

FAREHAM

BOROUGH COUNCIL

AGENDA

AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 22 September 2014

Time: 6.00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor T G Knight (Chairman)

Councillor L Keeble (Vice-Chairman)

Councillors P J Davies
Miss T G Harper
D L Steadman
P W Whittle, JP
N R Gregory

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 and Governance Committee meeting held on 23 June 2014.

3. Chairman's Announcements

4. Declarations of Interest and Disclosures of Advice or Directions

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

5. Deputations

To receive any deputations of which notice has been lodged.

6. Overview of Complaints Against the Council (Pages 5 - 12)

To consider a report by the Director of Finance and Resources on an Overview of Complaints Against the Council.

7. Statement of Accounts (Pages 13 - 100)

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

8. Annual Governance Statement (Pages 101 - 128)

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

9. External Audit Annual Results Report 2013/14 (Pages 129 - 142)

To consider a report by the Director of Finance and Resources on the External Audit Annual Results Report 2013/14.

10. External Audit Annual Fee Letter 2014/15 (Pages 143 - 148)

To consider a report by the Director of Finance and Resources on the External Audit Annual Fee Letter 2014/15.

11. Quarterly Audit Report (Pages 149 - 168)

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

12. Corporate Risk Register Update (Pages 169 - 190)

To consider a report by the Director of Finance and Resources on an Update of the Corporate Risk Register.

13. Update to Standing Orders following the Openness of Local Government Bodies Regulations 2014 (Pages 191 - 196)

To consider a report by the Director of Finance and Resources on an Update to Standing Orders following the Openness of Local Government Bodies Regulations 2014.

14. Review of Committee Work Programme (Pages 197 - 200)

To consider a report by the Director of Finance and Resources on a Review of the Committee's Work Programme.

P GRIMWOOD
Chief Executive Officer

www.fareham.gov.uk
12 September 2014

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

FAREHAM

BOROUGH COUNCIL

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

Date: Monday, 23 June 2014

Venue: Collingwood Room - Civic Offices

PRESENT: T G Knight
(Chairman)

L Keeble
(Vice-Chairman)

Councillors: P J Davies, N R Gregory, Miss T G Harper, D L Steadman and
D J Norris (deputising for P W Whittle, JP)

**Also
Present:**



1. APOLOGIES

An apology of absence was received from P W Whittle, JP.

2. MINUTES

RESOLVED that the minutes of the meeting of the Audit and Governance Committee held on 10 March 2014 be confirmed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

The Chairman welcomed to the meeting Suzanne Smith and Andy Jefford from Mazars (Internal Auditors).

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest from members in accordance with Standing Orders and the Council's Code of Conduct.

5. DEPUTATIONS

There were no deputations made at this meeting.

MATTERS SUBMITTED FOR CONFIRMATION

6. REVIEW OF FINANCIAL REGULATIONS

The Committee considered a report by the Director of Finance and Resources which reviewed the Introductory Statue of the Regulations and Financial Regulation 3 – Responsibilities of Other Officers.

RESOLVED that the Committee recommends to Council that the proposed changes to these regulations as set out in Appendix B and D to the report be approved.

DECISIONS MADE UNDER DELEGATED POWERS

7. QUARTERLY AUDIT REPORT

The Committee considered a report by the Director of Finance and Resources on the Quarterly Audit report.

At the Invitation of the Chairman, Andy Jefford from Mazars, presented the report to the Committee and took questions from members.

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

8. HEAD OF AUDIT'S ANNUAL OPINION

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

Members noted that there were no minimal or limited assurances issued this year, there were no errors on expenditure or income collection noted during audits and that there were no new essential recommendations.

RESOLVED that the contents of the report are noted as a source of evidence for the 2013/14 Annual Governance Statement.

9. COUNTER FRAUD INVESTIGATION PROGRESS

The Committee considered a report by the Director of Finance and Resources on Counter Fraud Investigation progress. The report summarised the number and type of investigations that have been carried out into suspected cases of fraud that have arisen during 2013/14.

The Head of Audit and Assurance highlighted the biggest change in the report which related to the way in which benefit fraud will be dealt with from October 2014 with the introduction of the SFIS (Single Fraud Investigation Service). This will mean that the DWP (Department of Work and Pensions) will now become the lead authority on Housing and Council Tax Benefit fraud investigations, and as a result Fareham Borough Council's fraud caseload will transfer to them on 1 October 2014.

RESOLVED that the content of the report be noted.

10. COUNTER FRAUD STRATEGY PROGRESS

The Committee considered a report by the Director of Finance and Resources which provided an update on the Counter Fraud Strategy work in progress or carried out in the last 6 months.

The Head of Audit and Assurance presented the report to the Committee and highlighted the results of the Committee's request from its meeting on 25 November 2013 regarding incentives for reporting of fraud. The Chairman expressed his thanks for the work and research undertaken in regards to this request.

Several members raised concerns regarding the right of succession in relation to Council properties, it was agreed that this is an issue that would need to be addressed by the Health and Housing Committee.

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

11. REVIEW OF COMMITTEE WORK PROGRAMME

The Committee considered a report by the Director of Finance and Resources which reviewed the current work programme for the Committee.

RESOLVED that the Committee approved the Work Programme for the remainder of the year, as set out in Appendix A of the report.

12. REVIEW OF MEMBERS TRAINING & DEVELOPMENT AND DETERMINATION OF PROGRAMME

The Committee considered a report by the Director of Finance and Resources on a review of Member's training & development and the determination of the programme.

Councillor Miss Harper enquired if the information provided at training sessions could be put into a directory for all Councillors to access, with the information being listed by department or subject matter. The Head of Democratic Services confirmed that she would make arrangements for this to be put into action.

Councillor Davies stated that he felt that all training sessions should have a suitable learning outcome that would benefit all members. The Head of Democratic Services reassured the Committee that all member training sessions are designed with an appropriate learning outcome.

RESOLVED that the Committee:

(a) notes the content of the report and approves the framework for members' training and development in 2014/15 which is set out in Appendix A of this report; and

(b) agrees to a training needs survey to be circulated to all members in February 2015 and the results be reported to this Committee.

(The meeting started at 6:00pm
and ended at 7:27pm).

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **22 September 2014**

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

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

SUMMARY

This report informs members of the number of complaints made to the Council where these came by way of the Local Government Ombudsman, and of any complaints in respect of breaches of the Code of Conduct for Members for the year up to 31 March 2014.

RECOMMENDATION

That members note the contents of the report.

INTRODUCTION

1. One of the functions of the Audit and Governance Committee, set out in the Constitution, is to advise on an internal framework of standards of conduct that should be followed by members and officers. To assist the Committee in carrying out this role, it is considered helpful to provide information concerning complaints made to, or about the Council, its members and officers.
2. Many matters which could be termed complaints might more properly be termed service requests and others are dealt with by the relevant departments as part of their normal duties (e.g. a missed refuse bin). Such requests are not covered by this report.
3. Where a matter has not been resolved straightaway, the Council's corporate complaints procedure is followed and the matter is dealt with as a formal complaint. The procedure applies to most complaints, but there are some cases which are treated in a different way. The Council lets the complainant know if this is the case.
4. The formal complaints procedure is a two stage 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. 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.

COMPLAINTS TO THE LOCAL GOVERNMENT OMBUDSMAN

7. The Local Government Ombudsman's annual review letter, attached at Appendix A, shows no complaints that were upheld against the Council this year. Over the past year the Local Government Ombudsman has changed the way it classifies complaint resolution. Maladministration, potentially including injustice, is covered under the heading of an upheld complaint. A decision relating to a complaint received during 2013/14 has been upheld, but was not decided until after the end of the financial year. This will be reported in next year's annual review letter.

Enquiries and Complaints received

8. In 2013/14 the Local Government Ombudsman received 11 complaints about the Council and made 13 decisions. The discrepancy between these figures is for the following reasons:
 - (a) All decisions made during 2013/14 are counted, regardless of when the complaint was received
 - (b) Some of the received complaints were not decided until after the end of 2013/14

9. Additional details regarding the complaints and how they were resolved can be seen below.
 - (a) Three complaints were not upheld, no fault found, following detailed investigations.
 - (b) Six complaints were closed after initial enquiries, with no further action taken.
 - (c) The remaining four complaints were referred back for local resolution, because the Council had not been given the opportunity to complete its complaints process.
10. The volume of complaints received by the Local Government Ombudsman was up on the 7 complaints received during 2012/13, but the same number as 2011/12. This shows that the number, of complaints, is not a significant departure from the recent trend.
11. Complaints relating to Planning and Development were the most common, with 3. Each of the following areas received two complaints:
 - (a) Benefits and tax
 - (b) Environmental services and public protection and regulations
 - (c) Highways and transport
 - (d) Housing
12. Due to the changes in the way the Local Government Ombudsman processes complaints, it is not possible to compare these figures with 2012/13.

Performance of Hampshire District Councils

13. For the year ended 31 March 2014 the Local Government Ombudsman received 138 complaints and enquiries in respect of Hampshire district councils (including Fareham Borough Council). The lowest number of complaints and enquiries was 5 for Hart District Council up to 19 at New Forest District Council. Complaints and enquiries relating to Planning and Development were the most frequent type with 41, nearly double any other type.
14. For the year ended 31 March 2014 the Local Government Ombudsman dealt with 143 complaints in respect of Hampshire district councils (including Fareham Borough Council), ranging from 5 at Hart District Council to 21 at New Forest District Council. Of the 143 decisions, 22 were investigated, which resulted in 11 decisions being upheld.

COMPLAINTS IN RESPECT OF BREACHES OF THE MEMBERS CODE OF CONDUCT

15. The Council has a duty to make arrangements to receive and consider complaints made against Councillors in Fareham. The responsibility for carrying out this function lies with the Monitoring Officer.

16. Complaints can be received in writing, via e-mail or by filling in a complaint form that is available on the Council's website. All complaints are taken seriously and are recorded and investigated by the Monitoring Officer, who evaluates each one against the members' code of conduct.
17. For the period 1st April 2013 to 31st March 2014, seven complaints against members were received. Six of these were resolved at an early stage of the complaints procedure as it was established that no breach of the code had occurred.
18. One complaint was received following a planning application heard by the Planning Committee on 26th February 2014 that a council member had failed to disclose a pecuniary interest to the committee as required under the code of conduct.
19. The conclusion of the investigation was that a technical breach of the code had occurred, and in line with the law, the matter was referred to the police for their consideration. The Monitoring Officer met with the police, who recommended that it was not in the public interest to take any further action as regards any criminal breach.
20. This decision was reached having considered the level of the breach, the fact that the Monitoring Officer had alerted the member to the inadvertent breach and given advice. Further training on the code of conduct and probity in planning was planned as a matter of priority.
21. The recommendation was discussed with the designated Independent Person and the Solicitor to The Council and it was considered reasonable, proportionate and appropriate in the circumstances.

RISK ASSESSMENT

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

CONCLUSION

23. The overall level of complaints, to the Local Government Ombudsman and those about Councillors, does not represent a significant departure from recent trends and the Committee is recommended to note the report.

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.

Reference Papers:

None

Enquiries:

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

7 July 2014

By email

Mr Peter Grimwood
Chief Executive
Fareham Borough Council

Dear Mr Peter Grimwood

Annual Review Letter 2014

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 2014. This is the first full year of recording complaints under our new business model so the figures will not be directly comparable to previous years. This year's statistics can be found in the table attached.

A summary of complaint statistics for every local authority in England will also be included in a new yearly report on local government complaint handling. This will be published alongside our annual review letters on 15 July. This approach is in response to feedback from councils who told us that they want to be able to compare their performance on complaints against their peers.

For the first time this year we are also sending a copy of each annual review letter to the leader of the council as well as to the chief executive. We hope this will help to support greater democratic scrutiny of local complaint handling and ensure effective local accountability of public services. In the future we will also send a copy of any published Ombudsman report to the leader of the council as well as the chief executive.

Developments at the Local Government Ombudsman

At the end of March Anne Seex retired as my fellow Local Government Ombudsman. Following an independent review of the governance of the LGO last year the Government has committed to formalising a single ombudsman structure at LGO, and to strengthen our governance, when parliamentary time allows. I welcome these changes and have begun the process of strengthening our governance by inviting the independent Chairs of our Audit and Remuneration Committees to join our board, the Commission for Administration in England. We have also recruited a further independent advisory member.

Future for local accountability

There has been much discussion in Parliament and elsewhere about the effectiveness of complaints handling in the public sector and the role of ombudsmen. I have supported the creation of a single ombudsman for all public services in England. I consider this is the best way to deliver a system of redress that is accessible for users; provides an effective and comprehensive service; and ensures that services are accountable locally.

To contribute to that debate we held a roundtable discussion with senior leaders from across the local government landscape including the Local Government Association, Care Quality Commission and SOLACE. The purpose of this forum was to discuss the challenges and opportunities that exist to strengthen local accountability of public services, particularly in an environment where those services are delivered by many different providers.

Over the summer we will be developing our corporate strategy for the next three years and considering how we can best play our part in enhancing the local accountability of public services. We will be listening to the views of a wide range of stakeholders from across local government and social care and would be pleased to hear your comments.

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

Local authority report – Fareham Borough Council

For the period ending – 31/03/2014

For further information on interpretation of statistics click on this link to go to <http://www.lgo.org.uk/publications/annual-report/note-interpretation-statistics/>

Complaints and enquiries received

Local authority	Adult care services	Benefits and tax	Corporate and other services	Education and children's services	Environmental services and public protection and regulation	Highways and transport	Housing	Planning and development	Total
Fareham BC	0	2	0	0	2	2	2	3	11

Page 11

Decisions made

Local authority	<u>Detailed investigations carried out</u>		Advice given	Closed after initial enquiries	Incomplete/Invalid	Referred back for local resolution	Total
	Upheld	Not upheld					
Fareham BC	0	3	0	6	0	4	13

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **22 September 2014**

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

Subject: **STATEMENT OF ACCOUNTS 2013/14**

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 2013/14 that is attached to this report.

RECOMMENDATION

That the Statement of Accounts for 2013/14, attached as Appendix A, be approved and published by 30 September 2014.

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 2013/14.

Background Papers: None

Reference Papers: Code of Practice on Local Authority Accounting 2013

Appendix A: [Statement of Accounts 2013/14](#)

Enquiries:

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

FAREHAM
BOROUGH COUNCIL

**STATEMENT OF
ACCOUNTS**

**for the year ended
31st March 2014**

STATEMENT OF ACCOUNTS

**for the year ended
31st March 2014**

A. WANNELL CPFA

DIRECTOR OF FINANCE & RESOURCES

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ALL ABOUT US

Where is Fareham?

Fareham is located in an area of some 30 square miles along the south coast of Hampshire between Portsmouth and Southampton with a population of 111,600.

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

Political Issues

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

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

THE EXPLANATORY FOREWORD

1. Introduction

Fareham Borough Council's accounts for the year 2013/14 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 liability re-measurements. The Comprehensive Income and Expenditure shown represents the total movement in the Council's reserves during the year.

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipt Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulations",

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

In addition, the supplementary financial statements are shown on pages 67 and 73 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 the Government, Hampshire County Council, Hampshire Fire and Rescue Authority, 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	16,579	34
Government grants to services	22,471	47
Council tax payers	5,733	12
Central Government Funding	3,298	7
Use of reserves and corporate income	160	0
Total	<u>48,241</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	15,781	33
Running expenses	11,378	24
Transfer payments	18,730	38
Capital charges and costs	2,352	5
Total	<u>48,241</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 2013/14 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)	2,113	2,424	311
Cultural and related services	3,478	3,272	(206)
Environmental and regulatory services	6,238	6,140	(98)
Planning services	3,865	3,781	(84)
Highways and transport services	2,003	2,238	235
Local authority housing (HRA)	5,782	6,892	1,110
Other housing services (e.g. housing strategy and advice, housing benefit administration)	21,722	23,078	1,356
Corporate and democratic core	3,029	2,764	(265)
Non-distributed costs (e.g. pension adjustments)	11	214	203
Total	<u>48,241</u>	<u>50,803</u>	<u>2,562</u>

5. Capital

In 2013/14, the Council spent £10.8 million on projects in the capital programme, compared with a revised budget of £13.4 million. The net under spending of £2.6 million was mainly the result of changes to the phasing of the programme with expenditure now expected to occur in 2014/15.

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

Capital Expenditure:	£'000	%
Commercial Property Investment Acquisitions	3,890	36
Council Housing*	3,229	30
Other Housing	1,430	13
Vehicles	704	7
Daedalus Development	469	4
Leisure Services	455	4
Car Park Improvements	205	2
Information, Communication & Technology	166	2
Council Buildings	120	1
Environmental Improvements	93	1
Other Services	35	0
Total	<u>10,796</u>	<u>100</u>

Financed by:	£'000	%
Capital Receipts	5,084	47
Revenue and Reserves	4,432	41
External Contributions	712	7
Government Grants	568	5
Total	<u>10,796</u>	<u>100</u>

*Council Housing capital expenditure was financed by the Housing Revenue Account revenue and reserves (£2.896 million), capital receipts (£0.02 million) and government grant (£0.313 million).

£2.4 million of the total capital expenditure was not capitalised and was charged to revenue.

Assets are shown on the balance sheet net of depreciation. The net book value of the Council's non-current assets at 31 March 2014 was £158 million (2012/13 £154 million).

6. Reserves

The Council's total usable reserves at 31 March 2014 amounted to £38.0 million (2012/13 £38.7 million). Against this, the actuarial valuation of the Council's share of pension fund assets and liabilities at 31 March 2014 indicated a £45.2 million (2012/13 £59.4 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 Accounting Changes

There have been the following significant accounting changes in 2013/14.

Business Rates Retention Scheme

The Local Government Finance Act 2012 introduced a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013.

Under the new arrangements the Council is required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

Pensions Accounting

Changes to the standard IAS 19 Employee Benefits came into effect on 1 April 2013 requiring the 2012/13 accounts to be restated under the new accounting standard.

The key change is that the interest cost and expected return on asset items have been replaced by a single 'net interest' item calculated at the discount rate.

There are also additional disclosure requirements. In particular there is a requirement to provide a sensitivity analysis, for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption at that date.

8. Significant Developments during the Year

Due to continuing restraint on public sector spending, funding for local services reduced by £0.5m in the year, and has been projected to reduce further in the coming years.

To ensure that the Council's financial standing remains robust, the Executive agreed a programme of efficiencies amounting to £0.8m, focussed on reducing costs and improving revenue, with minimum impact on the services provided to customers.

Delivery of the programme commended in 2013/14, and where severance costs were incurred, these could be met within the overall budget for staffing. These pressures are expected to continue in the medium term, but the measures put in place should ensure that the Council can set a balanced budget for the next 3 years (to 31st March 2017).

9. 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 2014.

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 2014 and its income and expenditure for the year then ended.

Signed:

A Wannell CPFA
Director of Finance and Resources

Date: 22 September 2014

CONFIRMATION OF APPROVAL BY MEMBERS

I confirm that these accounts were approved by the Audit and Governance Committee at the meeting held on 22 September 2014.

Signed on behalf of Fareham Borough Council:

Chairman of Audit and Governance Committee
Fareham Borough Council

Date: 22 September 2014

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement in note 7.

Restated 2012/13				2013/14		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
6,650	(5,197)	1,453	Central services to the public	2,113	(1,047)	1,066
4,833	(559)	4,274	Cultural and related services	3,478	(600)	2,878
5,940	(1,715)	4,225	Environment and regulatory services	6,238	(1,813)	4,425
3,587	(614)	2,973	Planning services	3,865	(780)	3,085
2,061	(2,968)	(907)	Highways and transport services	2,003	(3,012)	(1,009)
6,140	(11,207)	(5,067)	Local authority housing (HRA)	5,782	(11,521)	(5,739)
21,687	(20,159)	1,528	Other housing services	21,722	(20,096)	1,626
2,682	(190)	2,492	Corporate and democratic core	3,029	(243)	2,786
71	(1)	70	Non distributed costs	11	(1)	10
53,651	(42,610)	11,041	Cost of Services	48,241	(39,113)	9,128
Other Operating Expenditure						
			(209) (Gain) or loss on disposal of assets			1,290
			138 Housing capital receipts to Government pool			158
Financing and Investment Income and Expenditure						
			1,401 Interest payable and similar charges			1,405
			(648) Interest receivable			(431)
			2,450 Pension net interest cost (note 17)			2,510
			1,503 Changes in fair value of investment properties (note 19)			1,407
			(2,125) Investment properties rental and expenses (note 19)			(2,087)
Taxation and Non-Specific Grant Income						
			(6,080) Council Tax Income			(5,733)
			(4,072) NNDR Income			(1,645)
			(2,593) Grants and contributions not distributable to services (note 9)			(5,353)
		806	(Surplus) or Deficit on Provision of Services			649
			(Surplus) or deficit on revaluation of Property, Plant and Equipment assets (note 35)			(923)
			3,435 Pension liability remeasurements (note 17)			(17,051)
		1,295	Other Comprehensive Income and Expenditure			(17,974)
		2,101	Total Comprehensive Income and Expenditure			(17,325)

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 2013 £'000		31 March 2014 £'000	Notes
	Property, Plant and Equipment		18
82,358	- Council dwellings	82,870	
34,775	- Other land and buildings	36,223	
2,186	- Infrastructure	556	
3,388	- Vehicles, plant, furniture, equipment	3,489	
356	- Community assets	353	
202	Heritage assets	194	20
30,587	Investment properties	33,070	19
142	Assets under construction	1,200	18
10	Surplus assets held for disposal	10	18
161	Intangible assets	118	21
0	Long term investments	2,000	36
84	Long term debtors	81	27
154,249	Long term assets	160,164	
22,304	Short term investments	26,149	36
1,310	Assets held for sale	1,265	22
31	Inventories	27	
5,270	Short term debtors	3,782	28
57	Payments in advance	125	
10,376	Cash and cash equivalents	12,325	26,36
39,348	Current assets	43,673	
(1,239)	Short term borrowing	(1,430)	36
(3,191)	Short term creditors	(8,684)	29
(743)	Depositors	(445)	30
(459)	Provisions	(1,828)	31
(5,632)	Current liabilities	(12,387)	
	Receipts in advance		32
(4,025)	- Capital grants	(4,711)	
(365)	- Revenue grants	(261)	
(40,600)	Long term borrowing	(40,400)	36
(59,441)	Pension scheme liability	(45,219)	17
(104,431)	Long term liabilities	(90,591)	
83,534	Net assets	100,859	
38,726	Usable reserves	37,960	33
44,808	Unusable reserves	62,899	35
83,534	Total Reserves	100,859	

MOVEMENT IN RESERVES STATEMENT

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

	General Fund Balance £'000	Earmarked 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 2013	6,976	13,470	4,358	2,650	11,253	19	38,726	44,808	83,534
Movement in reserves during 2013/14									
Surplus/(deficit) on provision of services	(4,821)		4,172				(649)		(649)
Other Comprehensive Income and Expenditure							0	17,974	17,974
Total Comprehensive Income & Expenditure	(4,821)	0	4,172	0	0	0	(649)	17,974	17,325
Adjustments between accounting basis and funding basis under regulations	5,771		(2,232)	398	(4,302)	248	(117)	117	0
Net increase/(decrease) before transfers to earmarked reserves	950	0	1,940	398	(4,302)	248	(766)	18,091	17,325
Transfers to/from earmarked reserves	(1,726)	3,906	(2,180)				0		0
Increase/(decrease) in 2013/14	(776)	3,906	(240)	398	(4,302)	248	(766)	18,091	17,325
Balance at 31 March 2014 carried forward	6,200	17,376	4,118	3,048	6,951	267	37,960	62,899	100,859

	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
Restated 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	(3,948)		3,142	0	0	0	(806)	0	(806)
Other Comprehensive Income and Expenditure							0	(1,295)	(1,295)
Total Comprehensive Income and Expenditure	(3,948)	0	3,142	0	0	0	(806)	(1,295)	(2,101)
Adjustments between accounting basis and funding basis under regulations	5,132	0	(1,517)	1,400	(1,004)	(51)	3,960	(3,960)	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) 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

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.

Restated 2012/13 £'000		2013/14 £'000	Notes
(806)	Net surplus or (deficit) on the provision of services	(649)	
7,945	Adjustments to surplus or deficit on the provision of services for non-cash movements	11,069	42
(2,497)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(2,342)	43
<u>4,642</u>	Net Cash flows from operating activities	<u>8,078</u>	41
	Investing Activities		
(4,914)	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	(7,231)	
(28,000)	Purchase of short-term and long-term investments	(28,000)	
631	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	937	
28,000	Proceeds from short-term and long-term investments	22,000	
1,544	Other receipts from investing activities	2,156	
<u>(2,739)</u>	Net Cash flows from Investing Activities	<u>(10,138)</u>	
	Financing Activities		
1,303	Cash receipts of short and long-term borrowing	191	
(2,086)	Other receipts from financing activities	4,018	
(1,135)	Repayments of short and long-term borrowing	(200)	
<u>(1,918)</u>	Net Cash flows from Financing Activities	<u>4,009</u>	
<u>(15)</u>	Net increase or decrease in cash and cash equivalents	<u>1,949</u>	
10,391	Cash and cash equivalents at the beginning of the reporting period	10,376	26
10,376	Cash and cash equivalents at the end of the reporting period	12,325	

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 2013/14 financial year and its position at the year-end of 31 March 2014. 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 2013/14 and the Service Reporting Code of Practice 2013/14, 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 at the earlier of when the Council can no longer withdraw the

offer of those benefits or when the Council recognises costs for a restructuring.

Post-Employment Benefits (Retirement Pensions)

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

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation. Full details of the valuation method are shown in note 17 to the core financial statements.

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

Service cost comprising:

- **Current service cost:** the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- **Past service cost:** this is the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- **Net interest on the net defined benefit liability, i.e. net interest expense for the Council:** the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period. Taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- **The return on plan assets:** excluding amounts included in net interest on the net defined benefit liability charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Actuarial gains and losses:** changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Contributions paid to the Hampshire County Council pension fund:** cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

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 2013/14 (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 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 for impairment. Where there is impairment and the amount is estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount, an impairment loss is recognised for the shortfall.

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- council dwellings - calculated 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 reverses out the amounts charged, so 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 they are recoverable from Her Majesty's Revenue and Customs.

2. Prior Year Adjustments

The Council has adopted a new accounting policy which impacts on the comparative figures for 2012/13. The change is due to the revision of the accounting standard IAS 19 Employee Benefits.

Prior year adjustments are required for the 2012/13 comparative figures to reflect the changes in accounting policy. None of the changes impact on the Balance Sheet. A summary of changes in the main statements are:

	2012/13 original £'000	2012/13 restated £'000	2012/13 correction £'000
Comprehensive Income and Expenditure Statement			
Cost of Services - Net Expenditure	10,951	11,041	90
Pension interest cost and expected return on assets	1,460	0	(1,460)
Pension interest cost	0	2,450	2,450
(Surplus)/deficit on provision of services	(274)	806	1,080
Actuarial (gains)/losses on pension assets/liabilities	4,515	0	(4,515)
Pension liability remeasurements	0	3,435	3,435
Movement in Reserves Statement - Usable Reserves			
Surplus/(deficit) on provision of services	274	(806)	(1,080)
Other Comprehensive Income and Expenditure	2,375	1,295	(1,080)
Adjustments between accounting basis and funding basis under regulations	(2,880)	(3,960)	(1,080)
Cash Flow Statement			
Net (surplus)/deficit on provision of services	274	(806)	(1,080)
Adjustments to surplus or deficit on the provision of services for non cash movements	6,865	7,945	1,080

3. 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. There have been changes to the following standards in the 2014/15 Code:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- IAS 32 Financial Instruments: Presentation

The changes to the Code take effect from 1 April 2014 and the Council will adopt those changes at that date. However, changes to these standards are unlikely to have any impact on the accounts.

4. 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.

5. 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 2014 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 £176,900 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. Note 17 provides details of the impact of changes to the key 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 £1.78 million in 2013/14 (2012/13 £1.85 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 £89,000 (2012/13 £92,500).
Provisions	The Council has made provisions for outstanding insurance claims, accumulated absences and land charges. The calculation for accumulated absences is based on 20% of the workforce.	A 10% increase or decrease in provisions would require an adjustment of £47,700 (2012/13 £45,900).
Business Rates Appeals Provision	Under the new business rates retention scheme, which came into effect on 1 April 2013, the Council has assumed some liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. The estimate for the provision is based on software modelling and the latest list of outstanding rating list proposals provided by the Valuation Office Agency. The estimate looks at changes in comparable hereditaments, market trends and other valuation issues including the potential for certain proposals to be withdrawn.	The Council has made an allowance of £3.38 million for these refunds within the Collection Fund. The Council's share of the provision is £1.35 million which has reduced the amount of income that is distributed from the Collection Fund to the Council's General Fund. A 10% increase or decrease in the Council's share of the provision would require an adjustment of £135,000.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Finance and Resources on 22 September 2014. 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 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Adjustments between Accounting Basis and Funding Basis under Regulation

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

	----- Usable Reserves -----						
	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
2013/14							
Capital Adjustment Account Adjustments							
Depreciation and impairment of non-current assets	1,937		2,444				(4,381)
Revaluation losses on Property, Plant and Equipment	(641)		(1,967)				2,608
Revaluation of Investment Properties	1,407						(1,407)
Amortisation of intangible assets	38		5				(43)
Capital grants and contributions applied	(831)		(313)				1,144
Revenue expenditure funded from capital under statute	763						(763)
Property written out on disposal	1,659		568				(2,227)
Capital expenditure charged to the General Fund and HRA balances	(889)						889
Capital Grants Unapplied Account Adjustments							
Capital grants and contributions unapplied							
Application of grants to capital financing transferred to Capital Adjustment Account	(248)					248	0
Capital Receipts Reserve Adjustments							
Proceeds from disposal of property	(50)		(887)		937		0
Capital Receipts applied					(5,084)		5,084
Housing Capital Receipts					3		(3)
Payments to the Government housing capital receipts pool	158				(158)		0
Major Repairs Reserve Adjustments							
Major Repairs Allowance credited to HRA			(2,443)	2,443			0
Major Repairs Reserve to finance new capital expenditure				(2,045)			2,045
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							0
Pensions Reserve Adjustments							
Net charges for retirement benefits	4,305		595				(4,900)
Employer's contribution to Pension Fund/directly to pensioners	(1,830)		(241)				2,071
Collection Fund Adjustment Account							
Collection Fund adjustment	(76)						76
Accumulated Absences Account Adjustments							
Accumulated Absences adjustment	69		7				(76)
Total Adjustments	5,771	0	(2,232)	398	(4,302)	248	117

Restated 2012/13	Usable Reserves							Unusable Reserves
	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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								
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	3,947		573					(4,520)
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	5,132	0	(1,517)	1,400	(1,004)	(51)	(3,960)	

8. 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 7 July 2014 for year ended 31 March 2014 and 8 July 2013 for year ended 31 March 2013 to the net cost of services shown in the Comprehensive Income and Expenditure Account.

For Year Ended 31 March 2014		L&RAC	L&C	Housing	Public	PSF	Street-	SP&E	PC	HRA	Grand
		£'000	£'000	£'000	£'000	£'000	scene	£'000	£'000	£'000	Total
							£'000				£'000
Fees, Charges & Other											
Service Income	(331)	(404)	(488)	(590)	(3,504)	(1,598)	(2,674)	(485)	(11,441)		(21,515)
Government Grants	0	0	(518)	0	(19,401)	0	(20)	0	0	0	(19,939)
Total Income	(331)	(404)	(1,006)	(590)	(22,905)	(1,598)	(2,694)	(485)	(11,441)		(41,454)
Employee Expenses	408	384	807	1,307	2,987	2,324	1,142	707	1,307		11,373
Other Operating Expenses	151	1,468	1,510	1,102	21,914	3,122	914	166	5,736		36,083
Support Service Recharges	131	401	248	624	1,300	596	276	235	767		4,578
Total Operating Expenses	690	2,253	2,565	3,033	26,201	6,042	2,332	1,108	7,810		52,034
Net Cost to Services	359	1,849	1,559	2,443	3,296	4,444	(362)	623	(3,631)		10,580
For Year Ended 31 March 2013		L&RAC	L&C	Housing	Public	PSF	Street-	SP&E	PC	HRA	Grand
		£'000	£'000	£'000	£'000	£'000	scene	£'000	£'000	£'000	Total
							£'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	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

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 2013/14	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	(21,515)	(150)		2,087	(208)	(19,786)	(2,087)	(21,873)
Interest and Investment Income	0					0	974	974
Income from Council Tax	0					0	(5,733)	(5,733)
Government Grants	(19,939)					(19,939)	(6,998)	(26,937)
Total Income	(41,454)	(150)	0	2,087	(208)	(39,725)	(13,844)	(53,569)
Employee Expenses	11,373				3,020	14,393		14,393
Other Operating Expenses	36,083			(1,407)	1,835	36,511	3,917	40,428
Support Service Recharges	4,578				(4,647)	(69)		(69)
Depreciation, Amortisation & Impairment	0			(1,982)		(1,982)		(1,982)
Payments to Housing Capital								
Receipts Pool	0					0	158	158
Gain or Loss on Disposal of Non-Current Assets	0					0	1,290	1,290
Total Operating Expenses	52,034	0	0	(3,389)	208	48,853	5,365	54,218
Surplus or Deficit on the provision of services	10,580	(150)	0	(1,302)	0	9,128	(8,479)	649

Reconciliation to Subjective Analysis 2012/13 - Restated	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		90		2,992	13,470		13,470
Other Operating Expenses	42,161			(1,509)	1,544	42,196	3,959	46,155
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	(1,367)	(1,529)	275	54,408	3,888	58,296
Surplus or Deficit on the provision of services	12,024	(150)	(1,367)	527	0	11,034	(10,228)	806

9. Grant Income

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

	2013/14	2012/13
	£'000	£'000
Service Specific Revenue Grants and Contributions (included in Cost of Services)		
Department for Works and Pensions:		
- Rent Allowances Subsidy	12,854	13,017
- Rent Rebates	6,120	6,075
- Housing and Council Tax Benefit Administration	447	531
- Discretionary Housing Payments	71	34
- Council Tax Benefit Subsidy	70	4,332
- New Burdens Grants	44	0
Department for Communities and Local Government:		
- Disabled Facilities Grant	255	336
- NNDR Collection Allowance	143	143
- New Burdens Local Council Tax Support Scheme	42	0
- Bellwin Scheme	8	0
- NNDR Collection	0	3
Homes and Communities Agency:		
- 101 Gosport Road	0	30
Hampshire County Council:		
- Portchester Community Centre	134	0
- Solent Disturbance Funding and Mitigation Project	78	0
- Community Safety Partnership	45	15
- Play Ranger Services	18	0
- Welfare Assistance	10	0
- Welborne Transport Funding	10	0
- Youth/Play Activities Grant	2	10
- Lockswood Community Centre	0	64
Other:		
- Portchester Crematorium	150	150
- Whiteley Joint Fund	103	48
- Environment Agency	20	0
- Cabinet Office - Electoral Registration Grants	19	0
Grant	6	0
- Natural England	0	70
- Developer Contributions	0	61
- Allotment Associations	0	8
- Fareham Community Action	0	8
	<u>20,649</u>	<u>24,935</u>

	2013/14 £'000	2012/13 £'000
Credited to Taxation and Non Specific Grant Income		
Department for Communities and Local Government:		
- Revenue Support Grant	2,533	79
- New Homes Bonus	1,107	658
- Capacity Funding - Welborne Planning	485	0
- Council Tax Freeze Grant	61	152
- Community Right to Bid/Challenge Grants	16	13
- Capitalisation Provision Redistribution Grant	13	0
- Town Centre Regeneration	0	100
- Local Services Support Grant	0	57
Homes and Communities Agency:		
- Daedalus Innovation Centre Funding	387	0
- National Affordable Housing Programme	313	33
Hampshire County Council:		
- Portchester Community Centre	0	708
Other:		
- Community Infrastructure Levy	248	0
- Developer Contributions	182	578
- Football Foundation	8	215
Total	<u>5,353</u>	<u>2,593</u>

10. Audit Fees Payable

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

	2013/14 £'000	2012/13 £'000
External audit services	63	63
Certification of grant claims and returns	24	18
Total	<u>87</u>	<u>81</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 Parking and Enforcement was responsible for the supervision of highways maintenance and certain improvement schemes. Net expenditure reimbursed by Hampshire County Council in 2013/14 was £357,358 (2012/13 was £351,581).

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.

	2013/14		(Surplus)/	2012/13
	Income	Expenditure	Deficit	(Surplus)/
	£'000	£'000	£'000	Deficit
Fareham Shopping Centre	(670)	34	(636)	(772)
Market Quay	(309)	14	(295)	(290)
Industrial/Commercial estates	(1,194)	43	(1,151)	(1,072)
Other land and property holdings	(266)	278	12	(21)
Building Services	(424)	423	(1)	(29)
Total	(2,863)	792	(2,071)	(2,184)

13. Members' Allowances

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

	2013/14	2012/13
	£'000	£'000
Basic Allowances	204	202
Special Responsibility Allowances	166	165
Superannuation and National Insurance	34	35
Travelling and Subsistence Allowances	7	8
Conference Expenses	3	4
Internet Rental Allowance	1	1
Total	415	415

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	2013/14	2012/13
	Number of employees	Number of employees
£50,000 - £54,999	4	2
£55,000 - £59,999	6	12
£60,000 - £64,999	1	2
£65,000 - £69,999	0	2
£70,000 - £74,999	1	0
£75,000 - £79,999	0	2
£80,000 - £84,999	3	2
£85,000 - £89,999	2	0
£110,000 - £114,999	1	0
£115,000 - £119,999	1	1
£130,000 - £134,999	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 £
2013/14								
Chief Executive Officer (1)	118,257	0	0	0	0	118,257	14,469	132,726
Director of Planning & Environment	80,228	0	0	0	0	80,228	10,491	90,718
Director of Regulatory & Democratic Services (3)	99,303	0	0	12,375	0	111,678	216,306	327,984
Director of Community	80,278	0	0	0	0	80,278	10,491	90,768
Director of Finance & Resources	83,903	0	0	0	0	83,903	10,977	94,879
Director of Streetscene (2)	74,634	0	0	0	0	74,634	9,764	84,398
	<u>536,602</u>	<u>0</u>	<u>0</u>	<u>12,375</u>	<u>0</u>	<u>548,977</u>	<u>272,497</u>	<u>821,474</u>
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
	<u>503,902</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>503,902</u>	<u>64,366</u>	<u>568,268</u>

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.

(3) Includes severance paid as pension contributions.

16. Termination Benefits

The Council terminated the contracts of a number of employees in 2013/14, incurring liabilities of £700,252 (£409,671 in 2012/13). 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	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
£0 - £20,000	0	0	19	23	19	23	£79,638	£103,556
£20,001 - £40,000	0	0	7	0	7	0	£213,564	£0
£40,001 - £60,000	0	0	1	0	1	0	£47,178	£0
£60,001 - £80,000	0	1	1	0	1	1	£69,291	£77,251
£100,001 - £120,000	0	1	0	0	0	1	£0	£108,508
£180,001 - £200,000	0	1	0	0	0	1	£0	£180,082
£220,001 - £240,000	0	1	0	0	0	1	£0	£230,855
	0	4	28	23	28	27	£409,671	£700,252

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 (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The disclosures below relate to the following schemes:

- The Hampshire County Council Pension Fund (Fund) which is part of the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits to be paid for the period covered by this disclosure are set out in the LGPS (Benefits, Membership and Contributions) Regulations 2007. The funded nature of the LGPS requires the Employer and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement. The contributions to be paid until the date the next actuarial valuation of the Fund is available are set out in the Rates and Adjustment Certificate. The Fund Administering Authority, Hampshire County Council is responsible for the governance of the Fund.
- Unfunded pension arrangements established by the Council. These are termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

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

Contributions for the Accounting Period Ending 31 March 2015

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2015 are estimated to be £2.25m. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period. For the unfunded benefits scheme, for the accounting period ending 31 March 2015, the Employer expects to pay £0.22m directly to beneficiaries.

Transactions Relating to Post-employment Benefits

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

	Funded Benefits		Unfunded Benefits	
	2013/14	2012/13	2013/14	2012/13
	£'000	£'000	£'000	£'000
<u>Comprehensive Income and Expenditure Statement</u>				
Cost of Services				
- Current service cost	2,380	2,000	0	0
- Past service cost	10	70	0	0
Financing and Investment Income and Expenditure				
- Interest net defined benefit liability	2,380	2,310	130	140
(Surplus)/deficit on the provision of services	<u>4,770</u>	<u>4,380</u>	<u>130</u>	<u>140</u>
Other Charges to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
- Return on plan assets (in excess of)/below that recognised in net interest	(5,477)	(6,739)	0	0
Actuarial (gains)/losses due to:				
- Changes in financial assumptions	(10,720)	10,040	(144)	354
- Changes in demographic assumptions	(2,020)	0	90	0
- Liability experience	1,290	(170)	(70)	(50)
Total amount recognised in Other Comprehensive Income and Expenditure	<u>(16,927)</u>	<u>3,131</u>	<u>(124)</u>	<u>304</u>
Total Amount Recognised	<u>(12,157)</u>	<u>7,511</u>	<u>6</u>	<u>444</u>
<u>Movement in Reserves Statement</u>				
Reversal of net charges made to the surplus/(deficit) in accordance with the Code	(4,770)	(4,380)	(130)	(140)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	(1,859)	(1,913)	0	0
Retirement benefits payable to pensioners	0	0	(212)	(216)

Pension Assets and Liabilities Recognised in the Balance Sheet

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

	Funded Benefits		Unfunded Benefits	
	2013/14	2012/13	2013/14	2012/13
	£'000	£'000	£'000	£'000
Fair value of assets	79,199	72,233	0	0
Present value of defined benefit obligation	121,290	128,340	3,128	3,334
Funded status	(42,091)	(56,107)	0	0
Liability recognised on the Balance Sheet	(42,091)	(56,107)	(3,128)	(3,334)

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

Active members	29%
Deferred Pensioners	14%
Pensioners	57%

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

	Funded Assets		Unfunded Assets	
	2013/14	2012/13	2013/14	2012/13
	£'000	£'000	£'000	£'000
Opening balance at 1 April	72,233	63,991	0	0
Interest income	3,070	2,980	0	0
Remeasurement gains and (losses)				
- Return on plan assets, excluding amount included in net interest expense	5,477	6,739	0	0
Contributions by the employer	1,859	1,913	212	216
Contributions by participants	660	620	0	0
Benefits paid	(4,100)	(4,010)	(212)	(216)
Closing balance at 31 March	<u>79,199</u>	<u>72,233</u>	<u>0</u>	<u>0</u>

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

	Funded Benefits		Unfunded Benefits	
	2013/14	2012/13	2013/14	2012/13
	£'000	£'000	£'000	£'000
Opening balance at 1 April	128,340	114,500	3,334	3,106
Current service cost	2,380	2,000	0	0
Interest expense	5,450	5,290	130	140
Contributions by participants	660	620	0	0
Remeasurement (gains) and losses on liabilities:				
- Financial assumptions	(10,720)	10,040	(144)	354
- Demographic assumptions	(2,020)	0	90	0
- Experience	1,290	(170)	(70)	(50)
Benefits paid	(4,100)	(4,010)	(212)	(216)
Past service cost	10	70	0	0
Closing balance at 31 March	<u>121,290</u>	<u>128,340</u>	<u>3,128</u>	<u>3,334</u>

Local Government Pension Scheme Assets Comprised

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

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

	Asset split at			Asset split
	31 March 2014			at
	%	%	%	31 March 2013
	Quoted	Unquoted	Total	%
Equities	57.6	3.2	60.8	57.6
Property	7.5	0.0	7.5	7.8
Government Bonds	23.5	0.1	23.6	24.9
Corporate Bonds	1.4	0.2	1.6	1.3
Cash	3.8	0.0	3.8	2.3
Other	0.2	2.5	2.7	6.1
Total	94.0	6.0	100.0	100.0

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 2013 for funded benefits and 31 March 2014 for unfunded benefits.

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

	Funded Benefits		Unfunded Benefits	
	31 March		31 March	
	2014	2013	2014	2013
	% p.a.	% p.a.	% p.a.	% p.a.
Mortality assumptions:				
Future lifetime from age 65 (aged 65 at accounting date)				
Men	24.4	24.0	24.4	24.0
Women	26.2	25.0	26.2	25.0
Future lifetime from age 65 (aged 45 at accounting date)				
Men	26.5	25.7	n/a	n/a
Women	28.5	26.9	n/a	n/a
Principal financial assumptions (% per annum):				
Discount rate	4.3	4.3	4.2	4.1
RPI inflation	3.3	3.6	3.2	3.5
CPI inflation	2.3	2.7	2.2	2.6
Rate of increase to pensions in payment	2.3	2.7	2.2	2.6
Rate of increase to deferred pensions	2.3	2.7	n/a	n/a
Rate of general increase in salaries	3.8	4.6	n/a	n/a

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2014 and the projected service cost for the year ending 31 March 2015 is set out in the table below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same. For inflation, for example, we have assumed this will not change the salary inflation figure and will affect pension increases only. The sensitivity of unfunded benefits is not included on materiality grounds.

Discount rate assumption

Adjustment to discount rate	+0.1% p.a	-0.1% p.a
Present value of total obligation (£M)	119.31	123.28
% change in present value of total obligation	-1.6%	-1.7%
Projected service cost (£M)	2.46	2.62
Approximate % change in projected service cost	-3.1%	3.1%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% p.a	-0.1% p.a
Present value of total obligation (£M)	121.58	120.91
% change in present value of total obligation	0.3%	0.3%
Projected service cost (£M)	2.57	2.51
Approximate % change in projected service cost	1.2%	-1.2%

Rate of increase to pensions in payment and deferred pension assumptions

Adjustment to pension increase rate	+0.1% p.a	-0.1% p.a
Present value of total obligation (£M)	122.91	119.68
% change in present value of total obligation	1.4%	-1.3%
Projected service cost (£M)	2.59	2.49
Approximate % change in projected service cost	2.0%	-2.0%

Post retirement mortality assumption

Adjustment to mortality age rating assumption	-1 year	+1 year
Present value of total obligation (£M)	124.24	118.23
% change in present value of total obligation	2.5%	-2.5%
Projected service cost (£M)	2.62	2.46
Approximate % change in projected service cost	3.1%	-3.1%

18. Property, Plant and Equipment

Valuation information

The Council's property portfolio has been revalued in accordance with the statement of accounting policies and to reflect the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. The portfolio was completely re-valued in 1998/99 by the Council's own valuer, D. M. 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 revalued as at April 2012 by Hellier Langston, chartered surveyors and have since then been revalued to 1 April 2013 by K. Boothroyd BSc (Hons) MRICS. 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 £'000	Other Land & Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Surplus Assets £'000	Total £'000
Historic		2,026	8,932		10,958
2010/11		1,806			1,806
2011/12		5,720			5,720
2012/13		2,567			2,567
2013/14	85,228	25,260		10	110,498
	<u>85,228</u>	<u>37,379</u>	<u>8,932</u>	<u>10</u>	<u>131,549</u>

Movement in Non-Current Assets 2013/14

	Council Dwellings £'000	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 2013	84,769	35,231	8,923	4,923	377	10	142	134,375
Additions	1,396	1,093	964				1,058	4,511
Revaluation increases/(decreases) to RR	89	830						919
Revaluation increases/(decreases) to SDPS	(442)	250						(192)
Derecognition - Disposals	(584)	(25)	(955)	(3,642)				(5,206)
At 31 March 2014	85,228	37,379	8,932	1,281	377	10	1,200	134,407
Depreciation and Impairment								
At 1 April 2013	2,411	456	5,535	2,737	21	0	0	11,160
Depreciation Charge	2,373	702	844	60	3			3,982
Depreciation written out to RR		(2)						(2)
Depreciation written out to SDPS	(2,410)	0						(2,410)
Derecognition - Disposals	(16)	0	(936)	(2,072)				(3,024)
At 31 March 2014	2,358	1,156	5,443	725	24	0	0	9,706
Net Book Value								
At 31 March 2014	82,870	36,223	3,489	556	353	10	1,200	124,701
At 31 March 2013	82,358	34,775	3,388	2,186	356	10	142	123,215

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

The figures for: Other Land & Buildings, Vehicles Plant & Equipment and Assets Under Construction include assets owned by the Housing Revenue Account (HRA). Details for these can be found on page 69 Note 2.

Movement in Non-Current Assets 2012/13

	Council Dwellings £'000	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	35,065	8,414	4,982	377	135	409	133,655
Additions	946	1,089	619				1,613	4,267
Revaluation increases/(decreases) to RR	22	(160)				296		158
Revaluation increases/(decreases) to SDPS	(355)	17				63		(275)
Derecognition - Disposals	(280)	(32)	(110)	(59)				(481)
Reclassified to/from Held for Sale		(748)				(484)	(1,717)	(2,949)
Other movements	163	0					(163)	0
At 31 March 2013	84,769	35,231	8,923	4,923	377	10	142	134,375
Depreciation and Impairment								
At 1 April 2012	1,813	2,162	4,792	2,380	18	0	0	11,165
Depreciation Charge	2,418	285	830	373	3			3,909
Depreciation written out to RR	0	(1,978)						(1,978)
Depreciation written out to SDPS	(1,812)	(12)						(1,824)
Derecognition - Disposals	(8)	(1)	(87)	(16)				(112)
At 31 March 2013	2,411	456	5,535	2,737	21	0	0	11,160
Net Book Value								
At 31 March 2013	82,358	34,775	3,388	2,186	356	10	142	123,215
At 31 March 2012	82,460	32,903	3,622	2,602	359	135	409	122,490

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

The figures for: Other Land & Buildings, Vehicles Plant & Equipment and Assets Under Construction include assets owned by the Housing Revenue Account (HRA). Details for these can be found on page 69 Note 2

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

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

Council dwellings were re-valued as at 1 April 2013 (the previous valuation was as at 1 April 2012). 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 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15 and future years, budgeted to cost £5.5 million. Similar commitments at 31 March 2013 were £2.3 million. The major commitments are:

	2013/14 £'000
Works to council houses and flats - Collingwood Court	5,079
Sport and recreation	17

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 re-valued in accordance with the statement of accounting policies by K. Boothroyd BSc (Hons) MRICS.

	2013/14 £'000	2012/13 £'000
Rental, sales income and service charges from investment property	(2,571)	(2,590)
Direct operating expenses arising from investment property	484	465
Net (gain)/loss	<u>(2,087)</u>	<u>(2,125)</u>

Movement in Fair Value of Investment Properties	2013/14 £'000	2012/13 £'000
Balance at 1 April	30,587	32,090
Purchases	3,890	0
Net gains/losses from fair value adjustments	(1,407)	(1,503)
Transfers to/from Property, Plant and Equipment		0
Balance at 31 March	<u>33,070</u>	<u>30,587</u>

20. Heritage Assets

	Sculptures and Structures	
	2013/14 £'000	2012/13 £'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	114	106
Depreciation charge	<u>8</u>	<u>8</u>
At 31 March	122	114
Net Book Value at 31 March	194	202

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 the 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 software licences as intangible assets which are written off over their useful life.

	2013/14 £'000	2012/13 £'000
Balance at 1 April		
- Gross carrying amount	1,066	982
- Accumulated amortisation	(905)	(876)
Net carrying amount at 1 April	<u>161</u>	<u>106</u>
 Additions		
- Purchases	0	84
- Amortisation for the period	(43)	(29)
Net carrying amount at 31 March	<u>118</u>	<u>161</u>
 Comprising:		
- Gross carrying amount	1,066	1,066
- Accumulated amortisation	(948)	(905)

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	
	2013/14 £'000	2012/13 £'000
Balance at 1 April	1,310	90
 Assets newly classified as held for sale:		
- Property, Plant and Equipment	0	2,949
Revaluation losses	0	(1,684)
Assets sold	(45)	(45)
Balance at 31 March	<u>1,265</u>	<u>1,310</u>

The assets currently held for sale are:

- 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 2013/14, the Council de-recognised impairment losses incurred and charged to Surplus/Deficit on Provision of Services in earlier years of £393,522. This relates mostly to the increased revaluation of the several car parks.

The Council also recognised impairment losses of £420,117. This related to the downward revaluation of several other car parks and Ferneham Hall.

24. Leases

Council as Lessee

Finance Leases

The Council has acquired some assets under Finance Leases.

The assets acquired under the leases are carried as Property, Plant and Equipment and Investment Property in the Balance Sheet at the following net amounts:

	31 March 2014 £'000	Restated 31 March 2013 £'000	Original 31 March 2013 £'000
Property, Plant and Equipment	6,191	5,637	0
Investment Property	4,226	373	0
	<u>10,417</u>	<u>6,010</u>	<u>0</u>

All properties are subject to the Council making peppercorn minimum lease payments. There are no contingent rents payable.

None of the properties are subject to finance lease liabilities as premiums were paid at the inception of the lease.

The 2012/13 figures have been restated following a review of long term leases in which a number of Property, Plant and Equipment and Investment Properties were identified. The restatement does not affect the Balance Sheet or any other note in the Statement.

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 2014 £'000	Restated 31 March 2013 £'000
Not later than one year	9	15
Later than one year and not later than five years	31	80
Later than five years	348	150
	<u>388</u>	<u>245</u>

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

	31 March 2014 £'000	31 March 2013 £'000
Minimum lease payments	11	13
Contingent rents	13	18
	<u>24</u>	<u>31</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 2014 £'000	31 March 2013 £'000
Not later than one year	1,980	1,804
Later than one year and not later than five years	6,227	5,189
Later than five years	<u>40,288</u>	<u>39,104</u>
	<u>48,495</u>	<u>46,097</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 2013/14, contingent rents of £712,348 were receivable by the Council (2012/13 £1.03 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:

2012/13 £'000	2013/14 £'000
51,050 Opening Capital Finance Requirement	51,050
Capital Investment	
4,268 Property, Plant and Equipment	4,511
0 Investment Properties	3,890
84 Intangible Assets	0
812 Revenue Expenditure Funded from Capital under Statute	763
Sources of Finance	
(1,493) Capital receipts	(5,084)
(1,951) Government grants and other contributions	(1,146)
Sums set aside from revenue:	
(1,088) HRA major repairs reserve	(2,045)
(632) Direct revenue contributions	(889)
<u>51,050</u> Closing Capital Finance Requirement	<u>51,050</u>

26. Cash and Cash Equivalents

	31 March	
	2014	2013
	£'000	£'000
Cash held by the Council	10	10
Bank current accounts	(553)	(464)
Short-term deposits with banks	12,868	10,830
Total	<u>12,325</u>	<u>10,376</u>

27. Long Term Debtors

	31 March	
	2014	2013
	£'000	£'000
Mortgages - sale of council houses	4	4
Mortgages - other	77	80
Total	<u>81</u>	<u>84</u>

28. Short Term Debtors

	31 March	
	2014	2013
	£'000	£'000
Central government bodies	625	2,460
Other local authorities	573	1,223
Public corporation and trading funds	0	0
Other entities and individuals	4,372	3,438
Total	<u>5,570</u>	<u>7,121</u>
Provision for Doubtful Debts	<u>(1,788)</u>	<u>(1,851)</u>
Total	<u>3,782</u>	<u>5,270</u>

29. Short Term Creditors

	31 March	
	2014	2013
	£'000	£'000
Central government bodies	4,512	1,210
Other local authorities	1,634	574
Public corporation and trading funds	0	21
Other entities and individuals	2,538	1,386
Total	<u>8,684</u>	<u>3,191</u>

30. Depositors

	31 March	
	2014	2013
	£'000	£'000
Property Rent Deposits	35	43
Other	410	700
Total	<u>445</u>	<u>743</u>

31. Provisions

	Balance at 1 April £'000	Provision in year £'000	Applied in year £'000	Balance at 31 March £'000
Business Rate Appeals	0	1,351	0	1,351
Insurance	121	62	121	62
Employee Related	188	265	188	265
Land Charges	150	0	0	150
Total 2013/14	<u>459</u>	<u>1,678</u>	<u>309</u>	<u>1,828</u>
Total 2012/13	<u>287</u>	<u>435</u>	<u>263</u>	<u>459</u>

A new provision has been set up in 2013/14 for business rate appeals. The insurance provision is set up to meet certain known liabilities in respect of risks e.g. fire, explosion, storm, flood, burst pipes, impact. The employee related provision is used for accumulated absences due and there is a provision 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	
	2014 £'000	2013 £'000
Balance at 1 April	4,390	4,530
Movements in year:		
Amounts received (with conditions)	1,984	1,853
Amounts recognised as income (conditions subsequently met):		
- Within Cost of Services	(512)	(492)
- Within Taxation and Non-Specific Grants	(890)	(1,501)
Balance at 31 March	<u>4,972</u>	<u>4,390</u>
Grants Receipts in Advance (Capital Grants)		
Leisure developer contributions	3,714	3,583
Affordable housing developer contributions	30	30
Other developer contributions	397	412
Other capital grants	570	0
	<u>4,711</u>	<u>4,025</u>
Grants Receipts in Advance (Revenue Grants)		
Whiteley developer contributions	250	354
Other developer contributions	11	11
	<u>261</u>	<u>365</u>
Total Receipts in Advance	<u>4,972</u>	<u>4,390</u>

33. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and notes 7 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 2013/14.

	Balance at 1 April 2012			Balance at 31 March 2013			Balance at 31 March 2014
	£'000	Transfers Out £'000	Transfers In £'000	£'000	Transfers Out £'000	Transfers In £'000	£'000
General Fund							
Major Repairs and Renewals Reserve	1,280	0	22	1,302	0	0	1,302
Other Earmarked Reserves	2,805	(480)	74	2,399	(283)	102	2,218
Earmarked Capital Reserve	4,727	(1,132)	2,044	5,639	(1,540)	3,447	7,546
Total	8,812	(1,612)	2,140	9,340	(1,823)	3,549	11,066
HRA							
Housing Repairs Account	1,800	(84)	84	1,800	(16)	16	1,800
Capital Development Fund	0	0	2,164	2,164	0	2,164	4,328
Leaseholder Repairs Reserve	251	(85)	0	166	0	16	182
Total	2,051	(169)	2,248	4,130	(16)	2,196	6,310
Grand Total	10,863	(1,780)	4,388	13,470	(1,839)	5,745	17,376

35. Unusable Reserves

	31 March	
	2014	2013
	£'000	£'000
Revaluation Reserve	9,652	8,828
Capital Adjustment Account	98,637	95,591
Financial Instruments Adjustment Account	0	0
Deferred Capital Receipts Account	4	4
Pensions Reserve	(45,219)	(59,441)
Collection Fund Adjustment Account	90	14
Accumulated Absences Account	(265)	(188)
	<u>62,899</u>	<u>44,808</u>

a) Revaluation Reserve

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

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

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

on the Capital adjustment Account.

2012/13 £'000		2013/14 £'000
6,773	Balance at 1 April	8,828
3,580	Upward revaluation of assets	923
	Downward revaluation of assets and impairment losses not	
(1,440)	charged to Surplus/Deficit on the Provision of Services	0
<u>2,140</u>		<u>923</u>
	Difference between fair value depreciation and historical	
(42)	cost depreciation	(42)
	Accumulated gains on assets disposed or reclassified to	
(43)	Investment Properties	(57)
<u>(85)</u>	Amount written off to the Capital Adjustment Account	<u>(99)</u>
<u>8,828</u>	Balance at 31 March	<u>9,652</u>

b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. 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 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2012/13 £'000	2013/14 £'000
97,158 Balance at 1 April	95,591
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(5,512) Charges for depreciation and impairment of non-current assets	(4,381)
1,457 Revaluation losses on Property, Plant and Equipment	2,608
(29) Amortisation of Intangible Assets	(43)
(812) Revenue expenditure funded from capital under statute	(763)
(415) 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	(2,227)
91,847	(4,806)
(2) Amount credited to Capital Receipts Reserve relating to part repayment of principle on long term debtor	(2)
43 Cumulative (gains)/losses on assets sold or reclassified as Investment Properties	57
42 Adjustment amounts written out of the Revaluation Reserve	42
91,930 Net written out amount of the cost of non-current assets consumed in the year	90,882
Capital financing applied in the year	
1,493 Use of the Capital Receipts Reserve to finance new capital expenditure	5,084
1,088 Use of the Major Repairs Reserve to finance new capital expenditure	2,045
1,899 Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,144
52 Application of grants to capital financing from the Capital Grants Unapplied Account	0
632 Capital expenditure charged against the General Fund and HRA balances	889
5,164	9,162
(1,503) Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,407)
95,591 Balance at 31 March	98,637

c) 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.

2012/13 £'000	2013/14 £'000
(99) Balance at 1 April	0
Proportion of premiums incurred in previous financial years to be charged against the General Fund or HRA Balance in accordance	
99 with statutory requirements	0
<u>0</u> Balance at 31 March	<u>0</u>

d) 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.

2012/13 £'000	2013/14 £'000
5 Balance at 1 April	4
(1) Transfer to the Capital Receipts Reserve upon receipt of cash	0
<u>4</u> Balance at 31 March	<u>4</u>

e) 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.

Restated 2012/13 £'000	2013/14 £'000
(53,615) Balance at 1 April	(59,441)
(3,435) Actuarial gains or losses on pension assets and liabilities	17,051
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the	
(4,520) Comprehensive Income and Expenditure Statement	(4,900)
Employers' pension contributions and direct payments to pensioners	
2,129 payable in the year.	2,071
<u>(59,441)</u> Balance at 31 March	<u>(45,219)</u>

f) Collection Fund Adjustment Account

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

2012/13 £'000	2013/14 £'000
77 Balance at 1 April	14
(63) Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax calculated for the year in accordance with statutory requirements	62
Amount by which NNDR income credited to the Comprehensive	
0 Income and Expenditure Statement is different from NNDR	14
calculated for the year in accordance with statutory requirements	
<u>14</u> Balance at 31 March	<u>90</u>

g) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for paid 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.

2012/13 £'000	2013/14 £'000
(236) Balance at 1 April	(188)
Settlement or cancellation of accrual made at the end of the	
236 preceding year	188
<u>(188)</u> Amounts accrued at the end of the current year	<u>(265)</u>
Amount by which officer remuneration charged to the	
48 Comprehensive Income and Expenditure Statement on an	
accruals basis is different from remuneration chargeable in	(77)
the year in accordance with statutory requirements	
<u>(188)</u> Balance at 31 March	<u>(265)</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
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Borrowing at amortised cost	40,400	40,600	1,430	1,239
Trade Creditors	0	0	3,368	1,756
Financial Liabilities	<u>40,400</u>	<u>40,600</u>	<u>4,798</u>	<u>2,995</u>
Loans and receivables	2,000	0	38,475	32,681
Mortgages	81	84	0	0
Trade Debtors	0	0	1,978	1,679
Financial Assets	<u>2,081</u>	<u>84</u>	<u>40,453</u>	<u>34,360</u>

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 £600,000 balance remaining, £400,000 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 2014 of £167,800 is included within the total investment outstanding of £38,475,000.

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

Fair Values of Assets and Liabilities

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 2014 of 4.29% to 4.31% for loans from the PWLB and interest rate of 0.95% 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 2014		31 March 2013	
	Balance	Fair	Balance	Fair
	Sheet	Value	Sheet	Value
	£'000	£'000	£'000	£'000
Borrowing	40,400	34,149	40,600	36,117
Loans and receivables	2,000	2,019	0	0
Mortgages	81	81	84	84

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 2014) arising from a commitment to pay interest to lenders below current market rates.

The fair value of the loans and receivables is higher than the carrying amount because the Council's portfolio of investments includes fixed rate loans where the rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2014) attributable to the commitment to receive interest above current market rates.

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 22 February 2013 are available on the Council website. The key issues within the revised strategy were:

- The Authorised Limit for 2013/14 was set at £61 million. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £49 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 25% 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.
- Building Societies with assets in excess of £5bn.

The following analysis shows the gross credit exposure by credit rating of the Council's investments as at 31 March 2014.

Rating Category	£'000
AA or equivalent	9,019
A or equivalent	25,426
BBB or equivalent	<u>6,030</u>
Total	<u>40,475</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 £40.5 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 2014 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 (£421,000 at 31 March 2014, £767,000 as at 31 March 2013). 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 2014			Amount Outstanding as at 31 March 2013		
	£'000	Bad Debt Provision %	£'000	£'000	Bad Debt Provision %	£'000
Less than 1 year old	708	6	39	491	21	103
1 and 2 years old	168	16	27	256	63	162
2 and 3 years old	70	60	42	106	75	79
More than 3 years old	329	95	313	445	95	423
Total	1,275		421	1,298		767

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 2014	As at 31 March 2013
	£'000	£'000
Less than 3 months	18,399	18,681
3 to 6 months	8,046	6,000
6 months to 1 year	12,030	8,000
1 to 2 years	2,000	0
Total	40,475	32,681

All other trade debtors 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:

Maturity analysis of financial liabilities	Amount Outstanding	
	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Less than 3 months	1,230	1,039
6 months to 1 year	200	200
1 year to 5 years	400	600
More than 38 years	40,000	40,000
Total	<u>41,830</u>	<u>41,839</u>

All other trade creditors 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	3,968	1,978
Fixed rate	41,230	40,556
Total	<u>45,198</u>	<u>42,534</u>
Fixed Rate		
Weighted Average Interest Rate (%)	3.50	0.92
Weighted Average Period (in years)	43.00	0.96

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 £283,999 at 31 March 2014.

In 2013/14, the fund's income was £1,322 and there was no expenditure. (In 2012/13, the fund's income was £2,487 and there was no expenditure). The fund's only asset was investments with the Council of £283,999 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	11	11	land
Swanwick Lane recreation ground	3	3	land
King George V playing fields	2	2	land
Crofton recreation ground	18	18	land
Titchfield recreation ground	16	16	land
Hook & Warsash allotments	5	5	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 8 on reporting for resource allocation decisions and shown in the Grant Income note in Note 9.

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2013/14, 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 2013/14 is shown in Note 13.

Chief Officers

Chief Officers have the ability to influence the Council. During 2013/14, 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 £1,960,000 (2012/13 £1,413,000). In 2013/14, PCJC paid a contribution of £150,000 to the Council (£150,000 in 2012/13). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2014, £940,000 was invested with the Council (£750,000 at 31 March 2013).

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 2013/14, the Partnership charged Gosport Borough Council £157,931 (2012/13 £146,911) 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 2014, the balance of retained surplus for future investment in the service held by Fareham Borough Council was £77,378 and £55,076 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, has determined that a Levy rate of 15% of the value of outstanding claims of £148,000 is required. The £22,000 levy was paid during 2013/14 and there is 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:

2012/13 £'000	2013/14 £'000
526 Interest received	586
(1,401) Interest paid	(1,405)
<u>(875)</u>	<u>(819)</u>

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

Restated 2012/13 £'000	2013/14 £'000
5,512 Depreciation and impairment	4,381
(1,457) Downward valuations	(2,615)
29 Amortisation of intangible assets	43
0 Increase/decrease in interest creditors	0
350 Increase/decrease in creditors	1,686
(122) Increase/decrease in interest debtors	155
(840) Increase/decrease in debtors	(417)
(8) Increase/decrease in inventories	4
2,391 Movement in pension liability	2,829
172 Contributions to/(from) provisions	1,369
415 Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised	2,227
<u>1,503</u> Movement in investment property values	<u>1,407</u>
<u>7,945</u>	<u>11,069</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

2012/13 £'000	2013/14 £'000
(1,867) Capital grants credited to surplus/deficit on the provision of services	(1,402)
0 Net adjustment from the sale of short and long term investments	0
(630) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(940)
<u>(2,497)</u>	<u>(2,342)</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.

	2013/14	Restated 2012/13
	£'000	£'000
Income		
Gross rent income		
- Dwellings	(10,344)	(10,049)
- Other	(249)	(234)
Charges for services and facilities	(614)	(631)
Contributions towards expenditure	(314)	(293)
Total income from service	(11,521)	(11,207)
Expenditure		
Repairs and maintenance	2,640	2,227
Supervision and management	2,617	2,745
Rents, rates, taxes and other charges	33	35
Payment of negative subsidy to Government	0	(4)
Depreciation and impairment of non-current assets (note 8)	482	1,031
Debt management expenses	32	24
Provision for doubtful debts	(22)	82
Total expenditure on service	5,782	6,140
Net expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement	(5,739)	(5,067)
HRA service share of corporate and democratic core	147	139
Net Expenditure for HRA Services	(5,592)	(4,928)
Gain on sale of HRA non-current assets	(319)	(123)
Change in fair value of Investment Properties	0	(68)
Interest payable	1,870	1,864
Interest receivable	(123)	(165)
Pension interest cost	305	311
Capital grants and contributions receivable	(313)	(33)
(Surplus)/Deficit for year on HRA Services	(4,172)	(3,142)

MOVEMENT ON THE HRA STATEMENT

	2013/14	Restated 2012/13
	£'000	£'000
Balance on the HRA at the end of previous year	(4,358)	(4,814)
(Surplus) or Deficit for year on HRA I&E Statement	(4,172)	(3,142)
Remove gain on sale of HRA non-current assets	319	123
Pension reserve contributions	(354)	(313)
Amortisation of premiums and discounts	0	99
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(7)	3
Capital expenditure charged to revenue	0	48
Transfers to/from Major Repairs Reserve	2,443	2,488
Transfers to/from Capital Adjustment Account	(169)	(930)
Adjustments between accounting basis and funding basis under statute	2,232	1,518
Net (increase) or decrease before transfers to or from the reserves	(1,940)	(1,624)
Transfer to/(from) reserves	2,180	2,080
Increase or (decrease) in year on the HRA	240	456
Surplus Carried Forward	(4,118)	(4,358)

The total surplus carried forward excludes balances of:

- Repairs Account;
- Leaseholder Repairs Reserve;
- 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 2014	31 March 2013
Houses	809.75	818.75
Flats	1,374.00	1,413.00
Bungalows	166.00	165.00
	2,349.75	2,396.75

The reduction in properties is due to the demolition of Collingwood House and 6 properties in Gibraltar Close plus properties sold under right to buy.

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 2013 is £271,830,250. 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 2013/14					
Cost or Valuation					
At 1 April 2013	84,769	3,498	38	142	88,447
Additions	1,396			982	2,378
Revaluation Increases/(decreases) to RR	89				89
Revaluation Increases/(decreases) to SDPS	(442)				(442)
Derecognition - Disposals	(584)				(584)
At 31 March 2014	85,228	3,498	38	1,124	89,888
Depreciation and Impairment					
At 1 April 2013	2,411	70	1		2,482
Depreciation Charge	2,373	70	1		2,444
Depreciation written out to SDPS	(2,410)				(2,410)
Derecognition - Disposals	(16)				(16)
At 31 March 2014	2,358	140	2	0	2,500
Net Book Value					
At 31 March 2014	82,870	3,358	36	1,124	87,388
At 31 March 2013	82,358	3,428	37	142	85,965

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

Movement in Values 2012/13	Council Dwellings £'000	Other Land & Buildings £'000	Plant & Equipment £'000	Assets Under Construction £'000	Total £'000
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	84,769	3,498	38	142	88,447
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	2,411	70	1	0	2,482
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

3. Investment Properties

Movement in Fair Value of HRA Investment Properties

	2013/14 £'000	2012/13 £'000
Balance at 1 April	106	38
Net gains/losses from fair value adjustments	0	68
Balance at 31 March	<u>106</u>	<u>106</u>

4. Major Repairs Reserve

	2013/14 £'000	2012/13 £'000
Balance at 1 April	2,650	1,251
Receipts in year	2,442	2,488
Used in year:		
- Houses and flats	(2,044)	(1,089)
Balance at 31 March	<u>3,048</u>	<u>2,650</u>

5. Housing Repairs Account

	2013/14 £'000	2012/13 £'000
Balance at 1 April	1,800	1,800
Contribution from Housing Revenue Account	2,510	2,127
Other Income	44	38
Expenditure	<u>(2,554)</u>	<u>(2,165)</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	21	0	21
Government Grants	0	313	313
Major Repairs Reserve	<u>1,375</u>	<u>668</u>	<u>2,043</u>
Expenditure in 2013/14	<u>1,396</u>	<u>981</u>	<u>2,377</u>

7. Capital Receipts

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

	2013/14 £'000	2012/13 £'000
Right to buy sales of houses and flats	<u>887</u>	<u>406</u>
	<u>887</u>	<u>406</u>

8. Depreciation and Impairment

		2013/14 £'000	2012/13 £'000
Depreciation	Dwellings	2,373	2,417
	Garages	70	70
	Plant & Equipment	<u>1</u>	<u>1</u>
	Total	<u>2,444</u>	<u>2,488</u>
Amortisation	Intangible asset	<u>5</u>	<u>0</u>
Impairment	Dwellings	<u>785</u>	<u>140</u>
	Total	<u>785</u>	<u>140</u>
Revaluation gain	Dwellings	<u>(2,752)</u>	<u>(1,597)</u>
	Total	<u>(2,752)</u>	<u>(1,597)</u>
Total charge		<u>482</u>	<u>1,031</u>

The impairment charge in 2013/14 relates to the demolished units at Collingwood House and Gibraltar Close.

For 2013/14, 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 an increase in market values. This is represented by the revaluation gain.

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. Arrears

At 31 March 2014, arrears were 3.99% of the gross income due in the year. 2013/14 was a 53 week rent year and 2012/13 a 52 week rent year. The arrears figures are as follows:

	2013/14 £'000	2012/13 £'000
Arrears at 31 March	437	459
Gross incomes	10,951	10,704
Provision for uncollectable rents	374	370
Arrears as a percentage of gross income	3.99%	4.29%

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.

	2013/14		2012/13	
	£'000	£'000	£'000	£'000
	Council Tax	Business Rates	Total	Total
Income				
Council Tax (notes 1 and 2)				
Billed to Taxpayers	56,962			55,910
Council Tax Benefits				4,281
Non-Domestic Rates - Due (note 3)		40,644		
Transitional Protection Payments		(397)		37,338
	56,962	40,247	97,209	97,529
Expenditure				
Collection Fund Surplus/(Deficit) in Previous Year (note 5)				
Central Government				
Fareham Borough Council	28			49
Hampshire County Council	207			364
Police and Crime Commissioner for Hampshire	29			51
Hampshire Fire and Rescue	12			21
	276	0	276	485
Precepts, Demands and Shares				
Central Government		18,085		
Fareham Borough Council	5,643	14,468		6,095
Hampshire County Council	41,768	3,255		45,111
Police and Crime Commissioner for Hampshire	6,087	362		6,357
Hampshire Fire and Rescue	2,470			2,668
	55,968	36,170	92,138	60,231
Charges to the Collection Fund				
Payment to National Pool				37,195
Cost of Collection Allowance		143		143
(Increase)/Decrease in Appeals Provision		3,377		0
(Increase)/Decrease in Bad Debt Provision	5	(57)		123
Write Off of Uncollectable Amounts	96	469		(23)
	101	3,932	4,033	37,438
	56,345	40,102	96,447	98,154
Fund balance brought forward at 1 April	136	0	136	761
Surplus/(Deficit) for the Year	617	145	762	(625)
Fund balance carried forward at 31 March	753	145	898	136

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, 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; 40,244 for 2013/14 (43,465 for 2012/13). 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:

	2013/14	2012/13
	£	£
Fareham Borough Council	140.22	140.22
Police & Crime Commissioner for Hampshire	151.25	146.25
Hampshire Fire and Rescue Authority	61.38	61.38
Hampshire County Council	1,037.88	1,037.88
Total	1,390.73	1,385.73

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. Non-Domestic Rates (NDR)

NDR is organised on a national basis. The Government specifies a rate in the £ (in 2013/14, 46.2p for small businesses and 47.1p for large; in 2012/13, 45.0p for small businesses and 45.8p for large) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the ratepayers in its area. The rateable value at 31 March 2014 was £102,381,887 (£103,927,458 as at 31 March 2013). This rateable value is based on the valuation list effective from 1 April 2010.

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

From 2013/14 a new system of Retained Business Rates has been introduced, changing the way in which this funding stream is received. During the year the Council collects business rates due in the usual way, but instead of paying this all over to the national pool, 50% is paid to central government, 9% to Hampshire County Council, 1% to Hampshire Fire and Rescue Authority and 40% is retained by the Council.

At the end of the year the Council compares its 40% retained rates income with the Business Rates Baseline set at the start of the system (based on rates collected up to 2011/12) and the Baseline funding level for the financial year. For 2013/14 the Business Rates Baseline was £16,265,235 and the Baseline funding level was £1,684,805.

3. Collection Fund Balance

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

	2013/14 £'000	2012/13 £'000
Fareham Borough Council	134	14
Precepting Authorities	<u>764</u>	<u>122</u>
Total	<u>898</u>	<u>136</u>

4. Collection Fund - Balance Sheet Items

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 NDR and 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:

Council Tax

- In the Balance Sheet at 31 March 2014, a debtor of £264,054 (£266,362 in 2012/13) has been shown within debtors as Council Tax payers' arrears and a creditor of £44,230 (£41,313 for 2012/13) has been shown within creditors as Council Tax payers in advance.
- There is also a creditor totalling £226,454 (debtor of £374,863 for 2012/13) included within debtors as Local Authorities. This represents the balance of the Council Tax Collection Fund surplus and Balance Sheet items which is attributable to the major preceptors.

NDR

- In the Balance Sheet at 31 March 2014, a debtor of £316,369 has been shown within debtors as Business rates arrears and a creditor of £147,482 has been shown within creditors as Business rates in advance.
- There is also a creditor totalling £2,113,397 included within creditors as Government Departments and Local Authorities. This represents the balance of the NDR Collection Fund surplus and Balance Sheet items which is attributable to the major preceptors.
- In 2012/13 NDR debtors and creditors were not recognised in the Council's Balance Sheet, the NDR balances were accounted for in the statement by showing the net total of the NDR balance sheet items and the amount due from the Government as at 31 March 2013 as a debtor of £1,304,578 within Government Departments.

5. 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 £75,839 (£66,325 in 2012/13). 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.

Amortised Cost

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

Carrying Amount

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

Cash and Cash Equivalents

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

Community Assets

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

Contingency

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

Corporate and Democratic Core

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

Current Service Costs (Pensions)

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

Defined Benefit Scheme

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

Depreciation

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

Depreciated Replacement Cost (DRC)

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

Discretionary Benefits

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

Exceptional Items

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

Expected rate of return on pensions assets

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

Fair Value

The 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 THE MEMBERS OF FAREHAM BOROUGH COUNCIL

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

HOW TO CONTACT US

For more information please contact us at:

Director of Finance and Resources
Fareham Borough Council
Civic Offices
Civic Way
Hampshire
PO16 7AZ

Tel: 01329 236100 Fax: 01329 821770

Monday to Thursday - 8.45am to 5.15pm
Friday - 8.45am to 4.45pm

www.fareham.gov.uk
customerservices@fareham.gov.uk



FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date 22 September 2014

Report of: Director of Finance and Resources

Subject: ANNUAL GOVERNANCE STATEMENT 2013/14

SUMMARY

This report brings the 2013/14 Annual Governance Statement for member approval before publishing with the Statement of Accounts.

RECOMMENDATION

That the Annual Governance Statement for 2013/14, as attached as [Appendix C](#), be approved, or any changes required be identified.

INTRODUCTION

1. The Accounts and Audit Regulations 2011 require the Council to publish a statement on its systems of internal control 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 plus the December 2012 addendum.
3. This report therefore informs members of the processes that have been used to prepare the Annual Governance Statement for 2013/14 as attached as [Appendix C](#), and seeks approval for this to accompany the Statement of Accounts for 2013/14 due to be published in October 2014.

RESPONSIBILITIES OF THIS COMMITTEE

4. 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.
5. Member involvement in the process is important to establish corporate ownership of the governance framework. 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.
6. The final version of the Statement, taking on board members’ comments, will then be submitted for endorsement by the Chief Executive Officer and the Leader of the Council before being published.

GOVERNANCE FRAMEWORK

7. 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".

8. The Council has defined its Governance Framework as consisting of 23 elements as listed in [Appendix A](#). Two of these (Business Continuity and Emergency Planning) were added to the framework this year.

SOURCES OF EVIDENCE

9. Each of the elements of the framework were reviewed and discussed by the Chief Executive Assurance Group which consists of the Chief Executive, all the 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 2013/14.
 - Summary of external assurances received in the year (as listed in [Appendix B](#)).
 - Review of progress made on the actions included in the previous Annual Governance Statement.

ANNUAL GOVERNANCE STATEMENT

10. 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. Further work has been undertaken this year to improve the presentation of the document and how easy it is to read.

The lists of improvements already delivered or identified during this review are highlighted on pages 18 and 19 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

11. 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

12. 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 2013/14.

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

Appendices:

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

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












Appendix C – Draft Annual Governance Statement 2013/14 ([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>

New Ref		Element
11		<p>Financial Management</p> <p>Ensuring the authority'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) and, where they do not, explain why and how they deliver the same impact.</p>
12		<p>Internal Audit</p> <p>Ensuring the authority's assurance arrangements conform to 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>

New Ref	Element	
22		<p>Emergency Planning</p> <p>Ensuring we can respond effectively to an emergency within the borough.</p>
23		<p>Business Continuity Management</p> <p>Reviewing what disruptions the Council might face to its service delivery and planning to minimise the impacts should they happen.</p>

Sources of External Assurance Reviewed this Year

Type	Report
External Audit	Annual Audit Letter 2012/13 (October 2013)
	Annual Certification Report 2012/13 (February 2014)
	Quarterly verbal meetings with senior managers
Government Department or Agency	Health and Safety Executive Waste Management Intervention Report (September 2013)
	Food Standards Agency Final Report [August 2013]
	Public Service Network Compliance Certificate (January 2014)
	Driver and Vehicle Licensing Agency (DVLA) - Use of Web Enabled Enquiry (WEE) System (2013)
	Vehicle and Operator Services Agency (VOSA) - Operator Risk Score and Licence renewal
Insurers	Zurich Risk Management Standards Assessment Health Check (October 2013)
Other	External and Internal Penetration Health checks performed by a specialist company on our IT systems.

FAREHAM
BOROUGH COUNCIL

Annual Governance Statement 2013/14

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

This statement explains how Fareham Borough Council has complied with the code and also meets the requirements of the 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 ongoing 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 2014 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. We are seeing a consistent growth in followers on social media channels like Facebook and Twitter which give us ways to have informal two-way conversations with a wider range of people. We have also started using the Council Connect stand to display a range of material on targeted themes throughout the year.

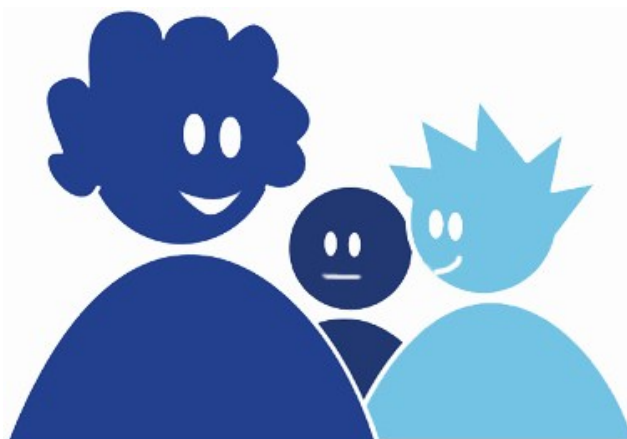
The Council has a Public Relations and Marketing Team which encourages all departments to seek advice on the best communication methods to be used for events and information. For example, we are increasing our use of specialist software and video presentations. The Council has also adopted three Equality Objectives which set out how we take into account the needs of the diverse groups that make up our community.

The Public Relations and Marketing Team are also responsible for working with the media to convey important messages.

The Council carried out a Residents Survey of randomly selected people from the Electoral Register in October 2013. 1,291 responses were received (32%). 91% said they were happy with how the council ran things. A survey of tenants and leaseholders is planned for 2014/15.

Community Action Teams (CATs) have been established in five neighbourhoods in the Borough, and meetings take place three times a year with additional meetings arranged for specific hot topics. The Leader of the Council chairs a discussion at the summer meetings each year on the Council's vision, objectives, achievements and priorities. A review of the effectiveness of the CATS meetings from the customers point of view is planned for 2014/15.

The Council has a Customer Engagement Manager who coordinates and undertakes community consultation using a variety of methods. These include an e-panel of over a 1000 residents. During 2013/14 we improved our co-ordination of consultation exercises to gather more information on when they are happening across the Council and to help spread them out across the year. In 2013/14 this included a major consultation on the name of the new Community with most votes cast by the public for 'Welborne'.



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. 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

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

This review will be taking into account what we are finding from the 'System Thinking' work being undertaken about what really matters to the customer.

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

The Council is currently implementing a programme of cultural change 'which will lead to better quality and value for money services. We are introducing Systems Thinking' into our services which redefines the purpose from the customers point of view and puts them at the heart of the processes we use to deliver them.

We have Local Service Agreements in place which 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 during the year and between years. These indicators are being revised as we determine what measures truly match the purpose of the service. Internal audit and external inspections provide an independent layer of assurance on the services being provided.



The Council has been 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

The Council maintains a corporate efficiency action plan which identifies cost saving improvement actions. Further efficiency actions, totalling £0.8m, were agreed during 2013/14, and the efficiency action plan has been updated to reflect this. The Chief Executives Management Team regularly review the delivery of the plan, and positive progress has been noted, enabling a balanced and sustainable budget to be set for 2014/15, with sound prospects for the forthcoming budget year.

The Council continued to jointly buy goods and services with other Councils, and built upon successful services delivered jointly with other local authorities, by strengthening the arrangements of the Environmental Health Partnership with Gosport Borough Council.

Member and Officer Roles and Responsibilities

The Council's Constitution sets out:

- 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.

A member / officer protocol is also in place which establishes effective communication between the two roles.

Some work was carried out to update the Constitution documentation during 2013/14 and the process for approving changes was rationalised. More work is planned for 2014/15.

A new Monitoring Officer was appointed during 2013/14 and a training and development programme is being completed to support the new post-holder.

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 were updated in 2013/14 and minor changes made

to the Executive portfolio responsibilities. 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. Minor changes were made in 2013/14 to the delegated decision making.

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 embed risk management into the everyday workings of the Council. The arrangements are tested every three years by internal audit. There were no major findings from the audit carried out in 2013/14.

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 Corporate Risk Register is owned and monitored by the Chief Executive's Management Team and reviewed every six months by the Audit and Governance Committee. A major review of insurable risks is planned for 2014/15.

Codes of Conduct

In accordance with the Localism Act 2011 we have a Code of Conduct which sets out the behaviours expected from our members, and we have arrangements in place to deal with matters of ethics, honesty and Member conduct. A report was presented to the Audit and Governance Committee in March 2014, who have responsibility for overseeing the arrangements, giving a review of how the first year of the current arrangements had gone.

A report is presented annually to the Committee setting out the number of complaints about member conduct that have been received.

Work has now started to produce a unified Code of Conduct for Hampshire which will include new guidelines on registering gifts and hospitality, giving consistency for members who work for more than one Council.

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 an appropriate culture and working environment, through fair and effective management of disciplinary matters.

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 modular induction and training programme is in place which all members are invited to participate in. The induction modules for new members are completed within a few months of being elected.

This programme is supplemented by specific topic briefings for all members. A total of 16 member training/briefing events took place in 2013/14 with 197 attendees in total, averaging 12 attendees per briefing.

In 2014/15 we will be carrying out a further training needs survey to compare the impact of the training delivered since the 2012/13 survey.

A review of officer training & development has been undertaken and a new approach was introduced in 2013/14. This is based around a simplified individual performance management process. It has also included a more coordinated approach to the identification of the training needs of the organisation and helps us make the most of money spent on employee development and training. The Council now also receives the benefits of an on-line training suite called Skillgate.



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. We have completed the first phase of the structured learning and mentoring programme to support the change, which included a series of workshops for senior officers and members. We are now applying the 'systems thinking'

approach to key front line services and sharing the lessons learned to all employees via 'show and tell' days.

Other changes that have been successfully managed during 2013/14 were the launch of a new approach to individual performance management and a significant departmental restructure.

Financial Management

The Council has adopted an integrated approach to service and financial planning which allows for pressures and opportunities in service delivery to be considered and reflected in the financial plans of the Council at the earliest opportunity. The Council's Medium Term Finance and Treasury Management Strategies are updated each year and approved by Members.

Finances are monitored regularly through reporting 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, the Chief Executive Officer, and to the Council's Executive along with a set of indicators which measure the impact of capital investment decisions.

Treasury investments are made, having taken into account advice from the Council's treasury management consultants in order to reflect current market developments.

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).

Internal Audit and Audit and Governance Committee

The Council has an internal audit service which delivers a risk based plan of work approved by the Audit and Governance Committee.

In 2013/14 the service was jointly delivered by an in-house team and an external contractor which helps the delivery of the whole scope of audit work.

Managers receive a report of findings following an internal audit review and an action plan is agreed to address any weaknesses found. These actions are tracked until they are completed. A new action management system is being developed in 2014/15 to improve the information available to managers and help capture updates on implementation.

A summary of the work undertaken by internal audit and the findings are reported quarterly to the Audit and Governance Committee.

The new Public Sector Internal Audit Standards came into effect on 1st April 2013 and we have carried out a full assessment of our level of

compliance. We considered we fully conformed with 44 of the 52 standards and partially conformed with another 6. An action plan is in progress to strengthen areas of compliance where it is deemed of benefit to the Council. This includes refreshing the Audit Strategy in terms of the needs of the organisation and professional codes of practice.

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 Results Report.

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 to agree the most significant laws and policies where assurance is needed as part of the governance framework. Part of this assurance is provided by the Internal Audit Service who test compliance with a sample of key rules 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 December 2013.

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. Nineteen of the twenty one regulations have now been reviewed and presented to the Audit and Governance Committee. 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.

Alternative methods of inducting new employees on the content of key policies are currently being considered.



Whistleblowing and Complaints

The Council's Whistleblowing Policy is reviewed every three years by the Audit and Governance Committee and was last updated in October 2013. The Policy is sent out as part of the pack of information given to new employees and periodic updates are communicated through the staff intranet. Designated channels including electronic reporting methods are available for employees and members of the public. A central database recording incidents of whistleblowing and the results of investigations arising has been set up and all whistleblowing incidents are reported to the Audit and Governance Committee.

A formal complaints procedure is in place which consists of 2 stages (Head of Service review then Director review) plus an option to go to the Local Government Ombudsman. 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. There were no conclusions of maladministration by the Council in the report for 2013/14.

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. The first of these on Housing Fraud was compiled in 2013/14 and good progress has been made to deliver the resulting action plan approved by the Audit and Governance Committee.

This work is led by a small Corporate Counter Fraud team who also carry out corporate fraud 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 nature and results of investigations carried out.

Enhancing the Accountability of other Service Providers

The Council has identified the groups and organisations who we work with on a regular basis and who provide important services to the community themselves. We have also identified what we have in place to enhance their accountability for the services they deliver.

The Scrutiny Board plays an important role in working with other service providers and will invite them to appear at a meeting. The Scrutiny Board also receive an annual report on the performance of the multi-agency Community Safety Partnership which includes the police, probation and fire services.

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.

10 partnerships were deemed significant to the council in 2013/14. 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 2014 to confirm the significance of the partnership, review any potential governance issues and review how each is performing.

A Joint Panel to due to be set up in 2014/15 to oversee the new Environmental Health Partnership.

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 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 twice in the year and reviewed the following sources of evidence:

- Analysis of each of the 23 parts of our governance framework against current knowledge, including that provided by reports seen by the Chief Executive Officer's Management team during the year.
- Head of Audit's Annual Report 2013/14 including levels of recommendation implementation and results of the policy compliance testing.
- Summary of what reports and feedback we have received from external auditors, inspectors or other external agencies in the year.
- 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 but an opinion was provided to the Audit and Governance Committee in June 2014. The opinion given was that:

The Council had a good framework of governance, risk management and control for the year 2013/14 which was generally working effectively. There is awareness amongst managers about their top risks and the importance of control mechanisms, and action plans are agreed to address any major weaknesses found.

There is still work to be done to improve the speed in which recommendations are implemented. In particular we will be holding more detailed discussions into the context of findings from audits to try and ensure that any new recommendations are seen as relevant by managers.

We are also developing an online action management system to improve the management information available on outstanding recommendations.

This opinion is given based on the audits that have finished, and will be updated if the audits currently in progress gives rise to the need to change the opinion. It is also given against a back drop of fundamental reviews of key front line services from the customer's point of view. Audit coverage is therefore planned to ensure that these do not significantly weaken the Council's control framework in place to address any material risks it faces.

In forming this opinion I have not placed any direct reliance on related projects or other assurance providers other than External Audit in relation to the governance framework.

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 Results Report 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 by the auditors.

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

- Report of the Local Government Ombudsman 2012/13.
- Final report following the inspection by the Food Standards Agency.
- Three-yearly audit of the Waste Management service by the Health and Safety Executive.
- Certificate issued by the Public Service Network Authority
- Inspection by the Driver and Vehicle Licensing Agency on our use of their web-enabled enquiry service.
- Licence renewal and operator risk score issued by the Vehicle and Operator Services Agency for our transport fleet.
- Results of the Risk Management Standards Assessment Health check carried out by Zurich Municipal.
- Results of IT Health checks (external and internal penetration tests) carried out by an external firm.



Review of Effectiveness Conclusion

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 2013/14

The annual review of effectiveness have identified that the following significant actions were taken during 2013/14 to strengthen our governance arrangements:

- ✓ A structured learning and mentoring programme has been 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.
- ✓ The Standing Orders for meetings have been updated and a new process agreed for approving changes to the constitution.
- ✓ A review of the first year of the new arrangements to manage the conduct of councillors was carried out and reported to the Audit and Governance Committee in March 2014.
- ✓ A new individual performance management framework was introduced for employees during the first quarter of 2013/14.
- ✓ A full assessment of conformance with the new Public Sector Internal Audit standards was carried out and an updated Internal Audit Charter adopted in November 2013.
- ✓ Good progress has been made on delivering the action plan arising from the Housing fraud risk assessment.
- ✓ Arrangements have been strengthened to demonstrate compliance with the Right to Work legislation in relation to TUPE transferees.
- ✓ A review was 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 included identifying how we are able to enhance their accountability and effectiveness.

Planned Governance Improvements

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

- Governance arrangements to be established for the following projects: New Welborne Community, the Local Housing Company and the Western Wards Swimming Pool. A panel to be set up to oversee the Environmental Health Partnership with Gosport Borough Council.
- A review of the effectiveness of the Community Action Teams to be carried out.
- Satisfaction survey of Tenants and Leaseholders to be carried out.
- The project to update the constitution documentation to be further progressed.
- The project to streamline the Council's Financial Regulations to be finalised and an amalgamated set of rules launched.
- Revised Member Code of Conduct to be adopted based on the standard code being developed for all Hampshire Councils.
- The delivery and effectiveness of the revised approach to members' training and development to be reviewed.
- Training and development programme to be completed by the new Monitoring Officer.
- The Audit Strategy for the Council to be refreshed and applied to the risk assessment of the Audit Universe.
- A new action management system to be developed to improve the efficiency in the way that we manage recommendations arising from audit reports.
- New arrangements for Health and Safety Management to be embedded as part of the Environmental Health Partnership.
- Improved Data Protection training to be rolled out using Skillgate.
- The new responsible officer for emergency planning and business continuity to become embedded in the role and to carry out a review of our arrangements. Findings to be reported to the Audit and Governance Committee.

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 to be specifically addressed with new actions 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: 23 September 2014

Signed:



P.K.Grimwood
Chief Executive Officer
Fareham Borough Council

Dated: 23 September 2014

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **22 September 2014**

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

Subject: **EXTERNAL AUDIT ANNUAL RESULTS REPORT 2013/14**

SUMMARY

The Committee is asked to consider to the External Auditor's Annual Results Report (Appendix A), summarising the findings from the 2013/14 audit which is now substantially complete.

Having considered the findings of the External Auditor and the Statement of Accounts, a "letter of representation" will be sent from the Council's Section 151 Officer (Director of Finance and Resources). This will enable the External Auditor to issue their audit report on the Council's financial statements. The Statement of Accounts may then be published in advance of the statutory publication date, 30 September 2013.

RECOMMENDATION

It is recommended that the Committee:-

- (a) Notes the contents of the Annual Governance Report ([Appendix A](#)).

Background Papers:

None

Reference Papers:

None

Enquiries:

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

Fareham Borough Council

Audit and Governance Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

22 September 2014



Building a better
working world

Kate Handy, Director
khandy@uk.ey.com

Martin Young, Assistant Manager
myoung1@uk.ey.com

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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 - the Audit and Governance Committee - 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 2013/14 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 22 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

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 Practice 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 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- 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)

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

As a component auditor, we also 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.

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

Addressing financial statement 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 (including fraud risks)		
<p>1. Provision for NDR Appeals There have been significant changes in the arrangement for business rates since April 2013. One of the main accounting changes is that individual Council's need to provide for ratings appeals. This includes not only appeals from 1 April 2013 but also claims that relate to earlier periods.</p>	<ul style="list-style-type: none"> We assessed your process for determining whether a provision is needed for appeals, the level of estimation uncertainty and whether the estimate gave rise to a significant audit risk. 	<ul style="list-style-type: none"> We completed our assessment of this risk and the level of estimation uncertainty. We determined that it gave rise to a significant risk. The Council used an external expert to assist them in the preparation of the provision for NDR appeals. We evaluated the competence and capability of this expert. We then evaluated their work, considered the methodology adopted and assumptions made and reviewed the source data used. We benchmarked the value of the Council's appeals provision. The value was slightly higher than the average in the comparator group but within the range of reasonable results. We identified no indication of management bias in preparing this estimate. Our overall judgement is that the Council took a reasonable approach to preparing this provision.
<p>2. Risk of management override. As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; Reviewed accounting estimates for evidence of management bias; and Evaluated the business rationale for any significant unusual transactions. 	<ul style="list-style-type: none"> Our planned audit work is complete and there no matter we need to report to you.

Addressing financial statement audit risks

Other 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
Other audit risks		
<p>1. Daedalus This £8.3m project entails improvements to the runway, provision of new hangar space and an Innovation Centre for small businesses. A land lease was granted to the Council for the plot on which the Innovation Centre is being constructed.</p>	<ul style="list-style-type: none"> • We reviewed the accounting treatment for the development so far as it was complete in 2013/14. This included: <ul style="list-style-type: none"> • the classification of the land lease, • the funding (by HCA grant) • the classification of the capital project as property, plant or equipment, or as investment property. • No capital expenditure was incurred on the runway in 2013/14. • No loans have been entered into by the Council for this project in 2013/14. 	<ul style="list-style-type: none"> • Our planned audit work is complete and there no matters we need to report to you.
<p>2. Purchase of commercial properties Under its Commercial Property Investment Acquisition Strategy the Council acquired three commercial properties in 2013/14.</p>	<ul style="list-style-type: none"> • We reviewed the accounting treatment of acquisitions including: <ul style="list-style-type: none"> • the classification of leases, and • the classification of the properties as property, plant or equipment, or as investment property. 	<ul style="list-style-type: none"> • Our planned audit work is complete and there are no matters we need to bring to your attention.

Financial statements audit

Issues and misstatements 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
 - ▶ Housing Benefit grant certification testing
 - ▶ Lease disclosures
 - ▶ Discrete areas of fixed assets
 - ▶ Interest payable
 - ▶ Whole of Government Accounts
 - ▶ Final audit closing procedures and review
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

- We have identified no misstatements within the draft financial statements, which management has chosen not to adjust.

Corrected Misstatements

Our audit identified a number of misstatements which our team have highlighted to management for amendment. All of these have been corrected 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 corrected misstatements.

Other Matters

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

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

We have no matters we wish to report.

Financial statements audit (continued)

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

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

We have reviewed the Annual Governance Statement 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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

Whole of Government Accounts

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

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

Criterion 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”*

Criterion 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.”*

Key findings

- ▶ We conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.
- ▶ We have no other issues to report.

Arrangements to secure economy, efficiency and effectiveness

Addressing 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 these areas.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks		
<p>Financial Standing</p> <p>The Council continues to experience challenges from reduced government funding</p>	<ul style="list-style-type: none"> We reviewed the Council's medium term financial strategy and the 2014/15 budget and evaluated the reasonableness of key assumptions. We assessed the Council's arrangements for ensuring financial resilience in the medium to long term. We reviewed the Council's efficiency plan. 	<ul style="list-style-type: none"> We have reviewed the Council's Financial Strategy 2013/14 to 2017/18 updated in October 2013 and reports to the Executive underpinning the 2014/15 budget. We have concluded that arrangements to achieve financial resilience and preparations to manage the impact of further pressures from reduced funding and income streams are sound. The Council has established a savings target of £1.4m for the period 2014/15 to 2016/17. It has already implemented over £0.8m. Further identified savings of over £0.5m are in progress and work is ongoing to identify the remainder of the target. Alongside this the Council is undertaking a fundamental review of operations to streamline procedures and provide a better customer service style.
<p>Developments and changes in approach</p> <p>In line with its corporate priorities, the Council is a key facilitator in several projects such as Welborne - the New Community North of Fareham (NCNF) and the development of the Daedalus site. The Council is to set up a Joint Venture Company to help meet housing needs. The Council is purchasing commercial properties to achieve a higher rate of investment return.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> Reviewing the Council's arrangements for managing its risks. Assessing the financial implications of the developments for the Council, particularly for financial resilience. Assessing how the Council has ensured the legality of developments. Assessing how the Council has considered the security, liquidity and yield of investments. 	<p>We have focused our review on specific projects that the Council is undertaking. These include: Welbourne, Daedalus, the acquisition of commercial property and the Housing Company. For each project we have:</p> <ul style="list-style-type: none"> Ensured the projects have clear links to corporate priorities; Assessed the project specific governance frameworks and how they link to the Council's overall risk management framework; Reviewed the financial implications of the projects; Considered how the Council has satisfied itself of the legality of projects; and Assessed how the Council has considered the security, liquidity and yield of its property acquisitions. <p>There are no matters we wish to bring to your attention.</p>

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 10 March 2014
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 22 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 10 March 2014.

Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee – Code work	63,407	63,407	
Certification of claims and returns	22,199	22,199	The Audit Commission reduced the scale fee for grants following issue of our plan

- ▶ 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.
- ▶ At the time of reporting, grant claim certification work is in its early stages and so actual outturn may vary from budget, which is the basis for the proposed final fee above.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Ernst & Young LLP

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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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

Report to Audit and Governance Committee

Date **22 September 2014**

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

Subject: **EXTERNAL AUDIT ANNUAL FEE LETTER 2014/15**

SUMMARY

This report brings to members' attention the proposed Annual Audit Fee letter for 2014/15 received from Ernst and Young, the Council's external auditors.

RECOMMENDATION

That the Committee approves the fees proposed for the External Audit coverage in 2014/15.

Appendices:

Appendix A – Fee letter 2014/15 ([separate attachment](#))

Background Papers: None

Reference Papers: None

Enquiries:

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

Peter Grimwood
Chief Executive Officer
Fareham Borough Council
Civic Offices
Civic Way
Fareham
P016 7PU

22 April 2014

Ref: FBC/KH/Fee Letter

Direct line: 023 8038 2043

Email: KHandy@uk.ey.com

Dear Peter

Annual Audit and Certification Fees 2014/15

We are writing to confirm the audit and certification work that we propose to undertake for the 2014/15 financial year at Fareham Borough Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2014/15.

Indicative Audit Fee

The audit fee covers the:

- ▶ Audit of the financial statements;
- ▶ Value for money conclusion; and
- ▶ Whole of Government accounts.

For the 2014/15 financial year the Audit Commission has set the scale fee for each audited body as part of the recent 5 year procurement exercise and consequently it is not liable to increase in that period without a change in scope.

The 2014/15 scale fee is based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- ▶ We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- ▶ The financial statements will be available to us in line with the agreed timetable;
- ▶ Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- ▶ Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee.

The indicative audit fee set out in the table below has initially been set at the scale fee level as the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year.

As we have not yet completed our audit for 2013/14, our audit planning process for 2014/15 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract with the Audit Commission.

Certification fee

The Audit Commission has set an indicative certification fee for each audited body. The indicative fee is based on the 2012/13 actual certification fees available adjusted to reflect any known schemes that no longer require auditor certification. The Audit Commission has also revised the previously published 2013/14 indicative certification fee to reflect further schemes that no longer require auditor certification.

The composite indicative fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

The indicative certification fee for 2014/15 relates to work on grant claims and returns for the year ended 31 March 2015. We have set the certification fee at the composite indicative fee level. We will update our risk assessment after we complete 2013/14 certification work, and to reflect further changes in the Audit Commission's certification arrangements.

Summary of Fees

	Indicative fee 2014/15 £	Planned fee 2013/14 £	Actual fee 2012/13 £
Total Code audit fee	63,407	63,407	63,407
Certification of claims and returns	15,080	22,199	19,391

Any additional work that we may agree to undertake (outside of the Audit Code of Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £19,621.75

Audit Plan

Our plan for the audit of the financial statements will be issued between March and June 2015. This will detail the significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. It will also set out the risks identified in relation to the Value for Money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Finance and Resources and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Governance Committee.

Audit team

The key members of the audit team for the 2014/15 financial year are:

Kate Handy
Director

KHandy@uk.ey.com

Tel: 023 8038 2043

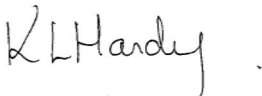
Catherine Morganti
Manager

CMorganti@uk.ey.com

Tel: 07779 576414

We are committed to providing you with a high quality service. 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, please contact me. 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.

Yours sincerely



Kate Handy
Director
For and on behalf of Ernst & Young LLP

cc. Andrew Wannell, Director of Finance and Resources
Councillor T Knight, Chair of the Audit and Governance Committee

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **22 September 2014**

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

Subject: **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 previous plans and the new audits planned for 2014/15.

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

Background Papers: None

Reference Papers:

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

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

Enquiries:

For further information on this report please contact Suzanne Smith, Audit Manager, Mazars (Ext 4419)



Fareham Borough Council

Audit & Governance Committee

Quarterly Audit Progress Report

September 2014

This report has been prepared on the basis of the limitations set out on page 17.

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 13 April 2010 and subsequent Letter of Extension dated 01 April 2013 between Fareham Borough Council and Mazars Public Sector Internal Audit Limited. This report is confidential and has been prepared for the sole use of Fareham Borough Council. This report must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law, we accept no responsibility or liability to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

1. 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 and 2014/15 Internal Audit Plans.

2. 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.

3. 2013/14 & 2014/15 Progress

- 3.1 The current status of the agreed 2013/14 Internal Audit Plan to be delivered is detailed in Annex One along with the number of days delivered. 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 31st July 2014, progress against the 2013/14 plan is as follows:

2013/14 Plan	Last Committee	This Committee
Number of audits in plan	31	31
Number of audits finalised	20 (65%)	29 (94%)
Number of reports issued at draft	6 (19%)	2 (6%)
Number of audits commenced	5 (16%)	N/A
Number of planned audit days delivered	232.5/235 (98.9%)	234.5/235 (99.8%)

- 3.3 At the time of this report, 99.8% of the 2013/14 Internal Audit Plan has been completed. Detailed progress is covered within Annex One.
- 3.4 Work on the 2014/15 Audit Plan has commenced. Detailed progress is covered within Annex Two.

4. Changes to the plan

- 4.1 An additional day has been added to the planned time for the Tenancy Management audit to allow adequate time to cover areas requested by Officers.
- 4.2 Work has been progressed on setting the rest of the plan. In particular planning of the Benefits audit this year has started to set an appropriate approach to a service that has been subject to Systems Thinking.

5. Detailed progress since the last Audit and Governance Committee

- 5.1 Since the previous Audit & Governance Committee, two reports are at draft stage from the 2013/14 plan; these relate to Financial Regulations Limited Compliance Testing and the Data Protection Act Follow Up. The assurance levels will be confirmed to the next Audit and Governance Committee upon finalisation.
- 5.2 Nine 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				
Risk Management	Strong	-	-	-
Miscellaneous Democratic	Strong	-	2	-
Ordering & Payment of Invoices	Reasonable	-	2	1
Invoicing & Collection of Income	Reasonable	-	2	2
Training & Development	Reasonable	-	1	-
Clean Borough Enforcement & Abandoned Vehicles	Reasonable	-	3	-
Planning Applications	Reasonable	-	1	1
Off-street Parking	Reasonable	-	1	-
Homelessness	Reasonable	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.

2013/14 Internal Audit Plan as at 31st July 2014

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 1											
1	Management of Tradesmen	7	7	Final	Reasonable	-	1	1	1	1	
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	6	Final	Strong	-	-	-	-	-	-
6	Insurance	5	5	Final	Reasonable	-	1	2	3	1	-
7	Planning Contributions and Community Infrastructure Levy	8	8	Final	Reasonable	-	1	1	-	-	1
8	Training & Development	8	8	Final	Reasonable	-	1	3	-	-	-
9	Licensing of Taxis & Alcohol	8	8	Final	Strong	-	1	2	7	5	-
10	Public Conveniences	6	6	Final	Reasonable	-	1	1	-	-	-
Quarter 3											
11	Ordering & Payment of Invoices	7	7	Final	Reasonable	-	2	-	-	-	1
12	Invoicing & Collection of Income	9	9	Final	Reasonable	-	2	1	2	-	2
13	Payroll	7	7	Final	Strong	-	-	-	1	-	1
14	Fixed Assets	6	6	Final	Strong	-	1	-	-	-	-
15	Revenues	12	12	Final	Strong	-	1	1	-	-	1
	Performance Management			Note 1							
16	Clean Borough Enforcement & Abandoned Vehicles	7	7	Final	Reasonable	-	3	2	-	-	-
17	Cash Collection & Banking	9	9	Final	Strong	-	-	4	-	-	1
18	Housing Rents	6	6	Final	Strong	-	1	-	4	-	1
19	Ferneham Hall	9	9	Final	Reasonable	-	-	4	11	4	2

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 4											
20	Risk Management	6	6	Final	Strong	-	-	2	-	-	-
21	Main Accounting	10	10	Final	Strong	-	-	2	-	-	-
22	Financial Regulations Limited Compliance Testing	2	1.75	Draft							
23	Miscellaneous Democratic (Note 2)	5	5	Final	Strong	-	2	1	-	-	-
24	Housing Benefits & Council Tax Support	10	10	Final	Strong	-	-	-	-	-	-
25	Planning Applications	6	6	Final	Reasonable	-	1	1	1	4	1
26	Off-street Parking	6	6	Final	Reasonable	-	1	-	-	1	-
27	Homelessness	6	6	Final	Reasonable	1	-	-	1	-	-
28	Data Protection Follow Up	4	3.75	Draft							
Computer Audit											
29	Remote Access	8	8	Final	Reasonable	-	5	1	1	-	-
30	Main Accounting System (E-Financials) Application Review	7	7	Final	Reasonable	-	2	3	-	-	-
31	Website Content Management	10	10	Final	Reasonable	-	1	1	-	-	1
Other											
Audit Committee		4	4								
Audit Management		12	12								
TOTAL		235	234.5 (99.8%)			1 1.5%	29 43.3%	37 55.2%	32 53%	16 27%	12 20%

Note 1: The audit was postponed until the 2014/15 financial year to allow the new management system to embed.

Note 2: The audit had been deferred from 2012/13 to 2013/14.

2014/15 Internal Audit Plan as at 31st July 2014

Annex Two

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	Legionella and Gas Safety Risks Follow Up	5	4	In Progress							
2	Contract Completion (Final Accounts)	10		Planning							
3	Tenancy Management	8	1.3	In Progress							
4	Parks and Open Spaces	6	1.3	In Progress							
5	Foreshore (Beach Hut Income)	4	1.3	In Progress							
6	CHRIS 21	10		Planning							
Other											
	Audit Committee	4									
	Audit Management	12	1.5								
	TOTAL	59	9.4 (15.9%)								

Annex Three

Summary of Findings from Completed Audits

2013/14 Risk Management

Audit Opinion and Direction of Travel

Strong						
😊😊						
Direction of Travel:				↑2012/13		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Risk Management Framework	-	-	-	-	-	-
Roles and Responsibilities	-	-	1	-	-	-
Risk Identification and Assessment	-	-	-	-	-	-
Monitoring and Reporting of Risk	-	-	1	-	-	-
External Assurance of Risks	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
	None	

2012/13 Miscellaneous Democratic

Audit Opinion and Direction of Travel


Strong						
😊😊						
Direction of Travel:			↔2011/12			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Policies, Procedures and Legislation	-	2	-	-	-	-
Management of Committees	-	-	-	-	-	-
Monitoring of Actions Arising from Committee Meetings	-	-	1	-	-	-
Forward Plan and Recording of Decisions	-	-	-	-	-	-
Register of Disclosable Pecuniary Interests	-	-	-	-	-	-
Meeting Accommodations and Catering	-	-	-	-	-	-
Members Attendance at Outside Events	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important New	Links to the Council's Constitution and Standing Orders on the Council's website do not always work and some direct the reader to older versions` of documents.	Yes
Important New	Constitution related policies and procedures need to be brought up to date to include current practices.	Yes

2013/14 Ordering & Payment of Invoices

Audit Opinion and Direction of Travel

Reasonable						
						
Direction of Travel:				2012/13		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (☠)	Important (▲)	Advisory (⚠)	Implemented	Cancelled	Non Implemented
Policies and Procedures	-	-	-	-	-	-
Authorisation Procedures	-	1	-	-	-	-
Goods / Services Receipting	-	-	-	-	-	1
Coding of Expenditure	-	-	-	-	-	-
Prompt Payment Discounts	-	-	-	-	-	-
Manual Payments	-	-	-	-	-	-
Duplicate Payments	-	-	-	-	-	-
Supplier Accounts	-	1	-	-	-	-
Segregation of Duties	-	-	-	-	-	-
Payment Run Control and Output	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important New	There were two instances where authorisation limits had been exceeded and staff failed to identify this.	Yes
Important New	We were unable to obtain evidence to confirm that the Procurement team had authorised the set-up of a sample of new suppliers.	Yes
Important Existing	Documents were not scanned and attached to the e-financials system in a timely and accurate manner to confirm the nature of the payment and authorising officer.	Yes

2013/14 Invoicing & Collection of Income

Audit Opinion and Direction of Travel

Reasonable						
☺						
Direction of Travel:			⇄2012/13			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (☹)	Important (▲)	Advisory (⚠)	Implemented	Cancelled	Non Implemented
Policies and Procedures	-	-	1	1	-	-
Amendments to standing data	-	1	-	-	-	1
Debt monitoring	-	-	-	1	-	-
Debt recovery including suppressions, tracing agents and bailiffs	-	1	-	-	-	-
Raising of invoices, credit notes and refunds	-	-	-	-	-	1
Posting of cash	-	-	-	-	-	-
Write off procedures	-	-	-	-	-	-
Segregation of duties	-	-	-	-	-	-
Account adjustments	-	-	-	-	-	-


Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important New	Sample testing identified that only 16 of a sample of 25 reminders were issued within 21 days after the original invoice was raised as required by the Council Policy.	Yes
Important New	Independent checks were not undertaken to validate amendments to customer details on the system.	No – Auditee accepted risk
Important Existing	Sample testing identified that 4 of a sample of 25 cases written evidence was not maintained for request for amendments to standing data received over the phone	Yes
Important	Sample testing identified that only 17 of a sample of 25 invoice / invoice requests contained the dates that services had been	Yes

Priority	Weakness	Action Agreed?
Existing	supplied.	

2013/14 Training & Development

Audit Opinion and Direction of Travel


Reasonable						
						
Direction of Travel:			No Previous Audit			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Policies, Procedures and Strategy	-	-	-	-	-	-
Workforce Skills and Capability Plans	-	-	-	-	-	-
Identification of Training Needs	-	-	1	-	-	-
Costing and Sourcing of Training	-	1	2	-	-	-
Delivery of Training Internally and Externally	-	-	-	-	-	-
Use of Open Learning Centre and Developing ICT	-	-	-	-	-	-
Monitoring, Recording and Escalation of Training Undertaken	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important New	Testing identified two out of five current cases where the Post Entry Qualification Agreement had not been signed until after the course had commenced.	Yes

2013/14 Clean Borough Enforcement & Abandoned Vehicles

Audit Opinion and Direction of Travel


Reasonable						
						
Direction of Travel:			⇄ 2008/09			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Enforcement of dog fouling, littering, fly tipping, graffiti and fly posting	-	1	1	-	-	-
Patrol officers and fixed penalty notices.	-	-	-	-	-	-
Removal of abandoned vehicles	-	-	-	-	-	-
Trace registered keepers	-	-	-	-	-	-
Disposal of vehicles						
Payments relating to stray dogs	-	2	1	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important New	Sample testing of stray dog income found that in the 11 instances, where fees were noted as chargeable, there were five instances where it was not clear from the Ocella system or supporting files whether payment had been received or an invoice had been raised in order to collect the fee due. Further investigation confirmed that incorrect data entry had occurred in three instances and no fee was in fact due and in the other two cases payment had been made since audit testing was performed.	Yes
Important New	There are no reconciliations carried out to confirm that expected stray dog income has been received.	Yes
Important New	Sample testing of ten graffiti related complaints found that in two instances the removal of the graffiti had occurred significantly later than the time periods set out in the Council's policy.	Yes

2013/14 Planning Applications

Audit Opinion and Direction of Travel


Reasonable						
						
Direction of Travel:			↔ 2006/07			
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Planning Policies and Procedures	-	-	1	-	-	-
Collection of Planning Fees	-	-	-	1	4	1
Miscellaneous Sales and Copying	-	-	-	-	-	-
Work on Listed Buildings	-	-	-	-	-	-
Demolitions	-	1	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important New	There is no liaison between Building Control and Planning regarding the Demolitions lists. Planning staff are not, therefore, able to perform any cross check on the lists to ensure that they are aware of and can confirm whether prior approval was needed/has been granted in respect of relevant demolitions.	No – Auditee accepted risk
Important Existing	Although regular reconciliations had been carried out of expected income to income received, there was no evidence to support that reconciliations included checking the actual income recorded in the General Ledger.	Yes

2013/14 Off Street Parking

Audit Opinion and Direction of Travel


Reasonable						
						
Direction of Travel:				↑2012/13		
Area of Scope	New Recommendations Raised			Previous Essential and Important Recommendations		
	Essential (🔴*)	Important (🟡▲)	Advisory (🟢Ⓜ)	Implemented	Cancelled	Non Implemented
Cash collection from parking machines	-	-	-	-	-	-
Payment methods, including foreign and forged coins and notes	-	-	-	-	-	-
Machine floats	-	-	-	-	-	-
Banking and income reconciliations	-	1*	-	-	1 (* replaced by new one)	-
Cale Web access Controls	-	-	-	-	-	-

Weaknesses identified during audit (Essential and Important only)

Priority	Weakness	Action Agreed?
Important New	Sample testing of ten reconciliations between the expected income and banked income, identified nine where variances were recorded, many of which were significant. There was no evidence that the individual variances had been investigated although Finance Services monitor the overall collection rates. A number of the variances indicated they were due to a combination of missing expected income entries and compensating overs and unders between machines or for the same machine across consecutive weeks. However, assurance cannot be given that all income due has been brought to account at this point in time. The new Cale Web system put in place for 2014/15 should make reconciliations easier to carry out in the future.	Yes

2013/14 Homelessness

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
Homelessness Strategy	-	-	-	-	-	-
Homeless Applications, including Housing Options Advice and Referrals	-	-	-	-	-	-
Provision of temporary accommodation	1	-	-	-	-	-
Payments out (to the Property Owner)	-	-	-	-	-	-
Debt Collection (from Tenants)	-	-	-	-	-	-
Management of Outstanding Debts	-	-	-	1	-	-

Weaknesses identified during audit (Essential and Important only)




Priority	Weakness	Action Agreed?
Essential New	DBS Checks have not been kept up to date for all Bed and Breakfasts used by the Council on a regular basis.	Yes

Summary of Assurance Opinions Used

Annex Four

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 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 our 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 us 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. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our 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 work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

August 2014

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **22 September 2014**

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

Subject: **CORPORATE RISK REGISTER UPDATE**

SUMMARY

Version 4 of the Corporate Risk Register has been produced. There are still 31 risks on the Register as one has been added, and one merged with another since last time. As in version 3 of the register, 14 of these have been assessed as medium risk and 17 as low risk. None have been assessed as high risk.

RECOMMENDATIONS

That the Committee note the content of version 4 of the Corporate Risk Register attached as [Appendix A](#).

That the Risk Management Policy is updated to assign the lead director responsibilities to the Director of Finance and Resources.

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 4 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 forms the Corporate Risk Register which includes the risk assessment scores and the latest status for each risk. The register is challenged by the Chief Executive's Management Team before presentation to the Committee.
6. Once the Register is finalised, the risks on the Central Risk Directory are monitored at Departmental Management Team meetings and in individual performance meetings with managers. Any individual risks that give concern in that time can be highlighted and escalated to the Chief Executive's Management Team.

CHANGES TO THE CORPORATE RISKS

7. **Risk Managers:** The risk managers assigned to the top and second tier risk have now been updated to reflect the new corporate structure.
8. **List of Risks:** Version 4 of the Corporate Risk Register, as attached as [Appendix A](#), now consists of 31 generic risk themes. Since last reported there has been one risk added, one risk merged with another, and two risks have had their names amended. Changes are summarised below:

Risk	What has changed
C35 Failure to deliver proposed provision of a Swimming Pool in the Western Wards	New Risk (Medium Risk) This risk has been added to the register to separately capture the Project Risk previously linked under C8 <i>Failure to deliver proposed community facilities at the Coldeast development site or alternative location</i> , in order to distinguish the Swimming Pool project from other community facilities. The new risk has been assessed as Medium Risk.
C31 Failure to meet Equality and Inclusion Standards (Low Risk)	Risk removed from Register and amalgamated with another (Low Risk) This risk has been deleted and amalgamated with C15 <i>Failure to communicate and engage effectively with the local community, and deliver a customer focussed service</i> . The two risks share similar issues and actions.

Risk	What has changed
	The merged risk has been assessed as Low Risk.
C 34 Failure to progress the planning framework for Fareham Borough (excluding Welborne)	Name Amended This risk has been renamed from <i>Local Plans - Failure to progress Part 2 of the Local Plan (Development Sites & Policies Plan) to adoption, to provide a planning framework for the wider Borough (excluding Welborne) and allocate sites for housing, employment, and leisure uses</i> in order to simplify the name.
C14 Failure to tackle the underlying causes of deprivation in the Fareham Park area.	Name Amended This risk has had its short name amended from <i>Gateway to Fareham Park</i> to reflect latest common usage.

9. **Risk Assessments:** 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 14 Medium risks and 17 Low risks, as there were in version 3 of the Register. In addition to the changes above the risk assessment has been reduced for one risk as follows:

Risk ref and short name	Risk Manager	Previous Score	Current Score	Reason
Decreased				
C21 Inadequate arrangements in place to respond to a critical disruption	Paul Doran	Medium	Low	Examples of live business continuity exercises indicate that the risk assessment now merits reduction.

CHANGE NEEDED TO THE RISK MANAGEMENT POLICY

10. Due to the recent corporate restructure, the Risk Management Policy needs to be updated to move the following responsibilities from the Director of Regulatory and Democratic Services to the Director of Finance and Resources:

- Champion for Risk Management.
- Promote employee compliance with the Risk Management Policy.
- Provide an annual opinion on the adequacy of risk management arrangements.

RISK ASSESSMENT

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

CONCLUSION

12. 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 in between the next register update.

Appendices

Appendix A - Corporate Risk Register (version 4) ([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 Alan Gerrard. (Ext 4347)

APPENDIX A

CORPORATE RISK REGISTER V4 – September 2014

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

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
HIGH RISKS ☹								
			None				☹	
MEDIUM RISKS ☹								
1	All (1)	Welborne	Failing to progress the planning framework for Welborne, provide effective communication about the new community or address the infrastructure funding issues.	Richard Jolley	July 2014	The Council submitted the Local Plan Part 3: Welborne Plan to the Secretary of State for Communities and Local Government on 23rd June 2014. FBC will be meeting the Inspector mid-July. Whilst FBC are awaiting notification of the examination programme from the Inspectorate, it is anticipated the examination hearings are likely to be in late September or early October 2014. An outline Funding Strategy was produced during 2013 and a position statement was produced for the Executive, showing progress in developing the full strategy. Following a	☹	23/07/14

Page 173

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
Page 174						<p>series of workshops with key stakeholders, the Infrastructure Funding Strategy is nearing completion and will be considered by the Executive in the summer 2014. Once completed, this will provide a framework for funding the infrastructure at Welborne as the plans being developed by the site promoters come forward.</p> <p>Recruitment to two Welborne Development Management posts now completed; interim arrangements in place for resourcing progression of Welborne Plan to adoption; Phase 1 2013/14 Capacity Funding award from DCLG received for funding for Welborne Plan technical evidence studies, staff costs and future delivery-related projects; release of provisional Phase 2 2014/15 award awaited; further Capacity Funding award submitted for Welborne development management work for 2014/15 and 2015/16 with DCLG decision awaited. Quarterly</p>		

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
						update reports provided to Executive on costs of and funding sources for Welborne work.		
Page 34 Page 175	All (1)	Local Plan Part 2 (amended name)	Failing to progress the planning framework for Fareham Borough [excluding Welborne]. (amended name)	Richard Jolley	July 2014	<p>Development Sites & Policies Plan approved by Council on 13 February 2014 for representation period and submission to government for independent examination.</p> <p>It is anticipated that significant representations will be received in relation to housing land supply issues. Additionally, large-scale planning application recently received for Newlands Farm.</p> <p>Revised resourcing arrangements to be put in place to progress Plan through examination and to adoption.</p>	☹️	23/07/14
4	2 Prosperity (4a and 4b)	Daedalus	Failure to provide a planning framework for the Daedalus site and support the Local Enterprise Partnership in the promotion of the Enterprise Zone.	Richard Jolley	July 2014	<p>The HCA are in the process of consulting FBC on a 'design Brief' they wish to give prospective leaseholders on the Daedalus site. Progress has been focused on item 4.3.</p> <p>The funding agreement for the Innovation Centre and Runway have both been completed</p>	☹️	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
Page 176						<p>between the Homes and Communities Agency and the Council, and the land for the Innovation centre has been acquired by the Council. The contractor commenced works on site in May 2014 and is programmed to complete the Innovation Centre by mid-March 2015. A detailed specification for the improvements to the runway has been developed and will be tendered during the early summer months, such that work can start on site in October 2014, for a period of 6-8 weeks. There have been some delays in undertaking the hangar construction as a site is yet to be agreed with the HCA</p> <p>Outline planning permission was granted on the 20th December 2013. The Council is providing considerable pre-application advice on development proposals looking to come forward at the site. Detailed planning permissions have been granted for the CEMAST building (now nearing completion) and the Innovation Centre (for which work has</p>		

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
						commenced). Further planning applications for employment development at the site have been submitted and will be approved shortly.		
8	4 Leisure (8b)	Coldeast excluding Swimming Pool (amendment)	Failure to deliver proposed community facilities, excluding Swimming Pool, at the Coldeast development site or alternative location.	Martyn George	July 2014	Outline planning consent granted for the swimming pool at Coldeast. Project funding and outline specification approved by Executive (April 2014). Governance arrangements approved by Executive to oversee the delivery of the Coldeast swimming Pool and community facilities (July 2014). Interviews completed for Project Management Consultancy and interviews arranged for selection of Design and Build Contractor.	☹	23/07/14
35	4 Leisure (8a)	Coldeast - Swimming Pool (NEW)	Failure to deliver proposed provision of a Swimming Pool at Coldeast.	Martyn George	July 2014	Outline planning consent granted for the swimming pool at Coldeast. Project funding and outline specification approved by Executive (April 2014). Governance arrangements approved by Executive to oversee the delivery of the Coldeast swimming Pool and community facilities (July 2014). Interviews completed for Project	☹	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
						Management Consultancy and interviews arranged for selection of Design and Build Contractor.		
Page 178 9	4 Leisure (9)	Community Buildings	Failure to provide modern, fit for purpose community buildings in the most appropriate locations.	Martyn George	July 2014	Main pool refurbished and opened on 4 July 2014; (works continue on learner pool and changing village due for completion in Sept 2014.) Bath Lane cricket pavilion due for refurbishment, works commence Sept 2014. Leisure & Community PD&R Panel to consider the draft master plan (arising from the needs assessment of the 5 CATs Areas) at their meeting on 23 July 2014.	☹	23/07/14
12	5 Housing (11)	Affordable Homes	Failure to deliver 500 new affordable homes by 2017.	Martyn George	July 2014	Joint Venture Local Housing Company close to registration. Review of CIL completed. Reviewed and strengthened knowledge and skills to negotiate on affordable housing and robust defend viability challenges. Policy reviewed and revised to ensure Affordable Housing delivery is secured through Sec 106 in future rather than by condition. (Sec 106 offers	☹	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
						greater certainty of delivery and protection for future occupiers). £14M of funding approved by Executive to deliver 100 new affordable homes. Application submitted to HCA for funding under Affordable Homes Programme 2015-18 as partner within the Wayfarer Consortium (results due end of July 2014). Planning Applications approved for Coldeast Sheltered scheme, Coldeast Close Passiv-haus scheme and Palmerston Avenue.		
16	7 Dynamic Council (15)	Asset Management	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.	Andrew Wannell	July 2014	Commercial property acquisitions are progressing well, which have led to improved revenue streams for the Council. Corporate Assurance Management Group continues to meet regularly to identify potential further opportunities within the borough.	☹	23/07/14
17	7 Dynamic Council (16)	Sustainable Budget	Failure to minimise Council tax increases through delivery of a sustainable budget.	Andrew Wannell	July 2014	Robust plans are in place for the current year's budget, and approved efficiency plans are sufficient to support a balanced budget into the medium term.	☹	23/07/14
19		Policy Changes	Failure to respond to new legislation and the government's	Martyn George	July 2014	Safeguarding (Section 11) audit recently completed and submitted to Local Children's	☹	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
			changing policy agenda.			Safeguarding Board for review. Recently completed a review of future fraud investigation resource requirements resulting in a proposed restructure. Report currently being prepared for CX.		
22		Governance	Inadequate Governance and Systems of Control.	Andrew Wannell	July 2014	There are no material concerns in this regard, although it is recognised that the new approaches to service delivery may present an increased risk during the transitional period.	☹	23/07/14
25		Service Delivery	Current level of service cannot be delivered within existing budget.	Andrew Wannell	July 2014	There is generally a good understanding of the services which are under pressure, and resources have been allocated to meet those demands. The Medium Term Financial Strategy for the Council reflects the emerging demands for services and plans are in place to ensure that this can be properly resourced.	☹	23/07/14
27		Income	Loss of income.	Andrew Wannell	July 2014	The services which present the greatest risk remain car parking, commercial estates, and Ferneham Hall. Close monitoring of these areas is carried out, and steps have been taken to generate income from alternative sources, e.g.	☹	23/07/14


Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
						commercial property acquisitions, to compensate. The reductions have been taken into account in setting the Medium Term Financial Strategy.		
Page 181 32		Health and Safety - Employee	Failure to meet Health & Safety responsibilities in relation to employees.	Martyn George	July 2014	Annual Health and Safety Report for 2013/14 to be considered by CXMT on 23 July 2014 and by Executive on 1 Sept. Excluding reported near-miss and miscellaneous events, there were 51 injury-causing incidents recorded during the period 1 April 2013 - 31 March 2014 - an increase of 6 on the total (45) for the same period in 2012/13 (see report for further details). Safety Cttee continues to meet quarterly; terms of reference and structure of meetings currently under review.	☹	23/07/14
LOW RISKS ☺								
2	1 Environment (2)	Recycling	Failure to reduce the quantity of household waste and maximise the amount that is reused or recycled.	Paul Doran	July 2014	The Council has maintained its position with the third highest recycling level and second lowest waste produced per household within Hampshire authorities. Refresher training has been carried out for all refuse crews on dealing with contamination of recycling bins.	☺	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
						This has reduced the level of repeated contamination.		
3	1 Environment (3a and 3b)	Sustainability	Benefits of the Council's Environmental Sustainability Strategy and other environmental strategies are not fully delivered.	Richard Jolley	July 2014	Progress continuing to be made in relation to Environmental Sustainability Strategy actions	☺	23/07/14
5	2 Prosperity (5)	Retail areas	Failure to achieve proposed improvements for retail areas in the borough.	Richard Jolley	July 2014	A presentation on the proposed approach to Fareham Town Centre Core Development Sites is due shortly to CXMT from which a project brief will be drafted and actioned. In line with the Town Centre Action Plan new benches and cycle racks, as well as fingerpost and way-finding signs (in partnership with HCC) have been installed in the town centre. Outstanding items include business support and an improved market proposition. Waitrose has successfully opened in March 2014, along with the decision to progress a new swimming pool at Coldeast this Corporate Priority has been removed from the Corporate Strategy. (Note: In June 2014 FBC met with NNR about their	☺	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
						proposals for a new community centre and library provision, alongside an improved retail offer. No contact has been made since).		
6	2 Prosperity (6)	PUSH	Failure to support Partnership for Urban South Hampshire and Solent Local Enterprise Partnership to deliver economic growth and improved skills.	Richard Jolley	July 2014	The Solent LEP prioritised the delivery of Welborne in its Local Growth Deal bid (associated with submission of the Solent Strategic Economic Plan 2014-20). A Fareham/Gosport funding package has been agreed to include an initial enabling programme of works aimed at opening up access to the strategic sites at Welborne and the Solent Enterprise Zone, with £6m allocated in 2015/16 and a further £13.7m in the period 2016- 2021. In addition, a provisional allocation of £14.9m has been made to upgrade junction 10 of the M27 to an 'all moves' junction, starting beyond 2016. In addition to this co-investment and the provisional allocation to junction 10, there is a requirement for further co-investment to support improvements to the strategic transport infrastructure on the Fareham/Gosport peninsula	😊	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
						(including the construction of the Stubbington bypass) and onsite development at Welborne. This will inform the negotiation of the next iteration of the Solent Growth Deal and there is an ambition to progress this in 2014.		
7	3 Safe and Healthy (7)	Crime and Disorder	Increase in the incidents of crime, disorder and anti-social behaviour.	Martyn George	July 2014	The incidents of reported crime in Fareham continue to fall and this was reported in the annual report to the Council's Scrutiny Board on the Performance of the Fareham Community Safety Partnership on 3 July 2014.	☺	23/07/14
11	4 Leisure (10)	Outdoor Recreation	Failure to fully implement the improvement programme for parks, play areas and sports facilities.	Martyn George	July 2014	The revised open spaces improvement programme will be reported to the Leisure & Community Panel in September and onto the Executive in November 2014.	☺	23/07/14
13	5 Housing (12)	Sheltered Housing	Failure to deliver and implement a programme of modernising and improving sheltered accommodation across the Borough.	Martyn George	July 2014	New Sheltered Housing Scheme under construction on site of former Collingwood House. Plans in preparation for new sheltered scheme at Coldeast. Results of consultation on change of use of existing sheltered schemes to be reported to Executive in Spring 2014.	☺	23/07/14
14	6 Community (13)	Fareham Park amended title	Failure to tackle the underlying causes of	Martyn George	July 2014	Youth Club and Clued Up 2go counselling and support	☺	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
			deprivation in the Fareham Park area.			services now operating from Fareham North West Community Centre. Successful application made to DCLG "Our Place" Fund (£10K) plus consideration for innovation fund.		
15	6 Community (14) and 7 Dynamic Council (17)	Community Engagement, and Customer Focus	Failure to communicate and engage effectively with the local community, and deliver a customer focussed service.	Andy Wannell/Lindsey Ansell (amended)	July 2014	Vanguard training for Directors and Heads of Service completed Dec 2013. First phase of planned programme of interventions progressing well. Progress reported to Members via Member workshop and report to Executive.	😊	23/07/14
18		Mobile Working	Failure to make best use of existing technology in the way that services are delivered.	Andrew Wannell	July 2014	No material concerns are identified. As Vanguard interventions progress, the role for the use of technology will be examined, to ensure it is applied appropriately.	😊	23/07/14
20		Partnerships	Failure of a significant partnership or contract.	Andrew Wannell (amendment)	July 2014	CXMT reviewed current partnership arrangements on 29 Jan 2014; all partnerships are performing well. Environmental Health partnership witnessed the TUPE transfer of EH staff from GBC to FBC on 1 April 2014. Leisure Partnership extended for a further five years (ending April 2020).	😊	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
Page 186 21		Business Continuity	Inadequate arrangements in place to respond to a critical disruption.	Paul Doran	July 2014	The Head of Community Safety and Enforcement is finalising the work with the HoS`s to ensure their BCP`s 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 have been identified that lead into this corporate risk have controls and arrangements in place to mitigate any disruption and the Heads of Service are developing these further. Further resilience has been provided by the development of more office based facilities at the depot (Building Control Partnership) that provides flexibility if key and critical services need to be relocated from the civic offices. The development of further partnerships such as the Southampton and Fareham Legal Partnership and the Fareham and Gosport Environmental Health Partnership provide flexibility and resilience in that these services can be provided from	 From Medium to Low	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
Page 187						other locations. The recent emergency planning exercise involved evacuation of the depot and officers were able to relocate and work from locations within the civic offices to ensure continuity of service provision. The Council have approximately 200 staff that have the capacity to work remotely using Citrix connectivity including 30 staff that have dedicated laptops with Microsoft UAG (Universal Access Gateway). HoCS&E meeting with all HoS to review their BCP`s and to identify where any additional actions / work that may be required to their plans. This will then be used to update the critical service matrix and be reported to CXMT.		
	23		Performance Management	Inadequate Performance Management Framework.	Andrew Wannell	July 2014	The Corporate Strategy has been agreed by Council at its meeting on 10 October 2013. All employees of the Council are now using the new approach to Individual Performance Management and this is being monitored by Personnel. The performance on corporate projects and priorities	☺

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
Page 188						are closely monitored by CXMT who received a progress update from the Corporate Policy Officer on 29 January 2014. The results of the 2013 Residents Survey were reported to the 6 January 2014 meeting of the Executive . Most of the results showed an upward trend in satisfaction since 2011. The majority, 97% of respondents were happy with their local area as a place to live, 89% thought the Council provided value for money and 90% were happy with the way the Council run things. The AGS review of effectiveness concluded that the arrangements the Council have in place continue to be regarded as fit for purpose in accordance with the governance framework.		
24		People Management	Poor people management and resourcing.	Andrew Wannell	July 2014	Implementation of the Individual Performance Management scheme and finalisation of the corporate training programme is now complete and the individual performance management approach is up and running and has received positive feedback from staff. Work is currently being undertaken to assess the uptake of the training identified	😊	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
Page 189						<p>in the corporate training plan for 2013/14 and work is currently being undertaken on the training needs for 14/15. Support is also being given to employees to maximise the benefits of the skillgate / e-learning system where it contributes to improved service delivery.</p> <p>Workforce planning is part of the day to day work undertaken by all managers at FBC and is reflected in the Council's approach to service planning. This is being developed to reflect the priorities of the Council to ensure that employees have the appropriate skills to meet new and challenging priorities in the longer term.</p>		
	26	Health and Safety - Public	Failure to meet Health and Safety responsibilities in relation to public liability.	Martyn George (amendment)	July 2014	No material areas of immediate concern, although we have highlighted that steps should be taken to strengthen the inspections regime on a consistent basis.	☺	23/07/14
	28	Emergency Planning	Failure to provide an appropriate response in an emergency.	Paul Doran	July 2014	Training has taken place with key members of the emergency planning team, the training is also on going as required	☺	23/07/14

Risk Ref	Corporate Strategy Priority No. and Short Name (Improvement Priority Ref.)	Short Name	Risk Description	Risk Manager	Latest risk sheet	Current status	Current Risk Score [change since March 2014 if any]	Last review by CXMT
						throughout the year, the contacts list for the emergency plan is in the process of being update, recruitment in June to the emergency planning team has been a success which generated a further 12 volunteers into various roles. The actions that have been identified have either been completed or are in the process of being completed.		
29		Elections	Challenge to an election process.	Andrew Wannell	July 2014	Well tested procedures are in place to cover the election process, and are revised to take account of lessons learned. The introduction of Individual Electoral Registration in June 2014 (subject to legislation) has resulted in changes to the way in which people register to vote at an election and the Cabinet Office's risk assessment has been used by FBC's Election Services Team in formulating its own implementation plan.	☺	23/07/14

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **22 September 2014**

Report of: **Monitoring Officer**

Subject: **UPDATE TO STANDING ORDERS FOLLOWING THE OPENNESS
OF LOCAL GOVERNMENT BODIES REGULATIONS 2014**

SUMMARY

This report provides details on the Openness of Local Government Bodies Regulations 2014 which came into force on 5 August and recommends the necessary minor amendment to the Constitution's Standing Orders with respect to Meetings.

RECOMMENDATION

That the Audit and Governance Committee:

- (a) recommends to Council that the updates to Part Four of the Constitution - Standing Orders with Respect to Meetings, as detailed in paragraph 8 of this report be approved; and
- (b) recommends to Council that the draft protocol on the recording of public meetings, as set out in appendix A, be approved and that the Monitoring Officer be delegated authority to update the protocol to meet operational needs.

INTRODUCTION

1. The Openness of Local Government Bodies Regulations 2014 came into force on 5 August 2014 and provide new rules to ensure that councils and other local government bodies are more transparent and accountable to their local communities.
2. As a result, members of the public are now able to use modern technology and communication tools to film, audio-record, take photographs, and use social media such as tweeting and blogging to report on the proceedings of public meetings they are attending.

BACKGROUND

3. The guidance document issued by the Department for Communities and Local Government states that:

“We now live in a modern, digital world where the use of modern communication methods such as filming, tweeting and blogging should be embraced for enhancing the openness and transparency of local government bodies. This will ensure we have strong, 21st century, local democracy where local government bodies are genuinely accountable to the local people whom they serve and to the local taxpayers who help fund them.”

4. In addition to the existing rules contained within the Public Bodies (Admission to Meetings) Act 1960, the Local Government Act 1972 and the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations 2012, these new regulations provide for the following key points:
 - any member of the public or press is able to film, audio-record or take photographs at any public meeting (with the exception of exempt/confidential items)
 - no advance permission is necessary for public meetings to be recorded
 - the new rules allow for the reporting of meetings via social media of any kind
 - councils are required to provide reasonable facilities to facilitate reporting
5. No prior permission is required for a member of the public to do this; although the guidance recommends that notice be given where filming or audio recordings are to be made to allow the Council to make any necessary arrangements.

PROPOSED CHANGES

6. The new Regulations result in a required amendment to Standing Orders With Respect To Meetings which are in Part Four of the Council's Constitution.
7. Standing Order 59.1 currently provides rules on the recording of proceedings by recognised media organisations and establishes that prior permission must be sought from the relevant Chairman of the meeting.
8. It is recommended that Standing Order 59 be amended with the following additional paragraphs:

59. REPORTING OF PROCEEDINGS BY PRESS AND PUBLIC

- 59.1 Audio and visual recordings of meetings by members of the public or by media representatives are permitted for all meetings held in public of the Council, the Executive, Committees, Panels and other Council bodies. The Mayor or Chairman of the meeting shall advise members that the meeting is being recorded.
- 59.2 Recordings and the reporting of proceedings shall not be permitted when the meeting resolves to consider items in private session when those items are exempt from publication.
- 59.3 The Mayor or Chairman of the meeting has absolute discretion to terminate or suspend filming/recording of the meeting in the event that continued filming/recording would prejudice or disrupt proceedings at the meeting.

PROTOCOL FOR FILMING AND RECORDING MEETINGS

9. A guidance document has been drafted to assist members of the public and press who wish to record or report on public meetings of the Council. This protocol is set out in Appendix A and members of the Audit and Governance Committee are invited to comment on this draft protocol before recommending it to Council for approval.

RISK ASSESSMENT

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

CONCLUSION

11. The proposed changes to the Council's Standing Orders with Respect to Meetings are contained in paragraph 8 and the draft protocol is set out in Appendix A. Both are put to the Audit and Governance Committee for comment before being submitted for approval by Council on 9 October 2014.

Appendix A – [Protocol for the Filming and Recording of Public Council Meetings](#)

Background Papers:

Letter from Eric Pickles, Secretary of State for Communities and Local Government to Local Authority Leaders

Letter from Paul Rowsell, Deputy Director – Department for Communities and Local Government to Local Authority Chief Executives

Reference Papers:

The Openness of Local Government Bodies Regulations 2014

Open and accountable local government: plain English guide

Enquiries:

For further information on this report please contact Leigh Usher. (Ext 4553)



FAREHAM

BOROUGH COUNCIL

PROTOCOL FOR THE FILMING AND RECORDING OF COUNCIL MEETINGS HELD IN PUBLIC

1. Fareham Borough Council welcomes members of the public and press who wish to film, photograph or record councillors and officers at any council meetings that are open to the public and press.
2. In order to ensure that the proceedings of Council meetings are not affected, the following rules should be observed by members of the public and press:
 - It is requested that you do not film the public seating area;
 - It is requested that you respect the wishes of members of the public who have come to speak at a meeting but do not wish to be filmed;
 - It is requested that you are mindful of the common law duty of confidentiality - you could be at risk of being sued by another private individual if you disclose confidential information about such a person (note: confidential matters will ordinarily be considered in private session).
3. Fareham Borough Council supports the principle of transparency and encourages filming and reporting by means of social media at its Council, Executive, Committee and Panel meetings which are open to the public. It also welcomes the use of social networking websites - such as Twitter and Facebook - and micro blogging to communicate with people about what is happening, as it happens.
4. There is no requirement to notify the Council in advance, but it should be noted that the Chairman of the meeting will have absolute discretion to terminate or suspend any of these activities if, in their opinion, continuing to do so would prejudice proceedings at the meeting. The circumstances in which termination or suspension might occur could include:
 - public disturbance;
 - formal exclusion of the press and public from the meeting due to the confidential nature of the business being discussed;
 - where it is considered that continued recording/filming might infringe the rights of any individual;
 - when the Chairman considers that a defamatory statement has been made;
 - when requests are received from other members of the public to cease recording when they speak – for example when presenting a deputation or petition or asking a question.

5. In allowing this, the Council asks those recording proceedings not to edit the film/ record in a way that could lead to misinterpretation of the proceedings, or infringe the core values of the Council. This includes refraining from editing an image or views expressed in a way that may ridicule, or show a lack of respect towards those being filmed/ recorded.
6. Those intending to bring large equipment, or wishing to discuss any special requirements are advised to contact the Council's Democratic Services Team in advance of the meeting to seek advice and guidance. The use of flash photography or additional lighting will not be allowed unless this has been discussed in advance of the meeting and agreement reached on how it can be done without disrupting proceedings.
7. At the beginning of each meeting, the Chairman will make an announcement that the meeting may be filmed or recorded. This is in order to protect any present children, vulnerable adults and other members of the public who actively object to being filmed from being filmed.

October 2014
Monitoring Officer

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **22 September 2014**

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

Subject: **REVIEW OF COMMITTEE WORK PROGRAMME**

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 latest work programme for review by the Committee.

WORK PROGRAMME 2014/15

2. The work programme for the year 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 on the delivery of the programme to date.
3. Five changes have been made to the programme as follows:
 - An additional report from the external auditors will be presented to the September Committee outlining the fees for their work on the 2014/15 audit year.
 - No reports on Financial Regulations or the Contract Procedure Rules will be presented to the September Committee as the work on these is still in progress. These have therefore been postponed to the next meeting.
 - The update of the Sanctions and Redress Policy is postponed to the next meeting as it will need to incorporate the Benefits Anti-fraud Policy following the transfer of the investigation function to the Department of Works and Pensions in October 2014.
 - Work has not yet been completed on the new Internal Audit Strategy so this report has been postponed to the November meeting.
 - A fundamental review of our Business Continuity processes is underway following the change of responsible officer. This report is therefore postponed until March to allow the review to be concluded.

RISK ASSESSMENT

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

CONCLUSION

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

Background Papers: None

Reference Papers: Minutes of and reports to Audit and Governance Committee for the Municipal Year 2014/15

Appendices:

[Appendix A](#) – Audit and Governance Committee Work Programme 2014/15 as at September 2014.

Enquiries:

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

APPENDIX A

AUDIT AND GOVERNANCE COMMITTEE CURRENT WORK PROGRAMME 2014/15 as at September 2014

Committee Function and Report Subject		Frequency	Last Reviewed	June 2014	September 2014	November 2014	March 2015
COMMITTEE WORKING ARRANGEMENTS							
Review of Work Programme and training plan		Quarterly	2013-14	Completed	Completed	YES	YES and Annual Report
Review of the Functions of the Committee		3 yearly	2013-14				
Review of the Constitution		As needed	2013-14				
ETHICAL FRAMEWORK AND STANDARDS (NEW)							
Standards of Conduct	Review of Code of Conduct for Members	As needed	2013-14				
	Review of member / officer protocol	As needed	2008-09				
	Overview of Complaints against the Council	Annual	2013-14		Completed		
Member Training and Development	Review of Members Training and Development and Determination of Programme	Annual	2012-13	Completed			
GOVERNANCE FRAMEWORK							
Framework	Local Code of Corporate Governance	As needed	2012-13				
	Annual Governance Statement	Annual	2013-14		Completed		
Key Policy	Review of Financial Regulations	3 yearly	2013-14	Completed	Postponed to November	Postponed from September	
	Review of Contract Procedure Rules	3 yearly	2013-14		Postponed to November		Postponed from September
	Implementation of Treasury Management Policy and Strategy	Annual	2013-14			YES	
Risk Management	Policy and Strategy	As needed	2012-13				
	Risk Management Progress Reports	6 monthly	2013-14		Completed		YES
	Business Continuity	3 yearly	2011-12		Postponed to March		Postponed from September
	Specific Risk Management topics	As needed	None				
Counter Fraud	Benefits Anti-Fraud and Corruption Policy	As needed	2013-14				

Committee Function and Report Subject		Frequency	Last Reviewed	June 2014	September 2014	November 2014	March 2015
	Counter Fraud Policy and Strategy	3 yearly	2013-14				
	Anti-Bribery Policy	As needed	2011-12				
	Sanctions and Redress Policy	3 yearly	2008-09		Postponed to November	Postponed from September	
	Counter Fraud Strategy Progress	6 monthly	2013-14	Completed		YES	
	Counter Fraud Investigation Progress	6 monthly	2013-14	Completed		YES	
INTERNAL AUDIT ASSURANCE							
Internal Audit Strategy		3 yearly	2006-07	Postponed to September	Postponed to November	Postponed from June	
Contractor Internal Audit Annual Plan		Annual	2013-14				YES
Contractor Quarterly Audit Reports		Quarterly	2013-14	Completed	Completed	YES	YES
Head of Audit's Annual Opinion		Annual	2013-14	Completed			
EXTERNAL ASSURANCE							
External Audit Annual Plan and Fee		Annual	2013-14		Additional report on 2014/15 fee		YES
External Audit Annual Inspection Letter		Annual	2013-14			YES	
Annual Certification Report		Annual	2013-14				YES
Specific reports from external audit and inspection agencies		As needed	2011-12 (RIPA)				
STATEMENT OF ACCOUNTS							
Statement of Accounts		Annual	2013-14		Completed		
External Audit Results Report		Annual	2013-14		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				