

FAREHAM

BOROUGH COUNCIL

AGENDA

AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 23 September 2013

Time: 6:00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor T G Knight (Chairman)

Councillor L Keeble (Vice-Chairman)

Councillors P J Davies
J M Englefield
Miss T G Harper
D L Steadman
P W Whittle, JP

Deputies: D J Norris
K D Evans



1. Apologies

2. Minutes (Pages 1 - 4)

To confirm as a correct record the minutes of the Audit Committee meeting held on 27 June 2013.

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. External Audit Annual Governance Report (Pages 5 - 22)

To consider a report by the Director of Finance and Resources on the External Audit Annual Governance Report.

7. Overview of Complaints against the Council (Pages 23 - 28)

To consider a report by the Director of Community on an Overview of Complaints against the Council.

8. Statement of Accounts (Pages 29 - 112)

To consider a report by the Director of Finance and Resources on the Statement of Accounts.

9. Annual Governance Statement (Pages 113 - 140)

To consider a report by the Director of Finance and Resources on the Annual Governance Statement.

10. Contractor Quarterly Audit Reports (Pages 141 - 158)

To consider a report by the Director of Finance and Resources on the Contractor Quarterly Audit Reports.

11. Risk Management Progress Reports (Pages 159 - 172)

To consider a report the Director of Democratic and Regulatory Services on the Risk Management Progress Reports.

12. Review of Work Programme and Training Plan (Pages 173 - 176)

To consider a report by the Director of Finance and Resources on a Review of the Work Programme and Training Plan.

P GRIMWOOD
Chief Executive Officer

www.fareham.gov.uk

13 September 2013

**For further information please contact:
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FAREHAM

BOROUGH COUNCIL

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

Date: Thursday, 27 June 2013

Venue: Collingwood Room - Civic Offices

PRESENT:

T G Knight (Chairman)

L Keeble (Vice-Chairman)

Councillors: J M Englefield, Miss T G Harper, P W Whittle, JP and
K D Evans (deputising for D L Steadman)

**Also
Present:**



1. APOLOGIES

Apologies for absence were received from Councillors P Davies and D Steadman.

2. MINUTES

RESOLVED that the minutes of the meeting of the Audit and Governance Committee held on 11 March 2013 be confirmed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

The Chairman welcomed to the meeting, Kate Handy and Catherine Morganti from Ernst and Young, and Councillor Whittle who has re-joined the Committee.

The Chairman also thanked the Director of Finance and Resources for the information that was provided to members from Ernst & Young, which gave members some useful background information.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

In accordance with the Standing Orders and the Council's code of Conduct, Councillor Whittle declared a non-pecuniary interest for minute 6 - Benefits Anti-Fraud Policy and minute 10 – Counter Fraud Investigation Progress Report as he is a Justice of the Peace for the South East Magistrates.

5. DEPUTATIONS

There were no deputations made at this meeting.

MATTERS SUBMITTED FOR CONFIRMATION

6. BENEFITS ANTI-FRAUD POLICY

The Committee considered a report by the Director of Finance and Resources on the Benefits anti-fraud policy. It was explained to the Committee that a review of the policy was required due to amendments to the existing sanctions that can be imposed on Housing Benefit claims and the fundamental legislative changes that are effective from 1 April 2013 to enable the investigation of fraudulent Council Tax Support claims.

Councillor Whittle declared a Non-Pecuniary Interest when he addressed the Committee on this item, as he is a Justice of the Peace for the South East Magistrates.

RESOLVED that the Committee recommends to Council that the Benefits Anti-Fraud Policy, as set out in Appendix A of the report, is approved and adopted.

7. FINANCIAL REGULATIONS UPDATES

The Committee considered a report by the Director of Finance and Resources on the latest Financial Regulations Updates. Three more regulations have been reviewed these were: Regulation 14 – Other Assets, Regulation 10 – Risk Management and Regulation 11 – Audit Arrangements.

RESOLVED that the Committee recommends to Council that the proposed changes set out in the report be approved.

DECISIONS UNDER DELEGATED POWERS

8. EXTERNAL AUDIT PLAN 2012/13

The Committee considered a report by the Director of Finance and Resources on the Audit Plan from the Council's external auditors, Ernst & Young LLP.

At the Invitation of the Chairman, Kate Handy from Ernst & Young addressed the Committee on this item and took questions from members.

RESOLVED that the Committee approve the Audit Plan, attached as Appendix A to the report.

9. COUNTER FRAUD INVESTIGATION PROGRESS REPORT

The Committee considered a report by the Director of Finance and Resources which summarised the number and type of investigations that have been carried out into suspected cases of fraud during October 2012 to March 2013. The Committee was informed that the report has modified so that it can now be an open public report rather than a confidential report which it has been previously.

Councillor Whittle declared a Non-Pecuniary Interest when he addressed the Committee on this item, as he is a Justice of the Peace for the South East Magistrates.

RESOLVED that the content of the report be noted.

10. QUARTERLY INTERNAL AUDIT REPORT

The Committee considered a report by the Director of Finance and Resources on the quarterly internal audit which provided information that had arisen from the latest internal audit work and gave an update on the completion of the remaining audits from previous plans and the new audits planned for 2012/13.

At the invitation of the Chairman, Ben Deeley from Deloittes addressed the Committee on this item and took questions from members.

The Committee expressed concern over the section of the report relating to the audit of Ferneham Hall, in particular the findings that little progress had been made on the recommendations from the previous audit. The Director of Finance and Resources informed the Committee that a full audit of Ferneham Hall is due to take place later in the year.

RESOLVED that: -

- (a) the Committee requested a report on the Ferneham Hall audit be brought back to the Committee in November and that an appropriate management representative attends for that item; and
- (b) the Committee noted the progress of the Contractor Internal Audit Plan, as set out in Appendix A to the report.

11. HEAD OF AUDITS ANNUAL REPORT

The Committee considered a report by the Director of Finance and Resources on the Head of Audit's Annual Report. The report set out the Internal Audit coverage, findings and performance for 2012/13, and gave an overall assurance opinion on the adequacy and effectiveness of the Council's internal control environment.

RESOLVED that the content of the report was noted as a source of evidence for the 2012/13 Annual Governance Statement.

12. COUNTER FRAUD STRATEGY PROGRESS REPORT

The Committee considered a report by the Director of Finance and Resources on the Counter Fraud Strategy Progress report. The report updated the Committee on Counter Fraud Strategy work carried out in the last 6 months.

RESOLVED that Committee noted the progress made to date as part of the Counter Fraud Strategy.

13. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

The Committee considered a report by the Director of Finance and Resources on the Committee's Work Programme.

RESOLVED that the Committee noted and approved the Work Programme for 2013/14, as set out in Appendix A of the report.

(The meeting started at 6.00 pm
and ended at 7.27 pm).

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **23 September 2013**

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

Subject: **EXTERNAL AUDIT ANNUAL GOVERNANCE REPORT**

SUMMARY

The Committee is asked to consider to the External Auditor's "ISA 260 Audit Results Report" (Appendix A), summarising the findings from the 2012/13 audit which is now substantially complete. During the course of the audit, certain matters arising were identified and were incorporated into the Statement of Accounts for the year ended 31 March 2012. The Statement is included as a separate item on this agenda.

Having considered the findings of the External Auditor and the revised Statement of Accounts, a "letter of representation" will be sent from the Council's Section 151 Officer (Director of Finance and Resources), attached as Appendix B for information. 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 2013.

RECOMMENDATION

It is recommended that the Committee:-

- (a) Notes the contents of the Annual Governance Report ([Appendix A](#)); and Letter of Representation ([Appendix B](#)).

Background Papers:

None

Reference Papers:

None

Enquiries:

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

Fareham Borough Council

Audit Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

23 September 2013

||| Kate Handy, Director
||| khandy@uk.ey.com

||| Catherine Morganti, Manager
||| cmorganti@uk.ey.com



Building a better
working world

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- ▶ Independence and Audit Fees

Executive Summary

Key findings

Audit results and other key matters

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

This report summarises the findings from the 2012/13 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial Statements

- ▶ As of 23 September 2013, we expect to issue an unqualified opinion. Our audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

Value for Money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit Certificate

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

Extent and purpose of our work

The Council's responsibilities

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

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- ▶ Express an opinion on the 2012/13 financial statements Report on any exception on the governance statement or other information included in the foreword
- ▶ As a component auditor, follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule
- ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

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

Addressing audit risks

Significant Audit risks

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

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Significant audit risks		
None		
Other audit risks Fareham Borough Council is a constituent council of the Joint Committee for Poolechester Crematorium. We are clarifying with you the ownership of the assets.	<ul style="list-style-type: none"> ➤ We have reviewed how you have disclosed your interest in the crematorium. 	<p>We confirm we are content that you have disclosed your interest in the crematorium appropriately. We note however that the Memorandum of agreement between the 4 constituent councils requires reviewing to ensure that it reflects your interest correctly.</p>
Risk of misstatement due to fraud and error This risk is generic to all financial statements audits and is brought to your attention as those charged with governance.	<p>Based on the requirements of auditing standards our approach has focussed on:</p> <ul style="list-style-type: none"> ➤ Identifying fraud risks during the planning stages. ➤ Inquiry of management about risks of fraud and the controls put in place to address those risks. ➤ Understanding the oversight given by those charged with governance of management's processes over fraud. ➤ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ➤ Determining an appropriate strategy to address those identified risks of fraud. ➤ Performing mandatory procedures regardless of specifically identified fraud risks. <p>We also considered the results of the National Fraud Initiative.</p>	<p>No issues have been identified from our work performed. We have completed the Audit Commissions National Fraud Initiative survey which required an assessment of how much work had been performed on the NFI data. The Council were rated a green risk due to the good progress that had been made at the time of the survey.</p>

Financial Statements audit

Issues and errors arising from the audit

Progress of our audit

The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit and Governance Committee meeting:

- ▶ Receipt of a Letter of Representation
- ▶ Review of the pension fund assurances from the pension fund auditor
- ▶ Review of the work

Subject to receipt of your Letter of Representation we propose to issue an unqualified audit report on the financial statements.

Uncorrected Errors

We have not identified any errors within the draft financial statements, which management have not adjusted.

Corrected Errors

Our audit identified a number of disclosure errors. This included a prior period adjustment you made in respect of an 2011/12 comparative note for non current assets which had not been disclosed in accordance with accounting standards (IAS8). We have highlighted these errors to management for amendment. All errors have been adjusted during the course of our work. We do not consider any of these to be significant and therefore we have not provided further details of these amendments. However we recommend that these are reviewed as part of the Council's closedown next year.

Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- ▶ Other audit matters of governance interest.

There are no other issues to currently raise.

Findings and issues

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary to complete the audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ it is consistent with other information that we are aware of from our audit of the financial statements.

Request for written representations

We have requested that you confirm a number of matters, for which we do not currently have sufficient audit evidence.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of my report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Audit and Governance Committee.

Arrangements to secure economy, efficiency and effectiveness

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

Criteria 1 - Arrangements for securing financial resilience

- ▶ *"Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future."*
- ▶ We reviewed the Council's medium term financial strategy and the actions you are taking to manage the impact of reduced central government funding and pressures on income streams. Although the Council's current financial position is healthy, managing this position will continue to be challenging.
- ▶ The Council is a key facilitator in the delivery of several major developments in priorities such as Welborne - the New Community North of Fareham and the development of the Daedalus site. Recognising that these projects are at an early stage and their impact on the Council's Medium Term Financial Strategy for 2012/13 is limited, we have no issues to report in relation to this criteria.

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *"Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity."*
- ▶ The Council continues to focus its priorities on achieving high customer satisfaction and maintaining low Council Tax as key outcomes. To inform this it is undertaking a second review of its Corporate strategy and its biennial residents survey. It measures its performance through local service agreements. The latest report on these show performance for 2012/13 is comparable with previous years.
- ▶ Risk management arrangements have been overhauled during the year - a new policy was adopted, a new corporate risk register has been developed and risk assessments completed, including Daedalus and Welborne. Monitoring arrangements have been revamped and updates are reported to Members and senior officers.
- ▶ We have no issues to report in relation to this criteria.

Independence & Audit Fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 27 June 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 23 September 2013.
- ▶ We confirm that we have met the reporting requirements to the Audit and Governance Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 27 June 2013.

Audit fees

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

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	
Total Audit Fee - Code work	63,407	63,407	-
Certification of claims and returns	17,900	17,900	-
Non-Audit work	0	n/a	-

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

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – if at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



FAREHAM

BOROUGH COUNCIL

Kate Handy
Ernst & Young
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Director of Finance
and Resources
Andrew Wannell

Contact: Andrew Wannell

Ext.: 4620

Date: 23 September 2013

Letter of Representation: Audit of Financial Statements

This representation letter is provided in connection with your audit of the financial statements of Fareham Borough Council ("the Council") for the year ended 31 March 2013. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Fareham Borough Council as of 31 March 2013 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
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 the expenditure and income of the Council in accordance

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with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and are free of material misstatements, including omissions. We have approved the financial statements. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

3. 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 2012/13 that are free from material misstatement, whether due to fraud or error.
4. 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.

C. Compliance with Laws and Regulations

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss.
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

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, and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) and the Audit and Governance committees held through the year to the most recent meeting on the Fareham Borough Council website.
 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
 5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

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 are appropriate and the application of these processes is consistent.

- The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Retirement benefits

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

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. There are no agreements or options to buy back assets previously sold that need to be recorded and disclosed in the financial statements.
3. We have no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

J. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

K. Use of the Work of Experts

1. We agree with the findings of the experts engaged to evaluate the fair value of property plant and equipment and the IAS19 actuarial valuations of pension liabilities 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.

L. Segmental reporting

1. We have reviewed the operating segments reported internally to Members and are satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- ▶ The nature of the products and services
- ▶ The nature of the production processes
- ▶ The type or class of customer for their products and services
- ▶ The methods used to distribute their products

M. Going Concern

1. We have made you aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

Director of Finance and Resources

I confirm that this letter has been discussed and agreed at the Audit and Governance Committee on 23 September 2013.

Chairman of the Audit and Governance Committee

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **23 September 2013**

Report of: **Director of Community**
Director of Regulatory and Democratic Services and Monitoring

Officer

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

SUMMARY

This report informs members of the numbers of complaints made to the Council where these came by way of the Local Government Ombudsman, and of any complaints in respect of breaches of the Code of Conduct for Members for the year up to 31 March 2013.

RECOMMENDATION

That the report reviewing complaints to the Local Government Ombudsman and allegations of breaches of the Code of Conduct for Members for the year ending 31 March 2013 be noted.

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 procedure. Under Stage 1, the Head of Service in the department responsible for the service 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 has the right to contact the Local Government 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. Up until 1 July 2012, these were referred to the Standards Assessment Sub Committee of the former Standards Committee for consideration and if appropriate for further investigation. From the 1 July 2012 the new standards arrangements as introduced by the Localism Act came into effect and the standards responsibility became the responsibility of the Audit and Governance Committee and its Standards Sub Committee. This report covers the period 1 April 2012 until 31 March 2013 so covers complaints made under both arrangements.

COMPLAINTS TO THE LOCAL GOVERNMENT OMBUDSMAN

7. There were no findings of maladministration against the Council this year. The Ombudsman's annual review letter is attached at Appendix A. Over the past year the Local Government Ombudsman has been through a significant transformation programme. The result of the changes has led to different ways of working, which means that more detailed statistics are not available for 2012/13.

Enquiries and Complaints received

8. In 2012/13 the Local Government Ombudsman received 7 complaints about the Council. This is a reduction on 2011/12, where the Ombudsman received 11 enquiries or complaints (there were no findings of maladministration against the Council during 2011/12). On average 10 complaints were received by District/Borough Councils during 2012/13. In reviewing the Council's records it has been possible to identify that the seven complaints were resolved as follows:

- (a) 1 premature complaint, where the Council had not been given the opportunity to

resolve the issue through its full complaints procedure.

- (b) 4 complaints that were not investigated further by the Ombudsman. A complaint may not be investigated because the events happened too long ago, is not in the jurisdiction of the Ombudsman or there has been an insufficient affect to justify an investigation.
- (c) 2 investigations by the Ombudsman. In these cases the Ombudsman did not find any significant administrative faults or evidence of maladministration.

Performance of Hampshire District Councils

- 9. In respect of Hampshire district councils, due to the limited information it is not possible to know the details of the findings made by the Local Government Ombudsman. For the year ended 31 March 2013 the Ombudsman dealt with 78 complaints in respect of Hampshire district councils ranging from 2 at Hart District Council to 13 at Basingstoke and Deane Borough Council.

COMPLAINTS IN RESPECT OF BREACHES OF THE MEMBERS CODE OF CONDUCT

- 10. The Council has a responsibility for making arrangements to receive and consider complaints against Councillors in Fareham.
- 11. At the meeting of full Council on 21 June 2012, a revised Members` Code of Conduct and arrangements for dealing with complaints about Members was adopted that was consistent with the requirements of the Localism Act 2011. These new arrangements came into effect on 1 July 2012.
- 12. All complaints are taken seriously and investigated as appropriate. In order to be considered under the formal complaints process complaints must be submitted in writing, must provide substantiated information, and should outline what form of resolution the complainant is seeking. When a complaint does not meet these criteria and does not reveal a potential breach of the Members` Code of Conduct it is treated as a `general enquiry`. This means that the Monitoring Officer responds to the complainant explaining why the matters complained of do not constitute a potential breach of the Members` Code of Conduct.
- 13. When a written complaint is submitted which provides the relevant information, the Monitoring Officer will consider the complaint and make a decision as to whether it will be treated as a valid complaint or not. For the period 1 April 2012 to 31 March 2013, the Monitoring Officer received 10 separate complaints about Councillors, 7 of which were treated as formal complaints and assessed against the criteria set out in the complaints procedure.
- 14. So far, all complaints have been resolved at an early stage of the complaints procedure meaning that there have been no determinations or findings of a failure to comply with the Code of Conduct that needed to be referred following investigation by the Monitoring Officer to the Standards Sub Committee.
- 15. At the meeting of the Audit and Governance Committee on the 11 March 2013, the Committee considered a motion which was submitted to Council on 22 February 2013 by Councillor N R Gregory and which had been referred to the Audit and Governance Committee for consideration. The motion related to the Code of Conduct for Members

and the sanctions available for dealing with any breach of the code. In considering the matter, it was resolved that the motion referred from Council to the Audit and Governance Committee is not supported but the Monitoring Officer bring a report back to the Committee in one year's time to give an update on how the current arrangements are working with possible recommendations for improvement. This report is scheduled in the Committees work programme for March 2014.

RISK ASSESSMENT

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

CONCLUSION

17. The overall level of complaints is not considered to give any cause for concern and the Committee is recommended to note the report.

Appendices:

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

Background Papers:

The Local Government Ombudsman's website provides copies of the annual reviews sent to all councils about their performance. Visit:

Reference Papers:

None

Enquiries:

For further information on this report please contact Christopher Cotmore. (Ext 4552)

16 July 2013

By email

Mr Peter Grimwood
Chief Executive
Fareham Borough Council

Dear Mr Grimwood

Annual Review Letter

I am writing with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2013. This year we have only presented the total number of complaints received and will not be providing the more detailed information that we have offered in previous years.

The reason for this is that we changed our business processes during the course of 2012/13 and therefore would not be able to provide you with a consistent set of data for the entire year.

In 2012/13 we received 7 complaints about your local authority. This compares to the following average number (recognising considerable population variations between authorities of a similar type):

District/Borough Councils-	10 complaints
Unitary Authorities-	36 complaints
Metropolitan Councils-	49 complaints
County Councils-	54 complaints
London Boroughs-	79 complaints

Future development of annual review letters

We remain committed to sharing information about your council's performance and will be providing more detailed information in next year's letters. We want to ensure that the data we provide is relevant and helps local authorities to continuously improve the way they handle complaints from the public and have today launched a consultation on the future format of our annual letters.

I encourage you to respond and highlight how you think our data can best support local accountability and service improvements. The consultation can be found by going to www.surveymonkey.com/s/annualletters

LGO governance arrangements

As part of the work to prepare LGO for the challenges of the future we have refreshed our governance arrangements and have a new executive team structure made up of Heather Lees, the Commission Operating Officer, and our two Executive Directors Nigel Ellis and Michael King. The Executive team are responsible for the day to day management of LGO.

The Oaks No 2
Westwood Way
Westwood Business Park
Coventry
CV4 8JB

T: 024 7682 0000
F: 024 7682 0001
W: www.lgo.org.uk

Helpline: 0300 061 0614

Since November 2012 Anne Seex, my fellow Local Government Ombudsman, has been on sick leave. We have quickly adapted to working with a single Ombudsman and we have formally taken the view that this is the appropriate structure with which to operate in the future. Our sponsor department is conducting a review to enable us to develop our future governance arrangements. Our delegations have been amended so that investigators are able to make decisions on my behalf on all local authority and adult social care complaints in England.

Publishing decisions

Last year we wrote to explain that we would be publishing the final decision on all complaints on our website. We consider this to be an important step in increasing our transparency and accountability and we are the first public sector ombudsman to do this. Publication will apply to all complaints received after the 1 April 2013 with the first decisions appearing on our website over the coming weeks. I hope that your authority will also find this development to be useful and use the decisions on complaints about all local authorities as a tool to identify potential improvement to your own service.

Assessment Code

Earlier in the year we introduced an assessment code that helps us to determine the circumstances where we will investigate a complaint. We apply this code during our initial assessment of all new complaints. Details of the code can be found at:

www.lgo.org.uk/making-a-complaint/how-we-will-deal-with-your-complaint/assessment-code

Annual Report and Accounts

Today we have also published *Raising the Standards*, our Annual Report and Accounts for 2012/13. It details what we have done over the last 12 months to improve our own performance, to drive up standards in the complaints system and to improve the performance of public services. The report can be found on our website at www.lgo.org.uk

Yours sincerely

A handwritten signature in black ink that reads "Jane Martin". The signature is written in a cursive style with a long horizontal flourish at the end.

Dr Jane Martin
Local Government Ombudsman
Chair, Commission for Local Administration in England

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **23 September 2013**

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

Subject: **STATEMENT OF ACCOUNTS 2012/13**

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 2012/13 that is attached to this report.

RECOMMENDATION

That the Statement of Accounts for 2012/13, attached as Appendix A, be approved and published by 30 September 2013.

INTRODUCTION

1. English local authorities are required to prepare a Statement of Accounts by Accounts and Audit Regulations 2011 issued under Section 27 of the Audit Commission Act 1998.
2. Section 66(4) of the Local Government and Housing Act 1989 requires local authorities to adopt proper accounting practices in the preparation and publication of the Statement of Accounts. In order to ensure that local authorities adopt a consistent approach to the preparation of Statements of Accounts, the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued the Code of Practice on Local Authority Accounting 2012. These documents are applicable to the accounts for financial years commencing on or after 1 April 2012.

THE PURPOSE OF THE STATEMENT OF ACCOUNTS

3. The Code is based on approved accounting standards so that an authority's accounts present a "true and fair view" of the financial position and transactions of the authority. It has been prepared on the basis that the purpose of a local authority's published Statement of Accounts is to give electors, members and other interested parties clear information about the authority's finances.
4. Statements of Accounts should reflect a common pattern of presentation, although this does not require them to be in an identical format. One of the main aims of the Code is to narrow the areas of difference and the variety in accounting treatment and thereby to enhance the usefulness of published statements.
5. Interpretation and explanation of the accounts is extremely important and, wherever possible, statements should be written in plain English and technical terms or jargon should be used only sparingly. To facilitate this, the final section of the document is a glossary of terms.

THE CONTENT OF THE STATEMENT OF ACCOUNTS

6. The following paragraphs give a brief outline of the various sections included within the Statement of Accounts.

The Explanatory Foreword

7. This provides a concise explanation in overall terms of the significant aspects of Fareham's overall financial position and assists in the interpretation of the accounting statements. The tables set out in this section of the report include both General Fund and Housing Revenue Account (HRA) revenue expenditure and also capital expenditure that has been financed from reserves and balances.

Statement of Responsibility for the Statement of Accounts

8. This sets out the authority's responsibilities in relation to the accounts together with the legal and professional responsibilities of the chief financial officer.

Confirmation of Approval by Members

9. This section carries the signature of the Chairman of the Audit and Governance Committee to confirm the details of the approval of the Statement of Accounts by the

Audit and Governance Committee.

The Accounting Statements

10. The following core accounting statements are included:

Comprehensive Income and Expenditure Statement - this statement includes information covering revenue income and expenditure on all services including the HRA.

Balance Sheet - this statement includes information in respect of the Council's assets and liabilities and shows the total net worth of the Council.

Movement in Reserves Statement - this statement shows the movement in year on the different reserves held by the Council.

Cash Flow Statement - this statement summarises the inflows and outflows of cash arising from transactions with third parties.

Notes to the Core Financial Statements - this section includes the accounting policies and explanatory information relating to the core statements.

11. The following supplementary statements are also included:

- HRA Income and Expenditure Account
- Statement of Movement on the HRA Balance
- Collection Fund

12. Each supplementary statement is immediately followed by a section of comprehensive notes that give further detail about that supplementary statement.

GLOSSARY

13. This section of the Statement of Accounts sets out a detailed explanation of the various accounting terms that are used in the document.

AUDITOR'S REPORT

14. After the audit of the Statement of Accounts has been completed the certificate issued by the external auditors will be included within the final document.

RISK ASSESSMENT

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

CONCLUSION

16. Members are asked to formally approve the Statement of Accounts for 2012/13.

Background Papers: None

Reference Papers: Code of Practice on Local Authority Accounting 2012

Appendix A: [Statement of Accounts 2012/13](#)

Enquiries:

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

STATEMENT OF ACCOUNTS

**for the year ended
31st March 2013**

A. WANNELL CPFA

DIRECTOR OF FINANCE & RESOURCES

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ALL ABOUT US

Where is Fareham?

The Borough of Fareham lies on the Solent coastline between the cities of Southampton and Portsmouth covering an area of almost 30 square miles and has a population of 111,581 people (2011 Census).

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's origins go back to a small settlement that was developed before Roman times around a crossing point of the River Wallington, close to the top of the present day High Street. The Romans came to the area in about AD43 and built a large fortress at Portchester, to shelter their garrison and defend Portsmouth Harbour (its ruins can still be seen).



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 five 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 two political groups within Fareham Borough Council; Conservative and Liberal Democrats and two Independent councillors.

THE EXPLANATORY FOREWORD

1. Introduction

Fareham Borough Council's accounts for the year 2012/13 are set out commencing on page 11.

The purpose of each of the main statement pages is explained below:

The Comprehensive Income and Expenditure Statement covering income and expenditure on all services including council housing. It includes day-to-day transactions from running the organisation as well as gains/losses on assets and pension liabilities. The Comprehensive Income and Expenditure shown represents the total movement in the Council's reserves during the year.

The Balance Sheet which sets out the Council's financial position as at 31 March 2013. It discloses the assets and liabilities for all Council services.

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Council. Reserves are classified as either usable or unusable.

The Cash Flow Statement which summarises the inflows and outflows of cash arising from transactions with third parties.

In addition, the supplementary financial statements are shown on pages 65 and 71 consist of:

The Housing Revenue Account Income and Expenditure Statement and Statement of Movement on Housing Revenue Account Statement which shows the income and expenditure on council housing.

The Collection Fund which records all income from council tax and business rates. Expenditure includes the precepts to Hampshire County Council, Hampshire Fire and Rescue Authority, Hampshire Police Authority (now known as the Police and Crime Commissioner for Hampshire) and Fareham Borough Council's own demand on the Collection Fund. The Collection Fund is not incorporated within the Comprehensive Income and Expenditure Statement as it reflects the statutory requirement for billing authorities to maintain a separate fund.

These accounts are supported by the accounting policies and various notes to the accounts.

This foreword 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 tables 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.

2. Where The Money Comes From

The main sources of the Council's income to pay for services are set out in the following table:

	£'000	%
Income from services	18,179	34
Government grants to services	24,396	46
Council tax payers	6,080	11
Central Government Funding	5,131	10
Use of reserves and corporate income	(225)	(1)
Total	<u>53,561</u>	<u>100</u>

3. What The Money is Spent on

The main types of expenditure on services are set out in the following table:

	£'000	%
Employees and internal support	14,707	27
Running expenses	10,830	20
Transfer payments	23,301	44
Capital charges and costs	4,723	9
Total	<u>53,561</u>	<u>100</u>

Running expenses include the maintenance of buildings, operating vehicles and the purchase of supplies and services. Transfer payments include council tax benefit and housing benefit (rent allowances to private sector tenants and rent rebates to Council tenants).

4. The Services Provided

The gross expenditure of the main services provided by the Council and the revised budget for 2012/13 is set out in the following table:

	Gross Expenditure £'000	Revised Budget £'000	Variation £'000
Central services to the public (e.g. local land charges, elections, council tax collection)	6,642	6,705	63
Cultural and related services	4,826	3,237	(1,589)
Environmental and regulatory services	5,917	6,145	228
Planning services	3,569	3,413	(156)
Highways and transport services	2,056	1,942	(114)
Local authority housing (HRA)	6,129	7,377	1,248
Other housing services (e.g. housing strategy and advice, housing benefit administration)	21,677	22,775	1,098
Corporate and democratic core	2,674	2,747	73
Non-distributed costs (e.g. pension adjustments)	71	220	149
Total	<u>53,561</u>	<u>54,561</u>	<u>1,000</u>

5. Capital

In 2012/13, the Council spent £6.2 million on projects in the capital programme, compared with a revised budget of £8.2 million. The net under spending of £2.0 million was mainly the result of changes to the phasing of the programme with expenditure now expected to occur in 2013/14.

The total spending is analysed over services in the following table:

Capital Expenditure:	£'000	%
Council Housing	1,754	28.2
Other Housing	1,503	24.2
Portchester Community Centre	1,359	21.9
Council Buildings	828	13.3
Leisure Services	401	6.5
Information, Communication & Technology	239	3.8
Town Centre Development	126	2.0
Other Services	7	0.1
Total	<u>6,217</u>	<u>100</u>
Financed by:	£'000	%
Revenue and Reserves	2,720	44
External Contributions	1,631	26
Capital Receipts	1,493	24
Government Grants	373	6
Total	<u>6,217</u>	<u>100</u>

£1.9 million of this 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 2013 was £154 million.

6. Reserves

The Council's total usable reserves at 31 March 2013 amounted to £38.7 million (2011/12 £35.6 million). Against this, the actuarial valuation of the Council's share of pension fund assets and liabilities at 31 March 2013 indicated a £59.4 million (2011/12 £53.6 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.

7. Significant Developments during the Year

Despite difficult operating conditions, the Council has continued to improve the level of customer service provided, and has been taking steps to maintain its financial standing.

While a number of significant funding developments and financial pressures face the Council during the forthcoming year, the budget setting process is expected to be flexible enough to prevent significant changes to public services in the foreseeable future.

8. Further information

This Statement and a summary of accounts can be viewed via the Council's website at www.fareham.gov.uk. Further information about the Council's finances is published in the estimates book which is available from the Finance Team at the Civic Offices and also on the Council's website.

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised in the local press.

The accounts must be audited by the end of September and the auditor's report is included within the Statement.

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. In this Council that officer is the Director of Finance and Resources.
- manage its affairs to secure economic, efficient and effective use of its 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/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2013.

In preparing this statement of accounts, the Director of Finance and Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

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.

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2013 and its income and expenditure for the year then ended.

Signed:

A Wannell CPFA
Director of Finance and Resources

Date: 23 September 2013

CONFIRMATION OF APPROVAL BY MEMBERS

I confirm that these accounts were approved by the Audit and Governance Committee at the meeting held on 23 September 2013.

Signed on behalf of Fareham Borough Council:

Chairman of Audit and Governance Committee
Fareham Borough Council

Date: 23 September 2013

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the income and expenditure to the Council in the year on the provision of services and other operating activities. The total Comprehensive Income and Expenditure represents the total movement on net assets within the Balance Sheet. The statement includes some costs and income that are not allowed to be charged as income and expenditure to the General Fund (the account used to set the level of Council Tax). This means that to make a comparable presentation of the performance of the Council during the year it is necessary to adjust the surplus or deficit on the Comprehensive Income and Expenditure Statement to derive the movement on the General Fund. These adjustments are shown in the Movement in Reserves Statement and analysed in note 6.

2011/12				2012/13		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
6,356	(5,158)	1,198	Central services to the public	6,642	(5,197)	1,445
3,740	(544)	3,196	Cultural and related services	4,826	(559)	4,267
5,813	(1,978)	3,835	Environment and regulatory services	5,917	(1,715)	4,202
3,243	(1,060)	2,183	Planning services	3,569	(614)	2,955
1,957	(3,168)	(1,211)	Highways and transport services	2,056	(2,968)	(912)
8,198	(10,642)	(2,444)	Local authority housing (HRA)	6,129	(11,207)	(5,078)
49,268	0	49,268	- Exceptional costs for HRA (note 9)	0	0	0
20,017	(18,645)	1,372	Other housing services	21,677	(20,159)	1,518
2,970	(255)	2,715	Corporate and democratic core	2,674	(190)	2,484
152	(2)	150	Non distributed costs	71	(1)	70
101,714	(41,452)	60,262	Cost of Services	53,561	(42,610)	10,951
Other Operating Expenditure						
			284 (Gain) or loss on disposal of assets			(209)
			206 Housing capital receipts to Government pool			138
Financing and Investment Income and Expenditure						
			23 Interest payable and similar charges			1,401
			(774) Interest receivable			(648)
			1,290 Pension interest cost and expected return on assets (note 17)			1,460
			1,037 Changes in fair value of investment properties			1,503
			(2,308) Investment properties rental and expenses (note 19)			(2,125)
Taxation and Non-Specific Grant Income						
			(6,029) Income from the Collection Fund			(6,080)
			(3,404) Grants and contributions not distributable to services (note 8)			(2,593)
			(3,522) Distribution from the NNDR pool			(4,072)
		47,065	(Surplus) or Deficit on Provision of Services			(274)
			(Surplus) or deficit on revaluation of Property, Plant and			
			(4,592) Equipment assets			(2,140)
			11,580 Actuarial (gains)/losses on pension assets/liabilities			4,515
			16 Other			0
		7,004	Other Comprehensive Income and Expenditure			2,375
		54,069	Total Comprehensive Income and Expenditure			2,101

BALANCE SHEET

The Balance Sheet summarises the position of the Council's assets and liabilities as at the Balance Sheet date. The net assets are matched by a combination of usable and unusable reserves. These are shown in more detail in notes 33 and 35.

31 March 2012 £'000		31 March 2013 £'000	Notes
	Property, Plant and Equipment		18
82,460	- Council dwellings	82,358	
32,903	- Other land and buildings	34,775	
2,602	- Infrastructure	2,186	
3,622	- Vehicles, plant, furniture, equipment	3,388	
359	- Community assets	356	
210	Heritage assets	202	20
32,090	Investment properties	30,587	19
409	Assets under construction	142	18
135	Surplus assets held for disposal	10	18
106	Intangible assets	161	21
5,000	Long term investments	0	36
87	Long term debtors	84	27
159,983	Long term assets	154,249	
17,182	Short term investments	22,304	36
90	Assets held for sale	1,310	22
23	Inventories	31	
2,510	Short term debtors	5,270	28
63	Payments in advance	57	
10,391	Cash and cash equivalents	10,376	26
30,259	Current assets	39,348	
(1,671)	Short term borrowing	(1,239)	36
(3,630)	Short term creditors	(3,191)	29
(874)	Depositors	(743)	30
(287)	Provisions	(459)	31
(6,462)	Current liabilities	(5,632)	
	Receipts in advance		32
(4,117)	- Capital grants	(4,025)	
(413)	- Revenue grants	(365)	
(40,000)	Long term borrowing	(40,600)	36
(53,615)	Pension scheme liability	(59,441)	17
(98,145)	Long term liabilities	(104,431)	
85,635	Net assets	83,534	
35,572	Usable reserves	38,726	33
50,063	Unusable reserves	44,808	35
85,635	Total Reserves	83,534	

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into usable reserves and unusable reserves. Usable reserves are used in the provision of services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). Unusable reserves are not used in the provision of services. This includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the 'Adjustments between accounting basis and funding basis under regulations'. Movements during the year come from the Comprehensive Income and Expenditure Statement. These are then adjusted by the difference between the accounting basis and the funding basis by transfers between the General Fund and the other reserves. This is shown more fully in note 6.

	General Fund Balance £'000	Earmarked 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
Balance at 31 March 2012	6,322	10,863	4,813	1,251	12,253	70	35,572	50,063	85,635
Movement in reserves during 2012/13									
Surplus/(deficit) on provision of services	(3,005)		3,279				274		274
Other Comprehensive Income and Expenditure							0	(2,375)	(2,375)
Total Comprehensive Income & Expenditure	(3,005)	0	3,279	0	0	0	274	(2,375)	(2,101)
Adjustments between accounting basis and funding basis under regulations	4,189	0	(1,654)	1,400	(1,004)	(51)	2,880	(2,880)	0
Net increase/(decrease) before transfers to earmarked reserves	1,184	0	1,625	1,400	(1,004)	(51)	3,154	(5,255)	(2,101)
Transfers to/from earmarked reserves	(530)	2,607	(2,080)	(1)	4		0		0
Increase/(decrease) in 2012/13	654	2,607	(455)	1,399	(1,000)	(51)	3,154	(5,255)	(2,101)
Balance at 31 March 2013 carried forward	6,976	13,470	4,358	2,650	11,253	19	38,726	44,808	83,534

	General Fund Balance £'000	Earmarked 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
Balance at 31 March 2011	5,201	9,244	4,646	1,012	12,667	116	32,886	106,819	139,705
Movement in reserves during 2011/12									
Surplus/(deficit) on provision of services	(328)	2	(46,739)	0	0	0	(47,065)	0	(47,065)
Other Comprehensive Income and Expenditure	(15)						(15)	(6,989)	(7,004)
Total Comprehensive Income and Expenditure	(343)	2	(46,739)	0	0	0	(47,080)	(6,989)	(54,069)
Adjustments between accounting basis and funding basis under regulations	3,059	0	46,927	239	(413)	(45)	49,767	(49,767)	0
Net increase/(decrease) before transfers to earmarked reserves	2,716	2	188	239	(413)	(45)	2,687	(56,756)	(54,069)
Transfers to/from earmarked reserves	(1,595)	1,617	(21)	0	(1)	(1)	(1)	0	(1)
Increase/(decrease) 2011/12	1,121	1,619	167	239	(414)	(46)	2,686	(56,756)	(54,070)
Balance at 31 March 2012 carried forward	6,322	10,863	4,813	1,251	12,253	70	35,572	50,063	85,635

CASH FLOW STATEMENT

This statement summarises the movements in the Council's cash transactions. It shows the volume of financial activity that takes place between the Council and its stakeholders.

The Cash Flow Statement is different to the other statements because it is on a cash basis and some of the figures may not agree with other figures in the accounts which are all on an accruals basis (i.e. based on amounts payable and receivable rather than actually paid or received). The bottom section of the statement shows a reconciliation of the movement in Cash and Cash Equivalents in the year to the figures shown in the Balance Sheet.

2011/12		2012/13	Notes
£'000		£'000	
(47,065)	Net surplus or (deficit) on the provision of services	274	
4,873	Adjustments to surplus or deficit on the provision of services for non-cash movements	6,865	42
(2,084)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(2,497)	43
<u>(44,276)</u>	Net Cash flows from operating activities	<u>4,642</u>	41
	Investing Activities		
(3,932)	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	(4,914)	
(44,000)	Purchase of short-term and long-term investments	(28,000)	
992	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	631	
57,000	Proceeds from short-term and long-term investments	28,000	
1,008	Other receipts from investing activities	1,544	
<u>11,068</u>	Net Cash flows from Investing Activities	<u>(2,739)</u>	
	Financing Activities		
40,222	Cash receipts of short and long-term borrowing	1,303	
(418)	Other receipts from financing activities	(2,086)	
(1,403)	Repayments of short and long-term borrowing	(1,135)	
<u>38,401</u>	Net Cash flows from Financing Activities	<u>(1,918)</u>	
<u>5,193</u>	Net increase or decrease in cash and cash equivalents	<u>(15)</u>	
5,198	Cash and cash equivalents at the beginning of the reporting period	10,391	26
10,391	Cash and cash equivalents at the end of the reporting period	10,376	

NOTES TO THE ACCOUNTS

1. 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.

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, 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 2012/13 and the Service Reporting Code of Practice 2012/13, 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.

ii. 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 respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where 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 electricity 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.

iii. 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.

iv. 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.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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.

vi. 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. Depreciation, impairment losses, revaluation and amortisation 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.

vii. 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.

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 17 to the core financial statements.

The change in the net pensions liability is analysed into seven components:

- **current service cost:** this is the increase in liabilities as a result of the number of years of service earned this year. This is shown as a cost to the services that the employees provide.
- **past service cost:** this is the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. This is shown as a non-distributed cost.
- **interest cost:** this is the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is shown as a financing cost within the Comprehensive Income and Expenditure Statement.
- **expected return on assets:** this is the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return. This is shown as investment income within the Comprehensive Income and Expenditure Statement
- **gains or losses on settlements and curtailments:** this is the result of members of the scheme leaving, joining or stopping their contributions to the scheme. These actions relieve the Council of liabilities or reduce the expected future service or accrual of benefits of employees. This is shown as a non-distributed cost.
- **actuarial gains and losses:** these are 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. These are shown as other income and expenditure within the Comprehensive Income and Expenditure Statement.
- **contributions paid to the Hampshire County Council pension fund:** these are amounts paid as employer contributions to the pension fund and are included within the cost of services.

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.

viii. 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.

ix. 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.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

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

Financial Assets

Financial assets are classified into two types; Loans and Receivables and Available for Sale assets. The Council has no Available for Sale assets.

Loans and receivables 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.

x. Government Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as 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-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

xi. 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 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 impairment of Heritage Assets will be considered in the event of physical deterioration or doubts as to its authenticity. Any impairment will be recognised and measured in accordance with the Council's general policies on impairment.

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. If an asset is disposed of, the proceeds will be accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and receipts.

xii. Intangible Assets

Expenditure on assets that do not have physical substance but are controlled by the Council as a result of past events (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.

xiii. 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.

xiv. Investment Property

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

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.

xv. 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 and, in general, leases of land are considered to be operating leases.

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

The Council as Lessee - Finance Leases

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

Lease payments are apportioned between:

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

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

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

The Council as Lessee - Operating Leases

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

The Council as Lessor - Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

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.

xvi. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of CIPFA's *Service Reporting Code of Practice 2012/13 (SERCOP)*, with the exception of:

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

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the net cost of services.

xvii. 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

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

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

- Land and buildings are measured at fair 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 fair value, determined using the basis of Existing Use Value for Social Housing (EUV-SH).

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (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 in line with the Government major repairs allowance as provided in the HRA Buyout Debt calculation
- 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 fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (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.

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

xviii. 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.

xix. Reserves

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

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

xx. 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 then reverses out the amounts charged so that there is no impact on the level of council tax.

xxi. VAT

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

2. New Accounting Standards yet to be Adopted

The Code requires the Council to identify any accounting standards that have been issued but have yet to be adopted and could have a material impact on the accounts. The following standard applies:

IAS 19 - Employee Benefits - This standard was amended in 2011 but we are not required by the Code to implement this amended disclosure requirement until 1 April 2013. The changes relate to the creation of some new classes of components of defined benefit costs and the re-measurement of the net defined benefit liability which are likely to have a material impact on the accounts. The pension fund actuaries have calculated that if the revised standard had been in place for 2012/13 then the expenses recognised for funded benefits would have increased from £3.30 million to £4.38 million. As this expense is notional and is reversed out via the Movement in Reserves Statement it would have no effect on the Balance Sheet.

Changes to other standards including IAS 1 - Presentation of Financial Statements, IFRS 7 - Financial Instruments and IAS12 - Income Taxes are unlikely to have any impact on the accounts.

3. Critical Judgements in Applying Accounting Policies

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

4. 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 2013 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
Property, Plant and Equipment	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 £197,100 for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the 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. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £10.23 million. During 2012/13, the Council's actuaries advised that the net pensions liability had increased by £0.17 million as a result of estimates being corrected as a result of experience and increased by £10.04 million attributable to updating of the assumptions.
Financial Assets and Liabilities	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.
Bad Debt Provision	The Council has made allowances for doubtful debts of £1.85 million in 2012/13 (2011/12 £1.78 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 £92,500 (2011/12 £89,000).
Provisions	The Council has made provisions for outstanding insurance claims, accumulated absences and land charges. For 2012/13, the calculation for accumulated absences is based on 20% of the workforce.	A 10% increase or decrease in provisions would require an adjustment of £45,900 (2011/12 £28,700).

5. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Finance and Resources on 23 September 2013. 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 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

With effect from 1st April 2013 new arrangements for the retention of business rates came into force. Part of these arrangements mean that the Council has assumed some liability (estimated at £2 million) for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. The refunds relate to amounts that have previously been collected and paid over to Central Government. The Council will make an allowance for these refunds within the Collection Fund in 2013/14 and this will reduce the amount of income that is distributed from the Collection Fund to the Council's General Fund.

6. 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.

	Usable Reserves						
	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2012/13							
Capital Adjustment Account Adjustments							
Depreciation and impairment of non-current assets	3,023		2,489				(5,512)
Revaluation losses on Property, Plant and Equipment			(1,457)				1,457
Revaluation of Investment Properties	1,571		(68)				(1,503)
Amortisation of intangible assets	29						(29)
Capital grants and contributions applied	(1,867)		(33)				1,900
Revenue expenditure funded from capital under statute	812						(812)
Property written out on disposal	132		283				(415)
Capital expenditure charged to the General Fund and HRA balances	(584)		(48)				632
Capital Grants Unapplied Account Adjustments							
Capital grants and contributions unapplied							0
Application of grants to capital financing transferred to Capital Adjustment Account						(51)	51
Capital Receipts Reserve Adjustments							
Proceeds from disposal of property	(48)		(406)		454		0
Capital Receipts applied					(1,493)		1,493
Housing Capital Receipts	(170)				173		(3)
Payments to the Government housing capital receipts pool	138				(138)		0
Major Repairs Reserve Adjustments							
Major Repairs Allowance credited to HRA			(2,488)	2,488			0
Major Repairs Reserve to finance new capital expenditure				(1,088)			1,088
Financial Instruments Adjustment Account							
Amount by which finance costs charged to the CI&E are different from finance costs chargeable in the year in accordance with statutory requirements			(99)				99
Pensions Reserve Adjustments							
Net charges for retirement benefits	3,004		436				(3,440)
Employer's contribution to Pension Fund/directly to pensioners	(1,869)		(260)				2,129
Collection Fund Adjustment Account							
Collection Fund adjustment	63						(63)
Accumulated Absences Account Adjustments							
Accumulated Absences adjustment	(45)		(3)				48
Total Adjustments	4,189	0	(1,654)	1,400	(1,004)	(51)	(2,880)

2011/12	Usable Reserves							Unusable Reserves £'000
	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
Capital Adjustments Account Adjustments								
Depreciation and impairment of non-current assets	1,860		2,180					(4,040)
Revaluation losses on Property, Plant and Equipment			(2,372)					2,372
Revaluation of Investment Properties	946		90					(1,036)
Amortisation of intangible assets	38		0					(38)
Capital grants and contributions applied	(942)		(149)		6	117		968
HRA Buyout debt payment			49,268					(49,268)
Revenue expenditure funded from capital under statute	731							(731)
Property written out on disposal	1,150		141					(1,291)
Capital expenditure charged to the General Fund and HRA balances	(1,307)							1,307
Capital Grants Unapplied Account Adjustments								
Capital grants and contributions unapplied	(7)					7		0
Capital grants and contributions applied						(169)		169
Capital Receipts Reserve Adjustments								
Proceeds from disposal of property	(713)		(279)		992			0
Capital Receipts applied					(1,207)			1,207
Housing Capital Receipts					2			(2)
Payments to the Government housing capital receipts pool	206				(206)			0
Major Repairs Reserve Adjustments								
Major Repairs Allowance credited to HRA			(1,815)	1,815				0
Major Repairs Reserve to finance new capital expenditure				(1,576)				1,576
Financial Instruments Adjustment Account								
Amount by which finance costs charged to the CI&E are different from finance costs chargeable in the year in accordance with statutory requirements			(168)					168
Pension Reserve Adjustments								
Net charges for retirement benefits	3,073		47					(3,120)
Employer's contribution to Pension Fund/directly to pensioners	(2,046)		(29)					2,075
Collection Fund Adjustment Account								
Collection Fund adjustment	34							(34)
Accumulated Absences Account Adjustments								
Accumulated Absences adjustment	36		13					(49)
Total Adjustments	3,059	0	46,927	239	(413)	(45)		(49,767)

7. Amounts Reported for Resource Allocation Decisions

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

The analysis of income and expenditure on the face of the Comprehensive Income and Expenditure Statement (page 11) is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Executive on the basis of budget reports analysed by Services. The most significant differences between these reports are:

- Internal budget reports exclude charges in relation to impairments to assets but these are charged in the Comprehensive Income and Expenditure Statement.
- Income earned from the Council's property portfolio is shown as a service income in Policy, Strategy and Finance when reporting to the Executive, but this is excluded from the cost of services in the Comprehensive Income and Expenditure Statement.

The tables below reconcile the revenue outturn reports presented to the Executive on 8 July 2013 for year ended 31 March 2013 and 16 July 2012 for year ended 31 March 2012 to the net cost of services shown in the Comprehensive Income and Expenditure Account.

For Year Ended 31 March 2013				Public	Street-				Grand	
L&RAC	L&C	Housing	Protection	PSF	scene	SP&E	PC	HRA	Total	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Fees, Charges & Other										
Service Income	(272)	(426)	(395)	(476)	(4,037)	(1,414)	(2,598)	(396)	(11,162)	(21,176)
Government Grants	0	0	(581)	0	(23,178)	0	(70)	0	0	(23,829)
Total Income	(272)	(426)	(976)	(476)	(27,215)	(1,414)	(2,668)	(396)	(11,162)	(45,005)
Employee Expenses	333	378	650	1,142	2,716	2,248	912	713	1,296	10,388
Other Operating Expenses	264	2,805	1,245	1,246	26,862	2,779	1,116	184	5,660	42,161
Support Service Recharges	130	449	204	612	1,269	611	261	220	724	4,480
Total Operating Expenses	727	3,632	2,099	3,000	30,847	5,638	2,289	1,117	7,680	57,029
Net Cost to Services	455	3,206	1,123	2,524	3,632	4,224	(379)	721	(3,482)	12,024
For Year Ended 31 March 2012				Public	Street-				Grand	
L&RAC	L&C	Housing	Protection	PSF	scene	SP&E	PC	HRA	Total	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Fees, Charges & Other										
Service Income	(298)	(520)	(324)	(521)	(3,764)	(1,463)	(2,773)	(481)	(10,586)	(20,730)
Government Grants	0	0	(561)	0	(22,286)	0	(100)	0	0	(22,947)
Total Income	(298)	(520)	(885)	(521)	(26,050)	(1,463)	(2,873)	(481)	(10,586)	(43,677)
Employee Expenses	437	320	675	1,169	2,663	2,291	827	658	1,279	10,319
Other Operating Expenses	11	1,426	1,202	1,180	24,989	2,470	964	169	57,648	90,059
Support Service Recharges	150	446	224	644	1,406	724	281	231	747	4,853
Total Operating Expenses	598	2,192	2,101	2,993	29,058	5,485	2,072	1,058	59,674	105,231
Net Cost to Services	300	1,672	1,216	2,472	3,008	4,022	(801)	577	49,088	61,554

In 2012/13 changes were made to the portfolio structure taking effect from May 2011.

L&RAC = Licensing and Regulatory Affairs Committee

L&C = Leisure and Community

PSF = Policy Strategy and Finance

SP&E = Strategic Planning and

PC = Planning Committee

HRA = Housing Revenue Account

The following table reconciles the net cost of services identified above to the net cost of service shown in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2012/13	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Mgt £'000	Not Included in I&E £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges & Other Service Income	(21,176)	(150)		2,056	(275)	(19,545)	(2,124)	(21,669)
Interest and Investment Income						0	753	753
Income from Council Tax						0	(6,080)	(6,080)
Government Grants	(23,829)					(23,829)	(6,665)	(30,494)
Total Income	(45,005)	(150)	0	2,056	(275)	(43,374)	(14,116)	(57,490)
Employee Expenses	10,388				2,992	13,380		13,380
Other Operating Expenses	42,161			(1,509)	1,544	42,196	2,969	45,165
Support Service Recharges	4,480				(4,261)	219		219
Depreciation, Amortisation & Impairment			(1,457)	(20)		(1,477)		(1,477)
Payments to Housing Capital Receipts Pool						0	138	138
Gain or Loss on Disposal of Non-Current Assets						0	(209)	(209)
Total Operating Expenses	57,029	0	(1,457)	(1,529)	275	54,318	2,898	57,216
Surplus or Deficit on the provision of services	12,024	(150)	(1,457)	527	0	10,944	(11,218)	(274)

Reconciliation to Subjective Analysis 2011/12	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Mgt £'000	Not Included in I&E £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges & Other Service Income	(20,730)	(140)	(440)	4,910	(75)	(16,475)	(2,308)	(18,783)
Interest and Investment Income						0	(751)	(751)
Income from Council Tax						0	(6,029)	(6,029)
Government Grants	(22,947)		60	149		(22,738)	(6,926)	(29,664)
Total Income	(43,677)	(140)	(380)	5,059	(75)	(39,213)	(16,014)	(55,227)
Employee Expenses	10,319		(185)		3,202	13,336		13,336
Other Operating Expenses	90,059	263	253	(3,814)	1,729	88,490	2,327	90,817
Support Service Recharges	4,853		(139)		(4,856)	(142)		(142)
Depreciation, Amortisation & Impairment			(2,072)	(137)		(2,209)		(2,209)
Payments to Housing Capital Receipts Pool						0	206	206
Gain or Loss on Disposal of Non-Current Assets						0	284	284
Total Operating Expenses	105,231	263	(2,143)	(3,951)	75	99,475	2,817	102,292
Surplus or Deficit on the provision of services	61,554	123	(2,523)	1,108	0	60,262	(13,197)	47,065

8. Grant Income

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

	2012/13	2011/12
	£'000	£'000
Service Specific Revenue Grants and Contributions (included in Cost of Services)		
Department for Works and Pensions:		
- Rent Allowances Subsidy	13,017	11,865
- Rent Rebates	6,075	5,682
- Council Tax Benefit Subsidy	4,332	4,276
- Housing and Council Tax Benefit Administration	531	519
- Discretionary Housing Payments	34	20
Department for Communities and Local Government		
- Disabled Facilities Grant	336	292
- NNDR Collection Allowance	143	144
- NNDR Collection	3	3
- Homelessness Initiatives	0	30
Homes and Communities Agency		
- 101 Gosport Road	30	0
- SDA Studies	0	100
- Coldeast Close	0	100
Hampshire County Council		
- Lockwood Community Centre	64	0
- Community Safety Partnership	15	15
- Play Ranger Services	10	0
- Community Development	0	271
- Town Centre TRO	0	47
- Bus Shelters	0	3
Other		
- Portchester Crematorium	150	140
- Natural England	70	0
- Developer Contributions	61	153
- Whiteley Joint Fund	48	70
- Allotment Associations	8	0
- Fareham Community Action	8	0
- Partnership for Urban South Hampshire	0	65
- Big Lottery	0	50
	<u>24,935</u>	<u>23,845</u>

	2012/13 £'000	2011/12 £'000
Credited to Taxation and Non Specific Grant Income		
Department for Communities and Local Government		
- NNDR Entitlement	4,072	3,522
- New Homes Bonus	658	227
- Council Tax Freeze Grant	152	150
- Town Centre Regeneration	100	0
- Revenue Support Grant	79	1,089
- Local Services Support Grant	57	57
- Community Right to Bid/Challenge Grants	13	0
Homes and Communities Agency		
- National Affordable Housing Programme	33	117
Hampshire County Council		
- Portchester Community Centre	708	0
Other		
- Developer Contributions	578	1,758
- Football Foundation	215	0
Total	<u>6,665</u>	<u>6,920</u>

9. Exceptional Items

There were no exceptional items during 2012/13. However, during 2011/12 the Council took on debt of £49.268 million to leave the Housing Revenue Account Subsidy System. £40 million of long term loans for between 40 and 50 years were borrowed from the Public Loans Work Board (PWLB) and £9.268 million from internal borrowing.

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 auditors, Ernst & Young LLP and the Audit Commission.

	2012/13 £'000	2011/12 £'000
External audit services	63	98
Certification of grant claims and returns	18	33
Total	<u>81</u>	<u>131</u>

11. Agency Services

The Council carried out certain work on an agency basis for which it was fully reimbursed. The Council also received a contribution towards the related administrative work for the Highways Agency. This is classified in the Comprehensive Income and Expenditure Statement under Highways and Transport Services.

As highways agent for Hampshire County Council, the Head of Community Safety and Enforcement was responsible for the supervision of highways maintenance and certain improvement schemes. Net expenditure reimbursed by Hampshire County Council in 2012/13 was £351,581 (2011/12 was £344,137).

12. Trading Operations

The Council has considerable holdings of commercial land and property. The Council also has a Building Services trading account which provides building services for the Council under arrangements equivalent to commercial contracts, the objective being to break even. Building Services surpluses have been credited to service accounts. The trading results are shown below.

	2012/13			2011/12
	Income £'000	Expenditure £'000	Surplus £'000	(Surplus)/ Deficit £'000
Fareham Shopping Centre	(822)	50	(772)	(900)
Market Quay	(317)	27	(290)	(315)
Industrial/Commercial estates	(1,182)	110	(1,072)	(1,049)
Other land and property holdings	(211)	190	(21)	(79)
Building Services	(479)	450	(29)	(61)
Total	(3,011)	827	(2,184)	(2,404)

13. Members' Allowances

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

	2012/13 £'000	2011/12 £'000
Basic Allowances	202	203
Special Responsibility Allowances	165	158
Superannuation and National Insurance	35	35
Travelling and Subsistence Allowances	8	5
Conference Expenses	4	3
Internet Rental Allowance	1	1
Total	415	405

Details of individual allowances including travel and subsistence are published in full on the Council's website at www.fareham.gov.uk.

14. Remuneration of Staff

The number of employees, including senior officers (see note 15), whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 was:

Remuneration Band	2012/13 Number of employees	2011/12 Number of employees
£50,000 - £54,999	2	5
£55,000 - £59,999	12	11
£60,000 - £64,999	2	0
£65,000 - £69,999	2	0
£70,000 - £74,999	0	0
£75,000 - £79,999	2	3
£80,000 - £84,999	2	1
£100,000 - £104,999	0	0
£105,000 - £109,999	0	1
£110,000 - £114,999	0	0
£115,000 - £119,999	1	0

15. Senior Officer Emoluments

Post Title	Salary (Inc fees and allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind (e.g. car allowance) £	Total remuneration excl pension contributions £	Pension contributions £	Total remuneration incl pension contributions £
2012/13								
Chief Executive Officer (1)	117,264	0	0	0	0	117,264	13,689	130,953
Director of Planning & Environment	79,325	0	0	0	0	79,325	10,387	89,712
Director of Regulatory & Democratic Services	82,960	0	0	0	0	82,960	10,868	93,828
Director of Community	79,161	0	0	0	0	79,161	10,387	89,548
Director of Finance & Resources	81,012	0	0	0	0	81,012	10,627	91,639
Director of Streetscene (2)	64,180	0	0	0	0	64,180	8,408	72,588
	503,902	0	0	0	0	503,902	64,366	568,268
2011/12								
Chief Executive Officer (1)	106,401	0	0	0	0	106,401	13,287	119,688
Solicitor to the Council	6,760	0	0	88,991	0	95,751	886	96,637
Director of Planning & Environment	77,528	0	0	0	0	77,528	10,146	87,674
Director of Regulatory & Democratic Services	81,123	0	0	0	0	81,123	10,627	91,750
Director of Community & Streetscene	77,451	0	0	0	0	77,451	10,146	87,597
Director of Finance & Resources	79,287	0	0	0	0	79,287	10,387	89,674
	428,550	0	0	88,991	0	517,541	55,479	573,020

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.gov.uk.

(1) Includes pay in respect of the Returning Officer role in Council elections.

(2) New post with effect from 01/11/2012.

16. Termination Benefits

The Council terminated the contracts of a number of employees in 2012/13, incurring liabilities of £409,671 (£63,730 in 2011/12). 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.

Exit Package Cost band (including special payments)	Number of compulsory redundancies		Number of other departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
£0 - £20,000	0	0	14	19	14	19	£63,730	£79,638
£20,001 - £40,000	0	0	0	7	0	7	£0	£213,564
£40,001 - £60,000	0	0	0	1	0	1	£0	£47,178
£60,001 - £80,000	0	0	0	1	0	1	£0	£69,291
	<u>0</u>	<u>0</u>	<u>14</u>	<u>28</u>	<u>14</u>	<u>28</u>	<u>£63,730</u>	<u>£409,671</u>

17. 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 that need to be disclosed at the time that employees earn their future entitlement.

The disclosures below relate to the following schemes:

- The Local Government Pension Scheme (LGPS) which is administered by Hampshire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
- 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 pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

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

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

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 via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Funded Benefits		Unfunded Benefits	
	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
Comprehensive Income and Expenditure Statement				
Cost of Services				
- Current service cost	(1,910)	(1,680)	0	0
- Past service cost	(70)	(150)	0	0
Financing and Investment Income and Expenditure				
- Expected return on pension fund assets	4,030	4,370	0	0
- Interest cost on pension scheme liabilities	(5,350)	(5,500)	(140)	(160)
Surplus/(deficit) on the provision of services	(3,300)	(2,960)	(140)	(160)
Other charged to the Comprehensive Income and Expenditure Statement				
- Actuarial (gains) and losses	4,215	11,360	300	220
Total charged to the Comprehensive Income and Expenditure Statement	915	8,400	160	60
Movement in Reserves Statement				
Reversal of net charges made to the (surplus)/deficit in accordance with the Code	3,300	2,960	140	160
Actual amount charged against the General Fund				
Balance for pensions in the year:				
Employers' contributions payable to scheme	(1,913)	(1,861)	0	0
Retirement benefits payable to pensioners	0	0	(216)	(214)

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £66.50 million.

Assets and liabilities in relation to post employment benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded Benefits		Unfunded Benefits	
	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
Opening balance at 1 April	114,500	100,920	3,106	2,940
Current service cost	1,910	1,680	0	0
Interest cost	5,350	5,500	140	160
Contributions by scheme participants	620	640	0	0
Actuarial (gains) and losses	9,870	9,940	304	220
Benefits paid	(3,980)	(4,330)	(216)	(214)
Past service costs	70	150	0	0
Settlements and curtailments	0	0	0	0
Closing balance at 31 March	128,340	114,500	3,334	3,106

Reconciliation of fair value of the scheme assets:

	2012/13 £'000	2011/12 £'000
Opening balance at 1 April	63,991	62,870
Expected rate of return	4,030	4,370
Actuarial gains and (losses)	5,659	(1,420)
Employer contributions	1,913	1,861
Contributions by scheme participants	620	640
Benefits paid	(3,980)	(4,330)
Settlements	0	0
Closing balance at 31 March	<u>72,233</u>	<u>63,991</u>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £9.52 million (2011/12 £2.95 million).

Scheme history

The history of asset values, the present value of liabilities and surplus/deficit is shown in the table below.

	Fair value of assets £'000	Present value of liabilities £'000	Surplus/ (deficit) £'000
At 31 March 2013	72,233	(128,340)	(56,107)
At 31 March 2012	63,991	(114,500)	(50,509)
At 31 March 2011	62,870	(100,920)	(38,050)
At 31 March 2010	58,940	(116,190)	(57,250)
At 31 March 2009	44,860	(85,110)	(40,250)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £128.34 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £59.4 million. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is £1.97 million. In addition, Strain on Fund Contributions may be required. For the unfunded benefits scheme in the year to 31 March 2014, the Council expects to pay £0.22 million directly to beneficiaries.

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 2010 for funded benefits and 31 March 2013 for unfunded benefits.

The principal assumptions used by the actuary have been:

	Funded Benefits		Unfunded Benefits	
	31 March		31 March	
	2013	2012	2013	2012
	% p.a.	% p.a.	% p.a.	% p.a.
Mortality assumptions:				
Longevity at age 65 for current pensioners:				
Men	24.0	23.9	24.0	23.9
Women	25.0	24.9	25.0	24.9
Longevity at age 65 for future pensioners:				
Men	25.7	25.6	n/a	n/a
Women	26.9	26.8	n/a	n/a
Principal financial assumptions (% per annum):				
Discount rate for scheme liabilities	4.3	4.7	4.1	4.6
RPI inflation	3.6	3.5	3.5	3.4
CPI inflation	2.7	2.5	2.6	2.4
Rate of increase to pensions in payment	2.7	2.5	2.6	2.4
Rate of increase to deferred pensions	2.7	2.5	n/a	n/a
Rate of general increase in salaries	4.6	5.0	n/a	n/a

Expected Rate of Return

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held. Also shown are the assumed rates of return adopted by the Employer for the purposes of IAS 19.

	Long term		Long term	
	expected rate of return at 31 March 2013	Asset split at 31 March 2013	expected rate of return at 31 March 2012	Asset split at 31 March 2012
	% pa	%	% pa	%
Equities	7.8	57.6	8.1	55.1
Property	7.3	7.8	7.6	7.7
Government Bonds	2.8	24.9	3.1	27.0
Corporate Bonds	3.8	1.3	3.7	1.5
Cash	0.9	2.3	1.8	4.1
Other	7.8	6.1	8.1	4.6
Total	<u>6.3</u>	<u>100.0</u>	<u>6.4</u>	<u>100.0</u>

The Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher

returns consistent with widely accepted capital market principals. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2013.

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2012/13	2011/12
	%	%
Experience gains/(losses) on funded assets	7.6	(2.2)
Experience gains/(losses) on funded liabilities	0.1	(0.8)
Experience gains/(losses) on unfunded liabilities	1.5	(0.6)

18. Property, Plant and Equipment

Valuation information

The Council's property portfolio has been revalued in accordance with the statement of accounting policies. The portfolio was completely re-valued in 1998/99 by the Council's own valuer, D. M. Quainton 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. Johns MRICS and G. Lloyd FRICS; except for Council dwellings which were re-valued as at April 2012 by Hellier Langston, chartered surveyors. The table below shows the dates of revaluation of non-current assets. Vehicles, plant, equipment and non-operational assets are valued at historic cost:

	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000
Historic		1,216	8,923		10,139
2008/09		3,189			3,189
2009/10		3,480		10	3,490
2010/11		1,789			1,789
2011/12		6,443			6,443
2012/13	84,769	19,115			103,884
	<u>84,769</u>	<u>35,232</u>	<u>8,923</u>	<u>10</u>	<u>128,934</u>

Movement in Non Current Assets 2012/13

	Council Dwellings £'000	HRA Garages and other land £'000	Other Land & Buildings £'000	Total Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra- structure Assets £'000	Comm- unity Assets £'000	Surplus Assets £'000	Assets Under Construc- tion £'000	Total £'000
Cost or Valuation										
At 1 April 2012	84,273	3,218	31,847	35,065	8,414	4,982	377	135	409	133,655
Additions	946	0	1,089	1,089	619				1,613	4,267
Revaluation increases/(decreases) to RR	22	292	(452)	(160)				296		158
Revaluation increases/(decreases) to SDPS	(355)		17	17				63		(275)
Derecognition - Disposals	(280)	(12)	(20)	(32)	(110)	(59)				(481)
Reclassified to/from Held for Sale			(748)	(748)				(484)	(1,717)	(2,949)
Other movements	163			0					(163)	0
At 31 March 2013	84,769	3,498	31,733	35,231	8,923	4,923	377	10	142	134,375
Depreciation and Impairment										
At 1 April 2012	1,813	64	2,098	2,162	4,792	2,380	18	0	0	11,165
Depreciation Charge	2,418	70	215	285	830	373	3			3,909
Depreciation written out to RR	0	(64)	(1,914)	(1,978)						(1,978)
Depreciation written out to SDPS	(1,812)		(12)	(12)						(1,824)
Derecognition - Disposals	(8)		(1)	(1)	(87)	(16)				(112)
At 31 March 2013	2,411	70	386	456	5,535	2,737	21	0	0	11,160
Net Book Value										
At 31 March 2013	82,358	3,428	31,347	34,775	3,388	2,186	356	10	142	123,215
At 31 March 2012	82,460	3,154	29,749	32,903	3,622	2,602	359	135	409	122,490

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

**Comparative Movements in 2011/12
Restated**

	Council Dwellings	HRA Garages and other land	Other Land & Buildings	Total Other Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Comm-unity Assets	Surplus Assets	Assets Under Construc-tion	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation										
At 1 April 2011	81,836	3,206	28,626	31,832	7,573	4,981	354	135	143	126,854
Additions	1,428		603	603	1,650				780	4,461
Revaluation increases/(decreases) to RR			2,137	2,137	78					2,215
Revaluation increases/(decreases) to SDPS	637		(236)	(236)						401
Derecognition - Disposals	(141)		(721)	(721)	(823)					(1,685)
Other movements			1,679	1,679	57					1,736
Other reclassifications	513	12	(242)	(230)	(121)	1	23		(513)	(327)
At 31 March 2012	84,273	3,218	31,846	35,064	8,414	4,982	377	135	410	133,655
Depreciation and Impairment										
At 1 April 2011	1,464	64	2,134	2,198	4,937	1,998	15	0	0	10,612
Depreciation Charge	1,815	64	514	578	684	382	3			3,462
Depreciation written out to RR	(27)	(64)	(549)	(613)						(640)
Depreciation written out to SDPS	(1,735)			0						(1,735)
Impairment losses/(reversals) to SDPS	299			0						299
Derecognition - Disposals	(3)			0	(796)					(799)
Reclassifications			(1)	(1)	(33)					(34)
At 31 March 2012	1,813	64	2,098	2,162	4,792	2,380	18	0	0	11,165
Net Book Value										
At 31 March 2012	82,460	3,154	29,748	32,902	3,622	2,602	359	135	410	122,490
At 31 March 2011	80,372	3,142	26,492	29,634	2,636	2,983	339	135	143	116,242

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

Other movements relate to assets previously valued below the de-minimus level of £10,000 that have now been revalued and recognised as above.

Impairments of £24,425,000 on Council Dwellings since 2008/09 should have been reflected in the 'At 1 April 2011' Cost or Valuation section not the 'At 1 April 2011' Depreciation and Impairment section. The Council has restated the prior year information for 2011/12 to reflect this change.

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

Council dwellings were revalued as at 1 April 2012 (the previous valuation was as at 1 April 2011). The valuation takes into account the use for social housing, and assumes social housing tenanted value is 32% of vacant possession value.

Depreciation

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

Council dwellings	- use of Major Repairs Allowance
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

Capital Commitments

At 31 March 2013, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years, budgeted to cost £2.3 million. Similar commitments at 31 March 2012 were £1.6 million. The major commitments are:

	2012/13 £'000
Works to council houses and flats	1,520
Vehicles and plant	596
Environmental improvements	120
Community grants	33
Sport and recreation	33

19. 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 revalued in accordance with the statement of accounting policies by K. Boothroyd BSc (Hons) MRICS.

	2012/13 £'000	2011/12 £'000
Rental income and service charges from investment property	(2,590)	(2,775)
Direct operating expenses arising from investment property	465	467
Net (gain)/loss	<u>(2,125)</u>	<u>(2,308)</u>

Movement in Fair Value of Investment Properties	2012/13 £'000	2011/12 £'000
Balance at 1 April	32,090	33,310
Disposals	0	(390)
Net gains/losses from fair value adjustments	(1,503)	(1,037)
Transfers to/from Property, Plant and Equipment	0	207
Balance at 31 March	<u>30,587</u>	<u>32,090</u>

20. Heritage Assets

	Sculptures and Structures	
	2012/13 £'000	2011/12 £'000
Cost or Valuation at 1 April	316	316
Additions/(Disposals)	<u>0</u>	<u>0</u>
Gross Book Value at 31 March	316	316
Depreciation and Impairment at 1 April	106	63
Depreciation charge	8	8
Impairment recognised in Surplus/ Deficit on the Provision of Services	<u>0</u>	<u>35</u>
At 31 March	114	106
Net Book Value at 31 March	202	210

In the late 1990's, the Council commissioned a series of ironwork sculptures to commemorate the life and works of Henry Cort. These can be viewed along West Street precinct, Fareham.

To commemorate Her Majesty's Golden Anniversary, the Council commissioned the design and construction of "HM Jubilee Gates". These are situated at southern end of Market Quay Car Park.

To commemorate the 25th Anniversary of the Falklands Conflict, the Council commissioned the design and construction of the "Falklands Arch" which is situated in Cremer Mall.

These assets are valued in the Balance Sheet at depreciated historic cost.

21. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets comprise software licences which are written off over their useful life.

	2012/13 £'000	2011/12 £'000
Balance at 1 April		
- Gross carrying amount	982	947
- Accumulated amortisation	(876)	(838)
Net carrying amount at 1 April	<u>106</u>	<u>109</u>
Additions		
- Purchases	84	35
- Amortisation for the period	(29)	(38)
Net carrying amount at 31 March	<u>161</u>	<u>106</u>
Comprising:		
- Gross carrying amount	1,066	982
- Accumulated amortisation	(905)	(876)

The Council has several software suites which are amortised over what is considered to be their individual useful economic lives. These range from 3 to 10 years.

22. Assets Held for Sale

	Non-Current Assets	
	2012/13 £'000	2011/12 £'000
Balance at 1 April	90	15
Assets newly classified as held for sale:		
- Property, Plant and Equipment	2,949	90
Revaluation losses	(1,684)	0
Assets sold	(45)	(15)
Balance at 31 March	<u>1,310</u>	<u>90</u>

The assets currently held for sale are:

- A caravan plot site at Dibbles Caravan Park. This is being sold to enable the Council to improve housing options for local people in housing need. The plot is administered by Housing Services.
- The site and adjoining land of the old and new community centres in Portchester. These are being sold as part of the arrangement with Hampshire County Council for the continued provision of community facilities in that area.
- Plots of land in Fareham town centre. These are being sold to a Housing Association who will provide additional housing in the Borough.

23. Impairment Losses

During 2012/13, the Council de-recognised impairment losses incurred and charged to Surplus/Deficit on Provision of Services in earlier years of £188,035. This relates to the revaluation of the Civic Offices and other land in the Borough.

The Council also recognised impairment losses of £1,684,448. This related to the revaluing of the new and old Community Centres in Portchester to the lower of carrying value or fair value upon transfer to Assets Held for Sale.

24. Leases

Council as Lessee

Finance Leases

The Council has not acquired any assets under Finance Leases.

Operating Leases

The Council has not acquired any vehicles or equipment by entering into operating leases.

The Council has acquired some land by entering into operating leases, with varying lives. The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2013 £'000	31 March 2012 £'000
Not later than one year	15	15
Later than one year and not later than five years	80	79
Later than five years	150	135
	<u>245</u>	<u>229</u>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	31 March 2013 £'000	31 March 2012 £'000
Minimum lease payments	13	15
Contingent rents	18	17
	<u>31</u>	<u>32</u>

Council as Lessor

Finance Leases

The Council has not leased out any property under a Finance Lease.

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 2013 £'000	31 March 2012 £'000
Not later than one year	1,804	1,550
Later than one year and not later than five years	5,189	4,705
Later than five years	39,104	39,960
	<u>46,097</u>	<u>46,215</u>

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 2012/13, contingent rents of £1.03 million were receivable by the Council (2011/12 £1.02 million).

25. 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:

2011/12 £'000	2012/13 £'000
1,782 Opening Capital Finance Requirement	51,050
Capital Investment	
4,461 Property, Plant and Equipment	4,268
35 Intangible Assets	84
731 Revenue Expenditure Funded from Capital under Statute	812
49,268 HRA Buyout Debt Payment	0
Sources of Finance	
(1,207) Capital receipts	(1,493)
(2,713) Government grants and other contributions	(3,039)
Sums set aside from revenue:	
(1,307) Direct revenue contributions	(632)
51,050 Closing Capital Finance Requirement	51,050
Explanation of movements in year	
49,268 Increase in underlying need to borrow	0
49,268	0

For 2011/12, the Council omitted a line for the HRA Buyout Debt Payment of £49,268,000. In order to correct this omission, the Council has amended the prior year information for 2011/12 including a line explaining the movement in the year.

26. Cash and Cash Equivalents

	31 March	
	2013	2012
	£'000	£'000
Cash held by the Council	10	10
Bank current accounts	(464)	(548)
Short-term deposits with banks	10,830	10,929
Total	10,376	10,391

27. Long Term Debtors

	31 March	
	2013	2012
	£'000	£'000
Mortgages - sale of council houses	4	5
Mortgages - other	80	82
Total	<u>84</u>	<u>87</u>

28. Short Term Debtors

	31 March	
	2013	2012
	£'000	£'000
Central government bodies	2,460	241
Other local authorities	1,223	466
NHS bodies	0	1
Public corporation and trading funds	0	0
Other entities and individuals	3,438	3,584
Total	<u>7,121</u>	<u>4,292</u>
Provision for Doubtful Debts	<u>(1,851)</u>	<u>(1,782)</u>
Total	<u>5,270</u>	<u>2,510</u>

29. Short Term Creditors

	31 March	
	2013	2012
	£'000	£'000
Central government bodies	1,210	870
Other local authorities	574	775
NHS bodies	0	0
Public corporation and trading funds	21	0
Other entities and individuals	1,386	1,985
Total	<u>3,191</u>	<u>3,630</u>

30. Depositors

	31 March	
	2013	2012
	£'000	£'000
Property Rent Deposits	43	31
Other	700	843
Total	<u>743</u>	<u>874</u>

31. Provisions

	Balance at 1 April £'000	Provision in year £'000	Applied in year £'000	Balance at 31 March £'000
Insurance	51	97	27	121
Employee Related	236	188	236	188
Land Charges	0	150	0	150
Total 2012/13	<u>287</u>	<u>435</u>	<u>263</u>	<u>459</u>
Total 2011/12	<u>243</u>	<u>272</u>	<u>228</u>	<u>287</u>

The insurance provision is set up to meet certain known liabilities in respect of risks e.g. fire, explosion, storm, flood, burst pipes, impact. This also includes a £22,000 provision for liabilities relating to MMI Limited for which there is also a contingent liability, see note 40. The employee related provision is used for accumulated absences due. A new provision has been set up in 2012/13 for personal search litigation for land charges.

32. 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	
	2013 £'000	2012 £'000
Balance at 1 April	4,530	5,794
Movements in year:		
Amounts received (with conditions)	1,853	964
Amounts recognised as income (conditions subsequently met):		
- Within Cost of Services	(492)	(347)
- Within Taxation and Non-Specific Grants	<u>(1,501)</u>	<u>(1,881)</u>
Balance at 31 March	<u>4,390</u>	<u>4,530</u>
Grants Receipts in Advance (Capital Grants)		
Leisure developer contributions	3,583	3,759
Affordable housing developer contributions	30	0
Other developer contributions	<u>412</u>	<u>358</u>
	<u>4,025</u>	<u>4,117</u>
Grants Receipts in Advance (Revenue Grants)		
Whiteley developer contributions	354	402
Other developer contributions	<u>11</u>	<u>11</u>
	<u>365</u>	<u>413</u>
Total Receipts in Advance	<u>4,390</u>	<u>4,530</u>

33. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and notes 6 and 34.

34. 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 in 2012/13.

	Balance at 1 April 2011			Balance at 31 March 2012			Balance at 31 March 2013
	£'000	Transfers Out £'000	Transfers In £'000	£'000	Transfers Out £'000	Transfers In £'000	£'000
General Fund							
Major Repairs and Renewals Reserve	1,125	0	155	1,280	0	22	1,302
Other Earmarked Reserves	1,787	(388)	1,406	2,805	(480)	74	2,399
Earmarked Capital Reserve	4,301	(1,256)	1,682	4,727	(1,132)	2,044	5,639
Total	7,213	(1,644)	3,243	8,812	(1,612)	2,140	9,340
HRA							
Housing Repairs Account	1,800	(2,658)	2,658	1,800	(84)	84	1,800
Capital Development Fund	0			0	0	2,164	2,164
Leaseholder Repairs Reserve	231	0	20	251	(85)	0	166
Total	2,031	(2,658)	2,678	2,051	(169)	2,248	4,130
Grand Total	9,244	(4,301)	5,921	10,863	(1,781)	4,388	13,470

35. Unusable Reserves

	31 March	
	2013	2012
	£'000	£'000
Revaluation Reserve	8,828	6,773
Capital Adjustment Account	95,591	97,158
Financial Instruments Adjustment Account	0	(99)
Deferred Capital Receipts Account	4	5
Pensions Reserve	(59,441)	(53,615)
Collection Fund Adjustment Account	14	77
Accumulated Absences Account	(188)	(236)
	<u>44,808</u>	<u>50,063</u>

Revaluation Reserve

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

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, 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.

2011/12 £'000		2012/13 £'000
2,675	Balance at 1 April	6,773
4,684	Upward revaluation of assets	3,580
	Downward revaluation of assets and impairment losses not	
(93)	charged to Surplus/Deficit on the Provision of Services	(1,440)
4,591		2,140
	Difference between fair value depreciation and historical	
0	cost depreciation	(42)
	Accumulated gains on assets disposed or reclassified to	
(493)	Investment Properties	(43)
(493)	Amount written off to the Capital Adjustment Account	(85)
6,773	Balance at 31 March	8,828

Capital Adjustment Account

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

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

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2011/12 £'000	2012/13 £'000
145,471 Balance at 1 April	97,158
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(4,040) Charges for depreciation and impairment of non-current assets	(5,512)
2,372 Revaluation losses on Property, Plant and Equipment	1,457
(38) Amortisation of Intangible Assets	(29)
(731) Revenue expenditure funded from capital under statute	(812)
(49,268) HRA Buyout payment to DCLG	0
(1,291) Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(415)
92,475	(5,311)
(2) Amount credited to Capital Receipts Reserve relating to part repayment of principle on long term debtor	(2)
494 Cumulative (gains)/losses on assets sold or reclassified as Investment Properties	43
0 Adjustment amounts written out of the Revaluation Reserve	42
92,967 Net written out amount of the cost of non-current assets consumed in the year	91,930
Capital financing applied in the year	
1,207 Use of the Capital Receipts Reserve to finance new capital expenditure	1,493
1,576 Use of the Major Repairs Reserve to finance new capital expenditure	1,088
968 Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,899
169 Application of grants to capital financing from the Capital Grants Unapplied Account	52
1,307 Capital expenditure charged against the General Fund and HRA balances	632
5,227	5,164
(1,036) Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,503)
97,158 Balance at 31 March	95,591

Financial Instruments Adjustment Reserve

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund or HRA Balance as appropriate to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund or HRA Balance in accordance with statutory arrangements for spreading the burden on council tax or council rents. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2012 will be charged to the HRA over the next year.

2011/12 £'000	2012/13 £'000
(267) Balance at 1 April	(99)
Proportion of premiums incurred in previous financial years to be charged against the General Fund or HRA Balance in accordance with statutory requirements	99
<u>168</u> Balance at 31 March	<u>0</u>

Deferred Capital Receipts Reserve

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

2011/12 £'000	2012/13 £'000
7 Balance at 1 April	5
(2) Transfer to the Capital Receipts Reserve upon receipt of cash	(1)
<u>5</u> Balance at 31 March	<u>4</u>

Pensions Reserve

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

2011/12 £'000	2012/13 £'000
(40,990) Balance at 1 April	(53,615)
(11,580) Actuarial gains or losses on pension assets and liabilities	(4,515)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the	
(3,120) Comprehensive Income and Expenditure Statement	(3,440)
Employers' pension contributions and direct payments to pensioners	
2,075 payable in the year.	2,129
<u>(53,615)</u> Balance at 31 March	<u>(59,441)</u>

Collection Fund Adjustment Account

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

2011/12 £'000	2012/13 £'000
110 Balance at 1 April	77
Amount by which council tax income credited to the Comprehensive	
(33) Income and Expenditure Statement is different from council tax	(63)
calculated for the year in accordance with statutory requirements	
<u>77</u> Balance at 31 March	<u>14</u>

Accumulated Absences Account

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

2011/12 £'000	2012/13 £'000
(187) Balance at 1 April	(236)
Settlement or cancellation of accrual made at the end of the	
187 preceding year	236
(236) Amounts accrued at the end of the current year	<u>(188)</u>
Amount by which officer remuneration charged to the	
(49) Comprehensive Income and Expenditure Statement on an	48
accruals basis is different from remuneration chargeable in	
the year in accordance with statutory requirements	
<u>(236)</u> Balance at 31 March	<u>(188)</u>

36. 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	31 March	31 March	31 March
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Borrowing at amortised cost	40,600	40,000	1,239	1,671
Trade Creditors	0	0	1,756	1,558
Financial Liabilities	40,600	40,000	2,995	3,229
Loans and receivables	0	5,000	32,681	27,573
Mortgages	84	87	0	0
Trade Debtors	0	0	1,679	1,720
Financial Assets	84	5,087	34,360	29,293

All borrowing is on fixed terms so there is no possibility of profit or loss and therefore they are shown as at amortised cost. A 5 year interest free loan of £1 million was received from Hampshire County Council during 2012/13. Of the £800,000 balance remaining, £600,000 is shown within long term borrowing and £200,000 within short term borrowing.

The Council has no financial assets that can be traded and no unquoted equity investments and therefore 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 2013 of £335,000 is included within the total investment outstanding of £32,681,000.

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, NNDR, government grants etc. are excluded.

Fair Values of Assets and Liabilities

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

- estimated ranges of interest rates as at 31 March 2013 of 4.03% to 4.05% for loans from the PWLB and rates of between 0.35% and 0.80% for loans receivable, based on new lending rates for equivalent loans and investments at that date.
- no early repayment or impairment is anticipated.
- where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

	31 March 2013		31 March 2012	
	Balance	Fair	Balance	Fair
	Sheet	Value	Sheet	Value
	£'000	£'000	£'000	£'000
Borrowing	40,600	36,117	41,671	33,067
Mortgages	84	84	87	87

The fair value of the borrowing is lower than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2013) arising from a commitment to pay interest to lenders below current market rates.

The fair value of the loans and receivables is the same as the carrying amount because the Council's portfolio of investments includes fixed rate loans which will all mature within 12 months of the Balance Sheet date.

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

37. Nature and Extent of Risks Arising from Financial Instruments

Key risks

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

Credit risk - the possibility that other parties might fail to pay amounts due to the Council;

Liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments;

Re-financing risk - the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;

Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the *Local Government Act 2003* and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - the Council's overall borrowing;
 - its maximum and minimum exposures to fixed and variable rates;
 - its maximum and minimum exposures to the maturity structure of its debt;
 - its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, along with quarterly updates to the Executive and a mid-year update to the Audit and Governance Committee.

The prudential indicators and the annual treasury management strategy approved by Council on 24 February 2012 are available on the Council website. The key issues within the revised strategy were:

- The Authorised Limit for 2012/13 was set at £66 million. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £55 million. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 10% based on the Council's net debt.

These policies are implemented by the Council's treasury officers. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

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, in accordance with the Fitch, Moody's and Standard & Poors' credit ratings services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

- Credit ratings of Short Term F1, Long Term A, Support bb- and Individual 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria.
- Part-nationalised UK institutions.

The following analysis shows the gross credit exposure by credit rating of the Council's investments as at 31 March 2013.

Rating Category	£'000
AAA or equivalent	0
AA or equivalent	6,009
A or equivalent	26,672
Rating not strong	0
Not rated	0
Total	<u>32,681</u>

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

The Council's maximum exposure to credit risk in relation to its £32.7 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 at the 31 March 2013 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 (£767,000 at 31 March 2013, £797,000 as at 31 March 2012). 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 2013		Bad Debt Provision		Amount Outstanding as at 31 March 2012		Bad Debt Provision	
	£'000	%	£'000	%	£'000	%	£'000	
Less than 1 year old	491	21	103		630	15	97	
1 and 2 years old	256	63	162		167	69	115	
2 and 3 years old	106	75	79		152	79	119	
More than 3 years old	445	95	423		490	95	466	
Total	1,298		767		1,439		797	

Collateral – During the reporting period the Council held no collateral as security.

Liquidity risk

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

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets is as follows:

Maturity of Investments	As at 31 March 2013	As at 31 March 2012
	£'000	£'000
Less than 3 months	18,681	21,573
3 to 6 months	6,000	3,000
6 months to 1 year	8,000	3,000
1 to 2 years	0	5,000
More than 2 years	0	0
Total	32,681	32,573

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

Refinancing and Maturity risk

The Council maintains a significant investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the Council's treasury officers address the operational risks within the approved parameters. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	Amount Outstanding	
	As at 31 March 2013 £'000	As at 31 March 2012 £'000
Maturity analysis of financial liabilities		
Less than 3 months	1,039	1,671
3 to 6 months	0	0
6 months to 1 year	200	0
1 year to 5 years	600	0
More than 39 years	40,000	40,000
Total	<u>41,839</u>	<u>41,671</u>

All other trade and payables are due to be paid in less than one year.

Market risk

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

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

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The Council's treasury officers will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

The interest rate profile of the Council's financial liabilities and assets that are all in sterling is shown in the following table:

Interest Rate Profile	Financial Liabilities £'000	Financial Assets £'000
Non-interest bearing	2,556	2,980
Floating rate	0	0
Fixed rate	<u>41,039</u>	<u>32,765</u>
Total	<u>43,595</u>	<u>35,745</u>
Fixed Rate		
Weighted Average Interest Rate (%)	3.50	1.54
Weighted Average Period (in years)	45.00	0.64

The following table provides a sensitivity analysis based on the impact of a 1% change in interest rates (with all other variables held constant).

Impact	Increase by 1% £'000	Decrease by 1% £'000
On interest payable	403	(400)
On interest receivable	<u>320</u>	<u>(199)</u>
On surplus/deficit on the provision of services	<u>723</u>	<u>(599)</u>

In 2012/13, a decrease of 1% would have reduced the interest on certain investments and borrowings to zero.

Price risk and Foreign exchange risk - The Council has no equity shares or shareholdings, and has no financial assets or liabilities denominated in foreign currencies, and thus has no exposure to fluctuations regarding price and foreign exchange risks.

38. 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 £282,677 at 31 March 2013.

In 2012/13, the fund's income was £2,487 and there was no expenditure. (In 2011/12, the fund's income was £2,498 and there was no expenditure). The fund's only asset was investments with the Council of £282,677 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 £'000
Sarisbury recreation ground	10	10	land
Swanwick Lane recreation ground	2	2	land
King George V playing fields	2	2	land
Crofton recreation ground	17	17	land
Titchfield recreation ground	15	15	land
Hook & Warsash allotments	2	2	land

The auditor for the Cocks Bequest and Sarisbury, Crofton and Titchfield recreation grounds is Mr. N. Wood ACMA.

39. 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 set out in the subjective analysis in Note 7 on reporting for resource allocation decisions and shown in the Grant Income note in Note 8.

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2012/13, 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 2012/13 is shown in Note 13.

Chief Officers

Chief Officers have the ability to influence the Council. During 2012/13, 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. Further information can be obtained from The Treasurer to the Joint Committee, Civic Offices, Civic Way, Fareham, PO16 7AZ.

Fareham Borough Council's share of the net assets of PCJC is £1,413,000 (2011/12 £1,353,000). In 2012/13, PCJC paid a contribution of £150,000 to the Council (£140,000 in 2011/12). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2013, £750,000 was invested with the Council (£1,370,000 at 31 March 2012).

Gosport and Fareham Building Control Partnership

The Gosport and Fareham Building Control Partnership provides building control services to both Fareham and Gosport Borough Council. The Partnership has been in operation since 2003. During 2012/13, the Partnership charged Gosport Borough Council £146,911 (2011/12 £163,040) for statutory building control services. The Partnership has a policy of dividing generated surpluses between the two authorities based on fee generating work in each Authority area. At 31 March 2013, the balance of retained surplus for future investment in the service held by Fareham Borough Council

was £66,903 and £48,389 held by Gosport Borough Council.

40. 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, have determined that a Levy rate of 15% of the value of outstanding claims of £148,000 will be required. A provision for £22,000 has been made (note 31) and a contingent liability of £126,000 for the remaining balance.

41. Cash Flow Statement - Operating Activities (Interest)

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

2011/12 £'000	2012/13 £'000
836 Interest received	526
<u>(8) Interest paid</u>	<u>(1,401)</u>
<u>828</u>	<u>(875)</u>

42. Cash Flow Statement - Adjust net surplus or deficit on the provision of services for non-cash movements

2011/12 £'000	2012/13 £'000
4,040 Depreciation and impairment	5,512
(2,371) Downward valuations	(1,457)
38 Amortisation of intangible assets	29
15 Increase/decrease in interest creditors	0
(718) Increase/decrease in creditors	350
62 Increase/decrease in interest debtors	(122)
390 Increase/decrease in debtors	(840)
1 Increase/decrease in inventories	(8)
1,045 Movement in pension liability	1,311
44 Contributions to/(from) provisions	172
1,291 Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised	415
<u>1,036 Movement in investment property values</u>	<u>1,503</u>
<u>4,873</u>	<u>6,865</u>

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

2011/12 £'000	2012/13 £'000
(1,092) Capital grants credited to surplus/deficit on the provision of services	(1,867)
(992) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(630)
<u>(2,084)</u>	<u>(2,497)</u>

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

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

	2012/13 £'000	2011/12 £'000
Income		
Gross rent income		
- Dwellings	(10,049)	(9,388)
- Other	(234)	(239)
Charges for services and facilities	(631)	(677)
Contributions towards expenditure	(293)	(338)
Total income from service	(11,207)	(10,642)
Expenditure		
Repairs and maintenance	2,227	2,563
Supervision and management	2,734	2,544
Rents, rates, taxes and other charges	35	34
Payment of negative subsidy to Government (Note 10)	(4)	3,032
Depreciation and impairment of non-current assets (Note 8)	1,031	(193)
Debt management expenses	24	48
Provision for doubtful debts	82	170
Exceptional expenditure (Note 13)	0	49,268
Total expenditure on service	6,129	57,466
Net expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement	(5,078)	46,824
HRA service share of corporate and democratic core	139	173
Net Expenditure for HRA Services	(4,939)	46,997
Gain on sale of HRA non-current assets	(123)	(138)
Change in fair value of Investment Properties	(68)	90
Interest payable	1,864	43
Interest receivable	(165)	(124)
Pension interest cost and expected return on pension assets	185	20
Capital grants and contributions receivable	(33)	(149)
(Surplus)/Deficit for year on HRA Services	(3,279)	46,739

MOVEMENT ON THE HRA STATEMENT

	2012/13	2011/12
	£'000	£'000
Balance on the HRA at the end of previous year	(4,814)	(4,647)
(Surplus) or Deficit for year on HRA I&E Statement	(3,279)	46,739
Remove gain on sale of HRA non-current assets	123	138
Pension reserve contributions	(176)	(17)
Amortisation of premiums and discounts	99	168
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	3	(13)
Capital expenditure charged to revenue	48	0
Transfers to/from Major Repairs Reserve	2,488	1,815
Transfers to/from Capital Adjustment Account	(930)	(49,016)
Adjustments between accounting basis and funding basis under statute	1,655	(46,925)
Net (increase) or decrease before transfers to or from the reserves	(1,624)	(186)
Transfer to/(from) reserves	2,080	19
Increase or (decrease) in year on the HRA	456	(167)
Surplus Carried Forward	(4,358)	(4,814)

The total surplus carried forward excludes balances of:

- Repairs Account;
- Leaseholders Reserve Account;
- HRA Capital Grants Unapplied; and
- Capital Development Fund.

which are included within the Movement in Reserves Statement.

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Housing Stock

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

	31 March 2013	31 March 2012	
Houses	818.75	820.25	
Flats	1,413.00	1,417.00	
Bungalows	165.00	166.00	
	<u>2,396.75</u>	<u>2,403.25</u>	

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 2012 is £262,743,250. 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.

	Council Dwellings £'000	Other Land & Buildings £'000	Plant & Equipment £'000	Assets Under Construction £'000	Total £'000
Movement in Values 2012/13					
Cost or Valuation					
At 1 April 2012	84,273	3,218	38	51	87,580
Additions	946			254	1,200
Revaluation Increases/(decreases) to RR	22	292			314
Revaluation Increases/(decreases) to SDPS	(355)				(355)
Recognition - Other	163			(163)	0
Derecognition - Disposals	(280)	(12)			(292)
At 31 March 2013	<u>84,769</u>	<u>3,498</u>	<u>38</u>	<u>142</u>	<u>88,447</u>
Depreciation and Impairment					
At 1 April 2012	1,813	64			1,877
Depreciation Charge	2,418	70	1		2,489
Depreciation written out to RR	(216)	(64)			(280)
Depreciation written out to SDPS	(1,596)				(1,596)
Derecognition - Disposals	(8)				(8)
At 31 March 2013	<u>2,411</u>	<u>70</u>	<u>1</u>	<u>0</u>	<u>2,482</u>
Net Book Value					
At 31 March 2013	82,358	3,428	37	142	85,965
At 31 March 2012	82,460	3,154	38	51	85,703

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

Movement in Values 2011/12	Council Dwellings £'000	Other Land & Buildings £'000	Plant & Equipment £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation					
At 1 April 2011	81,836	3,206		143	85,185
Additions	1,428		38	421	1,887
Revaluation Increases/(decreases) to SDPS	637				637
Reclassifications	513	12		(513)	12
Derecognition - Disposals	(141)				(141)
At 31 March 2012	84,273	3,218	38	51	87,580
Depreciation and Impairment					
At 1 April 2011	1,464	64			1,528
Depreciation Charge	1,815	64			1,879
Depreciation written out to RR	(27)	(64)			(91)
Depreciation written out to SDPS	(1,735)				(1,735)
Impairment losses/(reversals) to SDPS	299				299
Derecognition - Disposals	(3)				(3)
At 31 March 2012	1,813	64	0	0	1,877
Net Book Value					
At 31 March 2012	82,460	3,154	38	51	85,703
At 31 March 2011	80,372	3,142	0	143	83,657

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

3. Investment Properties

Movement in Fair Value of HRA Investment Properties

	2012/13 £'000	2011/12 £'000
Balance at 1 April	38	140
Net gains/losses from fair value adjustments	68	(90)
Transfer to/from Property, Plant and Equipment	0	(12)
Balance at 31 March	106	38

4. Major Repairs Reserve

	2012/13 £'000	2011/12 £'000
Balance at 1 April	1,251	1,011
Receipts in year	2,488	1,815
Used in year:		
- Houses and flats	(1,089)	(1,537)
- Solar Panels	0	(38)
Balance at 31 March	2,650	1,251

5. Housing Repairs Account

	2012/13 £'000	2011/12 £'000
Balance at 1 April	1,800	1,800
Contribution from Housing Revenue Account	2,127	2,604
Other Income	38	54
Expenditure	<u>(2,165)</u>	<u>(2,658)</u>
Balance at 31 March	<u>1,800</u>	<u>1,800</u>

6. Capital Financing

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

	Houses and flats £'000	Assets under Construction £'000	Total £'000
Capital Receipts	0	112	112
Major Repairs reserve	946	142	1,088
Expenditure in 2012/13	<u>946</u>	<u>254</u>	<u>1,200</u>

7. Capital Receipts

Capital receipts from the sale of Housing Revenue Account property in the year were as follows:

	2012/13 £'000	2011/12 £'000
Right to buy sales of houses and flats	<u>406</u>	<u>279</u>
	<u>406</u>	<u>279</u>

8. Depreciation and Impairment

		2012/13 £'000	2011/12 £'000
Depreciation	Dwellings	2,417	1,815
	Garages	70	64
	Plant & Equipment	1	0
	Total	<u>2,488</u>	<u>1,879</u>
Impairment	Dwellings	<u>140</u>	<u>299</u>
	Total	<u>140</u>	<u>299</u>
Revaluation gain	Dwellings	<u>(1,597)</u>	<u>(2,371)</u>
	Total	<u>(1,597)</u>	<u>(2,371)</u>
Total charge		<u>1,031</u>	<u>(193)</u>

The impairment charge in 2012/13 relates to the difference between the historic cost of a newly built council dwelling and its Existing Use-Social Housing Valuation plus a revaluation of properties as part of the new Collingwood House development to a non-operational basis.

For 2012/13, there has been no change to the adjustment factor applied to the market value of properties to derive the Existing Use-Social Housing Valuation but there has been a decrease in market values. This is represented by the revaluation loss.

9. Capital Asset Charges Accounting Adjustment

The HRA is debited with a sum equal to the impairment, depreciation of dwellings and other assets held within the account.

10. Subsidy

The amount of HRA subsidy receivable for the financial year is as follows:

	2012/13 £'000	2011/12 £'000
Management and maintenance	0	3,948
Major repairs allowance	0	1,815
Charges for capital and interest	5	271
Rent income	(1)	(9,066)
Total subsidy (payable to)/received from the Government under the 1989 Act	4	(3,032)

In 2011/12, the HRA Subsidy System was abolished by the Government. The monies received in 2012/13 represent a refund of monies paid during 2011/12 based upon estimates that could not be quantified as actuals until the end of 2011/12.

11. Arrears

At 31 March 2013, arrears were 4.29% of the gross income due in the year. 2012/13 and 2011/12 were 52 week rent years. The arrears figures are as follows:

	2012/13 £'000	2011/12 £'000
Arrears at 31 March	459	377
Gross incomes	10,704	10,345
Provision for uncollectable rents	370	293
Arrears as a percentage of gross income	4.29%	3.65%

12. Pensions (see also note 17 to the core financial statements)

The service cost of pensions under IAS19 is included in Housing Revenue Account expenditure and a contribution is made either to or from the pensions reserve to bring the amount charged in the account to that actually paid in the year, so there is no effect on rents.

13. Exceptional Expenditure

There was no exceptional expenditure in 2012/13. However, in 2011/12 £49.268 million was paid to the Department for Communities and Local Government (DCLG) to leave the HRA Subsidy System.

THE 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. The Collection Fund is consolidated with the Council's other accounts.

	2012/13		2011/12
	£'000	£'000	£'000
Income			
Income from Council tax (note 1)			
Billed to taxpayers	55,910		55,662
Council tax benefits	4,281		4,233
		60,191	59,895
Income from business ratepayers (note 2)		37,338	38,196
		97,529	98,091
Expenditure			
Distribution of previous year's Collection Fund surplus			
From Fareham Borough Council	49		61
From Hampshire County Council	364		455
From Hampshire Police Authority	51		64
From Hampshire Fire and Rescue	21	485	27
Precepts and demands from County and District			
Fareham Borough Council	6,095		6,001
Hampshire County Council	45,111		44,417
Hampshire Police Authority	6,357		6,259
Hampshire Fire and Rescue	2,668	60,231	2,627
Business rate (note 2)			
Payment to national pool	37,195		38,052
Costs of collection	143	37,338	144
Provision for doubtful Council Tax debts:			
Increase/(Reduction) in Provision	123		160
Written Off in Year	(23)		77
Council Tax Benefit 2010/11 Final Claim Adjustment	0	100	78
		98,154	98,422
Surplus/(deficit) for the year: movement on fund balance		(625)	(331)
Fund balance brought forward at 1 April		761	1,092
Fund balance carried forward at 31 March		136	761

NOTES TO THE COLLECTION FUND

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, Hampshire Police Authority (now known as 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; 43,465 for 2012/13 (42,796 for 2011/12). 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:

	2012/13	2011/12
	£	£
Fareham Borough Council	140.22	140.22
Hampshire Police Authority	146.25	146.25
Hampshire Fire and Rescue Authority	61.38	61.38
Hampshire County Council	1,037.88	1,037.88
Total	<u>1,385.73</u>	<u>1,385.73</u>

Council tax bills were based on the following proportions for Bands A to H;

Band A	6/9
Band B	7/9
Band C	8/9
Band D	9/9
Band E	11/9
Band F	13/9
Band G	15/9
Band H	18/9

2. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies an amount (in 2012/13, 45.0p for small businesses and 45.8p for large; in 2011/12, 42.6p for small businesses and 43.3p 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 but pays the proceeds into an NNDR pool administered by the Government. The Government re-distributes the sums paid into the pool back to local authorities' general funds on the basis of a fixed amount per head of population.

The rateable value at 31 March 2013 was £103,927,458 (£102,230,459 as at 31 March 2012). This rateable value is based on the valuation list effective from 1 April 2010.

3. Collection Fund Balance

The Collection Fund balance attributable to the Council and the amounts payable to precepting authorities are as follows:

	2012/13 £'000	2011/12 £'000
Fareham Borough Council	14	77
Precepting Authorities - Local Authorities	122	684
Total	<u>136</u>	<u>761</u>

4. Collection Fund - Balance Sheet Items (Council Tax)

The accounting code reflects the view that billing authorities in England act as agents, collecting council tax on behalf of major preceptors and itself. This means that council tax transactions and balances need to be allocated between the billing council and major preceptors.

The Council has accounted for the Collection Fund balances in the statement of accounts by showing the balances which are attributable to the Council as follows:

- In the Balance Sheet at 31 March 2013, a debtor of £266,362 (£99,998 in 2011/12) has been shown within debtors as Council Tax payers' arrears and a creditor of £41,313 (£44,028 for 2011/12) has been shown within creditors as Council Tax payers in advance.
- There is also a debtor totalling £374,863 (creditor of £186,895 for 2011/12) included within debtors as Local Authorities. This represents the balance of the Collection Fund surplus and Balance Sheet items which is attributable to the major preceptors.

5. Collection Fund - Balance Sheet Items (NNDR)

The accounting code reflects the view that billing authorities in England collect NNDR under what is in substance an agency arrangement with the Government. This means that any NNDR debtor and creditor balances with taxpayers at year end are not assets or liabilities of the billing Council and should not be recognised in the Council's Balance Sheet.

The Council has accounted for the NNDR balances in the statement by showing the net total of the NNDR balance sheet items and the amount due from the Government as at 31 March 2013 as a debtor of £1,304,578 (creditor of £220,468 for 2011/12) within Government Departments.

6. Collection Fund - Movement in Reserves Statement

In the Movement in Reserves Statement, there is line for attributable movement on the Collection Fund balance to record a movement of £66,324.60 (£33,526 in 2011/12). This is because the accounting code requires that the Collection Fund income shown in the Comprehensive Income and Expenditure Statement for the year is the accrued income for the year instead of the amount that under regulation to be transferred to the General Fund.

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.

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 amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

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 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

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Friday - 8.45am to 4.45pm

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **23 September 2013**

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

Subject: **ANNUAL GOVERNANCE STATEMENT 2012/13**

SUMMARY

This report brings the 2012/13 Annual Governance Statement for member approval. It is a statutory requirement that this document is compiled each year and published by the Council as an accompaniment to the annual Statement of Accounts.

RECOMMENDATION

That the Annual Governance Statement for 2012/13, as attached as [Appendix C](#), be approved, or any changes required are identified

INTRODUCTION

1. Since 2003 the Council has had a statutory obligation to publish a statement on its systems of control with its Annual Statement of Accounts. The precise wording of this obligation was updated in the Accounts and Audit Regulations 2011 which is as follows:

“The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk.”

The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control. The findings of the review must be considered by the members of the body meeting as a whole or by a committee, and following the review the body or committee must approve an annual governance statement prepared in accordance with proper practices in relation to internal control.

The relevant body must ensure that the statement accompanies any statement of accounts it is obliged to prepare.

2. The “proper practices” for this obligation are regarded to be the CIPFA/SOLACE governance framework first published in 2007. An addendum to this publication was published in December 2012 which gives councils more flexibility over what systems of controls are covered in the review of effectiveness and allows actions already taken in the year to be reported alongside new actions identified during the review.
3. Some adjustments have also been made to the wording on the statement, in particular the Chief Executive Officer and Leader of the Council will now be signing to say that:

*“We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Governance Committee and the arrangements continue to be regarded as **fit for purpose** in accordance with the governance framework.*

4. This report therefore informs members of the processes that have been used to prepare the Annual Governance Statement for 2012/13 as attached as [Appendix C](#), and seeks approval for this to accompany the Statement of Accounts for 2012/13 due to be published in October 2013.

RESPONSIBILITIES OF THIS COMMITTEE

5. The annual review of the effectiveness of the Council's governance framework and systems of control has now been completed by the officers on the “Chief Executive’s Assurance Group”, who have also compiled the action plan for completion. These findings have been fed into the text of the Annual Governance Statement.
6. Member involvement in the process is important to establish corporate ownership of the governance framework.
7. The specific role of members in the process is to:-
 - (a) confirm that a robust approach has been taken to review the Council's governance framework and systems of internal control;
 - (b) confirm that the sources of evidence are appropriate and support the Annual

Governance Statement; and

- (c) approve the content of the Statement and action plan or make suggestions for improvement.
8. The final version of the Statement, taking on board members' comments, will then be signed by the Chief Executive Officer and the Leader of the Council before being published.

GOVERNANCE FRAMEWORK

9. The Governance Framework "*comprises the systems and processes and culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor achievement of the strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services". The system of internal control "is a significant part of the framework and is designed to manage risk to a reasonable level".*
10. In response to the new guidance, the Council has redefined its Governance Framework this year. The previous three parts have been merged into one set of 21 elements as listed in [Appendix A](#).

SOURCES OF EVIDENCE

11. Each of these elements was reviewed and discussed by the Chief Executive Assurance Group which consists of the Chief Executive, the 5 directors and the Head of Audit and Assurance. The following additional evidence was also reviewed to support the discussions:
- Head of Audit's Annual Report 2012/13.
 - Detailed review of trends on audit recommendation implementation.
 - Summary of external assurances received in the year (as listed in [Appendix B](#)).
 - Internal review of how the council can influence the accountability for service delivery and effectiveness of other public service providers.
 - Review of progress made on the actions included in the previous Annual Governance Statement.

ANNUAL GOVERNANCE STATEMENT

12. The Annual Governance Statement, as attached as [Appendix C](#), has been drafted in accordance with the CIPFA proper practices guidance and many of the sections are standard text. However, extra care has been taken this year to make the wording in the statement easier to understand and consistent throughout the document.
13. The list of improvements already delivered or identified during this review are highlighted on pages 17 and 18 of the statement. It should be noted that these do not necessarily signify a significant control weakness in the Council's framework but tend more to reflect ideas for improvements to existing processes.

RISK ASSESSMENT

14. The Annual Governance Statement is a statutory requirement and will be published on the Council's internet site with the Statement of Accounts. It is audited by the Council's external auditor.

CONCLUSION

15. This organisation has defined an appropriate Governance Framework on which to base its Annual Governance Statement. The sources of assurance have been subject to a risk based review to allow the Annual Governance Statement to be drawn up for 2012/13.

Background Papers: None

Reference Papers:

CIPFA Financial Advisory Network - The Annual Governance Statement - meeting the requirements of the Accounts and audit Regulations 2003, incorporating Accounts and Audit (Amendment) (England) Regulations 2006 - Rough Guide for Practitioners with effect from 2007/08 - Final Version Published April 2008.

CIPFA/ SOLACE - Delivering Good Governance in Local Government - Framework and Guidance 2007 and Addendum 2012

Report to Audit Committee 24/09/12 – Annual Governance Statement 2011/12.

Appendices:

[Appendix A](#) – Components of the Fareham BC Governance Framework.

[Appendix B](#) – List of external assurances reviewed

Appendix C – Draft Annual Governance Statement 2012/13 ([attachment](#)).

Enquiries:

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

Components of the Fareham BC Governance Framework

New Ref	Element	
1		<p>Vision and Outcomes</p> <p>Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users.</p>
2		<p>Vision and Governance</p> <p>Reviewing the authority's vision and its implications for the authority's governance arrangements.</p>
3		<p>Vision and Objectives</p> <p>Translating the vision into objectives for the authority and its partnerships.</p>
4		<p>Quality and Value for Money</p> <p>Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring they represent the best use of resources and value for money.</p>
5		<p>Constitution</p> <p>Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements.</p>
6		<p>Codes of Conduct</p> <p>Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.</p>
7		<p>Decision Making</p> <p>Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality.</p>
8		<p>Risk Management</p> <p>Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability.</p>
9		<p>Counter Fraud</p> <p>Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.</p>
10		<p>Change Management</p> <p>Ensuring effective management of change and transformation.</p>
11		<p>Financial Management</p> <p>Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and, where they do not, explain why and how they deliver the same impact.</p>

New Ref	Element	
12		<p>Internal Audit</p> <p>Ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact.</p>
13		<p>Monitoring Officer</p> <p>Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function.</p>
14		<p>Head of Paid Service</p> <p>Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function.</p>
15		<p>Audit Committee</p> <p>Undertaking the core functions of an Audit Committee, as identified in CIPFA's <i>Audit Committees: Practical Guidance for Local Authorities</i>.</p>
16		<p>Laws and Policies</p> <p>Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful.</p>
17		<p>Whistleblowing</p> <p>Whistleblowing and receiving and investigating complaints from the public.</p>
18		<p>Training and Development</p> <p>Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.</p>
19		<p>Communication</p> <p>Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.</p>
20		<p>Other Service Providers</p> <p>Enhancing the accountability for service delivery and effectiveness of other public service providers.</p>
21		<p>Partnerships and Governance</p> <p>Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements.</p>

Sources of External Assurance Reviewed this Year

Type	Report
External Audit	Annual Audit Letter 2011/12 (Sept 2012)
	Annual Certification Report 2011/12 (Feb 2013)
	Quarterly verbal meetings with senior managers
Government Department or Agency	Food Standards Agency [March 2013] – Interim report only received to date
	GCSx CoCo annual compliance submission (August 2013)
	DVLA - Use of Web Enabled Enquiry (WEE) System (December 2012)
	DVLA - Use of DVLA information in connection with parking contraventions (December 2012)
	VOSA - Operator Risk Score and Licence renewal
	Local Government Ombudsman - Complaints Received
	Insurers
Standards Assessment	Building Control BSI Quality Assurance Audit (April 2013)
Other	Annual inspection of fuel management system and pumps to support our license to store fuel.
	HCC Safeguarding Board - Section 11 audit submission and response.

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Annual Governance Statement

2012/13

Appendix C

Scope of responsibility

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

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

Fareham Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of our code is on our website at:

[http://www.fareham.gov.uk/
about_the_council/strategies/
policydocs.aspx](http://www.fareham.gov.uk/about_the_council/strategies/policydocs.aspx)

This statement explains how Fareham Borough Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3) which requires all relevant bodies to prepare an annual governance statement.



The purpose of the Governance Framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an on going process designed to identify and prioritise the risks to the achievement of the authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Fareham Borough Council for the year ended 31 March 2013 and up to the date of approval of the Statement of Accounts.

The Governance Framework

The key elements of the systems and processes that comprise Fareham Borough Council's governance arrangements are summarised in this document.



Community Communication

The Council's approach to communication is set out in the Communications and Engagement Strategy which is monitored and updated annually by the Chief Executive's Management Team. New ways of communicating, such as the Council Connect stand in the town centre, have been introduced this year and there has been a major revamp of the Council's website.

The Council has a Public Relations and Marketing Team which encourages all departments to seek advice from them on the best communication methods to be used for events and information. There is also a Customer Engagement Manager who coordinates and undertakes community consultation exercises using a variety of methods. These include an e-panel of over a 1000 residents and the use of a youth engagement officer so that the views and needs of young people can be heard. The Public Relations and Marketing Team are also responsible for working with the media to convey important messages to residents.

The Council carries out a Residents Survey every two years to get the views and priorities of 4,020 randomly selected people from the electoral register. This is next due in 2013/14.

Community Action Teams (CATs) are well established in five neighbourhoods in the Borough, and CAT meetings take place three times a year. Residents are able to pick the topic to be discussed each time, and special meetings can be arranged at residents' request about specific issues. The Leader of the Council chairs a discussion at the summer meetings each year on the Council's vision, objectives, achievements and priorities.

The Council has adopted three Equality Objectives and developed an Action Plan for 2012-16 for how we can better meet these objectives. These objectives set out how we take into account the needs of the diverse groups that make up our community.



Council's Visions and Objectives

The Council's purpose and objectives are affected by changes in legislation and government. However, it uses the information from its communication channels to put these into a local context and identify local priorities.

Our Corporate Strategy 2011-2017 describes an overall vision for the Borough and sets out our priorities for improvement over a six-year period. The strategy highlights our commitment to make sure Fareham remains a safe and attractive place to live and work. This is updated and reviewed by the Executive annually and is available on our website.

[http://www.fareham.gov.uk/about the council/strategies/keystrategies.aspx](http://www.fareham.gov.uk/about_the_council/strategies/keystrategies.aspx)

The next major review is scheduled to be completed by March 2016.

A "Big Picture" report covering the hot topics in the Borough and what people are talking about is reviewed every six months by the Chief Executive's Management Team.



Service Quality and Value for Money

Local service agreements set out how well we are doing on delivering key services in line with our corporate priorities. They were launched in 2012 and are updated annually. The local service agreements include a list of key performance measures which are monitored. The Council was also proactive in launching a transparency portal on its website, as linked below, to provide information and data about the way it is being run. This gets regularly updated:

<http://www.fareham.gov.uk/about-the-council/financial-information/intro.aspx>

Monitoring, self-assessment against national standards, intelligence gathering and sharing with other organisations and feedback from customers all provide on-going information on the services we provide. Internal audit and external inspections provide an added layer of assurance of service and quality. The Council is developing a culture focusing on what matters to the customer, which will lead to better quality and value for money services.

The Council maintains a corporate efficiency action plan which identifies cost saving improvement actions. Further projects from this plan were delivered during 2012/13 and the savings target was achieved. This enabled the 2013/14 budget to be set which was balanced and sustainable, without the need to draw upon reserves.

The need for more efficiencies is regularly assessed by the Chief Executive's Management Team during the year.

The Council continued to jointly buy goods and services with other Councils, which again contributed £0.2m in savings this year to the cost of service delivery. We also continued to build upon successful services delivered jointly with other local authorities and further developed the Environmental Health partnership with Gosport Borough Council and the Eastern Solent Coastal Partnership in 2012/13.

Member and Officer Roles and Responsibilities

The Council's constitution sets out how:

- How the Council operates
- The roles, responsibilities and relationships between the Executive, Overview and Scrutiny, and the different committees.
- How decisions are made and what procedures are to be followed.
- The roles of Executive Members, Committee Chairmen and Chief Officers.
- The functions, responsibilities and post holders of the three statutory officers: Head of Paid Service, Monitoring Officer and Chief Finance Officer.

An update of the Constitution documentation is planned for 2013/14.

A member / officer protocol is in place which establishes effective communication between them. This was last updated in February 2009.

Decision Making

The Constitution sets out how different types of decisions are made including who has responsibility for making them. The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means.

Meetings are held in public except where personal or confidential matters are being discussed. The Forward Plan highlights any 'key decisions' due to be made by the Council. The Standing Orders for Meetings are in the process of being reviewed and updated.

The Scheme of Delegation sets out when and how the Executive Committee, portfolio holders and officers can make Executive decisions. Similar schemes have been agreed for Planning Development Control and Licensing and Regulatory functions. These are regularly reviewed.

Where partnerships have been developed with other agencies, decision making powers and delegated powers are documented and presented to members.

Risk Management

The Council has carried out a major revision to its Risk Management framework and Policy which further embed risk management in the everyday workings of the Council. The arrangements are tested every three years by internal audit and the next audit is due in 2014.

A Central Risk Directory identifies the links between the corporate priorities, significant projects, risks managed and assessed by Heads of Service, all of which contribute to the development of a single Corporate Risk Register.

The first Corporate Risk Register under the new framework was reviewed by the Audit and Governance Committee in March 2013. It is owned and monitored by the Chief Executive's Management Team and is being updated every six months.

Codes of Conduct

The Council has responsibility for hearing and considering complaints about the conduct of Councillors in Fareham. The Localism Act 2011 has changed the standards regime and the Council has put in place new arrangements to deal with matters of ethics, honesty and Members' conduct.

At the meeting of full Council on 21 June 2012, a revised Members' Code of Conduct, and arrangements for dealing with complaints about Members, were adopted that were consistent with the requirements of the Localism Act 2011. These new arrangements came into effect on 1 July 2012. Training was given to Members on the new code when it came into force.

A report is presented annually to the Audit and Governance Committee, who have responsibility for overseeing the new standards arrangements. The report set out the number of complaints received. A report will also be presented to the Committee in March 2014 providing an update on how the current arrangements are working with possible recommendations for improvement.

The Council's Disciplinary Code of Conduct and Disciplinary Rules and Procedure aims to maintain appropriate standards of conduct at work by employees. It ensures that employees are treated fairly and supports a healthy and pleasant working environment, through fair and effective management of disciplinary matters.

Codes of Conduct continued

The Trade Unions were consulted on the code and it was last amended in 2008. All new employees receive a copy of the code. Further guidance and processes, such as an electronic system where employees can register their interests, help ensure everyone is aware of the code.

Member and Officer Development

A revised member training and induction programme was introduced in 2012/13. A workshop was held in which members assessed how confident they felt on a list of subjects and how significant it was to their role as a member.

This was turned into a modular induction and training programme which members can take over a few months after being elected. The programme was approved by the Audit and Governance Committee in March 2013.

This programme is supplemented by specific topic briefings for all members. A total of 18 member training/briefing events took place in 2012/13.

A review of officer training & development has been undertaken and a new approach has been introduced. This will provide a more coordinated approach to the training needs of the organisation and ensure that employee development and training costs are made the most of. The Council will also be rolling out the Skillgate training suite during 2013/14.



Change Management

The Council seeks to avoid complacency and continuously challenges the way it works. It is adopting a system thinking approach across the organisation, putting the customer at the centre of the design of its services. This is being introduced through a structured learning and mentoring programme across the Council, which will include a series of workshops for officers and members. The Council also has a Business Transformation team which assists with process redesign.

During the early part of 2013/14 the Council launched a new approach to individual performance management to help us improve service delivery.

Financial Management

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council's Medium Term Finance and Treasury Management Strategies are updated each year and approved by Members. The Council has adopted an integrated approach to service and financial planning.

Finances are monitored through regular budgetary control reports and discussions with nominated budget holders, directors and the relevant portfolio holder. These meetings cover all aspects of service delivery that have a financial consequence.

Monthly summary financial information is published online for all Members, showing actual performance against budgets for the year to date.

Quarterly financial reports showing expenditure against targets are prepared and presented to the Chief Finance Officer and Executive Members. These reports focus on services with high spend /or which are subject to a lot of fluctuations. Regular Accountants' meetings are held to ensure consistency in the financial services provided to Budget Managers, maintaining Accountants' knowledge of current developments and allowing experiences to be shared.

Quarterly reports on the Council's loans and investments are presented to the Chief Finance Officer and the Executive Members along with a set of indicators as to the impact of capital investment decisions.

There is regular contact with advisors on treasury management and risk financing in order to keep pace with current developments.

Internal Audit and Audit Governance Committee

The Council has an internal audit service which delivers a risk based plan of work approved by the Audit and Governance Committee. This goes beyond purely financial governance. The service was again jointly delivered by an in-house team and an external contractor in 2012/13 which ensures that the whole scope of the plan could be delivered. Work was carried out in accordance with the CIPFA Code of Practice. As of 1st April 2013 this has been replaced by the Public Audit Internal Standards and we will be carrying out a review of the implications of this change.

Managers receive a report of findings and any recommendations at the end of each assignment which are tracked until they are put into practice. A summary of the work undertaken and the findings are reported quarterly to the Audit and Governance Committee.

The Council has an Audit Committee which undertakes the core functions in accordance with the CIPFA guidance. It reports directly to the Full Council. In 2012/13 the Audit Committee became the Audit and Governance Committee with its responsibilities extended to include those previously undertaken by the Standards Committee.

This committee meets four times a year and receives reports covering the range of governance issues set out in its terms of reference. In particular it receives the Head of Audit's Annual Report and the External Auditor's Annual Audit letter.

Ensuring Compliance with Relevant Laws and Policies

Fareham Borough Council and Southampton City Council have formed a legal partnership. This helps ensure that the Council has access to a wider range of solicitors for support. It also helps the Council in complying with any new legislation and having the right policies in place.

A review has been carried out of the top laws and policies where assurance is needed as part of the governance framework. Part of this assurance will be provided by the Internal Audit Service who will test compliance with a sample of key policies every year.

Key policies are regularly reviewed to ensure they are up to date and relevant. Contract Procedure Rules are reviewed annually by the Audit and Governance Committee and were last amended in November 2012.

The Council's Financial Regulations are being reviewed to streamline them down to the key rules that are necessary for the Council to manage its financial affairs within the resources available. The review of ten more of the twenty one regulations was completed by the Audit and Governance Committee in 2012/13. The regulations are supported by a series of documents which give further guidance on the purpose of the regulations and methods to ensure compliance. These are then put into a series of procedure notes and manuals used by individual services.

Employees receive a personal copy of key policies during their induction and have to acknowledge that they have received them. The induction process then seeks to deepen their understanding relevant to their role in the organisation.



Whistleblowing and Complaints

The Council's Whistleblowing Policy is reviewed every three years by the Audit Committee and was last reviewed in February 2013. The Policy is included in employees' contracts of employment and induction process. A reminder campaign is planned with the launch of the updated employee code of conduct as part of the Bribery Act action plan. New electronic reporting methods have been set up for employees and members of the public. A central database recording incidents of Whistleblowing and results has been set up and will be maintained by the Director of Regulatory & Democratic Services. From June 2013 all whistleblowing incidents will be reported to the Audit and Governance Committee.

Following a review of the complaints arrangements, a revised formal procedure was approved by the Executive in 2011/12. It reduces the number of stages in the complaints procedures, both of which are managed within departments

Complaints to the Local Government Ombudsman are dealt with by designated Council officers. An annual report covering complaints made to the Local Government Ombudsman is received by the Audit and Governance Committee. This showed a reduction in the number of complaints received, which was below the average for a district council in 2012/13. There were no conclusions of maladministration by the Council.

Counter Fraud

The Council has adopted an Anti Fraud and Corruption Policy which is supported by a programme of work to review and strengthen our counter fraud arrangements. Detailed risk assessments are being carried out on the top fraud risks faced by councils, with a view to maximising the cost effectiveness of our approach to the prevention and detection of the risks posed by these frauds in our borough.

This work is led by a small Corporate Counter Fraud team who also carry out investigations. The Council also employs a team of Benefit Fraud investigators who specialise in Housing and Council Tax Benefit Fraud.

The Audit and Governance Committee receives six monthly updates on the work carried out on the counter fraud framework and the types of and results of investigations carried out.

Enhancing the Accountability of other Service Providers

The Council has identified the groups and organisations which we work with on a regular basis which provide important services to the community. We have also identified what we have in place to enhance their accountability for the services they deliver. This will be subject to an annual report to the Chief Executive's Management Team. The Scrutiny Board plays an important role in working with other service providers and will invite them to appear at a meeting.

Partnership Governance

The Council delivers a variety of services by entering into partnership agreements. These are assessed for their significance to the Council in terms of the results they seek to deliver, their profile/reputation and the resources that are put into them.

Failure of a significant partnership is one of the top level risks managed on the Council's Corporate Risk Register.

6 partnerships were deemed significant to the council in 2012/13 compared to 11 in 2010/11. Lead officers are assigned to each partnership. They are responsible for day to day liaison and for providing the Chief Executive's Management Team with details of any significant changes to the circumstances / membership of the partnership.

Senior Officers and/or Members sit on the board of the Council's significant partnerships and take an active part in discussions and decision making.

The Council maintains a Corporate List of its significant partnerships with links to the agreements in place. These were last reviewed by the Chief Executive's Management Team in January 2013 to confirm the significance of the partnership, review any potential governance issues and review how it is performing.



Review of Effectiveness

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

The review of effectiveness has been led by the Chief Executive's Assurance Group. This group has been set up by the authority to define the Governance Framework and gather assurances on its effectiveness. It consists of all five members of the Senior Management Team, which includes the Monitoring Officer and Chief Finance Officer, and is chaired by the Chief Executive Officer. The Head of Audit and Assurance also attends.

The group met three times in the year and reviewed the following sources of evidence:

- Analysis of each of the 21 parts of our governance framework against current knowledge, including that provided by reports seen by the Chief Executive Officers Management team during the year.
- Head of Audit's Annual Report 2012/13 and detailed analysis of outstanding recommendations.
- Summary of what reports and feedback we have received from external auditors, inspectors or other external agencies in the year.
- Internal review of how the Council can influence service delivery and the effectiveness of other public service providers.
- Review of progress made on the actions included in the previous Annual Governance Statement.

Head of Internal Audit's annual report

Internal audit cannot give absolute assurance. However, the conclusions drawn from the results of the work carried out in the year were that the Council again had good systems of internal control for the year 2012/13. These were working satisfactorily, despite the economic climate and reduction of funding available to operate those systems of control. The Council is striving to identify and focus its resources on those controls which represent a genuine high risk rather than to meet general best practice guidance in all areas.

There is generally good awareness amongst managers about their top risks. Actions are agreed to address weaknesses identified through the management or audit processes. How quickly the actions are fully implemented can vary given the competing demands and reduced resources available to services, but priority is placed on any essential actions identified.

There were no opinions of Minimal Assurance given in the year from our scale of Minimal, Limited, Reasonable and Strong. There were 3 opinions of Limited Assurance and action plans have been agreed with managers to tackle the issues raised which will be followed up in 2013/14.



External Assurances

The Council's independent external auditors for the year were Ernst and Young. They have worked throughout the year in accordance with their code of practice. The findings from this work were summarised in their Annual Audit letter which was circulated to Members and the statutory officers and presented to the Audit and Governance Committee. This letter was very positive and unqualified opinions were given.

External Assurances Continued

The results of other external inspections and audits undertaken during the year which have been used as a source of assurance were:

- Inspection by the Food Standards Agency.
- Inspections by the Driver and Vehicle Licensing Agency on our use of their databases.
- The operator risk score issued by the Vehicle and Operator Services Agency for our transport fleet
- Report of the Local Government Ombudsman
- Hampshire Safeguarding Children Board review of our self-assessment of our compliance with the Section 11 requirements.

The conclusion from the review of effectiveness is that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The Audit and Governance Committee have reviewed the sources of assurances used this year and have scrutinised the content of the Annual Governance Statement.

Actions Taken to Strengthen the Governance Arrangements in 2012/13

The annual review of effectiveness have identified that the following actions were taken in particular during 2012/13 to strengthen our governance arrangements:

- The Communication's Strategy was updated and new forms of communication were introduced. This included a major review of the Council's website, introduction of the Council Connect stand in the town centre and Council Facebook and Twitter accounts.
- Local service agreements setting out how well we are doing against corporate priorities using key measures were introduced and are being reviewed annually.
- The Whistle Blowing policy was updated and refocused. New reporting channels for employees and members of the public were introduced.
- A revised Members' Code of Conduct and arrangements for dealing with complaints about Members was adopted that was consistent with the requirements of the Localism Act 2011.
- The Members training and development programme was refreshed and a modular approach adopted to improve the induction of new members.
- A new risk management framework and policy was adopted and the first Corporate Risk Register was produced in line with the new framework.
- A project had been progressed to review and implement revised debt recovery arrangements.
- The first counter fraud detailed risk assessment has been completed and an action plan approved for delivery which is in line with the risk faced by the Council.

Significant Governance Issues

Whilst there have been a number of improvements made throughout the year the Council constantly strives for continuous improvement. We have therefore selected the following improvements from our review of effectiveness for action next year:

A review has been carried out during 2013/14 to identify the groups and organisations which we work with which themselves provide a significant service to the community. This has included identifying how we are able to enhance their accountability and effectiveness.

A new individual performance management framework has been introduced for employees during the first quarter of 2013/14.

The constitution documentation is to be brought up to date during 2013/14.

A review of the new arrangements to manage the conduct of councillors is to be carried out and reported to the Audit and Governance Committee in March 2014.

A structured learning and mentoring programme is to be introduced across the Council to apply systems thinking to the way that services are provided, and put the customer as the driver for organisational change.

A workforce plan for the Council is to be adopted.

The Internal Audit Strategy and Charter will be updated following a review of the new Public Sector Internal Audit standards and to address any actions outstanding from our review of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010).

The detailed assessments of the Council's top fraud risks are to be progressed further and the action plan completed for the first assessment completed.

Certification

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those next to be specifically addressed are outlined above.

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

Signed:

Councillor S.D.T. Woodward
Executive Leader
Fareham Borough Council

Dated: 27 September 2013

Signed:

P.K. Grimwood
Chief Executive Officer
Fareham Borough Council

Dated: 27 September 2013

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **23 September 2013**

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

Subject: **CONTRACTOR QUARTERLY AUDIT REPORT**

SUMMARY

This report provides the Audit Committee with the information arising from the latest internal audit work to be finalised and gives an update on the completion of the remaining audits from the previous plan and the new audits planned for 2013/14.

RECOMMENDATION

That the Committee notes the progress of the Contractor Internal Audit Plan, attached as Appendix A to this report.

Appendix A – Contractor Internal Audit Progress Update ([separate attachment](#))

Background Papers: None

Reference Papers:

Report by the Director of Finance to the Audit Committee on 12 March 2012 on Contractor Annual Audit Plan 2012/13

Report by the Director of Finance to the Audit Committee on 11 March 2013 on Contractor Annual Audit Plan 2013/14

Enquiries:

For further information on this report please contact Adrian Tang, Audit Manager, Deloitte and Touche (Ext 4419)

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Fareham Borough Council
Audit & Governance Committee
Quarterly Audit Progress Report
September 2013

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INTRODUCTION AND BACKGROUND

1.1 This report has been prepared for the Members of the Audit & Governance Committee at Fareham Borough Council. This report highlights the progress made to date for delivery of the 2013/14 Internal Audit Plan and the progress made finalising the 2012/13 plan.

PROMOTING INTERNAL CONTROL

2.1 To promote internal control within the Authority, Internal Audit will report to Committee in the following format:

- An update on progress against delivery of the plan, including an update on any Significant Control Weaknesses and on any proposed amendments to the Internal Audit Plan;
- Report back on the specific audits finalised since the last meeting of the Audit & Governance Committee, including scope, weaknesses identified and confirmation that management actions have been agreed to address the weakness. Audit opinions are Strong, Reasonable, Limited, or Minimal. Recommendations and actions in the report are categorised using a 3 point scale used on the Council's action management system. Both rating systems are detailed within Annex Four of this report; and
- Update Members on the current situation regarding limited areas previously reported to Committee. This will inform Members of the action taken by Officers to resolve internal audit issues.

2012/13 & 2013/14 PROGRESS

3.1 The current status of the agreed 2012/13 Internal Audit Plan is detailed in Annex One along with the number of days delivered. The corresponding information relating to the 2013/14 Internal Audit Plan is detailed within Annex Two. Audits have been completed in accordance with the timings agreed with the Head of Audit & Assurance, and as approved by the Audit & Governance Committee.

3.2 As at the 31st August 2013, progress against the 2012/13 plan is as follows:

2012/13 Plan	Last Committee	This Committee
Number of audits in plan	30*	30*
Number of audits finalised	27 (90%)	29 (97%)
Number of reports issued at draft	2 (7%)	0 (0%)
Number of audits commenced	30 (100%)	30* (100%)
Number of planned audit days delivered	219/230 (95%)	229/230 (99%)

* Statistics have been calculated on 30 audits as Misc. Democratic Services has been deferred following management request.

3.3 At the time of this report, 99% of the 2012/13 Internal Audit Plan has been completed. Detailed progress is covered within Annex One. The one remaining internal audit of 2012/13, Legal Services Contract, is currently under management review; details of which will be reported in full to the next Audit & Governance Committee.

3.4 As at the 31st August 2013, progress against the 2013/14 plan is as follows:

2013/14 Plan	Last Committee	This Committee
Number of audits in plan	30	30
Number of audits finalised	0 (0%)	3 (10%)
Number of reports issued at draft	0 (0%)	2 (7%)
Number of audits commenced	2 (7%)	9 (30%)
Number of planned audit days delivered	14/230 (6%)	60.5/230 (26%)

3.5 At the time of this report, 26% of the 2013/14 Internal Audit Plan has been completed. Detailed progress is covered within Annex Two.

CHANGES TO THE PLAN

4.1 There are a number of changes to report in respect of the 2013/14 Internal Audit Plan. At the request of the auditees, Treasury Management has been deferred from Quarter Two to Quarter Three; and the deferred Miscellaneous Democratic audit from the 2012/13 audit plan has been rescheduled to Quarter Four.

4.2 It has now been agreed to defer the audit of Performance Management (8 days) to the 2014/15 audit plan to allow the new management system to embed. This time will then be used to complete additional work for Ferneham Hall (3 days) due to the limited assurance opinion provided in 2012/13 and to carry out the follow up for Data Protection (4 days) which also received limited assurance in 2012/13. The remaining day has been added to the Cash Collection & Banking audit to cover arrangements for income collection by the Building Control service which has moved to the depot.

DETAILED PROGRESS SINCE THE LAST AUDIT AND GOVERNANCE COMMITTEE

5.1 Since the previous Audit & Governance Committee, two reports have been issued at draft stage from the 2013/14 plan; these relate to Management of Tradesmen and Public Conveniences. The assurance levels will be confirmed to the next Audit and Governance Committee upon finalisation.

5.2 Five reports have been issued in final version as listed below with the opinions given and level of recommendations made.

Audit	Assurance	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
2013/14 Plan				
Town Centre Management	Strong	-	-	-
Leisure Centre Trust	Strong	-	-	-
Coastal Protection & Land Drainage	Strong	-	1	-
2012/13 Plan				
CSC processes – Disabled parking swipe cards	Reasonable	-	5	-
Payroll	Reasonable	1	1	1

The above presents the key highlights. However, to enable Management and Members to focus on the areas of concern, we have provided a summary of all finalised reports since the last Committee, as detailed within Annex Three.

Remaining 2012/13 Internal Audit Plan as at 31st August 2013

Annex One

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarter 3											
14	Payroll	7	6.5	Final	<i>Reasonable</i>	1	1	1	-	-	1
Quarter 4											
23	CSC Processes	5	4.5	Final	<i>Reasonable</i>	-	5	-	1	-	-
24	Misc Democratic	-	-	Note 1	<i>TBC</i>	-	-	-	-	-	-
25	Legal Services Contract	8	7.5	Under review	<i>TBC</i>	-	-	-	-	-	-

Note 1: The audit will be postponed until Q4 of the 2013/14 financial year as requested by the Manager and previously reported to the Audit & Governance Committee.


No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
Quarter 1											
1	Management of Tradesmen	7	7	Draft		-	-	-	-	-	-
2	Town Centre Management	7	7	Final	Strong	-	-	1	-	-	-
3	Coastal Protection & Land Drainage	6	6	Final	Strong	-	1	-	-	-	-
4	Leisure Centre Trust	6	6	Final	Strong	-	-	3	-	-	-
Quarter 2											
5	Treasury Management	6		Q3 audit							
6	Insurance	5	4.5	Started							
7	Planning Contributions	8	7.5	Started							
8	Training & Development	8	7.5	Started							
9	Licensing of Taxis & Alcohol	8	7.5	Started							
10	Public Conveniences	6	5.5	Draft		-	-	-	-	-	-
Quarter 3											
11	Ordering & Payment of Invoices	7		Q3 audit							
12	Invoicing & Collection of Income	9		Q3 audit							
13	Payroll	7		Q3 audit							
14	Fixed Assets	6		Q3 audit							
15	Revenues	12		Q3 audit							
16	Performance Management			Note 2							
17	Clean Borough Enforcement & Abandoned Vehicles	7		Q3 audit							
18	Cash Collection & Banking	9		Q3 audit							
19	Housing Rents	6		Q3 audit							
20	Ferneham Hall	9		Q3 audit							
Quarter 4											
21	Risk Management	6		Q4 audit							
22	Main Accounting	10		Q4 audit							

No.	Audit Title	Days in Plan	Days Delivered	Status	Assurance Opinion	New Recommendations			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Non Implemented
23	Financial Regulations Limited Compliance Testing	2		Q4 audit							
24	Housing Benefits & Council Tax Benefits	10		Q4 audit							
25	Planning Applications	6		Q4 audit							
26	Parking Strategic Management & Policy Services	6		Q4 audit							
27	Homelessness	6		Q4 audit							
28	Data Protection Follow Up	4		Q4 audit							
Computer Audit											
29	Remote Access	8		Q2 audit							
30	Main Accounting System (E-Financials) Application Review	7		Q3 audit							
31	Website Content Management	10		Q1 audit							
Other											
Audit Committee		4									
Audit Management		12	2								
TOTAL		230	60.5 (26%)			0 0%	1 20%	4 80%	0 0%	0 0%	0 0%

Note 2: The audit will be postponed until the 2014/15 financial year to allow the new management system to embed.

2012/13 Payroll

Audit Opinion and Direction of Travel

Reasonable						
						
Direction of Travel:				↔ 2011/12		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Policy, Procedures and Legislation	-	-	-	-	-	1
Reliability and Integrity of Transactions and Records	-	-	-	-	-	-
Segregation of Duties	-	-	-	-	-	-
Starters	1*	-	-	-	-	-
Leavers and Transfers	-	-	-	-	-	-
Variations and Adjustments to Pay	-	-	-	-	-	-
Statutory and Voluntary Deductions	-	-	1	-	-	-
Overpayments	-	-	-	-	-	-
Payruns, including BACS Transmissions and Urgent Payments	-	-	-	-	-	-
Management Information, including Establishment Management	-	1	-	-	-	-
Salary Calculations	-	-	-	-	-	-


Weaknesses Identified During Audit

Priority	Weakness	Action Agreed?
Essential (New)	Testing undertaken for the sample of 20 new starters confirmed that 16 had evidence on file in line with the prescribed documents to prove eligibility to work in the UK, 4 did not. These all related to TUPE transferees. The Council will now ensure they carry out their own checks on these.	Yes
Important (New)	We were advised that the Annual Establishment Report due to go to the Directors to agree had been delayed slightly to allow for the change in structure with the Head of Street Scene becoming a Director.	Yes
Important (Previous)	There are currently no guidance notes on what expenses can be claimed when employees use hire cars on behalf of the Council to ensure that taxable benefits are being handled correctly.	Yes

*An essential recommendation has been made relating to an issue identified outside of the scope of the main part of the audit. As such this has not impacted on the overall Audit Opinion but is a fundamental weakness which presents immediate risk to the Council.

2012/13 CSC Processes – Disabled Parking Swipe Cards

Audit Opinion and Direction of Travel

Reasonable						
						
Direction of Travel:				⇄ 2011/12		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Roles and responsibilities between the Customer Service Centre (CSC) and the front line service (Parking)	-	1	-	1	-	-
Control of swipe card stocks	-	2	-	-	-	-
Issuing new swipe cards	-	1	-	-	-	-
Renewal replacement and reprogramming of cards	-	1 (linked to recommendation above)	-	-	-	-
Control over returned and cancelled cards	-	1	-	-	-	-

Weaknesses Identified During Audit

Priority	Weakness	Action Agreed?
Important (New)	Procedure notes, along with a small number of blank swipe cards and blank and completed application forms were located in an insecure area, together with information required to access the swipe card system	Yes
Important (New)	It was not possible to confirm the number of swipe cards in circulation or compare the figures over time.	Yes
Important (New)	There are no formal stock control measures in place for blank swipe cards giving rise to a risk that swipe cards could be fraudulently programmed and distributed to unauthorised persons.	No - Risk Accepted
Important (New)	The requirement to conduct checks to ensure that a valid swipe card has not already been issued for the same details was stated within the procedure notes but was not documented on the on the application checklist.	Yes
Important (New)	There is no pro-active identification of deceased swipe card holders or those moving out to the borough, particularly from Hampshire County Council who issue the blue badges. Reliance is instead placed on relatives to advise the Council that a swipe card holder has deceased or has moved out of the borough.	No - Risk Accepted

2013/14 Town Centre Management

Audit Opinion and Direction of Travel

Strong						
😊😊						
Direction of Travel:				↔ 2008/09		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Partnership Agreements	-	-	-	-	-	-
Partnership Management	-	-	-	-	-	-
Income collection – including for the partnership and individual events	-	-	-	-	-	-
Control of expenditure including tendering where appropriate	-	-	-	-	-	-
Budgetary control and forward planning	-	-	-	-	-	-
Internal recharges	-	-	-	-	-	-
Communication and event management	-	-	1	-	-	-

2013/14 Coastal Protection & Land Drainage

Audit Opinion and Direction of Travel

Strong						
😊😊						
Direction of Travel:			No previous audit			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Coastal Protection Strategy	-	-	-	-	-	-
Contract arrangements for Coastal Protection Services	-	-	-	-	-	-
Contract monitoring processes including governance	-	-	-	-	-	-
Monitoring of private and public coastal and flood defences	-	-	-	-	-	-
Land drainage and flooding advice services	-	1	-	-	-	-
Performance management and budget monitoring processes including coding of expenditure	-	-	-	-	-	-

Weaknesses Identified During Audit

Priority	Weakness	Action Agreed?
Important (New)	It was noted that there are currently no formal responsibilities allocated regarding land drainage and flooding advice. Rainwater and river flooding is stated in the contract as not covered within the Partnership, although informal advice and assistance is provided.	Yes

2013/14 Leisure Centre Trust

Audit Opinion and Direction of Travel





Strong






Direction of Travel:

⇒2008/09

Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Contract and governance arrangements including monitoring procedures and contract variations	-	-	-	-	-	-
Operational performance monitoring including usage analysis	-	-	1	-	-	-
Financial performance monitoring including accounting verification, collection of monthly management fees and payment of invoices	-	-	-	-	-	-
Annual contract management including review of management fees, setting of fees & charges and profit share where appropriate	-	-	1	-	-	-
Capital programme including backlog maintenance	-	-	1	-	-	-
Forward options analysis.	-	-	-	-	-	-

Assurance Level	Symbol	Description
Strong		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.
Reasonable		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.
Limited		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.
Minimal		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.

Recommendations and actions in the report are categorised using the following 3 point scale in use on the Council's action management system:

Essential		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 Audit Committee and implementation of proposed actions are monitored.
Important		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 Audit Committee and implementation of proposed actions are monitored.
Advisory		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. We will not track actions taken to address these recommendations unless at the manager's request.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

September 2013

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **23 September 2013**

Report of: **Director of Regulatory and Democratic Services**

Subject: **RISK MANAGEMENT PROGRESS REPORT**

SUMMARY

Version 2 of the Corporate Risk Register has been produced. There are still 32 risks on the register although one has been deleted and one has been added. 14 of these have been assessed as medium risk and 18 as low risk.

RECOMMENDATION

That the Committee note the content of version 2 of the Corporate Risk Register attached as [Appendix A](#).

INTRODUCTION

1. A report was presented to this committee in March 2013 launching the first version of the Corporate Risk Register produced under the new risk management framework.
2. Our policy is to update the register every 6 months. This report therefore presents version 2 of the register for member discussion.

THE RISK ASSESSMENT PROCESS

3. The Council maintains a central risk directory which links the top corporate risks to second tier risks managed by Heads of Service and the corporate projects. The risk assessments of the second tier risks are all updated first as part of the risk assessment process. This includes the identification of any risks or projects that need to be added or removed.
4. Each corporate risk is assigned a Director as the risk manager. They use the information available from the Heads of Service risk assessments to help inform their latest assessment of the corporate risk. These are then given a risk assessment score from the scale High, Medium or Low.
5. The list of corporate risks then form the Corporate Risk Register which included the risk assessment scores and the status update for each risk. The register is reported and challenged by the Chief Executive's Management Team before presentation to the Committee.
6. One the register is finalised, the risks on the central risk director are monitored at Departmental Management Team meetings and in individual performance meetings with managers, in between the next 6-monthly review. Any individual risks that give concern in that time are highlighted and escalated to the Chief Executive's Management Team.

CHANGES TO THE CORPORATE RISKS

7. Version 2 of the Corporate Risk Register, as attached as [Appendix A](#), still consists of 32 generic risk themes. However, there has been one risk removed and one added as summarised below:

Risk	What has changed
10 – Failure to deliver the Portchester Community Centre on time and within budget.	Risk removed from register Main project has been completed Previously assessed as Low risk
33 – Failure to deliver a new sheltered housing scheme at Collingwood House	New Risk New significant project now in progress Currently assessed as Low risk

8. The title of Risk 1 has also been altered to reflect the name chosen for the Welborne new community.
9. The Corporate Risk Register shows the latest risk assessment given to each corporate risk along with updated information on their status. There are still no risks assessed as High and there are still 14 Medium risks and 18 Low risks. However, the risk assessment has been changed for two risks as follows:

Risk ref and short name	Risk Manager	Previous Score	Current Score	Reason
Increased				
C22 Inadequate Governance and Systems of Control.	Andy Wannell	Low	Medium	Following the findings from the internal audit in 2012/13, a programme of work is being undertaken to further strengthen our information governance arrangements.
Decreased				
C14 Failure to implement the Fareham Park 'Gateway' Project	Martyn George	Medium	Low	Funding has now been secured for the project. A project manager is in place and work has started.

RISK ASSESSMENT

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

CONCLUSION

11. The revised Corporate Risk Register, attached as [Appendix A](#), meets the requirements of the new Risk Management Policy adopted in 2012/13. The risks contained in the register will be managed and monitored by officers and the register updated in time for it to be reported to the meeting of the Committee in March 2014.

Appendices

A - Corporate Risk Register (version 2) ([separate attachment](#))

Background Papers:

None

Reference Papers:

Report by the Director of Regulatory and Democratic Services to the Audit and Governance Committee on 24 September 2012 on the Risk Management Policy

Enquiries:

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

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APPENDIX A - CORPORATE RISK REGISTER V2 - September 2013

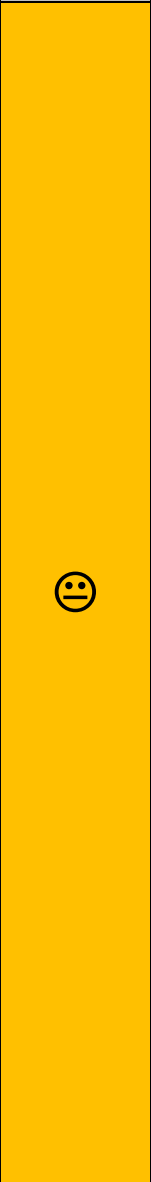

(The register is sorted in risk reference order with the medium scored risks ☹ listed about the low scored risks ☺.)

Risk Ref	Short Name Corporate Priority (Improvement ref)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score	Last review by CXMT
1	<p>Welborne</p> <p>All (1)</p>	<p>Failing to progress the planning framework for Welborne, provide effective communication about the new community or address the infrastructure funding issues.</p>	Richard Jolley	<p>Aug 2013</p>	<p>Planning framework - preparation of Welborne Plan and associated preferred concept master plan, transport and green infrastructure strategies, infrastructure delivery plan and supporting technical evidence studies progressing to revised timetable; Homes & Community Agency to facilitate workshop in early October with Strategic Board members (including principal landowners) to resolve key outstanding issues prior to submission of Welborne Plan progression for examination and submission of outline planning application(s).</p> <p>Communications – new community now named as Welborne following successful naming consultation; followed by extensive consultation on Draft Plan and preferred master plan.</p> <p>Infrastructure Funding (IF) - in parallel with preparation of Welborne Plan, and drawing on the associated Infrastructure Delivery Plan, consultants appointed to undertake work on preparation of an IF Strategy.</p> <p>Additional staff resources now in place to support plan-making, infrastructure work and community engagement; recruitment to two Welborne Development Management posts now underway; Capacity Funding Bid submitted to Department for Communities & Local Government for funding for technical evidence studies, staff costs and future delivery-related projects.</p> <p>Update report to be provided to September Executive on costs of and funding sources for Welborne work.</p>	☹	28/08/13

Risk Ref	Short Name Corporate Priority (Improvement ref)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score	Last review by CXMT
4	Daedalus 2 Prosperity (4)	Failure to provide a planning framework for the Daedalus site and support the Solent Local Enterprise Partnership in the promotion of the Enterprise Zone.	Richard Jolley	Aug 2013	<p>Detailed work on planning S106 agreement related to outline planning application for the whole Daedalus site progressing to resolution, following recent agreement with Homes and Communities Agency over provisions relating to retention of and access to runways - highway S106 agreement previously completed with Homes and Communities Agency.</p> <p>Centre for Engineering and Manufacturing Advanced Skills Training Scheme now being implemented.</p> <p>Progression of Innovation Centre & runway refurbishment as outlined in confidential report to Executive dependent on successful Growing Places Fund bid and confirmation of Homes & Communities Agency capital grant.</p> <p>Extensive liaison taking place with Homes and Communities Agency on their detailed infrastructure and development proposals for Hangars East and West, including the relocation of existing tenants as appropriate.</p>		28/08/13
5	Retail areas 2 Prosperity (5a and 5b)	Failure to achieve proposed improvements for retail areas in the borough.	Richard Jolley	July 2013	<p>Fareham town centre - Executive approved Action Plan to support town centre being progressed; update on programme for implementation of actions provided to Executive in March 2013. Parking policy changes successfully introduced in April 2013; street furniture, enhanced signage and dedicated website/marketing strap line to be implemented during Autumn 2013. Continued liaison with retailers via Business Breakfast events.</p> <p>Locks Heath District Centre – shopping centre owners to undertake consultation on master planning work with a view to submission of planning application for the site. Planning policy framework to enable improved food store provision at centre to be provided through progression of Development Sites & Policies Plan to pre-submission draft & examination. Additionally seeking early agreement (Autumn 2013) with shopping centre owners on development agreement to facilitate early delivery of swimming pool facility.</p>		28/08/13

Risk Ref	Short Name Corporate Priority (Improvement ref)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score	Last review by CXMT
8	Coldeast 4 Leisure (8)	Failure to deliver proposed community facilities at the Coldeast development site or alternative location.	Martyn George	July 2013	Section 106 agreement sets out clear trigger points for the transfer of land and or funding. Homes and Communities Agency have agreed to early transfer of land for swimming pool, allotment and cemetery at Coldeast ahead of Sec 106 triggers. Transfer is currently being progressed (likely to complete Aug 2013).	☹	28/08/13
9	Community Buildings 4 Leisure (9)	Failure to provide modern, fit for purpose community buildings in the most appropriate locations.	Martyn George	Aug 2013	Satisfactory progress is being made to improve the quality of leisure and community facilities across the Borough.	☹	28/08/13
12	Affordable Homes 5 Housing (11)	Failure to deliver 500 new affordable homes by 2017.	Martyn George	July 2013	Concern that forecast delivery is unlikely to achieve affordable homes target, hence need to explore alternative options aimed at improving delivery.	☹	28/08/13
16	Asset Management 7 Dynamic Council (15)	Failure to maximise the Council's assets resulting in missed opportunities for generating revenue and or capital receipts or delivering other corporate and service priorities.	Andy Wannell	Aug 2013	There are a number of steps on-going, which have led to improved revenue streams for the Council. The Corporate Asset Management Group continues to meet regularly and have demonstrated its effectiveness through the recommendation of a number of asset disposals and acquisitions in pursuit of improved value for money.	☹	28/08/13
17	Sustainable Budget 7 Dynamic Council (16)	Failure to minimise Council tax increases through delivery of a sustainable budget.	Andy Wannell	Aug 2013	Robust plans are in place for the 2013/14 budget, with opportunities identified and in the process of implementation to deliver a sustainable budget in 2014/15. However, the remaining plans are considered to be more difficult to achieve, and any bias toward net budget reductions through new income has a higher probability of non-achievement. Government settlement figures were more pessimistic than first hoped, and the indicative reduction in grant presents greater risks for the achievement of a balanced budget in 2014/15 and beyond without drawing upon reserves or using less secure sources of funding such as the New Homes Bonus.	☹	28/08/13

Risk Ref	Short Name Corporate Priority (Improvement ref)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score	Last review by CXMT
19	Policy Changes	Failure to respond to new legislation and the governments changing policy agenda.	Martyn George	July 2013	Satisfactory progress.	☹	28/08/13
21	Business Continuity	Inadequate arrangements in place to respond to a critical disruption.	Garry White	Aug 2013	The guidance and templates for Business Continuity Plans have been reviewed and updated and the Head of Community Safety and Enforcement is working with all Heads of Service to ensure their Business Continuity Plans for critical services are up to date and fit for purpose. These will be used to 'refresh' the critical services matrix and an update report will be provided to CXMT. All the associated risks that feed into this corporate risk have controls and arrangements in place to mitigate any disruption and the Heads of Service are developing these further.	☹	28/08/13
22	Governance	Inadequate Governance and Systems of Control	Andy Wannell	Aug 2013	Generally, there are no material concerns in this regard. However, the overall risk level has been increased to reflect the review of the Head of Service risk relating to the management of personal information and data. Action plans are in place and being implemented as a priority to mitigate this risk.	☹	28/08/13
25	Service Delivery	Current level of service cannot be delivered within existing budget.	Andy Wannell	Aug 2013	There is generally a good understanding of the services which are under pressure, and resources have been allocated to meet those demands and achieve target dates for projects to be delivered. (Examples include allocating resources to support the New Community North of Fareham programme of work, Disability Facility Grants, welfare reforms, etc). However, there remains some areas where resourcing plans have either not been formulated in detail, or are yet to be implemented fully. As such, there is a reasonable possibility that some services will not be able to respond to the demands upon them for short periods of time.	☹	28/08/13
27	Income	Loss of income	Andy Wannell	Aug 2013	The services which present the greatest risk currently are, car parking, commercial estates, Ferneham Hall and treasury management. Close monitoring of these areas is carried out, and a corporate group has been established to consider options for the most significant areas of concern.	☹	28/08/13

Risk Ref	Short Name Corporate Priority (Improvement ref)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score	Last review by CXMT
32	Health and Safety - Employee	Failure to meet Health & Safety responsibilities in relation to employees.	Garry White	Aug 2013	Annual Health and Safety Performance report presented to CXMT, Public Protection Policy Development and Review Panel in July and was presented to the meeting of the Executive in September. There has been a reduction in all work place accidents by 7, from 52 in 2011/12 to 45 in 2012/13. Only one accident was reportable to the Health & Safety Executive under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. In the Council's high risk services such as those delivered by Streetscene there has been a reduction of 8 accidents from 39 to 31 during the same period. Quarterly Safety Committee meetings take place involving Unions and employee representatives, the notes of which are available on the intranet and circulated. Quarterly meetings also take place of the Corporate Premises H&S Group that manages the higher level H&S risks in Council premises. The Council's Safety Advisor is following up on each departments H&S Action Plan from the previous year's audits to ensure actions are being progressed and that this approach is becoming embedded into the work of the departments. A monitoring report will be presented to CXMT to set out the current position. The Violent Person Register and the arrangements for including details on this have now been reviewed and are now called the Visiting Officers Safety List. Only those officers that need the information have access to the list in order to comply with requirements under the Data Protection Act. Information on insurance claims is also circulated to all Heads of Service that sets out details of individual claims that are also relevant to the management of health and safety within the Council. In addition to receiving the Annual health and safety Performance Report, CXMT also receive quarterly absence management reports that highlight the level of sickness that may be attributable to certain work related causes. Good progress continues to be made in the management of health and safety at the Council.		28/08/13
2	Recycling 1 Environment (2)	Failure to reduce the quantity of household waste and maximise the	Paul Doran	Aug 2013	Current recycling rate now 37%. Reduction is due to temporary change in input specification at composting plant following Department for Environment Food and Rural		28/08/13

Risk Ref	Short Name Corporate Priority (Improvement ref)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score	Last review by CXMT
		amount that is reused or recycled.			Affairs instruction. Fall in rate is mirrored throughout all Project Integra authorities. Weight of residual waste per household marginally down against comparable period in 2011-12		
3	Sustainability 1 Environment (3)	Benefits of the Council's Environmental Sustainability Strategy and other environmental strategies are not fully delivered.	Richard Jolley	Aug 2013	Environmental Sustainability Strategy has been subject to fundamental review with new carbon reduction targets, and actions categorised as project-based, on-going or related to Welborne. Revised Strategy reported to CXMT in March and Member Panel in May 2013, prior to Executive consideration in October 2013.	☺	28/08/13
6	PUSH 2 Prosperity (6)	Failure to support Partnership for Urban South Hampshire and Solent Local Enterprise Partnership to deliver economic growth and improved skills.	Richard Jolley	Aug 2013	Extensive support currently be provided to Solent Local Enterprise Partnership to support delivery of Solent Enterprise Zone at Daedalus, including progression of outline planning consent for site, progression of Centre for Engineering and Manufacturing Advanced Skills Training project, progression of detailed infrastructure & development proposals for Hangars East & West in partnership with Homes and Communities Agency, progression of innovation centre and runway refurbishment by FBC. Funding bids for Welborne & Daedalus to be submitted via Partnership for Urban South Hampshire to Solent Local Enterprise Partnership for EU Structural Investment Funds.	☺	28/08/13
7	Crime and Disorder 3 Safe and Healthy (7)	Increase in the incidents of crime, disorder and anti social behaviour.	Garry White	Aug 2013	The Council have continued to work with all its community safety partners as well as local businesses and community groups in delivering the Community Safety Plan and the various initiatives. Access All Areas was a great success with over 1000 young people attending the events. Further partnership working has been developed with neighbouring Winchester City Council. The joint location of Youth Offending Team, Integrated Offender Management Team and a regular police presence working with the Community Safety Team within the civic offices has all contributed to the better sharing of information and co-ordination of approach. Fareham's approach to Supporting Fareham Families has been successful and the positive outcomes from the first year will hopefully be sustained and work has	☺	28/08/13

Risk Ref	Short Name Corporate Priority (Improvement ref)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score	Last review by CXMT
					begun on the second year group of families. Successful bids have been made for the Police & Crime Commissioner Community Safety Fund and the Police & Crime Commissioner has also visited a number of the Fareham initiatives which has highlight how proactive and innovative the Council's and the Community Safety Partnership approach is. The level of Crime and Anti Social Behaviour within the borough as reported to the Council's Scrutiny Board continues to show a fall.		
11	Outdoor Recreation 4 Leisure (10)	Failure to fully implement the improvement programme for parks, play areas and sports facilities.	Martyn George	July 2013	Wicor Changing Pavilion Project complete. The Open Spaces Improvement Programme is to be reviewed by Executive in September 2013.	☺	28/08/13
13	Sheltered Housing 5 Housing (12)	Failure to deliver and implement a programme of modernising and improving sheltered accommodation across the Borough	Martyn George	July 2013	Consultation commenced on change of use of other sheltered schemes that do not meet modern standards. Bathrooms currently being modernised and updated including the installation of level access showers in all core schemes.	☺	28/08/13
14	Gateway 6 Community (13)	Failure to tackle the underlying causes of deprivation in the Fareham Park area	Martyn George	July 2013	Project Officer in Post; Successful Fareham Park Fun Day held on 20 July to award £17500 grant funding to local community projects.	☺	28/08/13
15	Community Engagement 6 Community (14)	Failure to communicate and engage effectively with the local community.	Martyn George	July 2013	New Council Web site launched on 28 Jan 2013.	☺	28/08/13
18	ICT	Failure to make best use of existing technology in the way that services are delivered.	Andy Wannell	Aug 2013	No material concerns are identified.	☺	28/08/13
20	Partnerships	Failure of a significant partnership or contract	Martyn George	July 2013	Satisfactory monitoring and review procedures in place.	☺	28/08/13
23	Performance Management	Inadequate Performance Management Framework	Garry White	Aug 2013	Performance Management Framework overseen by CXMT who receive update reports from the Corporate Policy Officer. The annual review of the Corporate Strategy was reported to the September meeting of the Executive together with the Local Service Agreements that detail	☺	28/08/13

Risk Ref	Short Name Corporate Priority (Improvement ref)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score	Last review by CXMT
					service performance within each of the priority areas. The new approach to Individual Performance Management has just been launched and all employees of the Council are now using this approach which is being monitored by Personnel.		
24	People Management	Poor people management and resourcing	Garry White	Aug 2013	<p>Implementation of the Individual Performance Management scheme and finalisation of the corporate training programme - complete. The corporate project, P17.6 - Review the corporate process for the management of employee performance, has been completed and the new approach is now being implemented. A comprehensive training package for all managers and employees has been developed.</p> <p>Work is currently being undertaken to assess the uptake of the training identified in the corporate training plan. Support is also being given to employees to maximise the benefits of the skillgate / e-learning system where it contributes to improved service delivery. Personnel are working with a number of departments within the Council on structures and partnerships with other Councils that reflect the needs of the Council's priorities. Workforce planning is part of the day to day work undertaken by all managers at Fareham and is reflected in the Council's approach to service planning.</p>	☺	28/08/13
26	Health and Safety - Public	Failure to meet Health and Safety responsibilities in relation to public liability.	Andy Wannell	Aug 2013	No material areas of immediate concern, although it is important that the Council achieves the roll out of the new corporate approach for health and safety in line with the agreed target dates.	☺	28/08/13
28	Emergency Planning	Failure to provide an appropriate response in an emergency	Garry White	Aug 2013	Annual report to Executive that sets out the status of the Council's arrangements and details of the exercises, training and actual incidents. A programme of regular exercising, testing and training is in place. Whilst a positive response and outcome was provided to the recent flooding incident at Wallington, as with all such incidents the debrief identified areas for improvement both in terms of the Council response but also in terms of the overall multi agency response. This will be covered by reviewing some of the roles in an emergency (Liaison Officers) as well as the	☺	28/08/13

Risk Ref	Short Name Corporate Priority (Improvement ref)	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score	Last review by CXMT
					arrangements and procedures within the plan itself. The arrangements for dealing with coastal pollution incidents need to be reviewed. Mutual Aid arrangements are in place with other Hampshire Authorities. The annual report presented to the Executive highlights that the Council has arrangements in place that will enable the Council to satisfy its duties and responsibilities.		
29	Elections	Challenge to an election process	Garry White	Aug 2013	Any issues or improvements that are identified from previous elections are used to review procedures and feed into the project plan and risk register. The introduction of Individual Electoral Registration in July 2014 (subject to legislation) will result in changes to the way in which people register to vote at an election as new, potential electors must be notified to the Department for Works and Pensions and matched before being included on the register. The Council are currently testing and matching with the Department for Works and Pensions to streamline the process but it will have a big impact on the last day for registering (11 days before the election) if adequate resources are not in place for the parliamentary election in 2015. The Cabinet Office have produced a risk assessment and the Council's Election Services Team are using this and have produced a working risk assessment as part of our own implementation plan.	☺	28/08/13
30	Customer Focus	Failure to deliver a customer focused service.	Martyn George	July 2013	Vanguard Consultancy appointed to assist with cultural transformation (Customer First & Lean Thinking); Project commences Sept 2013.	☺	28/08/13
31	Equality	Failure to meet Equality and Inclusion Standards.	Andy Wannell	Aug 2013	No material causes for concern	☺	28/08/13
33	Sheltered Housing 5 Housing (12)	Failure to deliver a new sheltered housing scheme at Collingwood House	Martyn George	Aug 2013	Contract awarded for the redevelopment of Collingwood House (July 2013).	☺	28/08/13

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **23 September 2013**

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

Subject: **REVIEW OF WORK PROGRAMME AND TRAINING PLAN**

SUMMARY

This report reviews the current Work Programme for the Committee.

RECOMMENDATION

That the Work Programme for the rest of the year, as shown in [Appendix A](#), is approved.

INTRODUCTION

1. This report brings the current work programme for review by the Committee. As agreed in November 2012 the work programme is now being reviewed each quarter.

WORK PROGRAMME 2013/14

2. The work programme approved at the last meeting has been updated, as shown in Appendix A. This shows the reports expected in relation to each of the functions of the Committee along with an update of the delivery of the programme to date.
3. There have been 2 changes made to the programme since last time which is that the "Annual Business Continuity report" due in September has been postponed to the March meeting and the "Updates to the Constitution" also scheduled for September has been postponed to the November meeting.
4. There were also no revised Financial Regulations which were ready for reporting to the Committee in September.

TRAINING

5. The annual training session on Treasury Management is scheduled for the next Audit and Governance Committee to coincide with the annual report on this topic. We are currently looking at using our Treasury Advisors, Sector, for this event as our current agreement with them includes the provision of training.

RISK ASSESSMENT

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

CONCLUSION

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

Appendices:

[Appendix A](#) – Committee Current Work Programme for 2013/14

Background Papers: None

Reference Papers: Minutes of and reports to Audit and Governance Committee for the Municipal Year 2013/14

Enquiries:

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

AUDIT AND GOVERNANCE COMMITTEE CURRENT WORK PROGRAMME 2013/14 as at September 2013

Committee Function and Report Subject		Frequency	Last Reviewed	June 2013	September 2013	November 2013	March 2014
COMMITTEE WORKING ARRANGEMENTS							
Review of Work Programme and training plan		Quarterly	2012-13	Completed	Completed	YES	YES and Annual Report
Review of the Functions of the Committee		3 yearly	2012-13				
Review of the Constitution		As needed	New			YES – postponed from September	
ETHICAL FRAMEWORK AND STANDARDS							
Standards of Conduct	Review of Code of Conduct for Members	As needed	2012-13				YES
	Review of member / officer protocol	As needed	2008-09				
	Overview of Complaints against the Council	Annual	2012-13		Completed		
Member Training and Development	Review of Members Training and Development and Determination of Programme	Annual	2012-13				YES
GOVERNANCE FRAMEWORK							
Framework	Local Code of Corporate Governance	2 yearly	2012-13				
	Annual Governance Statement	Annual	2012-13		Completed		
Key Policy	Review of Financial Regulations	3 yearly	2012-13	Completed		YES	YES
	Review of Contract Procedure Rules	3 yearly	2012-13			YES	
	Implementation of Treasury Management Policy and Strategy	Annual	2011-12			YES	
Risk Management	Policy and Strategy	3 yearly	2012-13				
	Risk Management Progress Reports	6 monthly	2009-10		Completed		YES
	Business Continuity	2 yearly	2011-12				YES – postponed from September
	Specific Risk Management topics	As needed	None				
Counter Fraud	Benefits Anti-Fraud and Corruption Policy	As needed	2011-12	Completed			
	Counter Fraud Policy and Strategy	3 yearly	2009-10			YES – Policy only	

Committee Function and Report Subject		Frequency	Last Reviewed	June 2013	September 2013	November 2013	March 2014
	Anti-Bribery Policy	As needed	2011-12				
	Sanctions and Redress Policy	3 yearly	2008-09				YES
	Counter Fraud Strategy Progress	6 monthly	2012-13	Completed		YES	
	Counter Fraud Investigation Progress	6 monthly	2012-13	Completed		YES	
INTERNAL AUDIT ASSURANCE							
	Internal Audit Strategy	3 yearly	2006-07			YES	
	Contractor Internal Audit Annual Plan	Annual	2012-13				YES
	Contractor Quarterly Audit Reports	Quarterly	2012-13	Completed	Completed	YES	YES
	Head of Audit's Annual Opinion	Annual	2012-13	Completed			
EXTERNAL ASSURANCE							
	External Audit Fee Letter	Annual	2012-13				YES
	External Audit Plan	Annual	2012-13	Completed			
	External Audit Annual Inspection Letter	Annual	2012-13			YES	
	Annual Certification Report	Annual	2012-13				YES
	Specific reports from external audit and inspection agencies	As needed	2011-12 (RIPA)				
STATEMENT OF ACCOUNTS							
	Statement of Accounts	Annual	2012-13		Completed		
	External Audit Report to those charged with Governance	Annual	2012-13		Completed		
OTHER							
	Updates on legal issues	As needed	2012-13				
	Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				