	<b>(506)</b>	<b>2,324</b>	<b>(1,182)</b>	<b>(82)</b>	<b>(1,256)</b>	<b>(1,299)</b>	<b>(2,001)</b>	<b>13,004</b>	<b>11,003</b>
<b>Balance at 31 March 2016</b>	<b>6,038</b>	<b>20,000</b>	<b>3,688</b>	<b>-</b>	<b>4,631</b>	<b>1,348</b>	<b>35,705</b>	<b>92,780</b>	<b>128,485</b>



## 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 or 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 Council. 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 (i.e. borrowing by the Council).

2015/16 £'000		Note	2016/17 £'000
<b>5,769</b>	<b>Net surplus/(deficit) on the provision of services</b>		<b>16,955</b>
7,620	Adjustments to surplus/(deficit) on the provision of services for non-cash movements	34	(6,733)
(4,531)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	35	16,739
<b>8,858</b>	<b>Net Cash Flows from Operating Activities</b>		<b>26,961</b>
	<b>Investing Activities</b>		
(23,188)	Purchase of property, plant and equipment, investment property and intangible assets		(26,315)
(22,000)	Purchase of short and long term investments		-
1,685	Proceeds from property, plant and equipment, investment property and intangible assets		1,205
19,000	Proceeds from short and long term investments		-
1,686	Other receipts from investing activities		3,299
<b>(22,817)</b>	<b>Net Cash Flows from Investing Activities</b>		<b>(21,811)</b>
	<b>Financing Activities</b>		
3,244	Cash receipts of short and long term borrowing		209
(3,079)	Other receipts from financing activities		1,421
(200)	Repayments of short and long term borrowing		(3,201)
<b>(35)</b>	<b>Net Cash Flows from Financing Activities</b>		<b>(1,571)</b>
<b>(13,994)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,579</b>
16,186	Cash and cash equivalents at the beginning of the reporting period	21	2,192
<b>2,192</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>5,771</b>





### 3. Notes to the Accounts

## Note A Prior Period Adjustment

The Council has made a prior year adjustment in preparing its 2016/17 Statement of Accounts. This is summarised below. For comparative purposes, the Comprehensive Income and Expenditure Statement has been restated. A new Expenditure and Funding Analysis (and supporting notes) have also been introduced.

### Segmental Reporting in the Comprehensive Income and Expenditure Statement

These financial statements are prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting ('the Code'). Following its 'Telling the Story' review in 2016/17 CIPFA changed the Code's segmental reporting requirements for the Comprehensive Income and Expenditure Statement. Previously, the Code required that the Cost of Services be presented using a standardised SERCOP classification (Service Reporting Code of Practice). However, with effect from 2016/17 the Code requires that the Cost of Services be presented in a manner consistent with how the Council manages and monitors financial performance locally. For Fareham Borough Council, this means reporting based on committees, portfolios and the Housing Revenue Account.

In accordance with the requirements of IAS1 Presentation of Financial Statements, the 2015/16 comparators in the Comprehensive Income and Expenditure Statement have been restated on this new reporting basis. The impact of this restatement is disclosed below.

SERCOP Classification	2015/16 Net Expenditure £'000	New Classification	2015/16 Restated Net Expenditure £'000
Central services to the public	1,319	Licensing and Regulatory Affairs Committee	389
Cultural and related services	2,942	Planning Committee	585
Environment and regulatory services	4,499	Health and Housing Portfolio	1,233
Planning services	1,945	Housing Revenue Account	(5,126)
Highways and transport services	(1,154)	Leisure and Community Portfolio	2,757
Local Authority Housing (HRA)	(5,126)	Planning and Environment Portfolio	(969)
Other housing services	1,570	Policy and Resources Portfolio	3,891
Corporate and democratic core	2,595	Public Protection Portfolio	1,795
Non distributed costs	321	Streetscene Portfolio	4,356
<b>Cost of Services</b>	<b>8,911</b>	<b>Cost of Services</b>	<b>8,911</b>

The 'Telling the Story' changes have also introduced a new Expenditure and Funding Analysis (and associated notes) to reconcile the amounts reported to management as chargeable to the General Fund under statute with the amounts presented in the Comprehensive Income and Expenditure Statement under proper accounting practices.

There are no implications for the General Fund, or any other reserves arising from these changes. The Balance Sheet and Cash Flow Statement are also unaffected.

## Note 1 Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) in comparison with those resources consumed or earned in accordance with generally accepted practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Committees and Portfolios. Income and expenditure accounted for under generally accepted practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16			2016/17			
Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	
378	11	389	Licensing and Regulatory Affairs Committee	524	5	529
538	47	585	Planning Committee	500	23	523
1,110	123	1,233	Health and Housing Portfolio	261	715	976
(2,912)	(2,214)	(5,126)	Housing Revenue Account	1,105	(17,617)	(16,512)
1,518	1,239	2,757	Leisure and Community Portfolio	1,367	1,323	2,690
(631)	(338)	(969)	Planning and Environment Portfolio	(354)	53	(301)
1,586	2,305	3,891	Policy and Resources Portfolio	(398)	3,325	2,927
1,861	(66)	1,795	Public Protection Portfolio	1,925	42	1,967
4,082	274	4,356	Streetscene Portfolio	4,208	760	4,968
<b>7,530</b>	<b>1,381</b>	<b>8,911</b>	<b>Cost of Services</b>	<b>9,138</b>	<b>(11,371)</b>	<b>(2,233)</b>
(8,166)	(6,514)	(14,680)	Other Income and Expenditure	(4,236)	(10,654)	(14,721)
<b>(636)</b>	<b>(5,133)</b>	<b>(5,769)</b>	<b>(Surplus) or Deficit</b>	<b>4,902</b>	<b>(22,025)</b>	<b>(16,954)</b>
(29,090)			Opening General Fund and HRA Balance at 1 April	(29,726)		
1,686			Less Surplus/(Deficit) on General Fund and HRA Balance in Year	410		
(2,322)			Less Transfers (to)/from Earmarked Reserves	4,663		
<b>(29,726)</b>			<b>Closing General Fund and HRA Balance at 31 March</b>	<b>(24,653)</b>		

## Note 2 Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to the net expenditure chargeable to the General Fund and the HRA balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

2016/17				
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (1) £'000	Net Changes for the Pension Adjustments (2) £'000	Other Differences (3) £'000	Total Adjustments £'000
Licensing and Regulatory Affairs Committee	-	5	-	5
Planning Committee	-	23	-	23
Health and Housing Portfolio	695	20	-	715
Housing Revenue Account	(15,897)	42	(1,762)	(17,617)
Leisure and Community Portfolio	1,418	21	(116)	1,323
Planning and Environment Portfolio	27	26	-	53
Policy and Resources Portfolio	1,532	122	1,671	3,325
Public Protection Portfolio	19	23	-	42
Streetscene Portfolio	693	67	-	760
<b>Net Cost of Services</b>	<b>(11,513)</b>	<b>349</b>	<b>(207)</b>	<b>(11,371)</b>
Other income and expenditure from the Expenditure and Funding Analysis	(9,736)	1,382	(2,300)	(10,654)
<b>Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(21,249)</b>	<b>1,731</b>	<b>(2,507)</b>	<b>(22,025)</b>

2015/16				
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (1) £'000	Net Changes for the Pension Adjustments (2) £'000	Other Differences (3) £'000	Total Adjustments £'000
Licensing and Regulatory Affairs Committee	-	10	1	11
Planning Committee	-	47	-	47
Health and Housing Portfolio	29	44	50	123
Housing Revenue Account	(2,322)	96	12	(2,214)
Leisure and Community Portfolio	1,247	52	(60)	1,239
Planning and Environment Portfolio	36	39	(413)	(338)
Policy and Resources Portfolio	(377)	143	2,539	(2,305)
Public Protection Portfolio	(124)	47	11	(66)
Streetscene Portfolio	517	143	(386)	274
<b>Net Cost of Services</b>	<b>(994)</b>	<b>621</b>	<b>1,754</b>	<b>1,381</b>
Other income and expenditure from the Expenditure and Funding Analysis	(3,128)	1,678	(5,064)	(6,514)
<b>Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(4,122)</b>	<b>2,203</b>	<b>(3,214)</b>	<b>(5,133)</b>

## Notes

## 1) Adjustments for Capital Purposes:

**Net Cost of Services** - Adjusts for depreciation, impairment charges and revaluation gains and losses in the service lines along with adjustments for non-capitalised expenditure and associated contributions from the Council's capital programme.

**Other Income and Expenditure from the Expenditure and Funding Analysis**

- Capital disposals with a transfer of income on disposal of assets and the amounts written off.
- Housing capital receipts which have been pooled to Central Government.
- Statutory charges for capital financing i.e. minimum revenue provision and other revenue contributions deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Capital grants adjusted for income not chargeable under generally accepted accounting practise. Revenue and capital grants adjusted from those received in the year to those received without conditions or for which conditions were satisfied throughout the year.

## 2) Net Changes for the Pension Adjustments:

The removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income are reflected as follows:

**Net Cost of Services** - the removal of the employer pension contributions made by the Council as determined by statute and their replacement with current service costs and past service costs.

**Other Income and Expenditure from the Expenditure and Funding Analysis** - the net interest on the defined benefit liability is charge to the Comprehensive Income and Expenditure Statement.

## 3) Other Differences:

- For reporting to management, the Council includes rental income from investment properties in the Policy and Resources Portfolio. However, this is reported in the Comprehensive Income and Expenditure Statement below the net cost of service line.

## Note 3a Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows.

Expenditure/Income	2016/17 £'000	2015/16 £'000
<b>Expenditure</b>		
Employee benefits expenses	13,102	13,854
Other services expenses	41,885	43,146
Support service recharges	(1,523)	(765)
Interest payments	-	1,728
Depreciation, amortisation and impairment	(8,566)	(2,211)
Payments to housing receipts pool	179	574
Gain/loss on the disposal of assets	(399)	(1,186)
<b>Total expenditure</b>	<b>46,473</b>	<b>55,140</b>
<b>Income</b>		
Fees, charges and other service income	(26,487)	(25,125)
Interest and investment income	(551)	(705)
Income from council tax and non-domestic rates	(8,615)	(7,870)
Government grants and contributions	(27,775)	(27,209)
<b>Total Income</b>	<b>(63,428)</b>	<b>(60,909)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>(16,955)</b>	<b>(5,769)</b>

## Note 3b Segmental Income

Revenues received from external customers on a segmental basis is analysed below.

Services	2016/17 £'000	2015/16 £'000
Licensing and Regulatory Affairs Committee	430	348
Planning Committee	613	499
Health and Housing Portfolio	712	555
Housing Revenue Account	12,450	12,310
Leisure and Community Portfolio	1,533	1,569
Planning and Environment Portfolio	3,213	2,935
Policy and Resources Portfolio	5,769	4,536
Public Protection Portfolio	521	522
Streetscene Portfolio	1,836	2,077
<b>Total income analysed on a segmental basis</b>	<b>27,077</b>	<b>25,351</b>

## Note 4 New Accounting Standards yet to be adopted

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards in the 2017/18 Code:

- Amendment to the reporting of pension fund scheme transition costs
- Amendment to the reporting of investment concentration

These are not expected to have a material effect on the Council's Statement of Accounts. The Code requires implementation from 1 April 2017 and there is therefore no impact on the 2016/17 Statement of Accounts.



## Note 5 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 critical judgements made in the Statement of Accounts are:

**Asset Reclassifications** - The Council has made judgements on whether assets are classified as Investment Property, Heritage Asset or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be Property, Plant and Equipment assets. If the asset has historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture it is deemed to be a Heritage Asset. If there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

**Lease Classifications** - The Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken "in the round" and a decision has been made. The accounting treatment for operating and finance leases is significantly different (see accounting policy on leases) and could 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).

**Future Funding for Local Government** - There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that it is not yet necessary to consider the impairment of any assets for this reason, which would otherwise be necessary if facilities were required to close.

**Providing for Potential Liabilities** - The Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. The judgements are based on the degree of certainty around the results of pending legal actions.

**Doubtful Debts Allowances** - The Council has made judgements about the level of doubtful debts allowances that it needs to provide for. These judgments are based on historical experience of debtor defaults and what the Council believes to be a prudent but realistic level.

**Group Accounts** - The Council has made a judgement not to produce Group Accounts. The Portchester Crematorium Joint Committee (PCJC) is classified as a jointly controlled operation of the Council and under the Code the Council would normally recognise in its financial statements its share of PCJC's assets, liabilities, expenses and income. Group Accounts have not been produced as the differences between the Council's group and single entity accounts would be very minor.

## Note 6 Assumptions made about the future and other sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council 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 Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Property, Plant and Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions about the service being delivered by the asset and the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases resulting in a fall in the carrying value of assets. It is estimated that the annual depreciation charge for all assets would increase by £52,000 for every year that useful lives had to be reduced.
<b>Pensions Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. Note 15 provides details of the impact of changes to the key assumptions.
<b>Financial Assets and Liabilities</b>	Estimation of fair values for financial assets and liabilities are based on current lending rates for equivalent loans and investments. These are provided by the Council's treasury advisors.	Fair value estimates do not apply to instruments which mature with the next 12 months. The values are disclosed as a note to the accounts and do not impact on the primary statements.
<b>Bad Debt Provision</b>	The Council has made allowances for doubtful debts of £1.66 million in 2015/16 (2015/16 £1.7 million) based on what it believes to be a prudent but realistic level.	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £83,000 (2015/16 £85,000).
<b>Provisions</b>	The Council has made provisions for outstanding insurance claims, accumulated absences and land charges. The calculation for accumulated absences is based on an average of annual leave accrued over the past 4 years and the total of flexi leave at year end.	A 10% increase or decrease in provisions would require an adjustment of £29,600 (2015/16 £28,300)
<b>Business Rates Appeals Provision</b>	Under the new business rates retention scheme, which came into effect on 1 April 2013, the Council has assumed some liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. The estimate for the provision is based on software modelling and the latest list of outstanding rating list proposals provided by the Valuation Office Agency. The estimate looks at changes in comparable properties market trends and other valuation issues including the potential for certain proposals to be withdrawn.	The Council has made an allowance of <b>£6.8 million</b> (2015/16 £9.4 million) for these refunds within the Collection Fund. The Council's share of the provision is <b>£2.7 million</b> (2015/16 £3.76 million) which has reduced the amount of income that is distributed from the Collection Fund to the Council's General Fund. A 10% increase or decrease in the Council's share of the provision would require an adjustment of <b>£271,000</b> (2015/16 £376,000).

## Note 7 Adjustments between Accounting Basis and Funding Basis under Regulation

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

2016/17	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
<b>Capital Adjustment Account Adjustments</b>							
Depreciation and impairment of non-current assets	2,360	-	1,569	-	-	-	(3,929)
Revaluation losses on property, plant and equipment	(660)	-	(12,932)	-	-	-	13,592
Revaluation of investment properties	1,724	-	(16)	-	-	-	(1,708)
Amortisation of intangible assets	18	-	5	-	-	-	(23)
Capital grants and contributions applied	(1,584)	-	(440)	-	-	(370)	2,394
Revenue Expenditure funded from capital under statute	618	-	-	-	-	-	(618)
Property written out on disposal	55	-	594	-	-	-	(649)
Statutory provision for the financing of capital investment	(159)	-	-	-	-	-	159
Capital expenditure charged to the General Fund and HRA Balances	(2,717)	-	(4,538)	-	-	-	7,255
<b>Capital Grants Unapplied Account Adjustments</b>							
Capital grants and contributions unapplied	(2,536)	-	-	-	-	2,536	-
<b>Capital Receipts Reserve Adjustments</b>							
Proceeds from disposal of property	-	-	(1,047)	-	1,047	-	-
Capital receipts applied	-	-	-	-	(1,986)	-	1,986
Housing capital receipts	(184)	-	-	-	187	-	(3)
Payments to the Government housing capital receipts pool	179	-	-	-	(179)	-	-
<b>Major Repairs Reserve Adjustments</b>							
Depreciation re-credited to HRA	-	-	(1,568)	1,568	-	-	-
Major Repairs Reserve to finance new capital expenditure	-	-	-	(1,585)	-	-	1,585
<b>Pension Reserve Adjustments</b>							
Net charges for retirement benefits	3,441	-	689	-	-	-	(4,130)
Employer's contribution to Pension Fund/directly to pensioners	(2,024)	-	(375)	-	-	-	2,399
<b>Collection Fund Adjustment Account</b>							
Collection Fund adjustment	(2,497)	-	-	-	-	-	2,497
<b>Total Adjustments</b>	<b>(3,966)</b>	<b>-</b>	<b>(18,059)</b>	<b>(17)</b>	<b>(931)</b>	<b>2,166</b>	<b>20,807</b>

2015/16	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
<b>Capital Adjustment Account Adjustments</b>							
Depreciation and impairment of non-current assets	1,957	-	1,408	-	-	-	(3,365)
Revaluation losses on property, plant and equipment	(337)	-	(788)	-	-	-	1,125
Revaluation of investment properties	(482)	-	-	-	-	-	482
Amortisation of intangible assets	25	-	5	-	-	-	(30)
Capital grants and contributions applied	(943)	-	(1,033)	-	-	(2,400)	4,376
Revenue Expenditure funded from capital under statute	579	-	-	-	-	-	(579)
Property written out on disposal	64	-	810	-	-	-	(874)
Capital expenditure charged to the General Fund and HRA	(3,090)	-	(4,429)	-	-	-	7,519
<b>Balances</b>							
<b>Capital Grants Unapplied Account Adjustments</b>							
Capital grants and contributions unapplied	(1,101)	-	-	-	-	1,101	-
<b>Capital Receipts Reserve Adjustments</b>							
Proceeds from disposal of property	(300)	-	(1,384)	-	1,684	-	-
Capital receipts applied		-	-	-	(2,776)	-	2,776
Housing capital receipts	(29)	-	-	-	35	-	(6)
Payments to the Government housing capital receipts pool	199	-	-	-	(199)	-	-
<b>Major Repairs Reserve Adjustments</b>							
Depreciation re-credited to HRA	-	-	(1,407)	1,407	-	-	-
Major Repairs Reserve to finance new capital expenditure	-	-	-	(1,489)	-	-	1,489
<b>Pension Reserve Adjustments</b>							
Net charges for retirement benefits	3,886	-	714	-	-	-	(4,600)
Employer's contribution to Pension Fund/directly to pensioners	(2,242)	-	(404)	-	-	-	2,646
<b>Collection Fund Adjustment Account</b>							
Collection Fund adjustment	3,180	-	-	-	-	-	(3,180)
<b>Accumulated Absences Adjustment Account</b>							
Accumulated Absences adjustment	8	-	1	-	-	-	(9)
<b>Total Adjustments</b>	<b>1,374</b>	<b>-</b>	<b>(6,507)</b>	<b>(82)</b>	<b>(1,256)</b>	<b>(1,299)</b>	<b>7,770</b>

## Note 8 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Finance and Resources on 30 September 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## Note 9 Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement.

<b>Service Specific Revenue Grants and Contributions (included in Cost of Services)</b>	<b>2016/17 £'000</b>	<b>2015/16 £'000</b>
<b>Department for Works and Pensions</b>		
Rent Allowances Subsidy	12,809	13,049
Rent Rebates	6,717	6,699
Housing and Council Tax Benefit Administration	222	254
Discretionary Housing Payments	96	57
<b>Department for Communities and Local Government</b>		
Disabled Facilities Grant	568	331
NNDR Collection Allowance	142	142
Land Charges New Burdens Grant	8	105
Council Tax Support Administration	80	69
<b>Homes and Communities Agency</b>		
Welborne Capacity Funding	229	-
Daedalus Development	637	99
<b>Hampshire County Council</b>		
One Public Estate Grant	55	-
Community Development Grants	-	65
<b>Environment Agency</b>		
Coast Monitoring Grant	214	145
<b>Other</b>		
Portchester Crematorium	130	125
Whiteley Joint Fund	116	89
S106 Developer Contributions	108	181
Other Developer Contributions	-	418
<b>Total</b>	<b>22,131</b>	<b>21,828</b>
<b>Credited to Taxation and Non-Specific Grant Income</b>		
	<b>2016/17 £'000</b>	<b>2015/16 £'000</b>
<b>Department for Communities and Local Government</b>		
New Homes Bonus	2,068	1,654
Revenue Support Grant	828	1,449
Transition Grant	74	-
Council Tax Freeze Grant	-	62
Other Local Services Grant	-	4
<b>Homes and Communities Agency</b>		
National Affordable Housing Programme	440	1,032
Daedalus Development	-	47
<b>Other</b>		
Community Infrastructure Levy	2,536	1,102
Developer Contributions	785	558
Solent Local Enterprise Partnership	210	-
Public Health England	134	-
<b>Total</b>	<b>7,075</b>	<b>5,908</b>

## Note 10 Audit Fees Payable

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

	2016/17 £'000	2015/16 £'000
External audit services	48	48
Certification of grant claims and returns	11	16
<b>Total</b>	<b>59</b>	<b>64</b>

## Note 11 Members' Allowances

The Council paid the following amounts to Members of the Council during the year.

	2016/17 £'000	2015/16 £'000
Basic Allowances	209	209
Special Responsibility Allowances	156	158
Superannuation and National Insurance	18	26
Travelling and Subsistence Allowances	5	6
Conference Expenses	1	1
Internet Rental Allowance	2	1
<b>Total</b>	<b>391</b>	<b>401</b>

Details of individual allowances including travel and subsistence are published in full on the Council's website at [www.fareham.gov.uk](http://www.fareham.gov.uk).

## Note 12 Remuneration of Staff

The number of employees, including senior officers (see note 13), whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 was.

Remuneration Band	2016/17 Number of Employees	2015/16 Number of Employees
£50,000 - £54,999	3	6
£55,000 - £59,999	1	3
£60,000 - £64,999	4	5
£65,000 - £69,999	4	3
£70,000 - £74,999	3	1
£85,000 - £89,999	1	3
£90,000 - £94,999	2	1
£125,000 - £129,999	-	1
£145,000 - £149,999	1	-

## Note 13 Senior Officer Emoluments

Post Title	Salary inc fees and allowances £	Expense Allowances £	Compensation for loss of office £	Total remuneration excl pension contributions £	Pension contributions £	Total remuneration incl pension contributions £
<b>2016/17</b>						
Chief Executive Officer (1)	144,577	604	-	145,181	16,539	161,720
Director of Planning and Regulation	88,895	145	-	89,040	11,645	100,685
Director of Finance and Resources	92,120	887	-	93,007	12,133	105,140
Director of Operations	92,120	309	-	92,429	12,068	104,497
	<b>417,712</b>	<b>1,945</b>	<b>-</b>	<b>419,657</b>	<b>52,385</b>	<b>472,042</b>
<b>2015/16</b>						
Chief Executive Officer (1)	128,710	744	-	129,454	16,375	145,829
Director of Planning and Regulation	84,934	166	-	85,100	11,126	96,226
Director of Community (2)	49,545	2,350	38,539	90,434	297,107	387,541
Director of Finance and Resources	88,015	568	-	88,583	11,595	100,178
Director of Operations	88,015	157	-	88,172	11,530	99,702
	<b>439,219</b>	<b>3,985</b>	<b>38,539</b>	<b>481,743</b>	<b>347,733</b>	<b>829,476</b>

### Notes:

A Senior Officer is defined as an employee whose salary is more than £50,000 per year and undertakes a statutory role or has the power to direct or control the major activities of the Council. Senior Officers in this note relate to the Chief Executive Officer and his direct reports. Roles and responsibilities can be found on the Council's website at [www.fareham.go.uk](http://www.fareham.go.uk)

- (1) Includes pay in respect of the Returning Officer role in elections.
- (2) Pension contributions relate to an early retirement charge and additional personal contribution as part of the compensation for loss of office.

## Note 14 Termination Benefits

The Council terminated the contracts of a number of employees in 2016/17, incurring liabilities of £204,685 (£943,128 in 2015/16). The number of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below.

	Number of compulsory redundancies		Number of other departures		Total number of exit packages		Total cost of exit packages	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
£0 - £20,000	-	-	14	19	14	19	£67,238	£163,164
£20,001 - £40,000	1	3	1	6	2	9	£62,816	£248,746
£40,001 - £60,000	-	1	-	3	-	4	-	£202,063
£60,001 - £80,000	1	-	-	-	1	-	£74,631	-
£320,001 - £340,000	-	-	-	1	-	1	-	£329,155
<b>Total</b>	<b>2</b>	<b>4</b>	<b>15</b>	<b>29</b>	<b>17</b>	<b>33</b>	<b>£204,685</b>	<b>£943,128</b>

## Note 15 Pensions

### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The disclosures below relate to the following schemes:

- The Hampshire Pension Fund (Fund) which is part of the Local Government Pension Scheme (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(CARE) scheme. Details of the benefits to be paid for the period covered by this disclosure are set out in the LGPS (Benefits, Membership and Contributions) Regulations 2007. The funded nature of the LGPS requires the Employer and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement. The contributions to be paid until the date the next actuarial valuation of the Fund is available are set out in the Rates and Adjustment Certificate. The Fund Administering Authority, Hampshire County Council is responsible for the governance of the Fund.
- Unfunded pension arrangements established by the Council. These are termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute.

### Contributions for the Accounting Period Ending 31 March 2018

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2018 are estimated to be £2.37 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period. For the unfunded benefits scheme, for the accounting period ending 31 March 2018, the Employer expects to pay £0.21 million directly to beneficiaries.

### Transactions Relating to Post-Employment Benefits

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



	Funded Benefits		Unfunded Benefits	
	2016/17	2015/16	2016/17	2015/16
	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Statement:</b>				
Cost of Services				
- Current service cost	2,450	2,650	-	-
- Past service cost	50	330	-	-
Financing and Investment Income and Expenditure				
- Interest net defined benefit liability	1,530	1,520	100	100
<b>(Surplus)/deficit on the provision of services</b>	<b>4,030</b>	<b>4,500</b>	<b>100</b>	<b>100</b>
<b>Other Charges to the Comprehensive Income and Expenditure Statement:</b>				
Remeasurement of the net defined benefit liability comprising				
- Return on plan assets (in excess of)/below that recognised in net interest	(20,108)	1,547	-	-
Actuarial (gains)/losses due to				
- Changes in financial assumptions	29,120	(4,730)	263	(58)
- Changes in demographic assumptions	(2,080)	-	(80)	-
- Liability experience	210	(1,460)	20	(50)
<b>Total amount recognised in Other Comprehensive Income and Expenditure</b>	<b>7,142</b>	<b>(4,643)</b>	<b>203</b>	<b>(108)</b>
<b>Total Amount Recognised</b>	<b>11,172</b>	<b>(143)</b>	<b>303</b>	<b>(8)</b>
Movement in Reserves Statement:				
Reversal of net charges made to the surplus/(deficit) in accordance with the Code	(4,030)	(4,500)	(100)	(100)
Actual amount charged against the General Fund				
Balance for pensions in year:				
Employers' contribution payable to scheme	(2,190)	(2,432)	-	-
Retirement benefits payable to pensioners	-	-	(209)	(213)

### Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	Funded Benefits		Unfunded Benefits	
	2016/17	2015/16	2016/17	2015/16
	£'000	£'000	£'000	£'000
Fair value of assets	109,690	88,512	-	-
Present value of defined benefit obligation	164,900	134,740	3,061	2,967
Funded status	(55,210)	(46,228)	-	-
Liability recognised on the Balance Sheet	(55,210)	(46,228)	(3,061)	(2,967)

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

Active members	29%
Deferred Pensioners	16%
Pensioners	55%

## Reconciliation of Movements in the Fair Value of Scheme (Plan) Assets

	Funded Benefits		Unfunded Benefits	
	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000
Opening balance at 1 April	88,512	89,067	-	-
Interest income	2,980	2,820	-	-
Remeasurement gains and (losses)				
- Return on plan assets, excluding amount included in net interest expense	20,108	(1,547)	-	-
Contributions by the employer	2,190	2,432	209	213
Contributions by participants	720	690	-	-
Benefits paid	(4,820)	(4,950)	(209)	(213)
<b>Closing balance at 31 March</b>	<b>109,690</b>	<b>88,512</b>	<b>-</b>	<b>-</b>

## Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Funded Benefits		Unfunded Benefits	
	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000
Opening balance at 1 April	134,740	137,870	2,967	3,188
Current service cost	2,450	2,650	-	-
Interest expense	4,510	4,340	100	100
Contribution by participants	720	690	-	-
Remeasurement gains and (losses) on liabilities				
- Financial assumptions	29,120	(4,730)	263	(58)
- Demographic assumptions	(2,080)	-	(80)	-
- Experience	210	(1,460)	20	(50)
Benefits paid	(4,820)	(4,950)	(209)	(213)
Past service cost	50	330	-	-
<b>Closing balance at 31 March</b>	<b>164,900</b>	<b>134,740</b>	<b>3,061</b>	<b>2,967</b>

## Local Government Pension Scheme Assets Comprised

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

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

	Asset split at 31 March 2017			Asset split at 31 March 2016
	% Quoted	% Unquoted	% Total	%
Equities	56.8	3.5	60.3	56.3
Property	0.5	6.0	6.5	8.2
Government Bonds	25.0	0.2	25.2	25.7
Corporate Bonds	1.4	-	1.4	2.1
Cash	3.4	-	3.4	4.7
Other	-	3.2	3.2	3
<b>Total</b>	<b>87.1</b>	<b>12.9</b>	<b>100.0</b>	<b>100.0</b>

### Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the Hampshire County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016 for funded benefits and 31 March 2017 for unfunded benefits.

The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS19 purposes were:

	Funded Benefits 31 March		Unfunded Benefits 31 March	
	2017 % p.a	2016 % p.a	2017 % p.a	2016 % p.a
<b>Mortality assumptions:</b>				
Future lifetime from age 65 (aged 65 at accounting date)				
Men	24.0	24.6	24.0	24.6
Women	27.0	26.4	27.0	26.4
Future lifetime from age 65 (aged 45 at accounting date)				
Men	26.0	26.7	n/a	n/a
Women	29.3	28.7	n/a	n/a
<b>Principal financial assumptions (% per annum)</b>				
Discount rate	2.5	3.4	2.5	3.4
RPI inflation	3.1	2.9	3.1	2.9
CPI inflation	2.0	1.8	2.0	1.8
Pension increases	2.0	1.8	2.0	1.8
Pension accounts revaluation rate	2.0	1.8	n/a	n/a
Salary increases	3.5	3.3	n/a	n/a

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2017 and the projected service cost for the year ending 31 March 2018 is set out in the table below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same. The sensitivity of unfunded benefits is not included on materiality grounds.

**Discount rate assumption**

	<b>+0.1% p.a.</b>	<b>Base Figure</b>	<b>-0.1% p.a.</b>
Adjustment to discount rate			
Present value of total obligation (£M)	161.98	164.90	167.88
% change in present value of total obligation	-1.80		1.80
Projected service cost (£M)	3.36	3.47	3.58
Approximate % change in projected service cost	-3.10		3.10

**Rate of general increase in salaries**

	<b>+0.1% p.a.</b>	<b>Base Figure</b>	<b>-0.1% p.a.</b>
Adjustment to salary increase rate			
Present value of total obligation (£M)	165.43	164.90	164.38
% change in present value of total obligation	0.30		-0.30
Projected service cost (£M)	3.47	3.47	3.47
Approximate % change in projected service cost	0		0

**Rate of increase to pensions in payment and deferred pension assumptions**

	<b>+0.1% p.a.</b>	<b>Base Figure</b>	<b>-0.1% p.a.</b>
Adjustment to pension rate increase			
Present value of total obligation (£M)	167.35	164.90	162.49
% change in present value of total obligation	1.50		-1.50
Projected service cost (£M)	3.58	3.47	3.36
Approximate % change in projected service cost	3.10		-3.10

**Post retirement mortality assumption**

	<b>-1 year</b>	<b>Base Figure</b>	<b>+1 year</b>
Adjustment to mortality age rating assumption			
Present value of total obligation (£M)	169.76	164.90	160.06
% change in present value of total obligation	2.90		-2.90
Projected service cost (£M)	3.59	3.47	3.35
Approximate % change in projected service cost	3.60		-3.60

## Note 16 Property, Plant and Equipment

### Valuation information

The Council's property portfolio has been revalued in accordance with the statement of accounting policies and to reflect the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

The portfolio was completely re-valued in 1998/99 by the Council's own valuer, D. M. Quinton BSc (Hons) FRICS. Since then it has been revalued on a rolling basis by the Council's own valuers K. Boothroyd BSc (Hons) MRICS, F Mackenzie MRICS and G. Lloyd FRICS; except for Council dwellings which were revalued as at April 2012 by Hellier Langston, chartered surveyors and have since then been revalued to 1 April 2016 and indexed to 31 March 2017 by K. Boothroyd BSc (Hons) MRICS

Various sites at Daedalus were revalued by P. Williams MRICS of Lambert Smith Hampton to 31 March 2017. The valuation presumes the site will be sold off although the Council has no intention to sell.

The table below shows the dates of the revaluation of non-current assets. Vehicles, plant, equipment and non-operational assets are valued at historic cost:

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Total £'000
Historic	-	12,142	9,673	21,815
2012/13	-	1,241	-	1,241
2013/14	-	2,297	-	2,297
2014/15	-	15	-	15
2015/16	-	9,797	-	9,797
2016/17	121,604	57,316	-	178,920
<b>Total</b>	<b>121,604</b>	<b>82,808</b>	<b>9,673</b>	<b>214,085</b>

The figure for additions includes capital expenditure which substantially lengthens the life of the assets or substantially increases the market value.

Council dwellings were re-valued as at 1 April 2016 and indexed to 31 March 2017 (the previous valuation was as at 1 April 2015). The valuation takes into account the use for social housing, and assumes social housing tenanted value is 33% of vacant possession value.

### Depreciation

The following methods, useful lives and depreciation rates have been used in the calculation of depreciation:

Council Dwellings	50 years
Other Land and Buildings	3 to 60 years
Vehicles and Plant	2 to 10 years
Furniture and Equipment	3 to 20 years
Infrastructure	5 to 50 years

The Council calculates depreciation for dwellings by basing the calculation on the Existing Use Value for Social Housing and writing down the value of the buildings on a straight-line basis over the useful life of 50 years.

### Capital Commitments

At 31 March 2017, the Council had entered into a number of contracts for the construction, purchase or enhancement of Property, Plant and Equipment in 2017/18 and future years, budgeted to cost £1.7 million. Similar commitments at 31 March 2016 were £8.7 million. The major commitments are purchases of vehicles and improvements to community facilities.

## Movement in Non-Current Assets 2016/17

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
<b>Cost or Valuation</b>								
At 1 April 2016	100,695	52,686	9,192	1,281	377	-	7,999	172,230
Additions	2,755	1,670	691	450	-	-	8,724	14,290
Revaluation increases/(decreases) to RR	-	18,588	-	-	-	-	-	18,588
Revaluation increases/(decreases) to SDPS	11,624	716	-	-	-	-	-	12,340
Derecognition – Disposals	(601)	-	(210)	-	-	-	-	(811)
Reclassified to/from Held for Sale	-	-	-	-	-	-	-	-
Other movements	7,131	9,148	-	-	-	-	(16,279)	-
<b>At 31 March 2017</b>	<b>121,604</b>	<b>82,808</b>	<b>9,673</b>	<b>1,731</b>	<b>377</b>	<b>-</b>	<b>444</b>	<b>216,637</b>
<b>Depreciation and impairment</b>								
At 1 April 2016	1,309	1,748	6,250	846	29	-	-	10,182
Depreciation Charge	1,468	1,590	810	50	3	-	-	3,921
Depreciation written out to RR	-	(2,084)	-	-	-	-	-	(2,084)
Depreciation written out to SDPS	(1,309)	-	-	-	-	-	-	(1,309)
Derecognition – Disposals	(8)	-	(155)	-	-	-	-	(163)
<b>At 31 March 2017</b>	<b>1,460</b>	<b>1,254</b>	<b>6,905</b>	<b>896</b>	<b>32</b>	<b>-</b>	<b>-</b>	<b>10,547</b>
<b>Net Book Value</b>								
At 31 March 2017	120,144	81,554	2,768	835	345	-	444	206,090
At 31 March 2016	99,386	50,938	2,942	435	348	-	7,999	162,048

## Movement in Non-Current Assets 2015/16

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
<b>Cost or Valuation</b>								
At 1 April 2015	92,855	52,046	9,112	1,281	377	10	5,351	161,032
Additions	2,594	791	850	-	-	-	9,087	13,322
Revaluation increases/(decreases) to RR	-	(71)	-	-	-	-	-	(71)
Revaluation increases/(decreases) to SDPS	(373)	261	-	-	-	-	-	(112)
Derecognition – Disposals	(820)	-	(770)	-	-	-	-	(1,590)
Reclassified to/from Held for Sale	-	(341)	-	-	-	-	-	(341)
Other movements	6,439	-	-	-	-	(10)	(6,439)	(10)
<b>At 31 March 2016</b>	<b>100,695</b>	<b>52,686</b>	<b>9,192</b>	<b>1,281</b>	<b>377</b>	<b>-</b>	<b>7,999</b>	<b>172,230</b>
<b>Depreciation and impairment</b>								
At 1 April 2015	1,238	1,097	6,227	786	26	-	-	9,374
Depreciation Charge	1,319	1,205	778	60	3	-	-	3,365
Depreciation written out to RR	-	(554)	-	-	-	-	-	(554)
Depreciation written out to SDPS	(1,238)	-	-	-	-	-	-	(1,238)
Derecognition – Disposals	(10)	-	(755)	-	-	-	-	(765)
<b>At 31 March 2016</b>	<b>1,309</b>	<b>1,748</b>	<b>6,250</b>	<b>846</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>10,182</b>
<b>Net Book Value</b>								
At 31 March 2016	99,386	50,938	2,942	435	348	-	7,999	162,048
At 31 March 2015	91,617	50,949	2,885	495	351	10	5,351	151,658

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

The figures for Other Land & Buildings, Vehicles Plant & Equipment and Assets Under Construction include assets owned by the Housing Revenue Account. Details for these can be found on page 66 note 2.

## Note 17 Investment Properties

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The Council's Investment Property portfolio has been re-valued in accordance with the statement of accounting policies by K. Boothroyd BSc (Hons) MRICS.

	2016/17 £'000	2015/16 £'000
Rental, sales income and service charges	(4,073)	(3,051)
Direct operating expenses	790	600
<b>Net (gain)/loss</b>	<b>(3,283)</b>	<b>(2,451)</b>

### Movement in Fair Value of Investment Properties

	Value at 31 March 2016 £'000	Acquisitions £'000	Change in Value £'000	Re- classifications £'000	Value at 31 March 2017 £'000
Commercial	8,113	-	43	-	8,156
Leisure	1,024	-	71	-	1,095
Office	3,252	-	123	-	3,375
Other	2,623	-	(4)	-	2,619
Retail	29,323	11,786	(1,941)	-	39,168
<b>Total</b>	<b>44,335</b>	<b>11,786</b>	<b>(1,708)</b>	<b>-</b>	<b>54,413</b>

	Value at 31 March 2015 £'000	Acquisitions £'000	Change in Value £'000	Re- classifications £'000	Value at 31 March 2016 £'000
Commercial	8,037	-	76	-	8,113
Leisure	996	-	28	-	1,024
Office	3,638	-	(386)	-	3,252
Other	675	1,964	(26)	10	2,623
Retail	20,612	7,922	789	-	29,323
<b>Total</b>	<b>33,958</b>	<b>9,886</b>	<b>481</b>	<b>10</b>	<b>44,335</b>

### Fair Value Measurement of Investment Properties

	Quoted prices in active markets Level 1 £'000	Other significant observable inputs Level 2 £'000	Significant unobservable inputs Level 3 £'000	Fair Value at 31 March 2017 £'000
Commercial	-	-	8,156	8,156
Leisure	-	-	1,095	1,095
Office	-	-	3,374	3,374
Other	-	-	2,618	2,618
Retail	-	-	39,170	39,170
<b>Total</b>	<b>-</b>	<b>-</b>	<b>54,413</b>	<b>54,413</b>

There has been no change in valuation techniques used during the year for investment properties.

## Note 18 Assets Held for Sale

	2016/17 £'000	2015/16 £'000
Balance at 1 April	341	48
Assets newly classified as held for sale:		
- Property, Plant and Equipment	-	341
Assets sold	-	(48)
<b>Balance at 31 March</b>	<b>341</b>	<b>341</b>

The asset currently held for sale is land at Daedalus.

## Note 19 Impairment Losses

During 2016/17, the Council de-recognised impairment losses incurred and charged to the Surplus or Deficit on Provision of Services in earlier years of £11.02m. This relates to the increased revaluation of Council Dwellings, some car parks and the Daedalus Innovation Centre.

The Council also recognised impairment losses of £56,744. This related to the downward revaluation of Osborn Road multi-storey car park.

## Note 20 Leases

### Council as Lessee – Finance Leases

The Council has some assets under finance leases which are carried as Property, Plant and Equipment and Investment Property in the Balance Sheet at the following net amounts:

	31 March 2017 £'000	31 March 2016 £'000
Property, Plant and Equipment	10,075	8,122
Investment Property	5,228	5,243
<b>Total</b>	<b>15,303</b>	<b>13,365</b>

All properties are subject to the Council making peppercorn minimum lease payments. There are no contingent rents payable. None of the properties are subject to finance lease liabilities as premiums were paid at the inception of the lease.

### Council as Lessor – Operating Leases

The Council leases out property under operating leases for the following purposes:

- For the provision of leisure facilities
- To provide accommodation for local businesses
- For income generation and capital appreciation

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



	31 March 2017 £'000	31 March 2016 £'000
Not later than one year	3,462	2,669
Later than one year and not later than five years	10,686	9,525
Later than five years	38,684	40,681
<b>Total</b>	<b>52,832</b>	<b>52,875</b>

The minimum lease payments receivable do not include rents that are contingent rents on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17, contingent rents of £0.63 million were receivable by the Council (2015/16 £0.93 million).

## Note 21 Cash and Cash Equivalents

	31 March 2017 £'000	31 March 2016 £'000
Cash held by the Council	5	4
Bank current accounts	-	-
Short-term deposits with banks	6,001	2,857
<b>Total cash and cash equivalent</b>	<b>6,006</b>	<b>2,861</b>
Bank overdraft	(235)	(669)
<b>Net cash and cash equivalent</b>	<b>5,771</b>	<b>2,192</b>

## Note 22 Short Term Debtors

	31 March 2017 £'000	31 March 2016 £'000
Central government bodies	658	1,369
Other local authorities	1,011	605
Other entities and individuals	6,437	4,148
<b>Total</b>	<b>8,106</b>	<b>6,122</b>
Provision for doubtful debts	(1,655)	(1,705)
<b>Total</b>	<b>6,451</b>	<b>4,417</b>

## Note 23 Short Term Creditors

	31 March 2017 £'000	31 March 2016 £'000
Central government bodies	4,760	1,943
Other local authorities	1,601	1,464
Other entities and individuals	3,398	3,081
<b>Total</b>	<b>9,759</b>	<b>6,488</b>

## Note 24 Provisions

	Balance at 1 April £'000	Provision in year £'000	Applied in year £'000	Balance at 31 March £'000
Business rate appeals	3,763	-117	934	2,712
Insurance	75	54	25	104
Employee related	188	188	188	188
Land charges	31	-	27	4
<b>Total 2016/17</b>	<b>4,057</b>	<b>125</b>	<b>1,174</b>	<b>3,008</b>
<b>Total 2015/16</b>	<b>3,021</b>	<b>1,454</b>	<b>418</b>	<b>4,057</b>

The business rate appeals provision is for refunding ratepayers who successfully appeal against the rateable value of their properties. The insurance provision is set up to meet certain known liabilities in respect of risks e.g. fire, explosion, storm, flood, burst pipes, impact. The employee related provision is used for accumulated absences due and the land charges provision is for personal searches litigation.

## Note 25 Receipts in Advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will, if not met, require the monies to be returned to the contributor. These mainly relate to developer contributions that have conditions in the form of time limits on them. The balances and movement on these are as follows:

	31 March 2017 £'000	31 March 2016 £'000
Balance at 1 April	7,680	8,796
Movements in year:		
Amounts received (with conditions)	3,236	1,731
Amounts recognised as income (conditions subsequently met):		
- Within Cost of Services	(1,488)	(1,226)
- Within Taxation and Non-Specific Grants	(1,569)	(1,621)
<b>Balance at 31 March</b>	<b>7,859</b>	<b>7,680</b>

	31 March 2017 £'000	31 March 2016 £'000
<b>Receipts in Advance (Capital Grants)</b>		
Leisure developer contributions	2,394	3,197
Affordable housing developer contributions	253	215
Other developer contributions	366	388
Homes and Communities Agency	2,674	2,717
Solent Local Enterprise Partnership	1,790	-
Other capital contributions	48	-
	<b>7,525</b>	<b>6,517</b>
<b>Receipts in Advance (Revenue Grants)</b>		
Homes and Communities Agency	265	860
Whiteley developer contributions	6	82
Other developer contributions	63	221
	<b>334</b>	<b>1,163</b>
<b>Total Receipts in Advance</b>	<b>7,859</b>	<b>7,680</b>

## Note 26 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and Housing Revenue Account (HRA) balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure.

	1 April 2015 £'000	Transfers Out £'000	Transfers In £'000	31 March 2016 £'000	Transfers Out £'000	Transfers In £'000	31 March 2017 £'000
<b>General Fund</b>							
Major Repairs and Renewals	1,302	-	-	1,302	-	-	1,302
Other Earmarked Reserves	2,773	(295)	4,017	6,495	(3,135)	458	3,818
Earmarked Capital Reserve	6,265	(3,440)	2,772	5,597	(3,587)	3,026	5,036
	<b>10,340</b>	<b>(3,735)</b>	<b>6,789</b>	<b>13,394</b>	<b>(6,722)</b>	<b>3,484</b>	<b>10,156</b>
<b>HRA</b>							
Housing Repairs Account	1,000	-	500	1,500	-	-	1,500
Capital Development Fund	6,136	(3,400)	2,164	4,900	(3,544)	2,164	3,520
Leaseholder Repairs	200	-	3	203	(44)	-	159
	<b>7,336</b>	<b>(3,400)</b>	<b>2,667</b>	<b>6,603</b>	<b>(3,588)</b>	<b>2,164</b>	<b>5,179</b>
<b>Total</b>	<b>17,676</b>	<b>(7,135)</b>	<b>9,456</b>	<b>19,997</b>	<b>(10,310)</b>	<b>5,648</b>	<b>15,335</b>

## Note 27 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, 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 Council, 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 second part of this note.

The main items of capital expenditure on non-current assets during the year are shown below. Only a proportion of this expenditure led to an increase in the value of assets. Capital expenditure and financing for the year were as follows:

2015/16 £'000		2016/17 £'000
<b>54,250</b>	Opening Capital Finance Requirement	<b>61,878</b>
<b>Capital Investment</b>		
13,322	Property, Plant and Equipment	14,309
9,886	Investment Properties	11,786
579	Revenue Expenditure Funded from Capital under Statute	617
<b>Sources of Finance</b>		
(2,776)	Capital Receipts	(1,986)
(4,375)	Government Grants and Other Contributions	(2,394)
Sums set aside from revenue:		
(1,489)	HRA Major Repairs Reserve	(1,585)
(7,519)	Direct Revenue Contributions	(7,255)
-	Minimum Revenue Provision	(159)
<b>61,878</b>	Closing Capital Finance Requirement	<b>75,211</b>
<b>Explanation of movements in year</b>		
7,628	Increase in underlying need to borrow	<b>13,333</b>

## Note 28 Unusable Reserves

	31 March	
	2017 £'000	2016 £'000
Revaluation Reserve	36,677	15,990
Capital Adjustment Account	149,170	129,086
Pensions Reserve	(58,271)	(49,194)
Collection Fund Adjustment Account	(417)	(2,914)
Accumulated Absences Account	(188)	(188)
	<b>126,971</b>	<b>92,780</b>

### a) 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:

- Re-valued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised

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

2015/16 £'000		2016/17 £'000
<b>15,783</b>	Balance at 1 April	<b>15,990</b>
1,299	Upward revaluation of assets	21,406
(817)	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services	(676)
<b>482</b>		<b>19,646</b>
(265)	Difference between fair value depreciation and historical cost depreciation	(43)
(10)	Accumulated gains on assets disposed or reclassified to Investment Properties	-
<b>(275)</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>(43)</b>
<b>15,990</b>	<b>Balance at 31 March</b>	<b>36,677</b>

### b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2015/16 £'000		2016/17 £'000
115,894	Balance at 1 April	129,086
<b>Reversal of items relating to capital expenditure in the Comprehensive Income and Expenditure Statement</b>		
(3,365)	Charges for depreciation and impairment of non-current assets	(3,929)
1,125	Revaluation losses on property, plant and equipment	13,592
(30)	Amortisation of intangible assets	(23)
(579)	Revenue expenditure funded from capital under statute	(618)
(873)	Amounts of non-current assets written off on disposal or sale as part of gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(649)
112,172		137,459
(3)	Amount credited to Capital Receipts Reserve relating to part repayment of principal on long term debtor	(3)
11	Cumulative (gains)/losses on assets sold or reclassified as Investment Properties	-
265	Adjustment amounts written out of the Revaluation Reserve	43
112,445	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>137,499</b>
<b>Capital financing applied in the year</b>		
2,776	Use of the Capital Receipts Reserve to finance new capital expenditure	1,986
1,489	Use of the Major Repairs Reserve to finance new capital expenditure	1,585
4,375	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,394
-	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	159
7,519	Capital expenditure charged against the General Fund and HRA balances	7,255
16,159		150,878
482	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,708)
129,086	<b>Balance at 31 March</b>	<b>149,170</b>

### c) 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 however, statutory arrangements require that benefits are financed as the Council makes contributions to pension fund.

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.

2015/16 £'000		2016/17 £'000
(51,992)	Balance at 1 April	(49,194)
4,752	Actuarial gains or losses on pension assets and liabilities	(7,346)
(4,600)	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	(4,130)
2,646	Employers' pension contributions and direct payments to pensioners payable in the year	2,399
(49,194)	<b>Balance at 31 March</b>	<b>(58,271)</b>

#### d) Collection Fund Adjustment Account

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

2015/16 £'000		2016/17 £'000
267	Balance at 1 April	(2,914)
(46)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax calculated for the year in accordance with statutory requirements	(115)
(3,135)	Amount by which NDR income credited to the Comprehensive Income and Expenditure Statement is different from NDR calculated for the year in accordance with statutory requirements	2,612
<b>(2,914)</b>	<b>Balance at 31 March</b>	<b>(417)</b>

## Note 29 Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term		Current	
	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000
Borrowing at Amortised Cost	40,000	40,000	1,835	4,826
Trade Creditors	-	-	5,808	2,879
<b>Financial Liabilities</b>	<b>40,000</b>	<b>40,000</b>	<b>7,643</b>	<b>7,705</b>
Loans and Receivables	-	3,000	14,838	29,421
Mortgages	69	72	-	-
Trade Debtors	-	-	6,608	2,025
<b>Financial Assets</b>	<b>69</b>	<b>3,072</b>	<b>21,446</b>	<b>31,446</b>

All borrowing is on fixed terms and shown at amortised cost.

All investments and cash and cash equivalents are classified as Loans and Receivables carried in the Balance Sheet at amortised cost. The accrued interest at 31 March 2017 of £68,964 is included within the current total investment outstanding of £14,838,000.

Debtors and creditors and other balance sheet items that arise under contract from the Council's powers and duties are classified as financial instruments and carried at amortised cost, although debtors and creditors arising from council tax, NDR, government grants etc. are excluded.

#### Fair Values of Assets and Liabilities

The fair value of each class of financial instrument is carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments.

The fair values of long term financial instruments are as follows:

	31 March 2017		31 March 2016	
	Balance Sheet £'000	Fair Value £'000	Balance Sheet £'000	Fair Value £'000
Borrowing	40,000	54,321	40,000	45,193
Loans and Receivables	-	-	3,000	3,045

The fair value of the borrowing is higher 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 prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

The fair value of the loans and receivables is higher than the carrying amount because the Council's portfolio of investments includes fixed rate loans where the rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2017) attributable to the commitment to receive interest above current market rates.

Movements in the fair value during the life of mortgages are not recognised.

## Nature and Extent of Risks Arising from Financial Instruments

### Liquidity Risk

The Council manages its liquidity position through the setting and approval of prudential indicators and the treasury and investment strategy (approved by full Council on 28 April 2016) and through cash flow management which seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets is as follows:

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
<b>Maturity of Investments</b>		
Less than 3 months	8,797	18,316
3 to 6 months	6,041	7,070
6 months to 1 year	-	4,017
1 to 2 years	-	3,018
<b>Total</b>	<b>14,838</b>	<b>32,421</b>

All other trade debtors are due to be received in less than one year.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. 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. It also considers maximum amounts and time limits in respect of each financial institution.

The following analysis shows the gross credit exposure by credit rating of the Council's investments as at 31 March 2017.

Rating Category	£'000
AAA or equivalent	6,001
AA or equivalent	-
A or equivalent	7,050
BBB or equivalent	1,787
<b>Total</b>	<b>14,838</b>

The Council's financial liabilities and assets, other than investments, all relate to non-rated organisations.

The Council's maximum exposure to credit risk in relation to its £14.8 million investments in financial institutions 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 Council's deposits, but there was no evidence as at the 31 March 2017 that this was likely to crystallise.

Although the fair value of trade debtors is taken to be the billed amount as they are receivable within 12 months, the Council does make significant provision for unpaid debts (£285,078 as at 31 March 2017, £306,430 as at 31 March 2016). Trade debtors include outstanding sundry debts and other trade debts. Based on the age of outstanding sundry debts, the bad debt provision is as shown in the following table:

Sundry Debtors Age Analysis	Amount Outstanding as at 31 March 2017		Bad Debt Provision		Amount Outstanding as at 31 March 2016		Bad Debt Provision	
	£'000	%	£'000	%	£'000	%	£'000	
Less than 1 year old	2,176	2	47		681	1	6	
1 and 2 years old	33	45	15		75	30	22	
2 and 3 years old	53	64	34		50	60	30	
More than 3 years old	199	95	189		261	95	248	
<b>Total</b>	<b>2,461</b>		<b>285</b>		<b>1,067</b>		<b>306</b>	

### Market Risk

The Council does not have any variable rate investments or borrowings and is therefore not prone to any gains or losses arising from movements in interest rates or market prices.

## Note 30 Trust Funds

The Council administers a trust fund in relation to a legacy left by Miss W. N. Cocks. The terms of the charity scheme provide that income from the Cocks bequest can be used to further the work of Westbury Manor Museum and for such other charitable purposes for the benefit of the inhabitants of Fareham as the trustee (the Council) shall from time to time think fit.

The fund is invested with the Council. It does not represent assets of the Council and is not included in the Balance Sheet. The capital value of the fund is £287,244 at 31 March 2017.

In 2016/17, the fund's income was £1,097 and there was no expenditure. (In 2015/16, the fund's income was £1,327 and there was no expenditure). The fund's only asset was investments with the Council of £287,244 and it had no liabilities.

Further details of the fund can be obtained from the Council's Director of Finance and Resources at the Civic Offices.



The Council also administers six minor charity funds of which it is sole trustee. Details most recently reported to the Charities Commission are shown in the table below. A significant proportion of the income is contributed by the Council.

	Income £'000	Expenditure £'000	Assets
Sarisbury Recreation Ground	12	12	Land
Swanwick Lane Recreation Ground	3	3	Land
King George V Playing Fields	3	3	Land
Crofton Recreation Ground	20	20	Land
Titchfield Recreation Ground	18	18	Land
Hook and Warsash Allotments	-	-	Land

The Reporting Accountant for the Cocks Bequest and Sarisbury, Crofton and Titchfield recreation grounds is Mr N R Wood ACMA CGMA.

## Note 31 Related Party Transactions

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

### Central Government

Central Government has effective control over the general operations of the Council as it is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are shown in note 9.

### Members

Members of the Council have direct control over the Council's financial and operating policies. During 2016/17, there were no material related party transactions between the Council and Council Members. Any declarations of interest are recorded in the Register of Member's Interests which is open to public inspection. The total of members' allowances paid in 2016/17 is shown in note 11.

### Chief Officers

Chief Officers have the ability to influence the Council. During 2016/17, there were no material related party transactions between the Council and Chief Officers.

### Portchester Crematorium Joint Committee

The Portchester Crematorium Joint Committee (PCJC) is a jointly controlled operation of the Council. The PCJC manages the operations of Portchester Crematorium. The Joint Committee is represented equally by the four constituent authorities, Fareham Borough Council, Gosport Borough Council, Havant Borough Council and Portsmouth City Council.

Fareham Borough Council's share of the net assets of PCJC is £1,960,408 (2015/16 £1,904,500). In 2016/17, PCJC paid a contribution of £130,000 to the Council (£125,000 in 2015/16). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2017, £1,541,000 was invested with the Council (£1,332,800 at 31 March 2016).

### Fareham and Gosport Building Control Partnership

The Fareham and Gosport Building Control Partnership provides building control services to Fareham and Gosport Borough Council and Portsmouth City Council. The Partnership between Fareham and Gosport has been in operation since 2003, with Portsmouth coming into the Partnership in 2015/16. During 2016/17, the Partnership charged Gosport Borough Council £108,086 (2015/16 £132,923) and Portsmouth City Council £110,786 (2015/16 £82,986) for statutory building control services. The Partnership has a policy of dividing generated surpluses between the authorities based on fee generating work in each Authority area. At 31 March 2017, the balance of retained surpluses for future investment in the service was £134,911 for Fareham Borough Council, £80,007 for Gosport Borough Council and £32,723 for Portsmouth City Council.

### Fareham and Gosport Environmental Health Partnership

The Fareham and Gosport Environmental Health Partnership provides environmental health services to both Fareham and Gosport Borough Council. The Partnership came into operation in 2014/15. During 2016/17, the Partnership charged Gosport Borough Council £677,837 (2015/16 £674,679) 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.

## Note 32 Contingent Liabilities

During 1992/93, the Council's insurers MMI Limited ceased taking new business. In November 2012, the decision was made to trigger the Scheme of Arrangement whereby a proportion of claims paid may be clawed back. The Scheme Administrator, Ernst & Young LLP, determined that a Levy rate of 15% of the value of outstanding claims of £148,000 was required. A £22,000 levy was paid during 2013/14 and a further 10% levy of £15,000 was paid in 2015/16. There is a contingent liability of £111,000 for the remaining balance.

## Note 33 Cash Flow Statement - Operating Activities (Interest)

Operating activities within the Cash Flow Statement include the following cash flows relating to interest:

2015/16 £'000	2016/17 £'000
312 Interest Received	433
(1,405) Interest Paid	(1,405)
<b>(1,093)</b>	<b>(972)</b>

## Note 34 Cash Flow Statement - Adjust net surplus or deficit on the provision of services for non-cash movements

2015/16 £'000	2016/17 £'000
3,365 Depreciation and Impairment	3,929
(1,125) Downward Valuations	(13,592)
30 Amortisation of Intangible Assets	23
(552) Increase/Decrease in Creditors	1,517
(70) Increase/Decrease in Interest Debtors	161
2,648 Increase/Decrease in Debtors	(1,761)
(48) Increase/Decrease in Inventories	(49)
1,954 Movement in pension liability	1,731
873 Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised	649
545 Other non-cash items charged to the net surplus or deficit on the provision of services	659
<b>7,620</b>	<b>(6,733)</b>

## Note 35 Cash Flow Statement - Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities

2015/16 £'000	2016/17 £'000
(2,847) Capital grants credited to surplus/deficit on the provision of services	(3,056)
- Net adjustment from the sale of short and long term investments	21,000
(1,684) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(1,205)
<b>(4,531)</b>	<b>16,739</b>

## Note 36 Accounting Policies

This note sets out the accounting policies followed in compiling the Council's accounts. The aim of the statement is to explain the basis of the figures in the accounts and to disclose policies that are significant and relevant to the Council.

### GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

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.

### ACCRUALS OF INCOME AND EXPENDITURE

With the exception of the Cash Flow Statement the accounts are drawn up on the basis that financial transactions are accounted for in the year that it takes place, not necessarily when cash payments are made or received. In particular:

- Fees, charges and rents are due from customers and income from the provision of services are accounted for as income at the date the Council provides the relevant goods or services i.e. when it is probable that the economic benefits associated with the transaction will flow to the Council.
- Supplies and services expenditure is 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.
- Capital works are charged as expenditure when they are completed, and are carried as Assets under Construction on the Balance Sheet until the asset is brought into use.
- Interest receivable on investments and payable on borrowings is accounted for 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 income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Exceptions to this relate to utility bills and other similar payments which do not vary significantly between years and are charged at the date of payment rather than being apportioned between financial years. Also, small amounts outstanding at year end are treated on a payments basis. In total, these do not have a material effect on the year's accounts.
- Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management arrangements.

## 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.

## PRIOR PERIOD ADJUSTMENTS IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

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

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

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

## CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Service revenue accounts, support services and trading accounts 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 assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These amounts are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserve Statement for the difference between the two.

## COUNCIL TAX AND NON-DOMESTIC RATES

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## 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 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 and accrued flexible working hours earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the 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 at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

### Post-Employment Benefits (Retirement Pensions)

Most employees of the Council are members of the Local Government Pensions Scheme, administered by Hampshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Council and other relevant bodies.

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation. Full details of the valuation method are shown in note 14 to the core financial statements.

The change in the net pensions 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:** This is 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, i.e. net interest expense for the Council:** The change during the period in the net defined benefit liability 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 at the beginning of the period. Taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

#### Re-measurement comprising:

- **The return on plan assets:** Excluding amounts included in net interest on the net defined benefit liability 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.

- **Contributions paid to the Hampshire County Council pension fund:** Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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.

### EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the date of the Balance Sheet and the date when the Statement of Accounts is authorised for issue. There are two types of event:

- Adjusting events - those that provide evidence of conditions that existed at the Balance Sheet date - for this type of event the accounts are adjusted to reflect such events.
- Non-adjusting events - those that are indicative of conditions that arose after the Balance Sheet date - for this type of event the accounts are not adjusted to reflect such events. However, where the event 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 authorised for issue are not reflected in the Statement of Accounts.

### FINANCIAL INSTRUMENTS

#### Financial Liabilities

Financial liabilities 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. In most cases 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.

#### Financial Assets

Financial assets are classified as loans and receivables which are initially measured at their fair value and carried 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 most of 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 Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

## GRANTS AND CONTRIBUTIONS

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 receipts in advance. 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-ring-fenced 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.

### Business Improvement District

A Business Improvement District (BID) scheme applies to the Segensworth area and its business community. The boundary of the BID covers 90% of Fareham and 10% of Winchester Council areas. The scheme is funded by a BID levy paid by non-domestic ratepayers. The annual levy for both councils is collected by the Council and transferred directly to the Segensworth Business Forum to fund projects identified by the business community.

### Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport and flood defences) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure.



## HERITAGE ASSETS

Heritage Assets are assets which have historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture.

Heritage assets shall normally be recognised and measured in accordance with the Council's accounting policies on property, plant and equipment. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses). Where there is no historical cost information, it will not be recognised in the Balance Sheet but, where material, will be described in the notes to the accounts.

An assessment is made as to whether the asset has an infinite or limited economic life. If it is a limited economic life then it is depreciated on a straight line basis over that term.

The Council does not have a programme to dispose of Heritage Assets as they are being held and maintained for the benefit of future generations.

## INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are controlled by the Council (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are not re-valued, as the fair value (i.e. estimated market value) of the assets cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) 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.

## INVENTORIES AND LONG TERM CONTRACTS

Inventories are included in the Balance Sheet at cost as this is not materially different from the recommended practice of carrying them at the lower of cost or 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.

## INVESTMENT PROPERTIES

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

Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated but are revalued annually according to market conditions. 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 respect of leases on 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.

## LEASES

Leases are classified as either finance leases or operating leases. A finance lease is any arrangement where substantially all the risks and rewards incidental to ownership of the property, plant or equipment transfer from the lessor to the lessee. Leases that do not transfer substantially all of the risks and rewards are classified as operating leases.

Where an arrangement includes 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 as Lessee – Operating Leases

The Council does not have any material operating leases where the Council is lessee.

### The Council as Lessor – Finance Leases

The Council does not have any finance leases where the Council is lessor.

### The Council as Lessor – 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 (e.g. 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.

## OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

## 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 (i.e. repairs and maintenance) is charged as an expense when it is incurred.

A de-minimus level of £10,000 is applied to capital expenditure. Any expenditure on property, plant or equipment below this amount is not recorded as an asset.

### 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

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

- Land and buildings are measured at current value. This means Existing Use Value (EUV) for non-specialised properties or Depreciated Replacement Cost (DRC) for specialised properties.
- Infrastructure assets are measured at depreciated historical cost.
- Community assets and assets under construction are measured at historical cost.
- Council dwellings are measured at current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH).

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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 for impairment. Where there is impairment and the amount is estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount, 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 (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- council dwellings – calculated on a straight-line basis over the useful life of the property (excluding land value) as estimated by the valuer
- other buildings - straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment - straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer
- infrastructure - straight-line allocation over individually assessed life for each 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.

Componentisation of an asset will be considered where:

- The carrying value of an asset is greater than £1 million and
- A component is at least 20% of the carrying value of the asset.

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. The asset is revalued immediately before reclassification and then carried at the lower of this amount and current value less costs to sell. Where there is a subsequent decrease to current value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current 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 (i.e. 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 a housing disposal is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

### PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are made where an event has taken place that gives the Council a financial obligation that probably requires settlement but where the timing and amount of settlement is uncertain. 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.

#### 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.

## 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 and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant disclosure notes.

## 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, is 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 reverses out the amounts charged, so there is no impact on the level of council tax.

## VAT

Income and expenditure excludes any amounts related to VAT to the extent that they are recoverable from Her Majesty's Revenue and Customs.



## 4. Supplementary Accounts and Explanatory Notes

## Housing Revenue Account - Income and Expenditure Statement

The Housing Revenue Account (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 the HRA Statement.

	2016/17 £'000	2015/16 £'000
<b>Income</b>		
Gross rent income		
- Dwellings	(11,233)	(11,197)
- Other	(318)	(273)
Charges for services and facilities	(964)	(820)
Contributions towards expenditure	(25)	(25)
<b>Total income from service</b>	<b>(12,540)</b>	<b>(12,315)</b>
<b>Expenditure</b>		
Repairs and maintenance	4,541	4,027
Supervision and management	2,645	2,511
Rents, rates, taxes and other charges	44	35
Depreciation and impairment of non-current assets (note 7)	(11,359)	624
Debt management expenses	27	34
Provision for doubtful debts	130	(42)
<b>Total expenditure on service</b>	<b>(3,972)</b>	<b>7,189</b>
Net Expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement	(16,512)	(5,126)
HRA service share of corporate and democratic core	147	160
<b>Net Expenditure for HRA Services</b>	<b>(16,365)</b>	<b>(4,966)</b>
Gain on sale of HRA non-current assets	(453)	(574)
Change in fair value of Investment Properties	(16)	-
Interest payable	1,795	1,857
Interest receivable	(110)	(129)
Pension interest cost	272	252
Capital grants and contributions receivable	(440)	(1,033)
<b>(Surplus) or Deficit for Year on HRA Services</b>	<b>(15,317)</b>	<b>(4,593)</b>



## Movement on the HRA Statement

	2016/17 £'000	2015/16 £'000
<b>Balance on the HRA at the end of previous year</b>	<b>(3,688)</b>	<b>(4,870)</b>
<b>(Surplus) or Deficit for year on HRA Income and Expenditure Statement</b>	<b>(15,317)</b>	<b>(4,593)</b>
Remove gain on sale of HRA non-current assets	453	574
Pension reserve contributions	(314)	(310)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	-	(1)
Capital expenditure charged to revenue	4,537	4,429
Transfers to/from Major Repairs Reserve	1,569	1,407
Transfers to/from Capital Adjustment Account	11,814	408
<b>Adjustments between accounting basis and funding basis under statute</b>	<b>18,059</b>	<b>6,507</b>
<b>Net (increase) or decrease before transfers to or from the reserves</b>	<b>2,742</b>	<b>1,914</b>
Transfer to/(from) reserves	(1,424)	(732)
<b>(Increase) or decrease in year on the HRA</b>	<b>1,318</b>	<b>1,182</b>
<b>Surplus Carried Forward</b>	<b>(2,370)</b>	<b>(3,688)</b>

The total surplus carried forward excludes balances of:

- Repairs Account
- Leaseholder Repairs Reserve
- HRA Capital Grants Unapplied
- Capital Development Fund

These are included within the Movement in Reserves Statement.

## Notes to the Housing Revenue Account

### Note 1 Housing Stock

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

	31 March 2017	31 March 2016
Houses	794.75	799.75
Flats	1,465.00	1,414.00
Bungalows	166.00	166.00
	<b>2,425.75</b>	<b>2,379.75</b>

During the year 10 homes were sold under the right to buy scheme and two shared-owner properties were fully acquired by their owners. 2016/17 also saw the completion of the new 35 bed Sylvan Court Sheltered Housing scheme and 16 new flats in Palmerston Avenue.

### Note 2 Value of Housing Revenue Account Property

Council dwellings have been valued in their current use with an allowance for the right to buy. The vacant possession value at 1 April 2016 and indexed to 31 March 2017 is £353.4 million. The difference in valuation is the economic cost to the government of providing council housing at less than open market rents.

The table below details the opening and closing values of the various classes of HRA assets. It also shows the various movements in values resulting from additions, disposals, revaluations, impairments and reclassification of the assets.

Movement in Values 2016/17	Council Dwellings £'000	Other Land and Buildings £'000	Plant and Equipment £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation					
At 1 April 2016	100,695	4,760	87	2,792	108,334
Additions	2,755	-	-	3,984	6,739
Revaluation Increases/(decreases) to RR	-	252	-	-	252
Revaluation Increases/(decreases) to SDPS	11,624	-	-	-	11,624
Derecognition - Disposals	(601)	-	-	-	(601)
Other reclassifications	7,131	(355)	-	(6,776)	-
<b>At 31 March 2017</b>	<b>121,604</b>	<b>4,657</b>	<b>87</b>	<b>-</b>	<b>126,348</b>
Depreciation and Impairment					
At 1 April 2016	1,309	87	4	-	1,400
Depreciation Charge	1,468	93	8	-	1,569
Depreciation written out to RR	-	(87)	-	-	(87)
Depreciation written out to SDPS	(1,309)	-	-	-	(1,309)
Derecognition - Disposals	(8)	-	-	-	(8)
<b>At 31 March 2017</b>	<b>1,460</b>	<b>93</b>	<b>12</b>	<b>-</b>	<b>1,565</b>
Net Book Value					
<b>At 31 March 2017</b>	<b>120,144</b>	<b>4,564</b>	<b>75</b>	<b>-</b>	<b>124,783</b>
<b>At 31 March 2016</b>	<b>99,386</b>	<b>4,673</b>	<b>83</b>	<b>2,792</b>	<b>106,934</b>

Movement in Values 2015/16	Council Dwellings £'000	Other Land and Buildings £'000	Plant and Equipment £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation					
At 1 April 2015	92,855	4,513	38	4,917	102,323
Additions	2,594	31	49	4,314	6,988
Revaluation Increases/(decreases) to RR	-	292	-	-	292
Revaluation Increases/(decreases) to SDPS	(373)	(76)	-	-	(449)
Derecognition - Disposals	(820)	-	-	-	(820)
Other reclassifications	6,439	-	-	(6,439)	-
<b>At 31 March 2016</b>	<b>100,695</b>	<b>4,760</b>	<b>87</b>	<b>2,792</b>	<b>108,334</b>
Depreciation and Impairment					
At 1 April 2015	1,238	82	-	-	1,320
Depreciation Charge	1,319	87	3	-	1,409
Depreciation written out to RR	-	(82)	1	-	(81)
Depreciation written out to SDPS	(1,238)	-	-	-	(1,238)
Derecognition - Disposals	(10)	-	-	-	(10)
<b>At 31 March 2016</b>	<b>1,309</b>	<b>87</b>	<b>4</b>	<b>-</b>	<b>1,400</b>
Net Book Value					
<b>At 31 March 2016</b>	<b>99,386</b>	<b>4,673</b>	<b>83</b>	<b>2,792</b>	<b>106,934</b>
<b>At 31 March 2015</b>	<b>91,617</b>	<b>4,431</b>	<b>35</b>	<b>4,917</b>	<b>101,000</b>

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

### Note 3 Major Repairs Reserve

	2016/17 £'000	2015/16 £'000
Balance at 1 April	-	82
Receipts in year	1,592	1,408
Used in year	(1,585)	(1,490)
<b>Balance at 31 March</b>	<b>7</b>	<b>-</b>

### Note 4 Housing Repairs Account

	2016/17 £'000	2015/16 £'000
Balance at 1 April	1,500	1,000
Contribution from HRA	4,454	3,944
Other Income	87	4
Expenditure	(4,585)	(3,945)
Transfer from HRA	-	500
Transfer to Reserve	44	(3)
<b>Balance at 31 March</b>	<b>1,500</b>	<b>1,500</b>

## Note 5 Capital Financing

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

	Houses and Flats £'000	Assets Under Construction £'000	Total £'000
Capital Receipts	176	-	176
Government Grants	-	440	440
Major Repairs Reserve	1585	-	1,585
Revenue Contributions	993	3,544	4,537
<b>Expenditure in 2016/17</b>	<b>2,754</b>	<b>3,984</b>	<b>6,738</b>

## Note 6 Capital Receipts

Capital receipts from the sale of HRA property in 2016/17 were £1.05 million (£1.38 million in 2015/16).

## Note 7 Depreciation and Impairment

		2016/17 £'000	2015/16 £'000
Depreciation	Dwellings	1,468	1,319
	Garages	93	87
	Plant and Equipment	8	1
	<b>Total</b>	<b>1,569</b>	<b>1,407</b>
Amortisation	Intangible Asset	5	5
Impairment	Dwellings	-	4,062
Revaluation Gain	Dwellings	(12,933)	(4,850)
<b>Total Charge</b>		<b>(11,359)</b>	<b>624</b>

For 2016/17, there has been a 1% increase to 33% for the adjustment factor applied to the market value of properties to derive the Existing Use-Social Housing Valuation and there has been an increase in market values. This is represented by the revaluation gain.

## Note 8 Arrears

At 31 March 2017, arrears were 3.66% of the gross income due in the year. 2016/17 and 2015/16 were both 52 week rent years. The arrears figures are as follows:

	2016/17 £'000	2015/16 £'000
Arrears as at 31 March	473	367
Gross Income	12,905	12,083
Provision for Uncollectable Rents	369	294
Arrears as a percentage of gross income	3.66%	3.04%

## Collection Fund

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to council tax and non-domestic rates on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund.

	<b>Council Tax £'000</b>	<b>Business Rates £'000</b>	<b>2016/17 Total £'000</b>	<b>2015/16 Total £'000</b>
<b>Income</b>				
Council Tax (notes 1 and 2)				
Billed to Taxpayers	61,064	-	61,064	58,486
Non-Domestic Rates - Due (note 3)	-	40,770	40,770	41,540
Transitional Protection Payments	-	(34)	(34)	(24)
Family Annexes Grant	-	-	-	-
<b>Total Income</b>	<b>61,064</b>	<b>40,736</b>	<b>101,800</b>	<b>100,002</b>
<b>Expenditure</b>				
Collection Fund Surplus/(Deficit) in Previous Year				
Central Government	-	(1,867)	(1,867)	1,769
Fareham Borough Council	136	(1,494)	(1,358)	1,491
Hampshire County Council	1,008	(336)	672	879
Police and Crime Commissioner for Hampshire	153	-	153	84
Hampshire Fire and Rescue	60	(38)	22	68
	<b>1,357</b>	<b>(3,735)</b>	<b>(2,378)</b>	<b>4,291</b>
Precepts, Demands and Shares				
Central Government	-	20,150	20,150	21,360
Fareham Borough Council	6,100	16,121	22,221	22,925
Hampshire County Council	45,336	3,627	48,963	47,051
Police and Crime Commissioner for Hampshire	6,740	-	6,740	6,550
Hampshire Fire and Rescue	2,629	403	3,032	2,982
	<b>60,805</b>	<b>40,301</b>	<b>101,106</b>	<b>100,868</b>
Charges to the Collection Fund				
Cost of Collection Allowance	-	142	142	142
Increase/(Decrease) in Appeals Provision	-	(2,627)	(2,627)	2,804
Increase/(Decrease) in Bad Debt Provision	59	202	261	181
	<b>59</b>	<b>(2,283)</b>	<b>(2,224)</b>	<b>3,127</b>
<b>Total Expenditure</b>	<b>62,221</b>	<b>34,283</b>	<b>96,504</b>	<b>108,286</b>
Fund balance brought forward at 1 April	900	(7,511)	(6,611)	1,673
Surplus/(Deficit) for the Year	(1,157)	6,453	5,296	(8,284)
<b>Fund balance carried forward at 31 March</b>	<b>(257)</b>	<b>(1,057)</b>	<b>(1,315)</b>	<b>(6,611)</b>

## NOTES TO THE COLLECTION FUND

### Note 1 Council Tax

Council Tax income derives from the charges raised according to the value of residential properties, classified into eight valuation bands estimating 1 April 1991 values for this purpose. Individual charges are calculated by estimating the amount of income required from the Collection Fund by Hampshire County Council, the Police and Crime Commissioner for Hampshire, Hampshire Fire and Rescue Authority and the Council for the forthcoming year and dividing this by the council tax base. The council tax base is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts 42,005 for 2016/17 (41,630 for 2015/16). This basic amount of council tax for a Band D property is multiplied by the proportion specified for the particular band to give an individual amount due.

The basic amount of Council Tax for a Band D property was:

	2016/17 £'000	2015/16 £'000
Fareham Borough Council	145.22	140.22
Police and Crime Commissioner for Hampshire	160.46	157.33
Hampshire Fire and Rescue	62.60	61.38
Hampshire County Council	1,079.28	1,037.88
<b>Total</b>	<b>1,447.56</b>	<b>1,396.81</b>

### Note 2 Non-Domestic Rates (NDR)

NDR is organised on a national basis. The Government specifies a rate in the £ (in 2016/17, 48.4p for small businesses and 49.7p for large; in 2015/16, 48.0p for small businesses and 49.3p for large) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the ratepayers in its area. The rateable value at 31 March 2017 was £100,614,701 (£100,268,147 as at 31 March 2016). This rateable value is based on the valuation list effective from 1 April 2010.

Until 2012/13 the proceeds were paid into an NDR pool administered by the Government. The Government re-distributed the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population.

In 2013/14 a new system of Retained Business Rates was introduced, changing the way in which this funding stream is received. The Council collects business rates due in the usual way, but instead of paying it all over to the national pool, 50% is paid to Central Government, 9% to Hampshire County Council, 1% to Hampshire Fire and Rescue Authority and 40% is retained by the Council.

At the end of the year the Council compares its 40% retained rates income with the Business Rates Baseline set at the start of the system (based on rates collected up to 2011/12) and the Baseline funding level for the financial year. For 2016/17, the Business Rates Baseline was £17,039,769 (2015/16 £16,898,945) and the Baseline funding level was £1,765,033 (2015/16 £1,750,447).

### Note 3 Collection Fund Balance

The Collection Fund balance for 2016/17 was a deficit of £1.3 million (a deficit of £6.6 million in 2015/16) which is included within the Balance Sheet. The amounts in respect of Fareham Borough Council are contained within the reserves section of the Balance Sheet and amounts due to the other major preceptors are shown within creditors.

## GLOSSARY OF TERMS

### Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

### Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arises because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

### Amortised Cost

The amortised cost of a financial instrument is the amount at which the instrument is measured at initial recognition (usually cost) less any repayments of principal or reduction for impairment, or any adjustment for the difference between the initial amount and the maturity amount. Examples include adjustments for transaction costs or deferred interest payments that are required to be spread over the life of the instrument.

### Carrying Amount

The amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

### Cash and Cash Equivalents

Cash comprises of cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Community Assets

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and open spaces.

### Contingency

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

### Corporate and Democratic Core

The Corporate and Democratic Core is comprised of Democratic Representation and Management which includes corporate policy making and all other member-based activities and Corporate Management which includes activities and costs that related to the general running of the Council.

### Current Service Costs (Pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

### Defined Benefit Scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of contributions payable, and the benefits are not directly related to the scheme investments. The scheme may be funded or unfunded.

### Depreciation

The systematic allocation of the depreciable amount of an asset over its useful amount.

### Depreciated Replacement Cost (DRC)

A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and relevant forms of obsolescence and optimisation.

### Discretionary Benefits

Retirement benefits which the employer has no legal, contractual, or constructive obligation to award and which are awarded under the Council's discretionary powers.

### Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

### Expected rate of return on pensions assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the assets held by the scheme.

### Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure ate

### Finance Lease

A lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

### Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Council in return for past or future compliance with certain conditions relating to the activities of the Council.

### Heritage Assets

A Heritage Asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

### Historical Cost

The carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever is the later, and adjusted for subsequent depreciation or impairment (if applicable).

### Infrastructure Assets

Non-current assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

### Interest Cost (Pensions)

For a defined benefit scheme, the expected increase in the present value of the scheme liabilities during the period, because benefits are one period closer to settlement.

### Investments (Non Pensions Fund)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. That is, where the intention is to hold the investment is for the long term, or where the Council's ability to dispose of the investment is restricted. Investments, other than those related to the pension fund, that do not meet the above criteria are classified as current assets.



### Investments (Pensions Fund)

The investments of the Pensions Fund will be accounted for in the statements for that Fund. However, authorities participating in the fund are also required to disclose the attributable share of pension scheme assets associated with their underlying obligations.

### Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

### Material

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

### Net Book Value

The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

### Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### Non-Current Assets

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

### Non-Operational Asset

Non-current assets held by a Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

### Operating Leases

A lease other than a finance lease.

### Operational Assets

Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

### Past Service Costs

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods, which has arisen in the current period as a result of, the introduction of, or, improvement to, retirement benefits.

### Post Balance Sheet Events

Those events, favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

### Prior Year Adjustments

Material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### Projected Unit Method

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

### Property, Plant and Equipment

Non-current assets that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

### Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure which may properly be deferred, but which does not result in, or remain matched with, tangible assets. Examples are expenditure on renovation grants and assistance to Housing Associations enabling them to provide accommodation.

### Related Parties

Related parties include Central Government, elected members of the Council and certain senior officers. For individuals identified as related parties the following are also related parties: members of their close family or of the same household and partnerships, trusts, or other entities in which they have a controlling interest.

### Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits, as these are not given in exchange for services rendered by employees.

### Scheme Liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflecting the benefits that the employer is committed to provide for service up to the valuation date.

### Useful Life

The period which an asset is expected to be available for use by the Council.

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

*(The report of the Council's external auditors will be inserted when the audit of the accounts has been completed)*

## HOW TO CONTACT US

This Statement and a Summary of Accounts can be viewed via the Council's website at [www.fareham.gov.uk](http://www.fareham.gov.uk).

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# FAREHAM

## BOROUGH COUNCIL

### **Report to Audit and Governance Committee**

**Date:** 25 September 2017

**Report of:** Director of Finance and Resources

**Subject:** RISK MANAGEMENT MONITORING REPORT

#### **SUMMARY**

In March 2017, the Audit and Governance Committee approved a new Risk Management Policy based around a set of principles rather than a formal framework of registers. The policy requires evidence of risk management to be compiled every six months as proof that the policy is effective. This is the first six-monthly report under the new policy.

#### **RECOMMENDATION**

That members review the report as a source of evidence that the current Risk Management Policy is operating in practice.

## INTRODUCTION

1. In March 2017, the Audit and Governance Committee approved a new Risk Management Policy (see copy in Appendix E) based around a set of principles rather than a formal hierarchy of registers. Under the new process risks are being managed as an integral part of basic everyday management and decision making and not by maintaining lists of risks and risk assessments.
2. Work has commenced to communicate the expectations of employees under the Policy, starting with coverage at the Managers' workshop on 12 July 2017.
3. Under the new process, discussions are held with managers to gather evidence that the new policy is being implemented and that risks are being actively managed. In particular the policy would be considered to be effective if managers are able to cite examples of:
  - (a) What their top risks are and any new or changes in risks and opportunities that have occurred in the year
  - (b) Actions that have been taken in the year to mitigate risks
  - (c) Incidents that have occurred and action taken to manage the incident and prevent a repeat
  - (d) Risks and solutions shared with other services in the Council or discussed with Council experts in that subject.
4. This report summarises the evidence gathered from the first round of discussions held during August 2017.

## MANAGERS COVERED BY THIS REPORT

5. Discussions are to be held every six months with half of the Heads of Service in the Council, so each manager is interviewed once every year. The Heads of Service covered in the 2 sets of interviews each year are listed in the table below: this therefore highlights those services covered by this report.

Managers Interviewed August 2017	Managers to be Interviewed for next report
Head of Development Management	Head of Planning Strategy & Regeneration
Head of Building Control	Head of Environmental Health
Head of Parking and Enforcement	Head of Leisure and Environmental Services
Head of Housing, Revenues & Benefits	Head of Corporate Services
Head of Finance and Audit	Head of Property / Estates
Head of Human Resources & ICT	Head of Democratic Services
	Head of Coastal Partnership
	Welborne Strategic Lead

## STRUCTURE OF THE EVIDENCE GATHERED

6. Detailed notes were taken of each discussion. The topics of the discussion are listed in [Appendix D](#). The highlights across all six discussions are summarised in

Appendices A to C using 3 evidence themes of:

- (a) New actions taken anticipating risks or opportunities
- (b) New actions taken reacting to risks or incidents
- (c) Risks where action is still needed

## **RISK ASSESSMENT**

- 7. There are no significant risk considerations in relation to this report

### **Appendices:**

- A - Examples of new actions taken anticipating risks or opportunities
- B - Examples of actions taken reacting to risks or incidents
- C - Risks noted where further actions are still needed
- D - Detailed List of Risks, Opportunities and Actions Covered in the Manager Discussions
- E – Risk Management Policy

**Background Papers:** None

### **Reference Papers:**

Report to Audit and Governance Committee on 13 March 2017 on the Revised Risk Management Policy

CIPFA / SOLACE - Delivering Good Governance in Local Government Framework April 2016 Edition

### **Enquiries:**

For further information on this report please contact Elaine Hammell. (Ext 4344)

Examples of new actions taken anticipating risks or opportunities

<p style="text-align: center;"><b>Threat of Terrorist Attack</b></p> <p>Following the Manchester Arena attack, the government increased the terror threat to critical for 2 days.</p> <p>The council already has a ‘move to critical’ plan consisting of 6 phases. Any change in the level of the threat is discussed with the Chief Executive Officer and the Emergency Planning officer and briefings are received by the area security team.</p> <p><b>Additional Actions taken</b></p> <p><b>Corporate</b> – Co-ordinating group set up to see if the Council needed to take special measures during the threat.</p> <p><b>Corporate</b> – Temporary restrictions put in place in Civic Offices involving checking identity of visitors and requiring all guests to be accompanied.</p> <p><b>Emergency Planning</b> – Attendance at Hampshire awareness briefing (Project Griffin) on terrorism threats and attended webinars.</p> <p><b>Corporate</b> – Election officer training of actions to take in the event of a terrorism alert</p>	<p style="text-align: center;"><b>Learning from Grenfell Tower Disaster</b></p> <p>The Grenfell Tower fire occurred on 14 June 2017 at the 24-storey Grenfell Tower block of public housing flats in North Kensington leading to at least 80 deaths. The cladding on the building has been blamed for the spread of the fire and there has been public criticism over alleged cost saving in respect of social housing, and the local and national government’s response to the incident.</p> <p><b>Examples of Actions taken</b></p> <p><b>Corporate</b> – Corporate working group set up co-ordinating all the streams of activity of the Council, and responding to government enquiries.</p> <p><b>Corporate</b> – Reviewed how the Council has responded in local emergencies.</p> <p><b>Corporate</b> – Special Council Housing Tenants newsletter issued to reassure them of the fire safety work we do and the absence of similar cladding. Reiteration of fire prevention practices tenants can follow.</p> <p><b>Property</b> – Hants Fire and Rescue reviewed the fire arrangements for the Civic Offices and resulting assurances provided to tenants of the building. Second visit rehearsed ability to move around the building.</p> <p><b>Property</b> – Fire risk assessments revisited including high and low rise residential and operational buildings and any gaps in process (e.g. smoke detector testing by tenants) addressed.</p> <p><b>Building Control</b> – Part of joint response team assisting other agencies to review safety of tower blocks across the partnership. (1 in Fareham – First Wessex building - but 70+ in Portsmouth).</p> <p><b>Building Control</b> – Keeping up to date with the debate about how to interpret the ‘approved document’ guidance in relation to cladding and fire risks.</p> <p><b>Development Management</b> – Liaising with Hampshire Fire and Rescue Authority to review their involvement in planning applications involving tower blocks / cladding.</p>
<p style="text-align: center;"><b>Welborne Planning Application</b></p> <p>In order to manage the overriding risk of non-delivery of the Welborne Plan the Council has been progressing a procurement process for a delivery partner. A planning application from a major landowner outside of this process has also</p>	<p style="text-align: center;"><b>Failure to meet the statutory deadlines for the Closure of accounts</b></p> <p>The Accounts and Audit Regulations stipulate the deadline by which the draft Statement of Accounts has to be produced and published, and the external audit of the accounts completed.</p>



<p>been received which needs timely due consideration in the same manner as any other application.</p> <p><b>Actions taken</b></p> <p><b>Corporate</b> – Team considering the planning application being kept separate from the procurement process.</p> <p><b>Development Management</b> – Pre-application advice provided to landowner.</p> <p><b>Development Management</b> – 2 dedicated posts maintained in the service to resource this work, and resources reallocated when a post holder left.</p>	<p>From the 2017/18 accounts onwards the Council is required to have the draft accounts ready a month earlier (end of May 2018).</p> <p><b>Additional Actions taken</b></p> <p><b>Finance</b> – Dry run through carried out for the 2016/17 accounts.</p> <p><b>Finance</b> – Process reviewed to identify where delays occur. Where these relate to information provided by other services meetings were held to explain the new pressures and muster support to meet the new deadline.</p> <p><b>Finance</b> – Accountants meeting held to make sure everyone clear what actions in the timetable they were responsible for and when they were needed.</p>
<p style="text-align: center;"><b>Threat of Cyber Attack</b></p> <p>Cyber-attacks are growing more frequent, sophisticated and damaging if they succeed. GCHQ continue to see real threats to the UK on a daily basis, and the scale and rate of these attacks shows little sign of abating. In particular the NHS suffered a global ransomware attack in May 2017, blocking access to files on computers at hospitals and GP surgeries.</p> <p>The Council therefore works to have multiple layers of security mechanisms to reduce Fareham Borough Council's exposure to such malicious attacks.</p> <p><b>Additional Actions Taken</b> (Non-specific for security reasons)</p> <p><b>ICT</b> – ICT Security Officer employed in last year</p> <p><b>ICT</b> - Security being embedded in new technology projects such as the move to Cloud Technology</p> <p><b>ICT</b> – Pro-active Security Governance reviews to maintain and strengthen controls</p> <p><b>Corporate</b> - Business Continuity planning</p>	<p style="text-align: center;"><b>Scheduled Power Outage</b></p> <p>Due to legal requirements for periodic electrical testing, the electrical power to the basement and Floor1 (ICT services) needed to be turned off. This could have led to a risk of hardware or system failure when the power was restored.</p> <p><b>Examples of Actions taken</b></p> <p><b>Property</b> – Work scheduled for early Saturday morning with contractor on site. Communication with other tenants in the building.</p> <p><b>Corporate</b> – Communication webpage set up</p> <p><b>Corporate</b> – Review of Business Continuity Plans and collation of priority services and telephone numbers</p> <p><b>ICT</b> – Early communication with services and updates sent after the power was restored.</p> <p><b>ICT</b> – Testing disaster recovery plan</p> <p><b>ICT</b> – Scenario analyses to try and understand what the consequences would be if there was a problem and contingency arrangements put in place.</p> <p><b>Finance</b> – Alternative methods of payment set up in case the cash office system failed. Included tablet to use on-line payment or telephone payment facilities, and arrangements with Ferneham Hall to use their chip and pin facility.</p> <p><b>Building Control</b> – Liaison with key customers making sure they know mobile numbers of surveyors Printed off pre-booked inspection schedule and documentation needed for live projects.</p>
<p style="text-align: center;"><b>Increase in the cost of catastrophic injury settlements</b></p> <p>During the last insurance tender, the indemnity limit for catastrophic injuries was reduced from £40million to £25million to bring us in line with other members of the joint tender. There has been a legislative change increasing the amount that could be awarded to reflect the fact there is</p>	<p style="text-align: center;"><b>Loss of PSN Compliance Certificate</b></p> <p>The Public Services Network (PSN) is the UK government's high-performance network, which helps public sector organisations work together, reduce duplication and share resources. In order to use the network, and use the government and law services available through it (e.g. Department of Works and Pensions), the Council has to</p>

<p>limited interest being earned on lump sums awarded, which is expected to fund the cost of care over the person's lifetime.</p> <p><b>Actions taken</b></p> <p><b>Finance</b> – Further cover up to £40million purchased.</p>	<p>demonstrate continual compliance with the security standards set by the government.</p> <p><b>Additional Actions taken</b></p> <p><b>ICT</b> – Maintaining compliance we already have.</p> <p><b>ICT</b> – Regular contact with the Cabinet Office to keep them up to date.</p>
<p style="text-align: center;"><b>Impact of Apprenticeship Levy</b></p> <p>From April 2017 the government has introduced the apprenticeship levy, a compulsory tax on employers to help fund the development and delivery of apprenticeships.</p> <p>FBC is required to pay the levy of 0.5% of the pay bill whether or not we employ apprentices. The payments are made to a virtual account which can only be used to offset the specific training costs provided to apprentices and cannot be used to pay other employment costs such as their salary.</p> <p>There are penalties for late payments of the tax. The government has also set us a target for the number of apprentices we need to employ and there is a reputational risk if we are not seen to be doing the right thing in terms of our apprenticeship obligations.</p> <p><b>Actions taken</b></p> <p><b>HR</b> – Registered on the on-line system to manage our payments in and out.</p> <p><b>HR</b> – Liaising and creating links with training providers (e.g. colleges)</p> <p><b>Finance</b> – Arrangements made to make the monthly levy payments</p> <p><b>HR</b> – Briefed CXMT to review desired approach to apprentices</p> <p><b>HR</b> – Report scheduled to go to the Executive.</p>	<p style="text-align: center;"><b>Impact of Tax Legislation Changes (IR35)</b></p> <p>The Intermediaries Legislation was introduced in 2000 to tackle so-called 'disguised employment', where individuals use their own limited companies to carry out professional services, but operate in a manner more akin to a traditional 'employee', and therefore should be making PAYE and NI contributions.</p> <p>The IR35 rules changed for the public sector in April 2017. This requires councils to carry out an employment status test of people providing a service through Public Service Companies. If the test indicates the relationship as an employment relationship then we may be required to deduct PAYE and NI from their payments.</p> <p>The Council does engage some resources that fall within the remit of IR35, mainly as a way of engaging specific skills it needs. As well as the risk of non-compliance, the new rules also have the potential risk to services of loss of expertise if a specialist decides to walk away, or the risk of an increase in contractors' rates.</p> <p><b>Actions taken</b></p> <p><b>Finance and HR</b> – Reviewed all current workers engaged as consultants and assessed using the HMRC ESS tool.</p> <p><b>Finance</b> – Evidence saved on the assessments we carried out ready for HMRC inspections</p> <p><b>Finance</b> – Briefed CXMT, HR and Finance Business Partners on what questions to ask and what contracts need to say before engaging any further resources through intermediaries.</p> <p><b>Finance</b> – Checked current consultants are aware of new IR35 requirements.</p>
<p><b>Ability to Recruit / Impact of Living Wage</b></p> <p>The Council has an on-going risk to manage concerning our ability to recruit skilled staff in a competitive market. We therefore keep our salary scales under review to ensure they remain competitive and implement policies such as enhanced incentives for hard to recruit to posts.</p> <p>The new mandatory National Living Wage (NLW) came into force in October 2016, requiring</p>	<p style="text-align: center;"><b>Impact of Homelessness Reduction Bill</b></p> <p>The Homelessness Reduction Act has now received royal assent and is likely to come into force in April 2018.</p> <p>The Act places a new duty on local authorities to help prevent the homelessness of all families and single people, regardless of their vulnerability, who are eligible for assistance and threatened with homelessness.</p>

<p>employers to pay workers aged 25 and over at least the required rate (currently £7.50 an hour) with a target to reach £9 an hour by 2020. This has a financial risk to the council of increased employee costs. Penalties up to £20,000 per employee are in place for non-payment of the NLW.</p> <p><b>Actions being taken</b></p> <p><b>HR</b> – Keeping abreast of market salary and benefits</p> <p><b>HR and Finance</b> – Restructured salary scales to identify impact of the living wage</p> <p><b>HR</b> – Keeping clarity between salary due to job size of post and salary due to living wage</p>	<p><b>Actions taken</b></p> <p><b>Housing</b> - All members of the Housing Options team will attend a full day training session, delivered by an external consultant in November. This will be supported by further in-house learning opportunities. There will also be shared learning opportunities utilising on-line resources and working with other professionals to help prepare for the changes</p> <p><b>Housing</b> - We have recruited an additional full-time member of the Housing Options team to increase the capacity of service to cope with the anticipated increase in demand and workload</p> <p><b>Housing/ICT</b> - Reviewing the ability of current system to support the administrative burdens of the new Act. Arranging to meet with other providers to consider alternative options.</p>
<p><b>Safety of Temporary Demountable Structures</b></p> <p>The Building Control Service provides advice to the Safety Advisory Groups when they are organising events which may involve the use of temporary demountable structures. This is to ensure that the Health and Safety of the public at the event has been considered. The number of these events across the partnership has increased particularly since Portsmouth joined. This has had a resource implication for the service and the service needed to make sure they were consistent in the checking they did before they signed off an event.</p> <p><b>Actions taken</b></p> <p><b>Building Control</b> – ‘Checking Policy’ and process drawn up for each of the Councils.</p> <p><b>Building Control</b> – Fee introduced for this work.</p>	<p><b>Community Infrastructure Levy</b></p> <p>The Community Infrastructure Levy (CIL) is a planning charge on new development that generally involves a net increase in building floor space, to fund infrastructure. The Council adopted a policy to charge this levy from May 2013. Since this time the Council has raised over £6 million in levies. There is an inherent risk of failure to collect monies due to the Council, which needs to be managed.</p> <p><b>Additional Actions taken</b></p> <p><b>Development Management</b> – The service identified that they were receiving a high number of telephone queries about the CIL letters being sent out. The letters have therefore been shortened and reformatted to make sure they are clear on who owes what payments, and when the payments are due to the Council.</p>
<p><b>Virtual Residents Permits (Opportunity)</b></p> <p>We are looking to move away from paper copies of residents’ permits and visitors passes which suffer from getting lost or incorrectly displayed. The new system would allow customers to apply on-line and be included in a database available to the enforcement officers. This should result in a reduced cost of administering the permits.</p> <p><b>Actions being taken</b></p> <p><b>Parking and Enforcement</b> – Discussions being held with parking software provider on how to implement the new system</p> <p><b>Parking and Enforcement</b> – Discussions being held with ICT security officers, Council data controllers and data protection advisers on the use of council data to verify residency in the borough.</p>	<p><b>Charging for Pre-Application Advice (Opportunity)</b></p> <p>We currently charge a fixed fee for pre-application advice. It has been identified that the fee we charge is low compared to others in Hampshire Councils and is not covering the cost of the service.</p> <p><b>Actions taken</b></p> <p><b>Development Management</b> – New way of calculating charge, including on-costs, has been introduced for larger schemes.</p> <p><b>Development Management</b> – Report to be reviewed by Planning Committee on general increase in pre-application charges.</p>

Examples of actions taken reacting to risks or incidents

<p style="text-align: center;"><b>Suspected Arson in Council House</b></p> <p>In July 2017 a fire started in a council flat in Portchester which spread to neighbouring roof space. The fire may have been started by a disgruntled tenant who was due to be evicted later that week. There was a multi-agency approach to tackle the fire and manage the tenant who was also threatening people.</p> <p><b>Actions taken</b></p> <p><b>Emergency Planning</b> – Dispatched quickly to site and liaised with other emergency services and made sure officers were visible to assure other people at the scene.</p> <p><b>Corporate</b> – Multi-disciplinary group set up to plan response and foresee people’s needs.</p> <p><b>Housing</b> – Promptly allocated a single point of contact for tenants and maintained an on-site presence to keep everyone informed, and hold conversations</p> <p><b>Housing</b> – Alternative accommodation secured for families unable to remain in their homes and advice provided to meet their needs e.g. storage of belongings, provision of white goods</p>	<p style="text-align: center;"><b>Fire at Council Depot</b></p> <p>In June 2017 a fire broke out in a refuse lorry at the Council’s depot. Employees of “Speedy Hire” (next door to us on the estate) saw the smoke, and used a fork lift truck to enter our compound and tackle the fire with two extinguishers. They also called the fire brigade, who attended shortly after to deal with the incident which took over an hour to bring under control.</p> <p>The fire appeared to have been an electrical fire that started behind and below the engine area.</p> <p><b>Actions taken</b></p> <p><b>Emergency Planning</b> – The duty Out of Hours Officer attended to co-ordinate the councils response.</p> <p><b>Street Scene</b> – Visual checks carried out of other vehicles at the depot shortly after the fire.</p> <p><b>Street Scene</b> – Parking arranged at the depot so vehicles now parked in groups to stop fire being able to spread across the whole fleet.</p> <p><b>Street Scene</b> – Independent assessment carried out by a fire assessor who diagnosed the cause of the fire (four battery system on hoist which had complicated and poorly routed wiring).</p> <p><b>Street Scene</b> – Three vehicles also with hoists have been modified to a 2-battery system with less wiring.</p>
<p style="text-align: center;"><b>Paint Attack in Reception</b></p> <p>In November 2016 a member of the public entered the Civic Offices reception, threw black paint around and then left. The reason for the attack is unknown.</p> <p><b>Actions taken</b></p> <p><b>Corporate</b> – Incident referred to the police to try and identify perpetrator.</p> <p><b>IT</b> – Images from CCTV circulated to tenants of the building to try and identify the customer and why he may be unhappy.</p> <p><b>Corporate</b> – Reviewed CCTV coverage in the reception area and invested in new cameras which provide better images and provide better coverage than the previous cameras .</p> <p><b>Corporate services</b> – Procedures for CSC staff to follow during an incident were revisited.</p>	<p style="text-align: center;"><b>Threat of withdrawal of BACS Provider</b></p> <p>The Council currently uses BACS in a number of ways to make payments and receive income. A number of BACS internet security changes came into force in June 2016. To address these we are working on a project to upgrade the software we use for BACS transfers. Due to the demand for the upgrade the software provider gave us a temporary fix to make the old software compliant. At the end of June we received notification that the fix had expired as we had not completed the upgrade. There were a number of BACS transfers scheduled in the next few days, including the monthly council tax collections.</p> <p><b>Actions taken</b></p> <p><b>ICT</b> – Quickly alerted finance of the problem</p> <p><b>Finance</b> – Authorisation given to approve payment to BACS provider for temporary extension with effect from that Friday</p> <p><b>Finance</b> – Summary requested of the incident presented to the 2 Heads of Service affected</p>

	<p><b>Finance / ICT</b> – Agreed lead officer for the upgrade project and key officers from both teams assigned to support the project</p> <p><b>Finance / ICT</b> – End of extension deadline being closely monitored</p>
<p><b>Power Outage in Market Quay Car park</b></p> <p>In March 2016 a vehicle crashed into one of the cameras in the Market Quay car park resulting in a power outage to some of the equipment, including lighting, barriers and pay machines.</p> <p><b>Actions taken</b></p> <p><b>Parking and Enforcement</b> – Car park closed on day of incident whilst SSE, FBC electrician and machine maintenance company investigated the problem.</p> <p><b>Parking and Enforcement</b> – Although not resolved, car park opened the following day (market day) and drivers allowed to park for free whilst the problems were resolved.</p>	<p><b>Traffic Management Service</b></p> <p>Since 2009 the Council has undertaken traffic management responsibilities on behalf of Hampshire County Council through a formal agency agreement under the Traffic Management Act.</p> <p>The funding received for this service only partly covered the costs of providing the service such that the council was subsidising the service by an additional £6,000 per year. However, the County Council gave notice of their intention to reduce the funding further which by 2018/19 would have required FBC to subsidise the service by at least £59k a year.</p> <p><b>Actions taken</b></p> <p><b>Parking and Enforcement</b> – Partnership agreement with HCC, for the management and implementation of traffic regulation orders, was terminated.</p> <p><b>Corporate</b> – Communication with members to clarify how to make enquiries now.</p> <p><b>Corporate</b> – Budget set to continue to provide speed limit reminder signs and temporary road closures and identified the FBC service to take on these responsibilities.</p>
<p><b>Parking Issues</b></p> <p>Off-street parking is a significant source of income to the Council (£1million). There have been problems with the performance of the parking payment machines and barriers in the last 1-2 years leading to customer dissatisfaction, reduced income collected and work created for the out of hours service.</p> <p>There have also been some problems with the arrangements in place to empty and bank the income collected in our parking machines.</p> <p><b>Actions being taken</b></p> <p><b>Parking and Enforcement</b> - Proactive actions being taken to tackle the problems.</p>	<p><b>Delays in Introduction of Universal Credit</b></p> <p>Since 2013 the government has proposed the introduction of universal credit to supersede housing benefits. This will be administered by central government thus reducing the need for benefits staff in Councils. Work force planning has therefore been in place to reduce the number of staff by 2017. However, this change has been delayed with the latest target being 2022 so the service has had to continue with reduced resources. In the meantime the government is producing lots of real time information on benefits changes that need processing</p> <p><b>Additional Actions taken</b></p> <p><b>Benefits</b> – Temporary recruitment of an additional member of staff using funding available from the Department of Works and Pensions</p>

**Risks noted where further actions are still needed**

<p style="text-align: center;"><b>5 Year Housing Land Supply</b></p> <p>A Public Inquiry held by the Planning Inspector in April 2017 upheld an appeal by Persimmon Homes to allow them to build new homes on countryside adjoining Portchester (Cranleigh Road). The judgement was based on the Council’s potential to deliver the number of houses identified in the recent technical evidence on Objectively Assessed Housing Need (updated through PUSH in 2016), which differs from and is considerably higher than the current Local Plan housing requirements.</p> <p>The Council is now receiving a notable increase in planning applications to build houses, the processing of which will need to be resourced. Our ability to resist planning applications on the grounds that the Council has a 5 year housing land supply has also been weakened and we risk further adverse decisions if similar applications go to appeal.</p> <p><b>Actions being taken</b></p> <p>The Executive will receive a report in October 2017 on the implications of the appeal decision for the Council’s 5 year housing land supply position.</p> <p>There will be a need for housing sites to come forward quickly that can deliver within the next five years to meet the increased housing requirement and the report will set out specific measures to aid this early release of sites for housing.</p> <p>Council officers will have regular and on-going contact with developers who have received planning approvals for residential development (i.e. have planning permission) to monitor their progress in delivering new homes, whilst elected members will be provided with regular updates on development proposals progressing through the planning system.</p>	<p style="text-align: center;"><b>Future Model of Operation for Building Control</b></p> <p>On-going risks for the Building Control service are the loss of market share to private sector competitors and the loss of staff to firms who are able to offer better incentives. One possible solution is to set up the partnership as a local authority trading company and this option is currently being explored.</p> <p>One of the advantages of a LATC is that it allows the service to become an approved inspector (only open to limited companies) and therefore offer customers a fuller service which is not constrained by Councils’ boundaries. It also allows the service to operate more commercially and enter into contracts with customers.</p> <p>There are, however, some risks inherent in the model to the partnership and the constituent councils, such as the costs to the councils of providing non fee earning work, the impact of the LATC making a loss, the nature of agreements/ to supply support services to the LATC, VAT implications, pension fund implications and the lack of commercial accounting knowledge.</p> <p><b>Actions being taken</b></p> <p>Working groups have therefore been set up to explore the implications for both the partnership and the constituent councils.</p> <p>A report on the options will be presented to the Executive.</p>
<p style="text-align: center;"><b>Approach to Tree Management</b></p> <p>We are currently not taking a corporate approach which co-ordinates activity and decisions taken to manage trees in the borough.</p> <p>As a consequence the budget set for the tree service across the Council (approx. £116k) continues to be significantly overspent and there is some customer dissatisfaction.</p> <p><b>Action being taken</b></p> <p>A vanguard intervention has commenced to make the nature of the tree spend visible and to reaffirm the Council’s policies in relation to “good neighbour” pruning, health and safety works and the adoption of</p>	<p style="text-align: center;"><b>Housing Strategy</b></p> <p>In recent years there has been a lack of Housing Strategy for the borough which highlights those gaps in the market which the Council needs to assist with (by ownership and promoting development). We are therefore not clear that the limited resources available are being spent on the priority types of property. There may also be a disparity between the property available and the needs of families in the borough.</p> <p><b>Actions being taken</b></p> <p>Member working group set up to lead on developing the Housing Strategy.</p>

new sites which contain resident trees.	Member group supported by an officer working group
<p style="text-align: center;"><b>Leaseholder Charges</b></p> <p>Households who buy their flats under the Right to Buy scheme then become leaseholder customers to the Council. As leaseholders they receive an annual bill of charges associated with the maintenance of the property. However, they have a limited ability to control the charges they receive which can vary substantially between years. There are approximately 450 leaseholders and we have a high proportion of enquiries / complaints each year in respect of the bills they receive.</p> <p><b>Actions being taken</b></p> <p>Introduced direct debit payments options</p> <p>Full roll-out of FBC cards IT system to capture reactive repairs details needed to produce the bills</p> <p>From 2017/18 introduced a statement in advance of the bills being sent out (to reduce the number of adjustments to the bills that were being made)</p> <p>Discussions being held between housing, finance and building repairs on how we can improve the service being provided to leaseholders, including the advice given during the RTB process.</p> <p>Finance reviewing how intelligence received on amendments needed to bills is being captured to prevent recurrence.</p>	<p style="text-align: center;"><b>Value for Money of Housing Works</b></p> <p>Interim arrangements were put in place to secure contractors to carry out voids and repairs work on the Council's housing stock.</p> <p>This arrangement has not yet been subject to market testing. The value of spend on this work is significant.</p> <p><b>Actions being taken</b></p> <p>Tenders being put together involving representatives from the Procurement team, Property services, voids team and Building repairs team.</p>

**Detailed List of Risks, Opportunities and Actions Covered in the Manager Discussions**

Manager	Subjects discussed
Development Management	<p>Reputational risks from making the wrong planning decisions / managing corruption allegations, including risk of judicial review</p> <p>Welborne Planning Application.</p> <p>Unable to retain appropriate resources and skills in the team</p> <p>Collection of CIL and s106 contributions.</p> <p>Collection of Planning Application Fees</p> <p>5 year Housing Supply Plan (Cranleigh Road Appeal)</p> <p>Impact of Grenfell Tower Disaster</p> <p>Opportunity for increased charges for pre-application advice</p> <p>Improving planning application website to reduce demand from customers failing to find the information they require on the website.</p> <p>Members expectations from the Planning enforcement service</p> <p>New government initiative to allow planning fees to be increased if the income generated is ploughed back into the planning service.</p> <p>Tree Management costs</p>
Building Control	<p>Certifying work that isn't sound (reputation &amp; safety risk)</p> <p>Partnership does not break even (financial)</p> <p>Loss of IT systems (technological)</p> <p>Unable to retain skilled surveyors (staff)</p> <p>Lone working (H&amp;S)</p> <p>Maintaining customer satisfaction so retain market share. Action – Every major client is given a dedicated client manager and second point of contact.</p> <p>Maintaining customer satisfaction so retain market share. Action – Development of an inspection plan record including site inspections which get emailed to the customer at the end of the job.</p> <p>Debt collection – chasing customer for payments which have been paid in at the wrong council.</p> <p>Debt collection – customer dissatisfaction as not able to take payments in the afternoon when the reconciliation was being completed. Action – Working group set up to review the work flow to remove the down time for the receipting machine.</p> <p>Future model of operation for building control e.g. Local Authority Trading Company</p> <p>Power outage – actions taken</p> <p>Reputational impact and additional work arising from Grenfell Tower disaster</p> <p>Providing appropriate advice to the safety advisory group for events. Action – Checking Policy devised for service provided for events involving temporary demountable structures.</p>
Parking & Enforcement	<p>Critical threat of terrorist attack</p> <p>Loss of Parking revenue income / failure of parking machines / errors in income collection</p> <p>Cost impacts in changes in coins and notes</p> <p>Health and Safety of enforcement officers, emergency planning officers and out of hours officers</p> <p>Non-compliance with DVLA requirements under the Data Protection Act when accessing their vehicle database.</p>



Manager	Subjects discussed
	<p>Non-compliance with surveillance legislation with respect to our use of CCTV</p> <p>Balancing the needs of travellers and residents of the borough</p> <p>Managing security risks associated with major events in the borough</p> <p>Business Continuity plans not effective</p> <p>Dog fouling campaign (Lets take the Oops out of Poops)</p> <p>Reduction in payments received for supplying the Traffic Management service on behalf of HCC.</p> <p>Introduction of virtual residents permits</p> <p>Loss of power in market quay car park</p> <p>Fire in refuse lorry at council depot</p> <p>Fire in council house</p> <p>Management of vexatious complainant</p>
<p>Housing, Revenues &amp; Benefits</p>	<p>Arson in Council Property</p> <p>Introduction of universal credit – changing timescale for reduced need for staff</p> <p>Drop in Collection Fund collection rates</p> <p>Non-repayment of loans provided to prevent homelessness</p> <p>Housing Strategy unclear</p> <p>100% business rates retention</p> <p>Demonstrating value for money for housing works</p> <p>Customer dissatisfaction with leaseholder charges</p> <p>Homelessness reduction bill</p>
<p>Finance and Audit</p>	<p>Ensuring the Council and HRA remain solvent and within budget</p> <p>Loss of sums lent out as investments as part of Treasury management policy</p> <p>Failure to pay staff or benefit claimants</p> <p>Large payment frauds e.g. bank mandate fraud</p> <p>Failure to meet the deadline for the closedown of accounts</p> <p>Poor external audit opinions (finance/governance/fraud/audit) / relationships</p> <p>Fine levied by HMRC</p> <p>Lone working arrangements for insurance and corporate fraud – action taken</p> <p>Counter fraud work and debt recovery work leads to allegations into invasion of privacy / data protection breach</p> <p>Complaints about use of debt recovery techniques</p> <p>Investigations poorly executed and don't reach the correct conclusion</p> <p>Customer dissatisfaction with leaseholder charges</p> <p>Power outage – actions taken</p> <p>Tax legislation changes affecting the use of personal service companies (IR35 )</p> <p>Introduction of the Apprenticeship Levy</p> <p>Introduction of the living wage</p> <p>Increase in the cost of catastrophic injury settlements</p> <p>Threat of withdrawal of BACS transfer provider</p> <p>Management of vexatious complainant and potential abuse of staff</p> <p>Suppliers putting the council on hold for poor payment</p>

Manager	Subjects discussed
HR & ICT	<ul style="list-style-type: none"> <li>Claims of Unfair/Constructive dismissal</li> <li>Claims arising from not following employment legislation (e.g. equal pay)</li> <li>Introduction of the living wage</li> <li>Introduction of the Apprenticeship Levy</li> <li>Tax legislation changes affecting the use of personal service companies (IR35 )</li> <li>Loss of PSN Compliance Certificate</li> <li>Threat of Cyber Attack / Breach of IT security / Loss of data</li> <li>Failure of IT systems</li> <li>Power outage – actions taken</li> <li>Management of telephone costs</li> <li>Threat of withdrawal of BACS transfer provider</li> <li>Paint attack in reception</li> </ul>

# FAREHAM

## BOROUGH COUNCIL

### RISK MANAGEMENT POLICY



#### Introduction

Risk is a fact of life. The day to day management of an organisation and delivery of services involve foreseeing and averting problems and maximising opportunities. Risk management is not about risk avoidance but risk awareness.

Fareham Borough Council recognises that risk management is an intrinsic part of Corporate Governance. It seeks to ensure that every member and employee of the Council has regard for the management of risks throughout the organisation to ensure that the Council's resources that our customers rely on are not squandered as a result of uncontrolled risk.

However, our aim is to put dealing with risks and opportunities at the forefront of our process, rather than tie up resources in the management of a rigid supporting framework. Instead we will *implement robust and integrated risk management arrangements*, as required by our Local Code of Corporate Governance, by adopting and adhering to a number of key principles.

This document therefore sets out our approach to risk management, as determined by the Chief Executive's Management Team, and endorsed by the Audit and Governance Committee.

#### Overriding Principle

The overriding principle of this policy is:

Risk Management is an integral part of basic everyday management and decision making and is not a separate corporate process.

# The Purpose of Risk Management

The Council has defined the purpose of its risk management arrangements as:

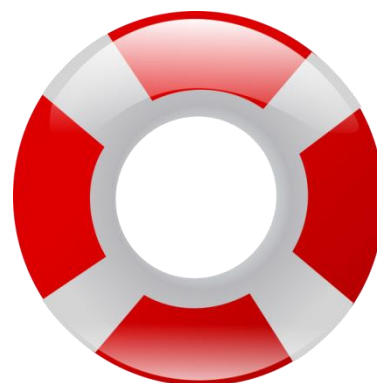
We want to know what risks we are facing  
We want to know when opportunities arise

We want to be aware of what actions we are relying on  
We want to know if there are additional actions we need to take



So that we can....

Prevent bad things from happening  
Not miss out on good things



So that we can....

Avoid injury to people  
Minimise avoidable cost  
Maximise resources available  
Deliver the purposes of the services we provide  
Inspire confidence in our stewardship in our customers and tax payers



# The 7 Principles of Risk Management at Fareham BC

The basic principles in which risk management operates at the Council are summarised below:

## 1. Risk Ownership in Services



- Risks are owned at the service level.
- Identifying and managing the risks of a service is an integral part of managing the service. This includes horizon scanning to identify new and changing risks and opportunities.
- Every service, system and project has an owner with responsibility for it.
- The owner for most risks is usually clear from the roles and responsibilities in the service.
- Managers make sure that employees are well briefed and actively involved in identifying and understanding risks and determining the actions they need to take to contribute to the management of risks.
- This means everyone should work to understand and remove the things that impede achievement of their purpose.

## 2. Competent and Responsible Employees



- We employ competent and responsible managers and employees.
- This is underpinned by strong recruitment and performance management processes and, where necessary, corrective action.
- We trust managers to manage well which includes the identification and management of risk and opportunity in their service area.
- We trust employees to carry out the actions required of them to mitigate risks.
- It is incumbent on all to be:
  - a) proactive in giving confidence to others that key risks are being managed effectively, by using appropriate reporting and assurance methods.
  - b) proactive in obtaining assurances from others involved in carrying out actions which help manage risks for which they are responsible.

### 3. Experts Pulled in to Advise



- Service managers who need help to manage specific risks pull in experts when required.
- This could also involve having a conversation with a senior manager or fellow manager who has been in a similar situation.
- Certain risks are cross cutting and also need ownership at a corporate level to lead on translating, learning and providing support and solutions to service managers.
- A list of experts for those risk areas where ownership is not clear from the organisational structure is maintained as Appendix 1 to this policy.

### 4. Process is supported by Having Conversations



- Further risks may be identified by others (e.g. team members, other managers, legal services, internal audit) which are brought to the service manager's attention by having conversations.
- Further risks may also be identified by having conversations with parties outside of the Council.
- Where ownership for a risk is not clear interested parties meet to agree a way forward.



### 5. Identifying Opportunities to Share

- The organisation shares information about risks being managed at the service level and identifies common issues that may turn them into cross cutting or corporate risks.
- It is the responsibility of managers to appreciate the roles and responsibilities of other services and when risks and solutions they have identified in their service might be relevant to them, and to bring it to their attention.
- We provide an environment that encourages all employees to feel part of one organisation and to be aware of the full range of services provided by the Council and to notice and pass on information that may be of value to another service. *(The eyes and ears of the borough)*
- Experts and support services are in an ideal position to appreciate when problems and solutions being identified for one service could be relevant to another. *(The eyes and ears of the organisation)*

## 6. Escalation of Issues



- Employees are trusted to identify when issues need to be escalated in order to alert supervisors, managers and senior managers, or so that resources can be diverted to help with the management of the risk.
- The culture of the organisation makes employees comfortable in escalating problems.
- Our aim is to avoid feeding too much detail upwards to allow managers to see the important issues clearly and react quickly.

## 7. Incident Management and Review



- Incidents are risks that have occurred and are a measure of how well we are achieving our purposes.
- Most Incidents are directly managed by the service or escalated if corporate awareness or support is needed.
- Some incidents may require the lead to be taken by another service, e.g. insurance claims.
- After the incident a review is undertaken to identify any actions that may be needed to prevent recurrence.
- Questions to be asked should include:  
*How did it happen, was it predictable, could it happen again, what could we do to prevent it?*
- Conversations with Senior Managers take place, as appropriate, to understand incidents and facilitate learning and to provide feedback on actions taken to prevent recurrence.

## Other Components of our Risk Management Arrangements

Other components of our governance framework which also assist in the management of risk are:



In particular Horizon Scanning by CXMT and internal audit will assist in identifying responsibility for new areas of risk.



## Monitoring and Reporting

**Level 1 – Managers:** Discussions are held with a selection of managers every 6 months to gain assurance that the principles are working in their areas. The conversation includes:

- a) Their perceptions of their current top risks
- b) Any new or changes in risk/opportunities they have identified
- c) Any mitigating actions they have taken recently to strengthen risk management arrangements
- d) Any incidents that have occurred and the lessons learnt/ actions taken as a consequence
- e) Any opportunities taken to share risks or solutions or involve experts.

**Level 2 – CXMT:** A summary of these discussions is presented to the Chief Executive's Management Team where further topics being managed at the corporate level are noted. The top risks at the corporate level are agreed.

**Level 3 – A&G:** The top risks and incidents in the period are then presented to the next Audit and Governance Committee. Where appropriate, the manager involved in managing a key risk/incident also attends the Committee.

### Annual Assurance on Arrangements

The Chief Executive's Assurance Group carries out an annual review of the effectiveness of the framework for identifying and managing risks and for performance and demonstrating accountability.

This includes a review of the Head of Internal Audit annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

### Maintaining the Policy

This policy is not expected to be a static document and will be updated as implementation of the arrangements identifies a need for clarification, revision or expansion.

## Appendix 1

### Risk Leads/Experts for Cross Cutting Risks

<b>Risk Subject</b>	<b>Risk Lead</b>
<b>Data Protection</b>	Head of Democratic Services
<b>Information Security</b>	Head of Personnel and IT
<b>Emergency Planning and Business Continuity</b>	Head of Parking and Enforcement
<b>Fraud and Corruption</b>	Head of Finance and Audit
<b>Governance</b>	Head of Finance and Audit
<b>Procurement</b>	Head of Democratic Services (process) Fareham's Solicitor to the Council (compliance with the law)
<b>Health and Safety of Employees</b>	Head of Environmental Health
<b>Health and Safety of the public</b>	Relevant Head of Service in conjunction with Head of Environmental Health
<b>Partnerships</b>	Head of Corporate Services
<b>Safeguarding</b>	Head of Environmental Health
<b>Trees</b>	Head of Development Management

# FAREHAM

## BOROUGH COUNCIL

### **Report to Audit and Governance Committee**

**Date:** 25 September 2017  
**Report of:** Head of Finance and Audit  
**Subject:** Counter Fraud Progress

#### **SUMMARY**

This report summarises the counter fraud work carried out in 2016/17 including the numbers and outcomes of fraud cases.

#### **RECOMMENDATIONS**

It is recommended that the Committee notes the content of the report.

## INTRODUCTION

1. This report provides an update of any actions taken in the last 12 months in support of our Anti-Fraud and Corruption Policy. It also includes details of the cases of fraud that have been investigated.

## ACTIVITY SINCE THE LAST REPORT

### Strategic Actions

2. **Fraud Awareness Campaign:** We undertook 2 campaigns last year: the first campaign spanning the first 2 weeks in July 2016 and the second campaign during International Fraud Awareness week in November 2016. The campaigns included using the Council Connect station in the shopping centre, posters placed around the borough on the Council's notice boards and an article in Fareham Today. This focussed on all types of fraud that can occur within the Council.
3. The second campaign was more proactive in the community and involved visiting libraries around the borough and Holly Hill Leisure Centre. The focus was on benefit fraud and tenancy fraud.
4. The campaigns raised fraud awareness within the community as well as officers within the Council as referrals received during the campaign period were double the number received during the same time the previous year. As a result we have made around £2,000 of Council Tax savings.
5. **Investigation qualification:** Two members of staff have commenced studying for the Accredited Counter Fraud Specialist qualification which will be completed in September 2017. This qualification ensures that staff are suitably trained and qualified to carry out the full range of duties required in an investigation in a professional and legal manner. This will bring the number of employees in the Council who are qualified to carry out fraud investigations up to 4. The previous qualification (PINS-Professionalism in Security) awarded by the Department for Work & Pensions is no longer recognised as a suitable qualification for the types of fraud Local Authorities now investigate.

### Specific Areas of Fraud

6. **Right to Buy Pilot Update:** In 2016/17, 34 Right To Buy applications were received and each one has been checked, and visited where appropriate, to ensure that the application is correct, the tenant is entitled to buy their home and there are no money laundering concerns. 2 applications required further investigation. One application was refused saving the council the discount of £66,500. The other application, after seeking extensive legal advice, has had to be approved.
7. **Solent Breezes Caravan Park:** A low key visiting exercise by the Investigations Officer has commenced, during which many caravans at Solent Breezes Caravan Park not registered for Council Tax have already been identified. Once this exercise has been completed, all non-registered caravans will be created on the Council Tax database and Council Tax liabilities created. Not only will this increase the Council Tax base, but as new properties on the base, New Homes Bonus will be generated. Details of the New Homes Bonus generated by this exercise will not be known until this exercise is completed so will be reported in next year's report.

8. **Tenancy Audits:** Another proactive exercise, which commenced in January 2017, is being undertaken by the Investigations Officer by conducting Tenancy Audits, ensuring the correct tenants are actually living in our properties as well as ensuring properties are in a good state of repair. Our target audience are currently those from whom we have had no contact for many years and are paying their rent on time. We are balancing this workload with the reactive work undertaken by the Investigations Officer.
9. Protecting the English Public Purse 2016 highlights that Social Housing fraud is one of the largest areas of fraud in Councils. In 2015/16 2,700 investigations were carried out nationally finding an estimated value of fraud totalling £50m. It is therefore considered good practice to conduct these tenancy checks to identify any illegal subletting and non-residency/abandonment.
10. **Homelessness Fraud:** We are now actively reporting on homelessness cases where during the extensive vetting and checking process carried out by Housing Options Officers, the homelessness has been deemed misrepresented and the application turned down.

## INVESTIGATION REFERRALS AND OUTCOMES

11. The information provided in [Appendix C](#) shows the number of fraud cases investigated in 2016/17, and the information required to be published on our website in accordance with the Transparency Code. There were a total of 1889 cases investigated, leading to 159 cases of fraud or irregularity being found. These amounted to a total value of £368,214. The largest area of fraud was Council Tax Reduction with a total of 59 cases of fraud valued at £37,257. Benefits and council tax frauds totalling £154,167 were also found as a result of investigating these cases.

### Whistleblowing

12. There was 1 concern raised by an employee through the whistleblowing process in 2016/17. This was investigated but the allegation was found not to be substantiated. No employee has felt it necessary to raise concerns outside the organisation.

### Sanctions

13. The Department of Works and Pensions prosecuted two Housing Benefit cases in 2016/17 and 9 administrative penalties totalling £10,897 were levied. There have been no criminal sanctions brought against any investigation into Council Tax, although civil penalties have been applied.

**Table 1 – Penalties raised 1 April 2016 to 31 March 2017 (Council Tax Billing Year)**

Penalties raised for overpayments of Council Tax Support	Value of overpayments
48 Civil Penalties (£3,360) 1 Administrative Penalty (£1,038)	£28,181
Penalties raised for Council Tax Investigations	Value of Council Tax Liability
8 (£560)	£3,054

14. One Housing Association property has been recovered because of a Tenancy fraud investigation concerning non-residency and subletting. Criminal charges were not brought against the tenant as the keys were handed back in within the notice to quit period.

## Interesting Cases

15. **Benefit and Council Tax Fraud - Residency in America:** This case was highlighted by the Housing Team as they were concerned about a tenant's extensive travels to America. This had previously been investigated for Housing Benefit purposes some years before but the tenant had only received a warning.
16. Using the services of a Financial Investigator from Portsmouth City Council, it was established that the travelling to America was more extensive than first thought and that the tenant spent more time there than his principal sheltered accommodation home here in Fareham. Further extensive enquiries found ownership of a large 4-bedroom house with an outdoor pool in Las Vegas and purchases of new cars. Later enquiries also found that the tenant received a comfortable pension in America, none of which was declared to Fareham Borough Council or the Department for Work & Pensions.
17. Due to the seriousness of the investigation and the indicated overpayments of Benefits, the help of Fareham Police was enlisted and the tenant was arrested at his home, the day after returning from Las Vegas in September 2016. An extensive search of his property was carried out and various items seized from the property for scrutiny, examples being several mobile phones, several wallets, a substantial amount of cash in both English and American currency and documents relating to America.
18. A formal interview was conducted at Portsmouth City Police station but upon legal advice, the tenant declined to answer any questions. The tenant's passport was retained and he was bailed to appear again at the police station in December 2016, to enable officers to continue their enquiries and gather evidence from America.
19. Unfortunately, the tenant quickly became unwell and refused several hospital treatments as well as refusing to be taken into hospital. The tenant died in December 2016, just a couple of days before being due to be interviewed again.
20. By this time, a decision had been made regarding his Benefits and the following overpayments had been calculated:

Housing Benefit	£31,730
Council Tax Benefit	£3,970
Council Tax Support	£3,579
Pension Credit	£36,034
Job Seekers Allowance	£4,711
<b>Total overpayments</b>	<b>£80,024</b>

21. It was our intention that recovery of his sheltered housing commence and the tenant also be prosecuted and the Proceeds of Crime Act 2002 used to recover the overpayments. However, it transpired that the tenant was in arrears with his mortgage in Las Vegas and after taxes it was unlikely that we would receive much. Considering that we have no jurisdiction in America, we would have had to employ an American company to act for us. It was therefore concluded not cost effective to pursue further.
22. **Benefit and Council Tax Fraud - Living Together:** A routine visit was undertaken by the Investigations Team in September 2015 when a Single Occupancy discount review form for Council Tax had not been returned.

23. Upon visiting the property early on a Monday morning, a works vehicle was noted as being on the drive and had clearly been there all night due to the weather conditions. An investigation commenced into a suspected Living Together situation and sufficient credible information was obtained to decide that surveillance was a suitable option to follow. Surveillance concluded that the alleged partner was living at the address as his main home.
24. By this time, the tenant had approached the Housing Options team claiming to be a single parent on Benefits facing homelessness as she had been given a notice to quit her property. The investigations Team needed to act quickly before this progressed and an interview under caution was arranged to take place end of May 2016. This was rearranged as her baby was due to be born so it was agreed to postpone the interview until the first week in June 2016. This was again cancelled as information given that the tenant had been admitted to hospital. Another interview was then arranged for mid-June which took place.
25. The tenant denied that her partner was living with her despite all the evidence placed to her. However, a Living Together decision was reached in October 2016 by Fareham Borough Council and the following overpayments of Benefits calculated:

Housing Benefit	£13,817
Council Tax Support	£780
Council Tax Liability	£702 (incorrectly claimed Single Occupancy Discount)
<b>Total overpayments</b>	<b>£15,299</b>

Two civil penalties were issued by the Council, one for the incorrect claiming of Single Occupancy Discount and the other for the overpayment of Council Tax Support. The overpayment of Housing Benefit has been referred to the Department of Works and Pensions for the appropriate action to be taken. We are still waiting to hear if prosecution has been accepted by the Crown Prosecution Service.

26. **Tenancy and Council Tax Fraud – Non Residency and Undeclared Non Dependants:** This referral was received indirectly from Hampshire Police in November 2015, after Police were called to the tenant’s property to deal with the offending occupants, who were not the registered tenants. After a conversation with the Housing Association, an announced tenancy audit was undertaken by them during which the tenant was present along with her adult daughter. The Council were unaware of her daughter living there and an overpayment of Housing Benefit was calculated. The property was not checked during this visit and only the lounge was seen.
27. The Investigations Team felt that this was not sufficient action particularly as information from the daughter’s Facebook account suggested that the second bedroom was being rented out. Therefore an investigation of non-residency and illegal subletting commenced.
28. Evidence was collated and formal interview prepared to take place in conjunction with a Housing Officer from the Housing Association. The interview was conducted on 06/06/2016. Throughout the interview the tenant maintained she lived at her Housing Association property, despite being shown evidence to the contrary. As the Housing Association were satisfied with the evidence collated throughout the investigation, a notice to vacate was issued to the tenant.

29. A Living Together and non-residency decision was made by the Benefits Team and an overpayment of Housing Benefit of £3,708 was calculated. The keys to the property in question were returned to the Council Offices in July 2016.
30. The effect of this was a couple from temporary accommodation were then allocated this property and so someone in immediate need was able to be homed. This also saved the Council on-going B&B costs.

## NATIONAL FRAUD INITIATIVE

31. The National Fraud Initiative (NFI) is a data matching exercise organised by the Cabinet Office. All data sets requested since the last report have been submitted on time. There have been 12 further releases of new matches since the last report, 5 of which fall in the 2017/18 financial year so will be included in next year's report. These figures include a number of additional cases added to previous matches.
32. Table 2 shows the progress made on clearing all matches since the last report.

**Table 2 - Progress Made on Clearance of NFI Matches**

Date of Matches	Subject of match	Number of matches received to review	Number of matches still to clear - last report	Number of matches still to clear - current
Remaining matches from 2014/15 exercise (Jan 2015)	Benefits	779	2	0
	Payroll	11	1	0
	Housing Tenants	20	8	8 (40%)
	Right to Buy	4	2	2 (50%)
2015/16	Council Tax Reduction	11	10	1 (9%)
Dec 2014	Council Tax	610	398	398 (65%)
Dec 2015	Council Tax	464	456	3 (1%)
Dec 2016	Council Tax	669	NEW	43 (10%)
2016/17 2-yearly main exercise (Received Jan 2017)	Benefits	447	NEW	260 (58%)
	Payroll	13	NEW	0
	Housing Tenants	173	NEW	163 (97%)
	Right to Buy	4	NEW	2 (50%)
	Creditors	339	NEW	286 (84%)
	Council Tax Reduction	487	NEW	354 (73%)
	Waiting List	110	NEW	110 (100%)

33. The table below shows the number and value of fraud cases arising from the clearance of NFI matches in the last 12 months. More detail of how much fraud and error has been identified from each NFI exercise is provided in [Appendix A](#).



**Table 3 - Fraud Cases Identified from NFI**

Data Set	Nature of Fraud	Date of Committee Report					
		Sept 2017		Jun 2016		Nov 2015	
		Number	Value	Number	Value	Number	Value
Housing Benefits	Undeclared earnings of adult at the property.			1	£1,445		
Council Tax Reduction	Undeclared earnings of adult at the property.	1	£382				
Council Tax	Undeclared second adult living at property	14	£20,341	5	£2,498	1	£651
<b>TOTAL</b>		<b>15</b>	<b>£20,723</b>	<b>6</b>	<b>£3,943</b>	<b>1</b>	<b>£651</b>

## USE OF LEGAL POWERS

34. There are a number of safeguards in the Council processes to make sure that fraud investigation powers are only used when legal, proportionate and necessary. These include:

- (a) All RIPA applications are required to be authorised by a trained designated officer in the Council.
- (b) All RIPA authorisations are presented to a magistrate for approval.
- (c) All RIPA applications for communications data are also submitted to the National Anti-Fraud Network (NAFN) where they are reviewed and authorised by a NAFN officer before the request for information is issued
- (d) All approved RIPA authorisations are logged on a central register which flags up when they expire. A formal cancellation form is completed for every application.
- (e) The Council is required to complete annual returns on the use of the RIPA powers and is subject to an inspection every 3 years from the Office of the Surveillance Commissioner (OSC), which includes an in depth review of our applications. The last inspection in 2014 concluded that 'high standards are maintained'.

The National Anti-Fraud Network (NAFN) is subject to an annual inspection of the Interception of Communications Commissioner's Office (IOCCO), which may cover applications made by Fareham Borough Council depending on the sample they select to test.

It should be noted that as of 1 September 2017 the judicial oversight of all the use of covert surveillance by public authorities will now fall under the responsibility of the Investigatory Powers Commissioner's Office (IPCO).

- (f) Most Authorised Officer powers are also executed via application to the National Anti-Fraud Network (NAFN). They are reviewed and authorised by a NAFN officer before the request for information is issued.

35. We also report every year to this committee how many times we use these powers, as follows. There have been 6 authorisations granted under the Regulation of Investigatory Powers Act 2000 (RIPA) between 1 April 2016 and 31 March 2017. These were all for Surveillance. The details of the applications are given in [Appendix B](#).

36. There have been 101 uses of Authorised Officer powers during investigations in the last 12 months, as detailed in the table below. The powers allow information to be requested from a prescribed list of institutions such as banks and utilities and allow the investigator to request information from employers.

**Table 4 – Use of Authorised Officer Powers**

Authorised Officer powers used 1 April 2016 and 31 March 2017		
Council Tax Reduction Regulations	Prevention of Social Housing Fraud Act	Data Protection Act exemption 29 (1)
51	3	47

## **RISK ASSESSMENT**

37. There are no significant risk considerations in relation to this report.

### **Appendices**

Appendix A – Cumulative Findings from National Fraud Imitative Exercises

Appendix B - Authorisations for use of RIPA powers

Appendix C - Annual Fraud Case Figures 2016/17

**Background Papers:** None

**Reference Papers:** None

**Enquiries:** For further information on this report please contact Jenny Moses (Ext 4333) or Andrea Kingston (Ext 4618).

## Cumulative Findings from National Fraud Initiative Exercises

Year of Exercise*	Type	No. of Matches	No. of Fraud Cases found	Value of Fraud cases	No. of Errors found	Value of Errors
2016/17	Council Tax	669	13	£7,941	5	£0
2016/17	Full Exercise	1573	1	£382	7	£2,988
<b>2015/16</b>	<b>Waiting List</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>£0</b>
<b>2014/15</b>	<b>Full Exercise</b>	<b>994</b>	<b>13</b>	<b>£15,901</b>	<b>12</b>	<b>£0</b>
<b>2014/15+2015/16</b>	<b>Council Tax</b>	<b>1,054</b>	<b>34</b>	<b>£15,549</b>	<b>28</b>	Not split out
<b>2014/15</b>	<b>Student Loans</b>	<b>19</b>	<b>1</b>	<b>£1,258</b>	<b>0</b>	<b>0</b>
<b>2013/14</b>	<b>Council Tax</b>	<b>553</b>	<b>34</b>	<b>£13,774</b>	<b>4</b>	<b>£1,334</b>
<b>2012/13</b>	<b>Full Exercise</b>	<b>1,333</b>	<b>13</b>	<b>£34,838</b>	<b>14</b>	<b>£14,724</b>
<b>2011/12</b>	<b>Council Tax</b>	<b>484</b>	<b>21</b>	<b>£12,264</b>	<b>2</b>	<b>£770</b>
<b>2010/11</b>	<b>Full Exercise</b>	<b>1,760</b>	<b>335<sup>#</sup></b>	<b>£26,356</b>	<b>13</b>	Not split out
<b>2009/10</b>	<b>Council Tax</b>	<b>1,424</b>	<b>43</b>	<b>£18,648</b>		
<b>2008/09</b>	<b>Full Exercise</b>	<b>1,779</b>	<b>212<sup>#</sup></b>	<b>£54,978</b>	<b>3</b>	Not split out
<b>2008/09</b>	<b>Council Tax</b>	<b>747</b>	<b>130</b>	<b>£87,920</b>	<b>3</b>	Not split out

\*Compilation of the results of NFI started to be compiled in this way in 2008/09. Those exercises in bold have been completed so there will be no further findings.

# Included match of concessionary travel permits against deceased database with no monetary value used.

## Authorisations for use of RIPA (April 16 to March 17)

Ref No	Date Authorised Internally	Authorising Officer	Suspected Offence	Investigation power used	Date Authorised by a Magistrate	Duration of authorisation (in days)	Outcome for the Investigation
1	07/06/2016	Head of Housing, Revenues and Benefits	Benefits and Council Tax Reduction claims - Undeclared living together	Surveillance	14/06/16	91	Evidence obtained that crime or Disorder MAY BE occurring
2	08/06/2016	Head of Housing, Revenues and Benefits	Benefits and Council Tax Reduction claims Council Tax Discount - Undeclared living together	Surveillance	14/06/16	36	Evidence obtained that NO crime or disorder occurring
3	15/06/2016	Head of Housing, Revenues and Benefits	Housing Fraud Benefits and Council Tax Reduction claims - Non residency in property	Surveillance	21/06/16	21	Evidence obtained that crime or Disorder MAY BE occurring
4	14/09/2016	Head of Housing, Revenues and Benefits	Housing Fraud Right To Buy Fraud Benefits and Council Tax Reduction claims - Non residency in property - Illegal subletting	Surveillance	20/09/16	30	Evidence obtained that crime or Disorder MAY BE occurring
5	10/01/2017	Head of Housing, Revenues and Benefits	Benefits and Council Tax Reduction claims Council Tax Discount - Undeclared living together	Surveillance	10/01/17	15	Evidence obtained that crime or Disorder MAY BE occurring
6	13/02/2017	Head of Housing, Revenues and Benefits	Benefits and Council Tax Reduction claims Council Tax Discount - Undeclared living together	Surveillance	21/02/17	59	Evidence obtained that crime or Disorder MAY BE occurring

## Annual Fraud Case Figures 2016/17

	2016/17			2015/16		
	Number of Fraud Cases			Number of Fraud Cases		
Type of Fraud	Investigated	Fraud Concluded	Value	Investigated	Fraud Concluded	Value
Housing Benefit and Council Tax Benefit	352	53	£233,772	588	29	£91,920
Council Tax Reduction	274	59	£37,257	133	47	£42,608
Council Tax	1,118	31	£26,051	12,272	127	£45,619
Housing	67	6	£69,613	140	1	-
Other	-	-	-	1	1	£449
<b>TOTAL</b>	<b>1,811</b>	<b>149</b>	<b>£366,693</b>	<b>13,134</b>	<b>205</b>	<b>£180,596</b>
	Number of Cases			Number of Cases		
Type of Irregularity	Investigated	Abuse Concluded	Value	Investigated	Abuse Concluded	Value
Employee and Payroll	19	5	£29	6	4	-
Banking	2	2	£1,209	1	1	£40
Procurement - Payments	54	1	£117	3	2	-
Permits and Passes	1	1	£166	-	0	-
Other	2	1	-	5	5	£2,598
	<b>78</b>	<b>10</b>	<b>£1,521</b>	<b>15</b>	<b>12</b>	<b>£2,638</b>
Values Recovered and Other Sanctions						
Benefits Fraud overpayments recovered			£60,428			£39,491
Other amounts recovered incl insurance pay-out			£1,492			£2,388
Court costs and Surcharges awarded			£1,441			£4,435
Administrative Penalties levied			£11,934			£0
Civil Penalties Issued			£3,920			£3,780
Housing properties recovered / prevented (new)			4			NR



# FAREHAM

## BOROUGH COUNCIL

### **Report to Audit and Governance Committee**

**Date:** 25 September 2017  
**Report of:** Head of Finance and Audit  
**Subject:** QUARTERLY AUDIT REPORT

#### **SUMMARY**

This report provides the assurances arising from the latest internal audit work and gives an update on progress being made with the delivery of the audit plans.

#### **RECOMMENDATION**

It is recommended that the Committee notes the progress and findings arising from Internal Audit work.

## INTRODUCTION

1. This report highlights the progress made to date on the delivery of the Internal Audit Plans and the assurances that can be obtained from the work now completed.

## FINALISING PREVIOUS AUDIT PLANS

2. The current status of the 12 audits remaining from the previous Audit Plans is detailed in [Appendix One](#). A further 2 have now been finalised and work has now commenced on the main outstanding audit on Contract Deeds Management.

## DELIVERY OF 2017/18 AUDIT PLAN

3. Work is progressing on the delivery of the current years audit plan, as noted in Appendix Two. The first audit has now been finalised.

## FINDINGS FROM COMPLETED AUDITS

4. The three latest final reports that have been issued are listed below with the opinions given and number of recommendations made:

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
Multiple Parking Permits and at Single Person Discount Properties 2017/18	Not Applicable	-	-	-
Housing Rents 2016/17	Reasonable	-	5	1
Effectiveness of Ethics related activities (physical security) 2016/17	Reasonable	-	1	-

5. Detail of the recommendations made and the actions to be taken is provided in [Appendix Three](#).

## RISK ASSESSMENT

6. There are no significant risk considerations in relation to this report

### Appendices:

**Appendix One** - Update on Outstanding Audits from Previous Plans

**Appendix Two** - Audits in the 2017/18 Audit Plan

**Appendix Three** - Findings from the Latest Completed Audits

**Appendix Four** - Reference Tables

**Background Papers:** None



**Reference Papers:**

Report by the Director of Finance and Resources to the Audit and Governance Committee on 10 March 2014 on the Contractor Annual Audit Plan 2014/15

Report by the Director of Finance and Resources to the Audit and Governance Committee on 16 March 2015 on the Internal Audit Strategy and Annual Audit Plan 2015/16

Report by the Head of Finance and Audit to the Audit and Governance Committee on 14 March 2016 on the Internal Audit Plan 2016/17

Report by the Head of Finance and Audit to the Audit and Governance Committee on 17 March 2017 on the Internal Audit Plan 2017/18

**Enquiries:**

For further information on this report please contact Elaine Hammell. (Ext 4344)

## APPENDIX ONE

### Update on Outstanding Audits from Previous Plans

The following table shows those audits that were outstanding in the last quarterly report and shows the current position with finalising the work.

Audit Title	Type of Audit**	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
					Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
<b>2014/15</b>										
Income Collection & Banking	Fundamental	15	Stage 8							
Information Governance Opinion	Computer	6	Stage 8							
Contract Completion	Corporate, Specialist, Governance	10	Stage 8							
<b>2015/16</b>										
Recruitment and Selection	Corporate, Specialist, Governance (V)	15	Stage 9							
Land Charges	Service and Systems – HR	12	Stage 8							
Contract Deeds Management	Thematic Review	15	Stage 4							
<b>2016/17</b>										
<b>Housing Rents</b>	Fundamental System	15	<b>Stage 10</b>	Reasonable	-	5	3	2	-	1
Daedalus Project	Service and Systems – High Risk	12	Stage 8							
Cloud Based Computing	Computer	15	Stage 8							
Leaseholder Charges	Joint working project		Stage 5							
Building Health and Safety Risks	Follow Up / Joint working project		Stage 5							
<b>Effectiveness of Ethics related activities (physical security)</b>	Thematic Review		<b>Stage 10</b>	Reasonable	-	1	2	-	-	-

\* A key to the information in this column is given in Appendix 4.

\*\* V denotes this audit was covering a service which had been subject to a Vanguard intervention

## APPENDIX TWO

### Audits in the 2017/18 Plan

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
<b>OPINION AUDITS</b>											
1	Main Accounting System and Budgetary Control	Fundamental System	11	Stage 1							
2	Accounts Receivable		15								
3	Income Management		12								
4	Housing Benefits		10								
5	Leisure Centre Contracts	Corporate /contract	10	Stage 1							
6	Ferneham Hall including databox	Service and Systems – High Risk	20	Stage 6							
7	Commercial Estates		15	Stage 4							
8	Property Maintenance and Inspections – Council Buildings (Non Housing)		15	Stage 1							
9	Developers Contributions		15								
10	Homelessness (V)		15	Stage 1							
11	Dog Control		6	Stage 8							
12	Pest Control	Service and Systems - Other	6	Stage 5							
13	Street Furniture		5	Stage 8							
14	Pensions		10	Stage 1							
15	Chipside	Computer	12								
16	<b>Multiple Parking Permits and at Single Person Discount Properties</b>		3	<b>Stage 10</b>	Not applicable	-	-	-	-	-	
	Contingency		15								
	In-house team support		35								

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
	Total Planned Time		230								
WIDER WORK											
17	IT Procurement and budgets	Thematic Review									
18	Employee Performance Management	Joint working project		Stage 1							
19	Data Protection	Joint working project		Stage 4							
20	Contract Procedure Rules	Joint working project		Stage 1							
21	Risk Inspections of Public Areas	Thematic Review									
22	Use of depot storage areas and security of plant, equipment and materials.	Joint working project									
23	Building Service Invoicing and Stock Control (part 2)	Post investigation systems work		Stage 1							
24	Outdoor Recreation Follow Up	Follow Up									

## Findings from the Latest Completed Audits

## APPENDIX THREE

<b>Audit Title</b>	<b>Multiple Parking Permits at Single Person Discount Properties</b>	<p><b>Overview of Subject:</b> Fareham Borough Council obtains council tax revenue from just under 50,000 domestic properties. From this total almost 14,000 (28%) are in receipt of a Single Occupancy Discount, which entitles residents to a 25% discount on their council tax bill.</p> <p>The Council operate a resident parking permit system; at the time of testing there were 841 active resident permits in circulation spread across nine different geographic locations.</p> <p>The resident permit data has been data matched against the council tax data to see if there is any indication of fraudulent council tax claims of Single Occupancy Discount.</p>
<b>Year of Audit</b>	<b>2016/17</b>	
<b>Type of Work</b>	Computer audit - data analytics	
<b>Assurance Opinion Given</b>	Not applicable	
<b>Direction of Travel</b>	Not applicable	

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<b>Results of the Data Match</b>	
Number of SRD properties with parking permits	135 ( 1%)
Number of discrepancies between name of liable council tax payer and parking permit holder	23 (17%)
Number of cases where the discrepancy was due to the person named on the associated parking permit also living at the address.	1
<p><b>Action Taken</b></p> <p>Discount now removed.                  Repayment of discount requested (approx. £500)                  Penalty Charge applied £70</p>	

<b>Audit Title</b>	<b>Housing Rents</b>	<p><b>Overview of Subject:</b> Fareham Borough Council has over 2400 rental properties under its control with a weekly rental yield of approximately £215,000. The billing and collection of rents due is the responsibility of the Tenancy Services Team. Officers within the team are given a patch of properties to maintain and ensure the rent is being paid as agreed. Debts owed by former tenants are collected by Finance via the sundry debts system and process.</p> <p>The service had recently undergone a vanguard intervention which concentrated on managing rent accounts. The purpose for the service has been defined as <i>Make it easy for me to pay my rent.</i></p>
<b>Year of Audit</b>	<b>2016/17</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	Reasonable	
<b>Direction of Travel</b>	↔2013/14	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Not Implemented
Maintaining Property and Tenancy Records			-	-	-	-	-	-
Accuracy of Rent Calculations			-	-	-	-	-	-
Housing Benefit Interfacing			-	-	-	-	-	-
Allocation of Income & reconciliation			-	-	1	-	-	-
Transfers between FBC Properties			-	1	-	-	-	-
Current Rent Arrears Monitoring and Processes			-	2	-	-	-	-
Write Offs			-	1	-	-	-	-
Billing			-	-	-	-	-	-
Former Tenant Arrears			-	-	1	-	-	1
Bad Debt Provision			-	-	1	-	-	-
Accounts in Credit			-	1	-	-	-	-
Refunds			-	-	-	1	-	-
Account Adjustments			-	-	-	-	-	-
Separation of Duties and system access			-	-	-	1	-	-
Policies and Procedures			-	-	-	-	-	-

<b>Weaknesses identified during the audit and the proposed action</b> (Essential and Important only)	
<b>Important</b>	<b>Transferring debts</b> - Where a tenant moves properties, any outstanding rent or associated debts were not always being recorded as part of the new tenancy agreement. <b>Action:</b> It was agreed that this will now be a standard part of the process.
<b>Important</b>	<b>Current Arrears – System Recommendations &amp; Arrangements</b> – Courses of actions indicated by the system to tackle arrears were not always followed and there was no notes of why nor any records on the system of other arrangements that had been agreed. <b>Action:</b> Officers are looking into whether there is an option within the system to force officers to provide a reason as to why they have disregarded a recommended action, and whether arrangement tables can be set up in the system.
<b>Important</b>	<b>Current Arrears – Monitoring reports</b> - The debt monitoring reports were considered to be weak in relation to understanding the level of debts at each stage of the process. This is being looked at as part of the Vanguard intervention.
<b>Important</b>	<b>Improving the Accuracy of Write Offs</b> – 3/181 write offs in the year had been double entered so the account was in credit and needed reversing. There was also a period of time when authorised write offs were not being entered on the system promptly. <b>Action:</b> The batch total within the system will now be compared to the total expected write offs to ensure double write offs do not occur. Future write offs are expected to be actioned within a month of being authorised.
<b>Important</b>	<b>Accounts in Credit</b> – Limited action was being taken in relation to accounts in credit for both current and former tenants. <b>Action:</b> A general review of how credit balances on current tenant accounts are dealt with will be instigated.
<b>Previous Important</b>	<b>Former Tenant Arrears</b> – There is still no consistent process to ensure that former tenant arrears are written off the Housing Rents system when they are transferred to the sundry debtor system for managing. <b>Action:</b> Finance to send the list of cases transferred to the sundry debt team to the E-Business Officer to action the write off.

<b>Audit Title</b>	<b>Physical Security (Ethics)</b>	<p><b>Overview of Subject:</b> This audit formed part of the evidence to support the annual audit ethics opinion. It provided supporting information for the Value of Confidentiality: <b><i>Respecting the privacy of our customers and keeping their personal information confidential.</i></b></p> <p>The focus of the audit was looking at the adequacy controls in place to restrict access to the Civic Offices at Fareham Borough Council. There are currently 1048 live swipe cards offering access to the offices.</p>
<b>Year of Audit</b>	2016/17	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	Reasonable	
<b>Direction of Travel</b>	Not applicable	

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Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation		
			Essential (🚨)	Important (▲)	Advisory (ℹ️)	Implemented	Cancelled	Non Implemented
Key Control for main entrance and basement			-	-	-	-	-	-
Code control for individual floors			-	-	1	-	-	-
Alarm system			-	-	-	-	-	-
Management of employee & member access			-	-	-	-	-	-
Management of tenant access to the building		Not tested	-	1	-	-	-	-
Management of visitors / contractors access			-	-	-	-	-	-
Layout of interview booths			-	-	1	-	-	-
Management of others given access			-	1 as above	-	-	-	-

**Weaknesses identified during the audit and the proposed action** (Essential and Important only)

<b>Important</b>	<p><b>Regular Review of Non FBC and Tenant ID Cards</b> – Testing found that there were a large number of Non FBC employees and tenants who were issued with access cards to the building, and there were some weaknesses in identifying leavers or people whose access should be disabled. Actions are therefore being implemented to start performing regular reviews of these cards in collaboration with the tenants/ officers requesting the access.</p>
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**Reference Tables**

**1. Scale of Assurance Opinions**

<b>Strong</b>	There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
<b>Reasonable</b>	There is basically a sound system of internal control but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
<b>Limited</b>	There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
<b>Minimal</b>	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

**2. Scale of Recommendation Priorities**

<b>Essential</b>	A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the A&G Committee and implementation of proposed actions are monitored.
<b>Important</b>	A significant control weaknesses where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the A&G Committee and implementation of proposed actions are monitored.
<b>Advisory</b>	A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. Actions are not tracked.

**3. Stages of An Audit Assignment**

<b>Stage 1</b>	The Audit teams have started drawing up the scope of coverage for the assignment.
<b>Stage 2</b>	A scoping meeting has been held with the Sponsor in the client service.
<b>Stage 3</b>	The Terms of Reference for the Assignment have been finalised.
<b>Stage 4</b>	The Auditor has started to deliver the agreed scope of work.
<b>Stage 5</b>	The work completed by the Auditor is being reviewed by their manager.
<b>Stage 6</b>	An exit meeting has been held with the Sponsor giving the preliminary feedback from the work.
<b>Stage 7</b>	Any additional testing identified has been completed.
<b>Stage 8</b>	The draft report has been received by the in-house audit team.
<b>Stage 9</b>	The draft report has been issued to the Service Sponsor and is awaiting their response.
<b>Stage 10</b>	The final report has been issued.



# FAREHAM

## BOROUGH COUNCIL

### **Report to Audit and Governance Committee**

**Date:** 25 September 2017  
**Report of:** Director of Finance and Resources  
**Subject:** REVIEW OF WORK PROGRAMME

#### **SUMMARY**

This report reviews the current work programme for the Committee.

#### **RECOMMENDATION**

It is recommended that the work programme for the rest of the municipal year, as shown in [Appendix A](#), be approved.

## **INTRODUCTION**

1. This report brings the latest work programme for review by the Committee.

## **WORK PROGRAMME 2017/18**

2. The work programme for the year is shown in [Appendix A](#). This shows the reports expected in relation to each of the functions of the Committee along with an update on the delivery of the programme to date.
3. There have been no changes to the programme since the last meeting.

## **RISK ASSESSMENT**

4. There are no significant risk considerations in relation to this report.

## **CONCLUSION**

5. The work programme in place is appropriate to meet the responsibilities of the Committee.

**Appendices:** [Appendix A](#) – Audit and Governance Committee Work Programme 2017/18 as at September 2017.

**Background Papers:** None

**Reference Papers:** Report to the Audit and Governance Committee – 13 March 2017 - Annual Audit and Governance Committee Report, Work Programme and Training Plan

### **Enquiries:**

For further information on this report please contact Elaine Hammell (Ext 4344 )

APPENDIX A

WORK PROGRAMME FOR 2017/18

Committee Function and Report Subject		Frequency	Last Covered	July 2017	September 2017	November 2017	March 2018
<b>COMMITTEE WORKING ARRANGEMENTS</b>							
Review of Work Programme and training plan		Quarterly	2017-18	Completed	Completed	YES	YES and Annual Report
Review of the Functions of the Committee		3 yearly	2016-17				
Review of the Constitution		As needed	2016-17				
<b>ETHICAL FRAMEWORK AND STANDARDS</b>							
Standards of Conduct	Review of Code of Conduct for Members	As needed	2015-16				
	Review of member / officer protocol	As needed	2008-09				
	<b>Overview of Complaints against the Council</b>	Annual	2016-17		Completed		
Member Training and Development	Review of Members Training and Development Programme	As needed	2015-16				
<b>GOVERNANCE FRAMEWORK</b>							
Framework	Local Code of Corporate Governance	As needed	2016-17				
	<b>Annual Governance Statement</b>	Annual	2017-18	Completed			
Key Policy	<b>Review of Financial Regulations</b>	3 yearly	2017-18	Extra report		YES – FR15	
	<b>Review of Contract Procedure Rules</b>	3 yearly	2013-14			YES	
	<b>Treasury Management Policy and Strategy</b>	Annual	2016-17			YES	YES- Policy and indicators
Risk Management	Policy	As needed	2016-17				
	<b>Risk Management Monitoring Reports</b>	6 monthly	2014-15		Completed		YES
	Business Continuity	3 yearly	2014-15				
	Specific Risk Management topics	As needed	None				
Counter Fraud	Counter Fraud Policy and Strategy	3 yearly	2016-17				
	Anti-Bribery Policy	As needed	2011-12				
	Sanctions and Redress Policy	As needed	2016-17				
	<b>Counter Fraud Progress</b>	Annually	2016-17	Postponed to Sept	Completed		

<b>Committee Function and Report Subject</b>	<b>Frequency</b>	<b>Last Covered</b>	<b>July 2017</b>	<b>September 2017</b>	<b>November 2017</b>	<b>March 2018</b>
<b>INTERNAL AUDIT ASSURANCE</b>						
Internal Audit Strategy	3 yearly	2014-15				
<b>Internal Audit Annual Plan</b>	Annual	2015-16				<b>YES</b>
<b>Quarterly Audit Reports</b>	Quarterly	2017-18	<b>Completed</b>	<b>Completed</b>	<b>YES</b>	<b>YES</b>
<b>Head of Audit's Annual Opinion</b>	Annual	2017-18	<b>Completed</b>			
<b>EXTERNAL ASSURANCE</b>						
<b>Update on Arrangements for Appointment of External Auditors</b>	As needed	None		<b>Completed (verbal update)</b>		
<b>Annual Plan and Fee</b>	Annual	2016-17				<b>YES</b>
<b>External Audit Progress Update</b>	Annual	2017-18	<b>Completed</b>			
<b>Annual Audit Letter</b>	Annual	2016-17			<b>YES</b>	
<b>Annual Certification Report</b>	Annual	2016-17				<b>YES</b>
Specific reports from inspection agencies	As needed	2014-15 (RIPA)				
<b>STATEMENT OF ACCOUNTS</b>						
<b>Statement of Accounts</b>	Annual	2017-18	<b>Completed</b>	<b>Completed</b>		
<b>External Audit – Audit Results Report</b>	Annual	2016-17		<b>Completed</b>		
<b>OTHER</b>						
Updates on legal issues	As needed	2014-15				
Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
Number of Items			<b>7</b>	<b>7</b>	<b>6</b>	<b>7</b>