

FAREHAM

BOROUGH COUNCIL

AGENDA

AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 21 September 2015

Time: 6.00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor T G Knight (Chairman)

Councillor G Fazackarley (Vice-Chairman)

Councillors P J Davies
Miss T G Harper
D L Steadman
P W Whittle, JP
C J Wood

Deputies: L Keeble
D J Norris



1. Apologies

2. Minutes (Pages 1 - 4)

To confirm as a correct record the minutes of the Audit and Governance Committee meeting held on 29 June 2015.

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 - 18)

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

7. External Audit - Audit Results Report (Pages 19 - 44)

To consider a report by the Director of Finance and Resources on the External Audit – Audit Results report.

8. Statement of Accounts (Pages 45 - 122)

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

9. Quarterly Audit Report (Pages 123 - 136)

To consider the quarterly audit report by the Director of Finance and Resources.

10. Head of Audit's Annual Opinion (Pages 137 - 148)

To consider a report by the Director of Finance and Resources on the Head of Audit's Annual Opinion.

11. Review of Members Training and Development and Determination of Programme (Pages 149 - 156)

To consider a report by the Director of Finance and Resources on a review of Members training and development and determination of the programme.

12. Annual Governance Statement (Pages 157 - 184)

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

13. Review of Work Programme and Training Plan (Pages 185 - 188)

To consider a report by the Director of Finance and Resources on a review of the work programme and training plan.

P GRIMWOOD
Chief Executive Officer

www.fareham.gov.uk

11 September 2015

**For further information please contact:
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FAREHAM

BOROUGH COUNCIL

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

Date: Monday, 29 June 2015

Venue: Collingwood Room - Civic Offices

PRESENT:

Councillor T G Knight (Chairman)

Councillor G Fazackarley (Vice-Chairman)

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

**Also
Present:**



1. APOLOGIES

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

2. MINUTES

At the invitation of the Chairman, the Monitoring Officer addressed the Committee on the item to advise the members of two amendments to the minutes of the Audit and Governance Sub-Committee held on 26 March 2015:

- (i). The removal of the words “Mr D Basson” from paragraph 14 so that it reads “Councillor C J Wood and the Monitoring Officer left the room and took no part in the deliberation”; and
- (ii). The addition of the words “and consultation with Mr David Basson, the Council’s Designated Independent Person” in paragraph 14 so that it reads “Following the deliberation of the Standards Sub Committee and consultation with Mr David Basson, the Council’s Designated Independent Person, a motion was proposed and seconded to resolve that a breach of the code had taken place;”

RESOLVED that:-

- (a) the minutes of the Audit and Governance Committee meeting held on 16 March 2015 be confirmed and signed as a correct record; and
- (b) the minutes of the Audit and Governance Standards Sub-Committee held on 26 March 2015 be confirmed and signed as a correct record, subject to the amendments in (i) and (ii) above.

3. CHAIRMAN'S ANNOUNCEMENTS

The Chairman welcomed to the Committee Councillor Wood.

He also welcomed to the meeting Andy Jefford from Mazars and Kate Handy and Martin Young from Ernst and Young.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest made at this meeting.

5. DEPUTATIONS

There were no deputations made at this meeting.

DECISIONS MADE UNDER DELEGATED POWERS

6. EXTERNAL AUDITORS ANNUAL PLAN

The Committee considered a report by the Director of Finance and Resources on the External Auditors Annual Plan.

The report was presented by Martin Young, who took questions from members.

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

7. EXTERNAL AUDIT ANNUAL FEE LETTER

The Committee considered a report by the Director of Finance and Resources on the external audit annual fee letter.

The report was presented by Martin Young, and then took questions from members.

Councillor Norris queried the 4 instalment payments as they added up to more than the cost of the audit fee. Martin Young explained to the Committee that the instalments also included the cost of the housing benefit subsidy claim.

RESOLVED that Committee approve the fees proposed for the External Audit Coverage in 2015/16.

8. QUARTERLY AUDIT REPORTS

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

The report was presented by Andy Jefford, who took questions from members.

RESOLVED that the Committee note the progress and findings arising from the Internal Audit work, attached as Appendix A to the report.

9. COUNTER FRAUD PROGRESS

The Committee considered a report by the Director of Finance and Resources on an update on counter fraud strategy work and fraud cases over the past 6 months.

Members were given an update on paragraph 13 of the report on the planned exercise by the parking team to identify possible blue badge fraud. Members were informed that the first park of the exercise had now been completed and that out of the 23 badges that were checked 1 was found to have been misused as the blue badge holder was not in the vehicle where the blue badge was being used.

RESOLVED that the Committee note the content of the report.

10. REVIEW OF WORK PROGRAMME AND TRAINING PLAN

The Committee considered a report by the Director of Finance and Resources which reviewed the Committee's work programme and training plan for 2015/16.

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

(The meeting started at 6.00 pm
and ended at 6.47 pm).

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **21 September 2015**

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 2015.

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 process. Under Stage 1, the Head of Service in the department responsible will investigate the complaint. If the matter remains unresolved it will proceed to Stage 2 where the Director, of the department responsible, will review the complaint.
5. A complainant who is still not satisfied with the Council's explanation or resolution 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. Since the implementation of the Localism Act 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 LGO's annual review letter, attached at Appendix A, shows one complaint was upheld against the Council during the last financial year, which will be discussed in more detail below.

Enquiries and Complaints received

8. In 2014/15 the LGO received a total of 8 complaints about the Council and made 8 decisions. Both figures show a drop from 2013/14 when 11 complaints were received and 13 decisions made.
9. The complaints received related to a number of different service areas, which are summarised below. The titles are determined by the LGO so do not directly correlate with the services delivered by the Council.
 - (a) Two complaints relating to highways and transport, which is the same as the previous year.
 - (b) Two complaints relating to housing, which is the same as 2013/14.
 - (c) Four complaints relating to planning and development. This represents a slight increase on last year when there were 3 complaints.

10. The points below provide detail on how the outcome from the eight decisions made.
- (a) One case where advice was given, which means the complaint was outside the scope of the LGO's work or related to a complaint that had previously been looked at.
 - (b) Two cases were closed after initial enquiries. These complaints are where the LGO has made an early decision that it could not or should not investigate the complaint, usually because the complaint is outside its jurisdiction.
 - (c) Two cases were referred back for local resolution. This decision is applied where a complainant has not been through the Council's full complaints process. The LGO is required to give councils an opportunity to try and resolve a complaint before becoming involved.
 - (d) Three cases had detailed investigations carried out, of which one was upheld and the other two were not. A complaint is not upheld where the result of the LGO's investigation finds that the Council has not made a mistake. A complaint is upheld when the LGO finds that a council has made a mistake, which may or may not have caused an injustice.
11. A single complaint was upheld in 2014/15. The case related to a housing complaint regarding the waiting list. The LGO found:

"There was fault by the Council in its administration of Mr X's place on the housing list. The fault gave raised expectations to Mr X and his family. This injustice requires a remedy."

Further details of the LGO's findings are provided in Appendix B. The Council agreed to the recommended remedy, proposed by the LGO, and the complaint has now been closed.

Performance of Hampshire District Councils

12. For the year ended 31 March 2015 the LGO received 167 complaints and enquiries in respect of Hampshire District Councils, including Fareham Borough Council. The lowest number of complaints and enquiries was received by Fareham Borough Council. Basingstoke and Deane Borough Council received the highest number of complaints and enquiries, with a total of 24. Complaints and enquiries relating to Planning and Development were the most frequent type with 58, which is the same as 2013/14 and is more than double the number of the next most common type.
13. For the year ended 31 March 2015 the LGO made a total of 167 decisions in respect of Hampshire District Councils, including Fareham Borough Council. Fareham Borough Council has the lowest number of decisions. Basingstoke and Deane Borough Council received the highest number of decisions, with a total of 25. Of the decisions, 31 had detailed investigations, which resulted in 17 decisions being upheld. New Forest District Council was the only council to receive no upheld decisions against it.

COMPLAINTS IN RESPECT OF BREACHES OF THE MEMBERS CODE OF CONDUCT

14. The Council has a duty to make arrangements to receive and consider complaints made against Councillors in Fareham. The responsibility for carrying out this function

lies with the Monitoring Officer.

15. Complaints can be received in writing, via e-mail or by filling in a complaint form that is available on the Council's website. All complaints are taken seriously and are recorded and investigated by the Monitoring Officer, who evaluates each one against the code of conduct.
16. For the period 1st April 2014 to 31st March 2015, eight complaints against members were received by the Monitoring Officer. 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. In the two other cases, it was established that a breach had occurred. Further details are provided below.
17. The first breach of the code occurred at a meeting of the Council's Planning Committee on 24th September 2014. The Monitoring Officer received a complaint by a planning applicant that a member of the committee had engaged in conversation with a member of the public who had spoken against the application during the meeting, prior to the Committee considering the item, thus giving the impression that they had a predetermined view on the application. The monitoring officer conducted an investigation and it was determined that a breach of the code had occurred. The sanctions taken against the member were a formal letter from the Monitoring Officer and a requirement to undertake additional training.
18. The second breach of the code occurred at a meeting of the Council's Planning Committee on 25th February 2015. The Monitoring Officer received a complaint from a member of the committee present at the meeting alleging that a Councillor who had attended to make a verbal representation on an application had subsequently used offensive language while sitting in the public area of the meeting room, thereby bringing the Council into disrepute. This allegation was independently corroborated by a Council officer present at the meeting.
19. The Monitoring Officer conducted an investigation, taking advice from the Solicitor to the Council and the Council's Designated Independent Person (DIP). He concluded that, given the nature of the alleged breach, it was appropriate to request that the matter be considered by the Audit and Governance Standards Sub – Committee, in line with the Council's constitution.
20. The Audit and Governance Standards Sub – Committee met on 26th March to consider the allegation, fully reviewing the facts of the case and consulting with the Solicitor to the Council and the DIP. The standards Sub – Committee upheld the allegation and agreed that the following sanctions be imposed on the member:
 - (a) To issue a formal letter of censure from the Chairman of the Standards Sub – Committee.
 - (b) A requirement that the member attend training by the Monitoring Officer on the standards of conduct required by council members

RISK ASSESSMENT

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

CONCLUSION

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

Appendices:

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

Appendix B: [Ombudsman's final decision Housing complaint](#)

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)

18 June 2015

By email

Mr Peter Grimwood
Chief Executive
Fareham Borough Council

Dear Mr Grimwood

Annual Review Letter 2015

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 2015. This year's statistics can be found in the table attached.

The data we have provided shows the complaints and enquiries we have recorded, along with the decisions we have made. We know that these numbers will not necessarily match the complaints data that your authority holds. For example, our numbers include people who we signpost back to the council but who may never contact you. I hope that this information, set alongside the data sets you hold about local complaints, will help you to assess your authority's performance.

We recognise that the total number of complaints will not, by itself, give a clear picture of how well those complaints are being responded to. Over the coming year we will be gathering more comprehensive information about the way complaints are being remedied so that in the future our annual letter focuses less on the total numbers and more on the outcomes of those complaints.

Supporting local scrutiny

One of the purposes of the annual letter to councils is to help ensure that learning from complaints informs scrutiny at the local level. Supporting local scrutiny is one of our key business plan objectives for this year and we will continue to work with elected members in all councils to help them understand how they can contribute to the complaints process.

We have recently worked in partnership with the Local Government Association to produce a workbook for councillors which explains how they can support local people with their complaints and identifies opportunities for using complaints data as part of their scrutiny tool kit. This can be found [here](#) and I would be grateful if you could encourage your elected members to make use of this helpful resource.

Last year we established a new Councillors Forum. This group, which meets three times a year, brings together councillors from across the political spectrum and from all types of local authorities. The aims of the Forum are to help us to better understand the needs of councillors when scrutinising local services and for members to act as champions for learning from complaints in their scrutiny roles. I value this direct engagement with elected members and believe it will further ensure LGO investigations have wider public value.

Encouraging effective local complaints handling

In November 2014, in partnership with the Parliamentary and Health Service Ombudsman and Healthwatch England, we published *'My Expectations'* a service standards framework document describing what good outcomes for people look like if complaints are handled well. Following extensive research with users of services, front line complaints handlers and other stakeholders, we have been able to articulate more clearly what people need and want when they raise a complaint.

This framework has been adopted by the Care Quality Commission and will be used as part of their inspection regime for both health and social care. Whilst they were written with those two sectors in mind, the principles of *'My Expectations'* are of relevance to all aspects of local authority complaints. We have shared them with link officers at a series of seminars earlier this year and would encourage chief executives and councillors to review their authority's approach to complaints against this user-led vision. A copy of the report can be found [here](#).

Future developments at LGO

My recent annual letters have highlighted the significant levels of change we have experienced at LGO over the last few years. Following the recent general election I expect further change.

Most significantly, the government published a review of public sector ombudsmen in March of this year. A copy of that report can be found [here](#). That review, along with a related consultation document, has proposed that a single ombudsman scheme should be created for all public services in England mirroring the position in the other nations of the United Kingdom. We are supportive of this proposal on the basis that it would provide the public with clearer routes to redress in an increasingly complex public service landscape. We will advise that such a scheme should recognise the unique roles and accountabilities of local authorities and should maintain the expertise and understanding of local government that exists at LGO. We will continue to work with government as they bring forward further proposals and would encourage local government to take a keen and active interest in this important area of reform in support of strong local accountability.

The Government has also recently consulted on a proposal to extend the jurisdiction of the LGO to some town and parish councils. We currently await the outcome of the consultation but we are pleased that the Government has recognised that there are some aspects of local service delivery that do not currently offer the public access to an independent ombudsman. We hope that these proposals will be the start of a wider debate about how we can all work together to ensure clear access to redress in an increasingly varied and complex system of local service delivery.

Yours sincerely



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

Local authority report – Fareham Borough Council

For the period ending – 31/03/2015

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	Highways and transport	Housing	Planning and development	Total
Fareham BC	0	0	0	0	0	2	2	4	8

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Decisions made

Local Authority	Detailed investigations carried out		Advice given	Closed after initial enquiries	Incomplete/Invalid	Referred back for local resolution	Total
	Upheld	Not Upheld					
Fareham BC	1	2	1	2	0	2	8

Complaint reference:
13 020 658

Complaint against:
Fareham Borough Council

The Ombudsman's final decision

Summary: There was fault by the Council in its administration of Mr X's place on the housing list. The fault gave raised expectations to Mr X and his family. This injustice requires a remedy.

The complaint

1. Mr X is complaining on behalf of his family, about the Council's administration of his family's place on their housing register. Mr X complains the Council:
 - a) Failed to notice its change of policy regarding local connections meant his family was no longer eligible to stay on its housing list;
 - b) Unreasonably applied its policy to his application retrospectively.
2. Mr X says the Council was about to offer his family a property, but realising its mistake, withdrew this at the last minute. Mr X is no longer eligible to be on the Council's housing list. He will not be able to get social housing in the area where other members of his family currently live.

The Ombudsman's role and powers

3. The Ombudsman investigates complaints of injustice caused by maladministration or service failure. I have used the word fault to refer to these. The Ombudsman cannot question whether a council's decision is right or wrong simply because the complainant disagrees with it. She must consider whether there was fault in the way the decision was reached. (*Local Government Act 1974, section 34(3)*)
4. If the Ombudsman is satisfied with a council's actions or proposed actions, she can complete her investigation and issue a decision statement. (*Local Government Act 1974, section 30(1B) and 34H(i)*)

How I considered this complaint

5. As part of the investigation, I have:
 - considered the complaint and the documents provided by Mr X, including copies of Council letters;
 - read the relevant Council policy documents;
 - discussed the issues with Mr and Mrs X;
 - issued a provisional view, invited replies from Mr X and the Council, and considered responses received.

What I found

Background summary

6. The Council administers a housing list for people in the area of town A. The Council's previous policy on determining local connections of applicants required them to:
 - have lived in the borough for at least 18 months prior to applying to join the housing list; or
 - have lived in the borough for at least three years out of the previous five years.
7. Mr X and his family moved to town A in October 2008. They applied to join the Council's housing list in July 2010. The family had been renting privately in the area for 21 months so they qualified under the Council's policy, in force at that time, as having a local connection.
8. Mr X's family suffered anti-social behaviour from their neighbour. They decided to move in February 2011. The advice from the police and Council's officers was for them to move some distance away from their town A home. The family moved out of the Council's area, to nearby town B. Mr X says they could not afford to stay in town A at the time.
9. In June 2012, national government published new guidance to local authorities on how they should determine applicants' local connections. The Council asked Mr X to make a fresh application if he wanted his family to stay on the housing list, because the policy was about to change. Mr X sent a fresh application in March 2013. The Council implemented its new local connections policy with effect from 6 May 2013.
10. The new local connections criteria were more stringent, in line with the national government guidance. Under the new policy:
11. *"An applicant shall only be assessed as having a local connection if:*
 - *They live in the Borough in settled housing arrangements and have done so continuously for at least 18 months immediately prior to applying to join the Housing Waiting List or*
 - *They have lived in the Borough in settled housing arrangements for at least 3 consecutive years out of the last 5."*
12. The Council accepts that when it received and considered Mr X's March 2013 application, it did not properly apply the new policy on local connections. Under the new policy, Mr X's family was no longer eligible to be on the housing list. Mr X's application remained live after the new policy came in on 6 May 2013.
13. In November 2013, the Council was about to offer Mr X a property from its list. But on reassessing his application, officers discovered he was not eligible to be on the list. Mr X did not live in the borough, and in the five years prior to the offer being made, he had only lived there for two years and four months. He had lived in town B for two years and eight months.
14. The Council removed Mr X from the housing list. Mr X complained to the Council but remained dissatisfied with its replies so complained to the Ombudsman.

Assessment

Processing fault

15. The Council acknowledges it was fault for them to keep Mr X on the housing list after its policy on local connections changed in May 2013. I agree the Council misapplied its policy to Mr X's application. Mr X should have been removed from the list when the policy changed. This was fault.
16. I have gone on to consider what injustice this caused Mr X and his family. The allocation process was nearing its end when the Council spotted its fault and withdrew the opportunity of the new property. I find the Council's fault raised the family's expectations of getting a house back in the area they wanted to live. This is an injustice requiring remedy.
17. I have also considered other implications of Mr X staying on the housing list between May and November 2013.
18. While Mr X was on the housing list erroneously for those months, this may have dissuaded him from looking at other housing options. However, being on the social housing list did not prevent Mr X investigating those other options. So I do not consider this caused Mr X and his family any further significant injustice.
19. I consider Mr X did not gain any advantage from staying on the housing list for those months. On any date between May and November 2013, it is more likely than not that the Council would have noticed its error and withheld any property offered to him, much as it did in November.

Retrospective application of policy

20. I do not find it was fault for the Council, when it realised its error, to apply to Mr X's application the May 2013 policy. This was not the Council retrospectively applying a policy in an unfair way. It was the Council fixing its mistake several months later. It was required to do this to be fair to all others on its housing list who had already had the same policy properly applied to their applications.

Agreed action

21. In my provisional view I recommended the Council pay Mr X £100 for the fault causing injustice identified at paragraphs 15 and 16 above. The Council has agreed to my recommendation.

Final decision

22. I have found fault by the Council causing injustice to Mr X and his family. On the basis of the Council's agreement with my recommended remedy, I consider the complaint resolved and have completed my investigation.

Investigator's decision on behalf of the Ombudsman

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **21 September 2015**

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

Subject: **EXTERNAL AUDIT – AUDIT RESULTS REPORT**

SUMMARY

The Committee is asked to consider to the External Auditor's Annual Results Report (Appendix A), summarising the findings from the 2014/15 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 2015.

RECOMMENDATION

It is recommended that the Committee notes the contents of the Annual Results Report ([Appendix A](#)) and the Director of Finance and Resources and the Chairman of the Audit and Governance Committee sign the Letter of Representation ([Appendix B](#)).

Background Papers:

None

Reference Papers:

None

Enquiries:

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

Fareham Borough Council

Audit and Governance Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015



Building a better
working world

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Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the **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 2014/15 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 7 September 2015, 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

- ▶ As at 7 September 2015, we do not expect to report any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

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

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

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

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ Express an opinion on the 2014/15 financial statements and the consistency of other information published with them
 - ▶ Report on an exception basis on the Annual Governance Statement
 - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

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

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

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

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

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

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

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Risk of management override		
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</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 significant unusual transactions 	<p>All our planned procedures are complete. There are no findings that indicate a risk of misstatement due to fraud or error.</p>
Daedalus airfield valuation		
<p>In March 2015, the Council purchased the freehold of the site from the Homes and Communities Agency (HCA). The site includes: commercial property, infrastructure and specialist assets such as the control tower. The valuation of this asset will require careful consideration. The Council will need to componentise the site and allocate assets between those that are operational and under construction. Operational assets will require valuation for which the Council may require specialist advice.</p>	<p>Our financial statements audit approach will focus on:</p> <ul style="list-style-type: none"> ➤ Evaluating the Council's process for allocating individual assets between operational and assets under construction; ➤ Evaluating the competence and capability of the Council's valuer; ➤ Considering the data provided to the valuer and evaluating the nature and scope of the valuers work; ➤ Evaluating the appropriateness of the valuers work as a source of audit evidence. 	<p>We have evaluated the Council's process for allocating assets between operational and assets under construction. We identified no issues.</p> <p>We are satisfied that the Council's valuer is competent and capable.</p> <p>We are finalising our evaluation of the data provided to and assumptions made by your valuer. We will give you a verbal update at the Committee.</p>

Section 4

Financial statements audit – issues and findings

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
 - ▶ Final review and sign off
 - ▶ One investment confirmation from a bank
 - ▶ Reviewing the data provided to and assumptions made by your valuer for the Daedalus valuation
 - ▶ WGA procedures
- ▶ 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 misstatement within the draft financial statements, which management has chosen not to adjust.

Corrected misstatements

- ▶ Our audit identified a few minor misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work. None were significant enough to need to be brought to your attention.

Other matters

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

We have no matters we wish to report.

Financial statements audit – application of materiality

Our application of materiality

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

Item	
<p>Planning Materiality and Tolerable error</p>	<p>We determined planning materiality to be £1.2 million (2014: £1.2 million), which is 2% of gross expenditure reported in the accounts adjusted for the revaluation of HRA properties</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors that affected the primary statements in the Authority's 2014/15 financial statements and no uncorrected errors.</p>
<p>Reporting Threshold</p>	<p>We have reported all unadjusted audit differences in excess of £61,000 (2014: £58,565)</p>

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

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

Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement 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.

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.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

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

Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ In our audit plan we identified one risk in relation to this criteria
 - ▶ The acquisition of Daedalus airfield.
- ▶ Financial pressures in the public sector continue to mount. As a result of these significant pressures there is increased focus on the financial resilience of Local Government. Fareham Borough Council has a good track record of managing its finances and our previous reviews have highlighted no concerns in this area. However, because of these significant pressures we decided that we should highlight this area as a significant risk, explain the work we have undertaken and report our current conclusions to you.
 - ▶ As a result we have included 'Medium Term Financial Planning' as a further significant risk in this report.
- ▶ Our work and conclusions are set out on the next slide

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ In our audit plan we identified one risk in relation to this criteria
 - ▶ The acquisition of Daedalus airfield.
- ▶ We have no issues to report in relation to this criteria
- ▶ Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Addressing audit risks – significant VFM risks

We identified the following VFM risks during the continuous planning of our audit. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the value for money conclusion is the risk that the auditor may issue the wrong value for money conclusion. Where auditors identify a significant value for money conclusion risk they will need to undertake additional audit work to enable them to reach an appropriate conclusion. We set out below the significant risks we identified in our plan, the procedures performed in response, and our conclusion

Significant VFM risk– financial resilience and arrangements for securing economy, efficiency and effectiveness - acquisition of Daedalus airfield

Risk identified	Procedures undertaken	Basis for conclusion
<p>➤ In March 2015, the Council purchased the freehold of the site from the Homes and Communities Agency (HCA) to facilitate economic development. The Council is now responsible for all operational and financial matters relating to the airfield which it considers viable, although it is projecting short term revenue losses. The Council is planning £10m - £15m capital expenditure to stimulate economic redevelopment on the site. Funding for the capital elements of the project are expected to be a combination of: HCA grant, land sales, prudential borrowing and business rates retention (subject to agreement with the Local Enterprise Partnership). The revenue budget and sources of capital funding are dependent on many assumptions which could have a significant impact on the Council's financial resilience.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> ▶ considering the results of the Council's market analysis study as key to the success of the site will be interest from companies to locate themselves at Daedalus. ▶ reviewing the evidence to support the assumptions in the Council's long term financial model for the site and considering if it is consistent with the Council's wider budgeting; 	<p>This long term project does expose the Council to risk around demand from businesses to occupy plots on the site. This is a key significant assumption in the Council's long term financial model. The Council's market analysis study indicated that the assumptions made on the likely take up from businesses are reasonable.</p> <p>The Council presented its 'Daedalus Vision and Strategy' in July 2015 which included an objective to ensure the airfield operates on a break even basis by 2019. Work supporting this objective is underway. The Council has secured funding of around £1.7m against revenue losses over the next three years. This is sufficient to cover the Council's projected losses in the transitional period, and will protect it's financial resilience while the Daedalus Vision and Strategy is implemented.</p> <p>We will revisit this risk in 2015/16 and consider progress in this area once full integration into the Council's revenue and capital budgets is achieved.</p>

Addressing audit risks – significant VFM risks cont.

Financial pressures in the public sector continue to mount. As a result of these significant pressures there is increased focus on the financial resilience of Local Government. Fareham Borough Council has a good track record of managing its finances and our previous reviews have highlighted no concerns in this area. However, because of these significant pressures we decided that we should highlight this area as a significant risk, explain the work we have undertaken and report our current conclusions to you.

Significant VFM risk– financial resilience - Medium Term Financial Planning

Risk identified	Procedures undertaken	Basis for conclusion
<ul style="list-style-type: none"> ➤ The local government sector continues to face financial challenge; with reductions in central government funding needing to be offset by efficiency plans. 	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> ▶ Reviewing achievement against the 2014/15 budget 	<p>The Council's reported an underspend against its revised budget in 2014/15 of £309,356. The Council has also maintained its reserves at a prudent level. This is despite the financial challenges faced by the local government sector, and not having raised Council Tax since 2009/10.</p>
<ul style="list-style-type: none"> ➤ The Council's 5 year Finance Strategy identifies spending and funding pressures and seeks to address them with efficiency savings 	<ul style="list-style-type: none"> ▶ Reviewing the reasonableness of the assumptions made in the 2015/16 budget and 5 year Finance Strategy ▶ Understanding the progress made with and achievability of the efficiency plan 	<p>We have reviewed the assumptions in the 5 year Finance Strategy and the Council's 2015/16 budget and consider them reasonable. However, the Council recognises the uncertainty in future funding levels, in particular from central government, and will need to incorporate the outcome of the Spending Review into future plans.</p> <p>The Council's 5 year Finance Strategy was updated in October 2014 and includes an efficiency plan. The Council has a sound record for delivering efficiency plans. Individual schemes underpinning the plan are either implemented or in progress for all required efficiencies. The Council has a history of achieving savings in advance of need.</p>

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 20 April 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 21 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit and Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 20 April 2015.

Audit fees

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

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	64,307	64,307	N/A
Certification of claims and returns	15,080	15,080	N/A
Non-Audit work	Nil	Nil	N/A

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

EY | Assurance | Tax | Transactions | Advisory

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ED None

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FAREHAM

BOROUGH COUNCIL

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Director of Finance
and Resources
Andrew Wannell

Contact: Andrew Wannell

Ext.: 4620

Date: 21 September 2015

Letter of Representation: Audit of Financial Statements

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

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
2. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting

in the United Kingdom 2014/15 and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 that are free from material misstatement, whether due to fraud or error.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

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

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

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

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.

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

H. Retirement benefits

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

I. Comparative information – corresponding financial information

1. Prior year adjustments have been included in the financial statements to implement the revised IAS19 in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

J. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the valuation of property, plant and equipment, the pension fund liability and the NDR appeals provision and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Director of Finance and Resources

I confirm that this letter has been discussed and agreed at the Audit and Governance Committee on 21 September 2015.

Chairman of the Audit and Governance Committee

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **21 September 2015**

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

Subject: **STATEMENT OF ACCOUNTS**

SUMMARY

Local Authorities have a duty to prepare and publish an annual Statement of Accounts in accordance with regulations issued by the Secretary of State. Members are requested to formally approve the annual Statement of Accounts for 2014/15 that is attached to this report.

RECOMMENDATION

That the Statement of Accounts for 2014/15, attached as Appendix A, be approved and published by 30 September 2015.

INTRODUCTION

1. The Audit Commission Act 1998 requires the Council to prepare a Statement of Accounts and have them audited.
2. The Accounts and Audit (England) Regulations 2011 requires every local authority to adopt proper accounting practices in the preparation and publication of the Statement of Accounts.
3. The Local Government Act 2003 (Section 21) defines proper accounting practices for this purpose to be the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code) for the relevant year.
4. The Statement of Accounts set out in Appendix A has been prepared in accordance with the Code.

THE PURPOSE OF THE STATEMENT OF ACCOUNTS

5. 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.

THE AUDIT PROCESS

6. The Statement of Accounts attached as Appendix A has been audited. The Council's external auditors are Ernst & Young LLP (EY) and they are responsible for forming an opinion on the Statement of Accounts and certifying that it is a "true and fair" view of the financial position of Fareham Borough Council as at 31 March 2015.
7. The audit opinion is based upon a detailed audit carried out by EY during July and August 2015 in accordance with statutory requirements.
8. Before the audit opinion is certified EY will report to Members, in accordance with the International Standards of Auditing (ISA260), whether or not there are any issues arising from the audit of the accounts (see separate report on the agenda of this meeting).

KEY ISSUES AND MATTERS OF INTEREST

9. The key issues and matters of interest arising from the 2014/15 Statement of Accounts are:
 - Daedalus Airfield – The Council acquired Daedalus Airfield in March 2015. During 2014/15, £1.5 million of runway improvements were funded from the Council's capital reserves and £5 million was used to complete the Innovation Centre funded from a grant from the Homes and Communities Agency (HCA). A grant of £4.25 million was also received from the HCA for future developments at the site.
 - Council Dwellings Revaluation – The Council values its housing stock annually in accordance with the Code. For 2014/15 there was a revaluation gain of £7.8 million due to an increase in market values.

- Housing stock buy-back – During the year, the Council sold 6 homes under the right to buy scheme which was partly replenished by buying back 5 homes sold under right to buy in earlier years.
- Pension Fund – The Council’s pension fund liability increased by £6.8 million during 2014/15. The main reason for the change is due to actuarial losses as a result of changes to the financial assumptions used.
- Business Rate appeals – The business rate appeals provision increased by 96% to £2.6 million. This was largely due to a change in legislation where back dated appeals are no longer allowed. This resulted in a large spike in the number of appeals at the end of the year before the legislation took effect.
- Commercial Property Acquisitions – During the year the Council acquired two commercial properties as part of the commercial property investment acquisition programme at a cost of £2.2 million.
- Community Infrastructure Levy – The Council raised £2.4 million from the Community Infrastructure Levy during 2014/15 which has been transferred to the Council’s capital reserves to fund the capital programme.

THE CONTENT OF THE STATEMENT OF ACCOUNTS

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

Explanatory Foreword

11. The explanatory foreword helps to explain the content of the accounts; provides summaries of the different types of income and expenditure (revenue and capital) for the General Fund and Housing Revenue Account (HRA); explains the levels of reserves and pension fund liability and describes the significant developments during the year.

Statement of Responsibility for the Statement of Accounts

12. This statement sets out the responsibilities of the Council, the Audit and Governance Committee and the Director of Finance and Resources for the production and approval of the accounts.

Confirmation of Approval by Members

13. 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.

Comprehensive Income and Expenditure Statement

14. The following core accounting statements are included:

Comprehensive Income and Expenditure Statement - This statement brings together all of the Council’s day to day (revenue) income and expenditure as well as transactions relating to the value of long term assets and pension costs.

Balance Sheet - The Balance Sheet shows the assets that the Council owns, how much the Council owes or is owed, and the Council's net assets (sometimes referred to as net worth).

Movement in Reserves Statement - This statement shows the movement between the Council's reserves (which are split between usable and unusable) and the total adjustments needed (in respect of revaluations, capital items and notional pension costs) to the reported surplus and deficit on the Comprehensive Income and Expenditure Account, to arrive at the actual movement in the General Fund Balance.

Cash Flow Statement - This statement shows the amount of cash received and paid out during the year and the net inflow and outflow of cash and cash equivalents.

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

15. The following supplementary statements are also included:

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

Glossary

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

Independent Auditor's Report

17. This is the external auditor's opinion on the accounts and contains their view as to whether the accounts give a true and fair view of the Council's financial position and performance for the year. The opinion will be included within the final published document which must be published by 30 September 2015.

RISK ASSESSMENT

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

CONCLUSION

19. Members are asked to formally approve the Statement of Accounts for 2014/15.

Background Papers: None

Reference Papers: Code of Practice on Local Authority Accounting 2014

Appendix A: [Statement of Accounts 2014/15](#)

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 2015**

STATEMENT OF ACCOUNTS

**for the year ended
31st March 2015**

A. WANNELL CPFA

DIRECTOR OF FINANCE & RESOURCES

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ALL ABOUT US

Where is Fareham?

Fareham Borough Council is one of 11 Borough Councils in the County of Hampshire. It lies on the south coast between the major cities of Portsmouth to the east and Southampton to the west being bordered by Winchester City Council to the north and Gosport Borough Council to the south. The Borough of Fareham covers some 30 square miles and has a population of 112,800.

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

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



What Does The Council Do?

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

The Chief Executive Officer is responsible for the overall co-ordination and management of Fareham Borough Council's services. He is supported by 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 two political groups within Fareham Borough Council; Conservative and Liberal Democrats, one United Kingdom Independence Party councillor and two Independent councillors.

THE EXPLANATORY FOREWORD

1. Introduction

Fareham Borough Council's accounts for the year 2014/15 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 shows all income and expenditure incurred by the Council throughout the year. It includes day-to-day transactions from running the organisation as well as gains/losses on assets and pension liabilities. The Total Comprehensive Income and Expenditure shown represents the total movement in the Council's reserves during the year.

The Balance Sheet shows the financial position of the Council and discloses the assets and liabilities for all Council services. At the Balance Sheet date the net worth of the Council was £117.8 million.

The Movement in Reserves Statement summarises the changes in balances on the Council's reserves in the year. Reserves are classified as either usable or unusable. Usable reserves include the unallocated General Fund and HRA Balances, Earmarked Revenue Reserves and the Capital Receipts Reserve. These are the reserves that the Council can apply to future expenditure subject to statutory conditions (e.g. the Capital Receipts Reserve can only be used to finance capital expenditure). Unusable reserves such as the Capital Adjustment Account and Revaluation Reserve generally reflect the timing differences between the purchase and the consumption of economic benefits of assets.

The Cash Flow Statement summarises the Council's cash transactions for the year.

In addition, the supplementary financial statements are shown on pages 57 to 63 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	20,119	44
Government grants to services	22,233	49
Council tax payers	5,806	13
Central Government Funding	5,538	12
Use of reserves and corporate income	(8,478)	-18
Total	<u>45,218</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	13,067	29
Running expenses	13,489	30
Transfer payments	19,075	41
Capital charges and costs	(413)	0
Total	<u>45,218</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 2014/15 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)	1,988	2,297	309
Cultural and related services	2,917	4,155	1,238
Environmental and regulatory services	6,144	6,124	(20)
Planning services	8,635	3,380	(5,255)
Highways and transport services	1,839	2,100	261
Local authority housing (HRA)	(1,016)	6,450	7,466
Other housing services (e.g. housing strategy and advice, housing benefit administration)	21,988	22,537	549
Corporate and democratic core	2,712	2,639	(73)
Non-distributed costs (e.g. pension adjustments)	11	214	203
Total	<u>45,218</u>	<u>49,896</u>	<u>4,678</u>

The main variations are:

- Cultural and related services - revaluation gain of £1.6 million for Portchester Community Centre.
- Planning services - impairment loss of £4 million for Daedalus and £1.5 million runway costs.
- HRA - £7.8 million revaluation gain for council dwellings.

5. Capital

In 2014/15, the Council spent £19.8 million on projects in the capital programme, compared with a revised budget of £23.1 million. The net under spending of £3.3 million was mainly the result of the shortfall in the Investment Property Purchases scheme now expected to occur in 2015/16.

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

Capital Expenditure:	£'000	%
Daedalus Innovation Centre	5,045	26
*Collingwood Court	3,437	17
Leisure Services	3,194	16
*Council Housing Improvements	2,414	12
Investment Property Purchases	2,174	11
Daedalus Runway	1,475	7
Other Housing	657	3
*Council Housing Purchases	562	3
*Council Housing New Builds	356	2
Information, Communications & Technology	137	1
Council Buildings	124	1
Other Services	114	1
Vehicles	46	0
*Council Housing Vehicles	40	0
Total	<u>19,775</u>	<u>100</u>

Financed by:	£'000	%
Revenue and Reserves	10,660	54
Government Grants	5,381	27
Capital Receipts	2,775	14
External Contributions	959	5
Total	<u>19,775</u>	<u>100</u>

*Council Housing capital expenditure was financed by the Housing Revenue Account revenue and reserves (£6.6 million), capital receipts (£0.2 million).

£0.6 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 2015 was £183 million (2013/14 £158 million).

6. Reserves

The Council's total usable reserves at 31 March 2015 amounted to £37.8 million (2013/14 £38 million). Against this, the actuarial valuation of the Council's share of pension fund assets and liabilities at 31 March 2015 indicated a £52.0 million (2013/14 £45.2 million) deficiency of assets compared with future liabilities to current members of the pension scheme. This liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. The actuarial valuation will be reviewed each year, and will reflect further payments into the fund, and movements in the value of investments of which a large proportion is held in equities. The deficiency could increase, decrease, or become a surplus before the majority of liabilities (pension benefits) become payable.

7. Significant Developments during the Year

There were a number of significant developments during 2014/15:

Daedalus Airfield

The Council acquired approximately 369 acres of land at Daedalus which comprises an airfield and the East/West Enterprise Zone development areas, on 27 March 2015. During the year, £1.5m of runway improvement works were completed allowing a greater variety of planes to use the airfield and a £5.3m Innovation Centre was completed offering office space and workshop facilities for new start-up businesses, with a focus on the engineering, aerospace, aviation and marine industries. As part of the land acquisition, the Council received a £4.25 million grant from the Homes and Communities Agency to further develop the site.

Local Housing Company

During the year, the Council formed a new local housing company, Aspect Building Communities Ltd, in partnership with Eastleigh Borough Council, First Wessex and Radian Housing Association to facilitate housing and economic development in the Borough.

Fareham and Gosport Environmental Health Partnership

The Fareham and Gosport Environmental Health Partnership came into operation during 2014/15 providing environmental health services to both Fareham and Gosport Borough Councils. The Partnership builds on the existing arrangement which was in place since 2011 where there was a shared Head of Environmental Health for both councils.

The Partnership will deliver efficiencies and savings to both councils in the way the service is operated and delivered. The existing environmental health staff employed by Gosport Borough Council transferred under TUPE to Fareham Borough Council. The Partnership has a policy of sharing expenditure (excluding internal recharges) on a 50/50 basis. All income is retained by the relevant authority.

The Vanguard Method

The Council has been working with the Vanguard Consultancy since 2013 to improve the customer experience by redesigning services and procedures from a customer's perspective. Adopting the Vanguard method has achieved over £380,000 of on-going savings; whilst improving services delivered to the residents of the Borough. The points below highlight some of the key service improvements that have been achieved to date:

- The time taken to process benefit claims has fallen from 17 days to 10 days and customers now deal with a single employee.
- The average time to complete a day-to-day repair on a Council property has fallen significantly to less than 8 days. Tradesmen are now able to access a customer's property on the first visit in over 97% of cases.
- Within Parking Enforcement there has been a 50% reduction in the number of challenges to penalty charge notices received by the Council.
- The new way of working, within Development Management, has seen the average time taken to process planning applications fall from 56 days to 36 days. This includes the statutory consultation period, required on planning applications.

Housing Responsive Repairs Service

Following the Vanguard intervention into the Housing Responsive Repairs Service, the service was brought in-house from 1 April 2015. Prior to this, the delivery of the service was a mixture of an in-house service and a contractor. The Vanguard intervention identified that this was not delivering the best service as it was duplicating work and complicating the service for customers. By bringing the whole service in-house it is estimated to generate annual savings of £160,000.

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 2015.

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 2015 and its income and expenditure for the year then ended.

Signed:

A Wannell CPFA
Director of Finance and Resources

Date: 30 June 2015

CONFIRMATION OF APPROVAL BY MEMBERS

I confirm that these accounts were approved by the Audit and Governance Committee at the meeting held on 21 September 2015.

Signed on behalf of Fareham Borough Council:

Chairman of Audit and Governance Committee
Fareham Borough Council

Date: 21 September 2015

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement in note 6.

2013/14				2014/15		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
2,113	(1,047)	1,066	Central services to the public	1,988	(796)	1,192
3,478	(600)	2,878	Cultural and related services	2,917	(2,444)	473
6,238	(1,813)	4,425	Environment and regulatory services	6,144	(1,962)	4,182
3,865	(780)	3,085	Planning services	8,635	(634)	8,001
2,003	(3,012)	(1,009)	Highways and transport services	1,839	(2,928)	(1,089)
5,782	(11,521)	(5,739)	Local authority housing (HRA)	(1,016)	(12,257)	(13,273)
21,722	(20,096)	1,626	Other housing services	21,988	(21,108)	880
3,029	(243)	2,786	Corporate and democratic core	2,712	(259)	2,453
11	(1)	10	Non distributed costs	11	0	11
48,241	(39,113)	9,128	Cost of Services	45,218	(42,388)	2,830
Other Operating Expenditure						
			1,290 (Gain) or loss on disposal of assets			(247)
			158 Housing capital receipts to Government pool			174
Financing and Investment Income and Expenditure						
			1,405 Interest payable and similar charges			1,399
			(431) Interest receivable			(392)
			2,510 Pension net interest cost (note 14)			1,890
			1,407 Changes in fair value of investment properties (note 16)			1,286
			(2,087) Investment properties rental and expenses (note 16)			(1,974)
Taxation and Non-Specific Grant Income						
			(5,733) Council Tax Income			(5,806)
			(1,645) Non-Domestic Rates Income			(1,865)
			(5,353) Grants and contributions not distributable to services (note 8)			(11,808)
		649	(Surplus) or Deficit on Provision of Services			(14,513)
			(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			(7,371)
			(923) Pension liability remeasurements (note 14)			4,991
		(17,051)	Other Comprehensive Income and Expenditure			(2,380)
		(17,974)	Total Comprehensive Income and Expenditure			(16,893)

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 6, 25 and 27.

31 March 2014 £'000		31 March 2015 £'000	Notes
	Property, Plant and Equipment		15
82,870	- Council dwellings	91,617	
36,223	- Other land and buildings	48,019	
556	- Infrastructure	496	
3,489	- Vehicles, plant, furniture, equipment	2,885	
353	- Community assets	350	
194	Heritage assets	187	
33,070	Investment properties	33,958	16
1,200	Assets under construction	5,351	
10	Surplus assets held for disposal	10	
118	Intangible assets	87	
2,000	Long term investments	4,000	28
81	Long term debtors	79	
160,164	Long term assets	187,039	
26,149	Short term investments	23,159	28
1,265	Assets held for sale	48	17
27	Inventories	27	
3,782	Short term debtors	7,050	21
125	Payments in advance	133	
12,325	Cash and cash equivalents	16,186	20, 28
43,673	Current assets	46,603	
(1,430)	Short term borrowing	(1,582)	28
(8,684)	Short term creditors	(10,111)	22
(445)	Depositors	(188)	
(1,828)	Provisions	(3,021)	23
(12,387)	Current liabilities	(14,902)	
	Receipts in advance		24
(4,711)	- Capital grants	(6,706)	
(261)	- Revenue grants	(2,090)	
(40,400)	Long term borrowing	(40,200)	28
(45,219)	Pension scheme liability	(51,992)	14
(90,591)	Long term liabilities	(100,988)	
100,859	Net assets	117,752	
37,960	Usable reserves	37,706	6, 25
62,899	Unusable reserves	80,046	27
100,859	Total Reserves	117,752	

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services. 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.

	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 2014	6,200	17,376	4,118	3,048	6,951	267	37,960	62,899	100,859
Movement in reserves during 2014/15									
Surplus/(deficit) on provision of services	3,162		11,351				14,513		14,513
Other Comprehensive Income and Expenditure							0	2,380	2,380
Total Comprehensive Income & Expenditure	3,162	0	11,351	0	0	0	14,513	2,380	16,893
Adjustments between accounting basis and funding basis under regulations	(3,544)	(356)	(9,217)	(2,966)	(1,064)	2,380	(14,767)	14,767	0
Net increase/(decrease) before transfers to earmarked reserves	(382)	(356)	2,134	(2,966)	(1,064)	2,380	(254)	17,147	16,893
Transfers to/from earmarked reserves	726	656	(1,382)				0		0
Increase/(decrease) in 2014/15	344	300	752	(2,966)	(1,064)	2,380	(254)	17,147	16,893
Balance at 31 March 2015 carried forward	6,544	17,676	4,870	82	5,887	2,647	37,706	80,046	117,752

	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 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)	0	(649)
Other Comprehensive Income and Expenditure							0	17,974	17,974
Total Comprehensive Income and 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) 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

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 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.

2013/14		2014/15	Notes
£'000		£'000	
(649)	Net surplus or (deficit) on the provision of services	14,513	
11,069	Adjustments to surplus or deficit on the provision of services for non-cash movements	(1,607)	34
(2,342)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(8,090)	35
<u>8,078</u>	Net Cash flows from operating activities	<u>4,816</u>	
	Investing Activities		
(7,231)	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	(16,750)	
(28,000)	Purchase of short-term and long-term investments	(30,000)	
937	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	1,843	
22,000	Proceeds from short-term and long-term investments	31,000	
2,156	Other receipts from investing activities	10,170	
<u>(10,138)</u>	Net Cash flows from Investing Activities	<u>(3,737)</u>	
	Financing Activities		
191	Cash receipts of short and long-term borrowing	152	
4,018	Other receipts from financing activities	2,830	
(200)	Repayments of short and long-term borrowing	(200)	
<u>4,009</u>	Net Cash flows from Financing Activities	<u>2,782</u>	
<u>1,949</u>	Net increase or decrease in cash and cash equivalents	<u>3,861</u>	
10,376	Cash and cash equivalents at the beginning of the reporting period	12,325	20
12,325	Cash and cash equivalents at the end of the reporting period	16,186	

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 2014/15 financial year and its position at the year-end of 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit 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 2014/15 and the Service Reporting Code of Practice 2014/15, 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 as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Exceptions to this relate to utility bills and other similar payments which do not vary significantly between years and are charged at the date of payment rather than being apportioned between financial years. Also, small amounts outstanding at year end are treated on a payments basis. In total, these do not have a material effect on the year's accounts.
- Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

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. These amounts are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserve Statement for the difference between the two.

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 14 to the core financial statements.

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

Service cost comprising:

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

Re-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.

Financial Assets

Financial assets are classified as loans and receivables which are initially measured at their fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

x. Grants and Contributions

Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-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, where material, will be described in the notes to the accounts.

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

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

xii. Intangible Assets

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

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

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

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 held for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services.

Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated but are revalued annually according to market conditions. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

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.

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

The Council as Lessee - Operating Leases

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

The Council as Lessor - Finance Leases

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

The Council as Lessor - Operating Leases

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

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 2014/15 (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

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

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

Componentisation of an asset will be considered where:

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

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and 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.

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

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. 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 2015/16 Code:

IFRS 13 Fair Value Measurement. This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13.

IFRIC 21 Levies. This standard provides guidance on levies imposed by Government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a threshold is reached, or both.

Annual Improvements to IFRSs (2011 – 2013 Cycle). These improvements are minor, principally providing clarification.

The changes to the Code take effect from 1 April 2015 and the Council will adopt those changes at that date. However, changes to these standards are unlikely to have any impact on the accounts.

3. Critical Judgements in Applying Accounting Policies

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

Asset Reclassifications - the Council has made judgements on whether assets are classified as Investment Property, Heritage Asset or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be Property, Plant and Equipment assets. If the asset has historical, artistic, scientific, technological,

geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture it is deemed to be a Heritage Asset. If there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

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

Contractual Arrangements - the Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).

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

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

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

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

4. Assumptions made about the future and other sources of estimation uncertainty

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

The items in the Council's Balance Sheet at 31 March 2015 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 £145,700 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 14 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 £1.6 million in 2014/15 (2013/14 £1.78 million) based on what it believes to be a prudent but realistic level.	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £80,000 (2013/14 £89,000).
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 £37,900 (2013/14 £47,700).
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 £6.6 million for these refunds within the Collection Fund. The Council's share of the provision is £2.64 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 £264,000.

5. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Finance and Resources on 21 September 2015. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. Adjustments between Accounting Basis and Funding Basis under Regulation

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

	Usable Reserves						
	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
2014/15	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Adjustment Account Adjustments							
Depreciation and impairment of non-current assets	1,349		1,324				(2,673)
Revaluation losses on Property, Plant and Equipment	2,224		(7,766)				5,542
Revaluation of Investment Properties	1,286						(1,286)
Amortisation of intangible assets	26		5				(31)
Capital grants and contributions applied	(5,851)						5,851
Revenue expenditure funded from capital under statute	2,190						(2,190)
Property written out on disposal	1,287		306				(1,593)
Capital expenditure charged to the General Fund and HRA balances	(3,734)	(356)	(1,516)				5,606
Capital Grants Unapplied Account Adjustments							
Capital grants and contributions unapplied	(2,379)					2,379	0
Capital Receipts Reserve Adjustments							
Proceeds from disposal of property	(1,362)		(480)		1,842		0
Capital Receipts applied					(2,776)		2,776
Housing Capital Receipts	(40)				44		(4)
Payments to the Government housing capital receipts pool	174				(174)		0
Major Repairs Reserve Adjustments							
Depreciation re-credited to HRA			(1,323)	1,323			0
Major Repairs Reserve to finance new capital expenditure				(4,289)			4,289
Pensions Reserve Adjustments							
Net charges for retirement benefits	3,855		505				(4,360)
Employer's contribution to Pension Fund/directly to pensioners	(2,314)		(264)				2,578
Collection Fund Adjustment Account							
Collection Fund adjustment	(177)						177
Accumulated Absences Account Adjustments							
Accumulated Absences adjustment	(79)		(8)				87
Total Adjustments	(3,545)	(356)	(9,217)	(2,966)	(1,064)	2,379	14,769

2013/14	Usable Reserves							Unusable Reserves £'000
	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
Capital 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
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

7. Amounts Reported for Resource Allocation Decisions

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

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

- Internal budget reports exclude charges in relation to impairments to assets but these are charged in the Comprehensive Income and Expenditure Statement.

- Income earned from the Council's property portfolio is shown as a service income in Policy, Strategy and Finance when reporting to the Executive, but this is excluded from the cost of services in the Comprehensive Income and Expenditure Statement.

The tables below reconcile the revenue outturn reports presented to the Executive on 13 July 2015 for year ended 31 March 2015 and 7 July 2014 for year ended 31 March 2014 to the net cost of services shown in the Comprehensive Income and Expenditure Account.

For Year Ended 31 March 2015	LRAC	LC Housing	Public	PSF	Street-	SPE	PC	HRA	Grand	
	£'000	£'000	£'000	£'000	scene	£'000	£'000	£'000	Total	
Fees, Charges & Other										
Service Income	(276)	(1,446)	(1,065)	(508)	(3,672)	(2,354)	(2,634)	(382)	(12,035)	(24,372)
Government Grants	0	(3)	(623)	0	(19,556)	0	(60)	0	(222)	(20,464)
Total Income	(276)	(1,449)	(1,688)	(508)	(23,228)	(2,354)	(2,694)	(382)	(12,257)	(44,836)
Employee Expenses	236	846	625	770	2,488	2,280	674	707	1,235	9,861
Other Operating Expenses	460	771	1,538	1,370	27,533	3,483	947	293	6,900	43,295
Support Service Recharges	56	302	172	257	1,053	500	228	152	735	3,455
Total Operating Expenses	752	1,919	2,335	2,397	31,074	6,263	1,849	1,152	8,870	56,611
Net Cost to Services	476	470	647	1,889	7,846	3,909	(845)	770	(3,387)	11,775

For Year Ended 31 March 2014	LRAC	LC Housing	Public	PSF	Street-	SPE	PC	HRA	Grand	
	£'000	£'000	£'000	£'000	scene	£'000	£'000	£'000	Total	
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	(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

LRAC = Licensing and Regulatory Affairs Committee

LC = Leisure and Community

PSF = Policy Strategy and Finance

SPE = Strategic Planning and Environment

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 2014/15	Service Analysis £'000	Services not in Analysis £'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	(24,372)	(150)	2,604	(298)	(22,216)	(1,974)	(24,190)
Interest and Investment Income	0				0	(850)	(850)
Income from Council Tax	0				0	(5,806)	(5,806)
Government Grants	(20,464)				(20,464)	(13,681)	(34,145)
Total Income	(44,836)	(150)	2,604	(298)	(42,680)	(22,311)	(64,991)
Employee Expenses	9,861			2,881	12,742		12,742
Other Operating Expenses	43,294	14	(3,632)	2,017	41,693	5,041	46,734
Support Service Recharges	3,455			(4,600)	(1,145)		(1,145)
Depreciation, Amortisation & Impairment	0		(7,780)		(7,780)		(7,780)
Payments to Housing Capital Receipts Pool	0				0	174	174
Gain or Loss on Disposal of Non-Current Assets	0				0	(247)	(247)
Total Operating Expenses	56,610	14	(11,412)	298	45,510	4,968	50,478
Surplus or Deficit on the provision of services	11,774	(136)	(8,808)	0	2,830	(17,343)	(14,513)

Reconciliation to Subjective Analysis 2013/14	Service Analysis £'000	Services not in Analysis £'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)	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	(3,389)	208	48,853	5,365	54,218
Surplus or Deficit on the provision of services	10,580	(150)	(1,302)	0	9,128	(8,479)	649

8. Grant Income

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

Service Specific Revenue Grants and Contributions (included in Cost of Services)	2014/15 £'000	2013/14 £'000
Department for Works and Pensions:		
- Rent Allowances Subsidy	12,772	12,854
- Rent Rebates	6,537	6,120
- Housing and Council Tax Benefit Administration	316	447
- Discretionary Housing Payments	74	71
- Council Tax Benefit Subsidy	0	70
Department for Communities and Local Government:		
- Disabled Facilities Grant	264	255
- NNDR Collection Allowance	142	143
- New Burdens Local Council Tax Support Scheme	65	42
- Council Tax Support Admin	78	0
Hampshire County Council:		
- Portchester Community Centre	0	134
- Solent Disturbance Funding and Mitigation Project	0	78
- Supporting Troubled Families	56	0
Environment Agency:		
- Coast Monitoring Grant	118	20
- Wallington River Emergency Works	91	0
Other:		
- First Wessex	521	0
- Portchester Crematorium	150	150
- Whiteley Joint Fund	79	103
- S106 Developer Contributions	105	0
	<u>21,368</u>	<u>20,487</u>
Credited to Taxation and Non Specific Grant Income		
Department for Communities and Local Government:		
- Revenue Support Grant	1,992	2,533
- New Homes Bonus	1,422	1,107
- Capacity Funding - Welborne Planning	375	485
- Council Tax Freeze Grant	61	61
- Other Local Services Grants	35	29
Homes and Communities Agency:		
- Daedalus Development	4,934	387
- National Affordable Housing Programme	0	313
Other:		
- Community Infrastructure Levy	2,379	248
- Developer Contributions	610	182
- Football Foundation	0	8
Total	<u>11,808</u>	<u>5,353</u>

9. 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.

	2014/15	2013/14
	£'000	£'000
External audit services	64	63
Certification of grant claims and returns	15	24
Total	<u>79</u>	<u>87</u>

10. Members' Allowances

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

	2014/15	2013/14
	£'000	£'000
Basic Allowances	205	204
Special Responsibility Allowances	169	166
Superannuation and National Insurance	29	34
Travelling and Subsistence Allowances	6	7
Conference Expenses	2	3
Internet Rental Allowance	1	1
Total	<u>412</u>	<u>415</u>

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

11. Remuneration of Staff

The number of employees, including senior officers (see note 12), whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 was:

Remuneration Band	2014/15	2013/14
	Number of employees	Number of employees
£50,000 - £54,999	2	4
£55,000 - £59,999	7	6
£60,000 - £64,999	3	1
£70,000 - £74,999	0	1
£80,000 - £84,999	4	3
£85,000 - £89,999	2	2
£110,000 - £114,999	0	1
£115,000 - £119,999	0	1
£130,000 - £134,999	1	1

12. 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 £
2014/15								
Chief Executive Officer (1)	131,741	0	345	0	0	132,086	15,540	147,626
Director of Planning & Development (2)	80,881	0	230	0	0	81,111	10,595	91,706
Director of Regulatory & Democratic Services	0	0	0	3,214	0	3,214	0	3,214
Director of Community	80,881	0	292	0	0	81,173	10,595	91,768
Director of Finance & Resources	84,628	0	411	0	0	85,039	11,086	96,125
Director of Environmental Services (3)	80,881	0	295	0	0	81,176	10,595	91,771
	<u>459,012</u>	<u>0</u>	<u>1,573</u>	<u>3,214</u>	<u>0</u>	<u>463,799</u>	<u>58,411</u>	<u>522,210</u>
2013/14								
Chief Executive Officer (1)	118,257	0	0	0	0	118,257	14,469	132,726
Director of Planning & Environment (2)	80,228	0	0	0	0	80,228	10,491	90,718
Director of Regulatory & Democratic Services	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 (3)	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>

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 elections.

(2) Post renamed from Director of Planning & Environment to Director of Planning & Development in 2014/15.

(2) Post renamed from Director of Streetscene to Director of Environmental Services in 2014/15.

13. Termination Benefits

The Council terminated the contracts of a number of employees in 2014/15, incurring liabilities of £318,858 (£700,252 in 2013/14). 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	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
							£	£
£0 - £20,000	0	0	15	23	15	23	73,905	103,556
£20,001 - £40,000	0	0	4	0	4	0	105,588	0
£40,001 - £60,000	0	0	3	0	3	0	139,365	0
£60,001 - £80,000	0	1	0	0	0	1	0	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
	<u>0</u>	<u>4</u>	<u>22</u>	<u>23</u>	<u>22</u>	<u>27</u>	<u>318,858</u>	<u>700,252</u>

14. 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 2016

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2016 are estimated to be £2.04m. 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 2016, the Employer expects to pay £0.21m 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	
	2014/15	2013/14	2014/15	2013/14
	£'000	£'000	£'000	£'000
<u>Comprehensive Income and Expenditure Statement</u>				
Cost of Services				
- Current service cost	2,020	2,380	0	0
- Past service cost	450	10	0	0
Financing and Investment Income and Expenditure				
- Interest net defined benefit liability	1,760	2,380	130	130
(Surplus)/deficit on the provision of services	<u>4,230</u>	<u>4,770</u>	<u>130</u>	<u>130</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	(7,921)	(5,477)	0	0
Actuarial (gains)/losses due to:				
- Changes in financial assumptions	13,570	(10,720)	172	(144)
- Changes in demographic assumptions	0	(2,020)	0	90
- Liability experience	(800)	1,290	(30)	(70)
Total amount recognised in Other Comprehensive Income and Expenditure	<u>4,849</u>	<u>(16,927)</u>	<u>142</u>	<u>(124)</u>
Total Amount Recognised	<u>9,079</u>	<u>(12,157)</u>	<u>272</u>	<u>6</u>
<u>Movement in Reserves Statement</u>				
Reversal of net charges made to the surplus/(deficit) in accordance with the Code	(4,230)	(4,770)	(130)	(130)
Actual amount charged against the General Fund				
Balance for pensions in the year:				
Employers' contributions payable to scheme	(2,367)	(1,859)	0	0
Retirement benefits payable to pensioners	0	0	(212)	(212)

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	
	2014/15	2013/14	2014/15	2013/14
	£'000	£'000	£'000	£'000
Fair value of assets	89,067	79,199	0	0
Present value of defined benefit obligation	137,870	121,290	3,188	3,128
Funded status	(48,803)	(42,091)	0	0
Liability recognised on the Balance Sheet	(48,803)	(42,091)	(3,188)	(3,128)

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	
	2014/15	2013/14	2014/15	2013/14
	£'000	£'000	£'000	£'000
Opening balance at 1 April	79,199	72,233	0	0
Interest income	3,380	3,070	0	0
Remeasurement gains and (losses)				
- Return on plan assets, excluding amount included in net interest expense	7,921	5,477	0	0
Contributions by the employer	2,367	1,859	212	212
Contributions by participants	670	660	0	0
Benefits paid	(4,470)	(4,100)	(212)	(212)
Closing balance at 31 March	<u>89,067</u>	<u>79,199</u>	<u>0</u>	<u>0</u>

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

	Funded Benefits		Unfunded Benefits	
	2014/15	2013/14	2014/15	2013/14
	£'000	£'000	£'000	£'000
Opening balance at 1 April	121,290	128,340	3,128	3,334
Current service cost	2,020	2,380	0	0
Interest expense	5,140	5,450	130	130
Contributions by participants	670	660	0	0
Remeasurement (gains) and losses on liabilities:				
- Financial assumptions	13,570	(10,720)	172	(144)
- Demographic assumptions	0	(2,020)	0	90
- Experience	(800)	1,290	(30)	(70)
Benefits paid	(4,470)	(4,100)	(212)	(212)
Past service cost	450	10	0	0
Closing balance at 31 March	<u>137,870</u>	<u>121,290</u>	<u>3,188</u>	<u>3,128</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 largely liquid and as a consequence there will be no significant restriction on realising assets if the situation arises.

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

	Asset split at 31 March 2015			Asset split at 31 March 2014
	% Quoted	% Unquoted	% Total	%
Equities	54.9	2.9	57.8	60.8
Property	1.1	6.9	8.0	7.5
Government Bonds	25.0	0.4	25.4	23.6
Corporate Bonds	1.5	0.1	1.6	1.6
Cash	3.7	0.0	3.7	3.8
Other	0.0	3.5	3.5	2.7
Total	86.2	13.8	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 31 March		Unfunded Benefits 31 March	
	2015 % p.a.	2014 % p.a.	2015 % p.a.	2014 % p.a.
Mortality assumptions:				
Future lifetime from age 65 (aged 65 at accounting date)				
Men	24.5	24.4	24.5	24.4
Women	26.3	26.2	26.3	26.2
Future lifetime from age 65 (aged 45 at accounting date)				
Men	26.6	26.5	n/a	n/a
Women	28.6	28.5	n/a	n/a
Principal financial assumptions (% per annum):				
Discount rate	3.2	4.3	3.2	4.2
RPI inflation	2.9	3.3	2.9	3.2
CPI inflation	1.8	2.3	1.8	2.2
Pension increases	1.8	2.3	1.8	2.2
Pension accounts revaluation rate	1.8	n/a	n/a	n/a
Salary increases	3.3	3.8	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 2015 and the projected service cost for the year ending 31 March 2016 is set out in the table below.

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

Discount rate assumption

	+0.1% p.a	Base Figure	-0.1% p.a
Adjustment to discount rate			
Present value of total obligation (£M)	135.50	137.87	140.28
% change in present value of total obligation	-1.7%		1.7%
Projected service cost (£M)	2.41	2.49	2.57
Approximate % change in projected service cost	-3.2%		3.3%

Rate of general increase in salaries

	+0.1% p.a	Base Figure	-0.1% p.a
Adjustment to salary increase rate			
Present value of total obligation (£M)	138.33	137.87	137.41
% change in present value of total obligation	0.3%		-0.3%
Projected service cost (£M)	2.49	2.49	2.49
Approximate % change in projected service cost	0.0%		0.0%

Rate of increase to pensions in payment and deferred pension assumptions

	+0.1% p.a	Base Figure	-0.1% p.a
Adjustment to pension increase rate			
Present value of total obligation (£M)	139.83	137.87	135.94
% change in present value of total obligation	1.4%		-1.4%
Projected service cost (£M)	2.57	2.49	2.41
Approximate % change in projected service cost	3.3%		-3.2%

Post retirement mortality assumption

	-1 year	Base Figure	+1 year
Adjustment to mortality age rating assumption			
Present value of total obligation (£M)	141.48	137.87	134.25
% change in present value of total obligation	2.6%		-2.6%
Projected service cost (£M)	2.57	2.49	2.41
Approximate % change in projected service cost	3.4%		-3.4%

15. 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 2014 by K. Boothroyd BSc (Hons) MRICS. The Daedalus development has been valued by Gary Carroll BSc MRICS, a registered valuer of Hampshire County Council, as at 31 March 2015.

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 & Buildings £'000	Other Land & Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Surplus Assets £'000	Total £'000
Historic		388	9,112		9,500
2010/11		1,789			1,789
2011/12		5,700			5,700
2012/13		1,766			1,766
2013/14		6,212			6,212
2014/15	92,855	33,756		10	126,621
	<u>92,855</u>	<u>49,611</u>	<u>9,112</u>	<u>10</u>	<u>151,588</u>

The movement in non-currents assets are shown on pages 42 and 43. 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 2014 (the previous valuation was as at 1 April 2013). 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	- 50 years
Other Land and Buildings	- 3 to 60 years
Vehicles and Plant	- 2 to 10 years
Furniture and Equipment	- 3 to 20 years
Infrastructure	- 5 to 50 years

The Council has changed the estimation technique for depreciating Council Dwellings. Up to the HRA Self-Financing Settlement in 2012, the Council used the Major Repairs Allowance (as used in the subsidy calculation) as a proxy for depreciation. From that time, Councils had a period of five years to move to a proper calculation for depreciation. The Council has done this for 2014/15 by basing depreciation on the Existing Use Value for Social Housing and writing down the value of the buildings on a straight-line basis over the useful life of 50 years. The revision results in a decrease in depreciation of £1.1 million compared with 2013/14.

Capital Commitments

At 31 March 2015, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years, budgeted to cost £5.76 million. Similar commitments at 31 March 2014 were £5.5 million. The major commitments are Works to Council Houses and Flats £5.45 million and Sport and Recreation £0.3 million.

Movement in Non-Current Assets 2014/15

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infra- structure Assets	Comm- unity Assets	Surplus Assets	Assets Under Construc- tion	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2014	85,228	37,379	8,932	1,281	377	10	1,200	134,407
Additions	2,529	7,085	314				4,227	14,155
Revaluation increases/(decreases) to RR		6,881						6,881
Revaluation increases/(decreases) to SDPS	5,409	(2,257)						3,152
Derecognition - Disposals	(311)		(134)					(445)
Reclassified to/from Held for Sale		(48)						(48)
Other movements		76					(76)	0
At 31 March 2015	92,855	49,116	9,112	1,281	377	10	5,351	158,102
Depreciation and Impairment								
At 1 April 2014	2,358	1,156	5,443	725	24	0	0	9,706
Depreciation Charge	1,242	466	896	60	3			2,667
Depreciation written out to RR		(491)						(491)
Depreciation written out to SDPS	(2,358)	(34)						(2,392)
Derecognition - Disposals	(4)		(112)					(116)
At 31 March 2015	1,238	1,097	6,227	785	27	0	0	9,374
Net Book Value								
At 31 March 2015	91,617	48,019	2,885	496	350	10	5,351	148,728
At 31 March 2014	82,870	36,223	3,489	556	353	10	1,200	124,701

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 59 note 2.

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 59 note 2.

16. 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.

	2014/15	2013/14
	£'000	£'000
Rental, sales income and service charges	(2,604)	(2,571)
Direct operating expenses	630	484
Net (gain)/loss	<u>(1,974)</u>	<u>(2,087)</u>
Movement in Fair Value of Investment Properties		
Balance at 1 April	33,070	30,587
Purchases	2,174	3,890
Net gains/losses from fair value adjustments	<u>(1,286)</u>	<u>(1,407)</u>
Balance at 31 March	<u>33,958</u>	<u>33,070</u>

17. Assets Held for Sale

	Non-Current Assets	
	2014/15	2013/14
	£'000	£'000
Balance at 1 April	1,265	1,310
Assets newly classified as held for sale:		
- Property, Plant and Equipment	48	0
Assets sold	<u>(1,265)</u>	<u>(45)</u>
Balance at 31 March	<u>48</u>	<u>1,265</u>

The asset currently held for sale is land in West Street formerly used as a car park.

18. Impairment Losses

During 2014/15, the Council de-recognised impairment losses incurred and charged to Surplus/Deficit on Provision of Services in earlier years of £2,566,854. This relates to the increased revaluation of car parks, the Civic Offices and a Community Centre.

The Council also recognised impairment losses of £412,568. This related to the downward revaluation of a multi-storey car park.

19. Leases

Council as Lessee - Finance Leases

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

	31 March 2015 £'000	31 March 2014 £'000
Property, Plant and Equipment	8,221	6,191
Investment Property	5,273	4,226
	<u>13,494</u>	<u>10,417</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.

Council as Lessor - Operating Leases

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

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

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

	31 March 2015 £'000	31 March 2014 £'000
Not later than one year	2,216	1,959
Later than one year and not later than five years	7,135	6,145
Later than five years	39,775	38,644
	<u>49,126</u>	<u>46,748</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 2014/15, contingent rents of £0.81 million were receivable by the Council (2013/14 £0.71 million).

20. Cash and Cash Equivalents

	31 March	
	2015 £'000	2014 £'000
Cash held by the Council	4	10
Bank current accounts	15	(553)
Short-term deposits with banks	16,167	12,868
Total	<u>16,186</u>	<u>12,325</u>

21. Short Term Debtors

	31 March	
	2015	2014
	£'000	£'000
Central government bodies	1,945	625
Other local authorities	555	573
Public corporation and trading funds	0	0
Other entities and individuals	6,219	4,372
Total	<u>8,719</u>	<u>5,570</u>
Provision for doubtful debts	<u>(1,669)</u>	<u>(1,788)</u>
Total	<u>7,050</u>	<u>3,782</u>

22. Short Term Creditors

	31 March	
	2015	2014
	£'000	£'000
Central government bodies	4,565	4,512
Other local authorities	2,608	1,634
Public corporation and trading funds	0	0
Other entities and individuals	2,938	2,538
Total	<u>10,111</u>	<u>8,684</u>

23. Provisions

	Balance at 1 April £'000	Provision in year £'000	Applied in year £'000	Balance at 31 March £'000
Business rate appeals	1,351	1,553	262	2,642
Insurance	62	51	62	51
Employee related	265	178	265	178
Land charges	150	0	0	150
Total 2014/15	<u>1,828</u>	<u>1,782</u>	<u>589</u>	<u>3,021</u>
Total 2013/14	<u>459</u>	<u>1,678</u>	<u>309</u>	<u>1,828</u>

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

24. 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	
	2015 £'000	2014 £'000
Balance at 1 April	4,972	4,390
Movements in year:		
Amounts received (with conditions)	10,079	1,984
Amounts recognised as income (conditions subsequently met):		
- Within Cost of Services	(703)	(512)
- Within Taxation and Non-Specific Grants	<u>(5,552)</u>	<u>(890)</u>
Balance at 31 March	<u>8,796</u>	<u>4,972</u>
Grants Receipts in Advance (Capital Grants)		
Leisure developer contributions	3,695	3,714
Affordable housing developer contributions	30	30
Other developer contributions	401	397
Homes and Communities Agency	<u>2,580</u>	<u>570</u>
	<u>6,706</u>	<u>4,711</u>
Grants Receipts in Advance (Revenue Grants)		
Homes and Communities Agency	1,632	0
Whiteley developer contributions	171	250
Other developer contributions	<u>287</u>	<u>11</u>
	<u>2,090</u>	<u>261</u>
Total Receipts in Advance	<u>8,796</u>	<u>4,972</u>

25. Transfers to/from Earmarked Reserves

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

	1 April 2013 £'000	Transfers Out £'000	Transfers In £'000	31 March 2014 £'000	Transfers Out £'000	Transfers In £'000	31 March 2015 £'000
General Fund							
Major Repairs and Renewals	1,302	0	0	1,302	0	0	1,302
Other Earmarked Reserves	2,399	(283)	102	2,218	(391)	946	2,773
Earmarked Capital Reserve	5,639	(1,540)	3,447	7,546	(4,000)	2,719	6,265
Total	<u>9,340</u>	<u>(1,823)</u>	<u>3,549</u>	<u>11,066</u>	<u>(4,391)</u>	<u>3,665</u>	<u>10,340</u>
HRA							
Housing Repairs Account	1,800	(16)	16	1,800	(818)	18	1,000
Capital Development Fund	2,164	0	2,164	4,328	(356)	2,164	6,136
Leaseholder Repairs	166	0	16	182	0	18	200
Total	<u>4,130</u>	<u>(16)</u>	<u>2,196</u>	<u>6,310</u>	<u>(1,174)</u>	<u>2,200</u>	<u>7,336</u>
Grand Total	<u>13,470</u>	<u>(1,839)</u>	<u>5,745</u>	<u>17,376</u>	<u>(5,565)</u>	<u>5,865</u>	<u>17,676</u>

26. 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:

2013/14 £'000		2014/15 £'000
51,050	Opening Capital Finance Requirement	51,050
	Capital Investment	
4,511	Property, Plant and Equipment	14,155
3,890	Investment Properties	2,174
763	Revenue Expenditure Funded from Capital under Statute	2,190
	Sources of Finance	
(5,084)	Capital receipts	(2,775)
(1,146)	Government grants and other contributions	(5,850)
	Sums set aside from revenue:	
(2,045)	HRA major repairs reserve	(4,289)
(889)	Direct revenue contributions	(5,605)
<u>51,050</u>	Closing Capital Finance Requirement	<u>51,050</u>

27. Unusable Reserves

	31 March	
	2015 £'000	2014 £'000
Revaluation Reserve	16,053	9,652
Capital Adjustment Account	115,894	98,637
Deferred Capital Receipts Account	3	4
Pensions Reserve	(51,992)	(45,219)
Collection Fund Adjustment Account	267	90
Accumulated Absences Account	(179)	(265)
	<u>80,046</u>	<u>62,899</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.

2013/14 £'000		2014/15 £'000
8,828	Balance at 1 April	9,652
923	Upward revaluation of assets	7,555
	Downward revaluation of assets and impairment losses not	
0	charged to Surplus/Deficit on the Provision of Services	<u>(184)</u>
<u>923</u>		7,371
	Difference between fair value depreciation and historical	
(42)	cost depreciation	(20)
	Accumulated gains on assets disposed or reclassified to	
(57)	Investment Properties	<u>(950)</u>
<u>(99)</u>	Amount written off to the Capital Adjustment Account	<u>(970)</u>
<u>9,652</u>	Balance at 31 March	<u>16,053</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.

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

2013/14 £'000		2014/15 £'000
95,591	Balance at 1 April	98,637
Reversal of items relating to capital expenditure in the Comprehensive Income and Expenditure Statement		
(4,381)	Charges for depreciation and impairment of non-current assets	(2,673)
2,608	Revaluation losses on Property, Plant and Equipment	5,542
(43)	Amortisation of Intangible Assets	(31)
(763)	Revenue expenditure funded from capital under statute	(2,190)
(2,227)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,594)
<u>90,785</u>		<u>(946)</u>
(2)	Amount credited to Capital Receipts Reserve relating to part repayment of principle on long term debtor	(3)
57	Cumulative (gains)/losses on assets sold or reclassified as Investment Properties	950
42	Adjustment amounts written out of the Revaluation Reserve	<u>20</u>
<u>90,882</u>	Net written out amount of the cost of non-current assets consumed in the year	<u>98,658</u>
Capital financing applied in the year		
5,084	Use of the Capital Receipts Reserve to finance new capital expenditure	2,776
2,045	Use of the Major Repairs Reserve to finance new capital expenditure	4,289
1,144	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	5,851
889	Capital expenditure charged against the General Fund and HRA balances	5,606
<u>9,162</u>		<u>18,522</u>
(1,407)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,286)
<u>98,637</u>	Balance at 31 March	<u>115,894</u>

c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees however, statutory arrangements require that benefits are financed as the Council makes contributions to pension fund.

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2013/14 £'000	2014/15 £'000
(59,441) Balance at 1 April	(45,219)
17,051 Actuarial gains or losses on pension assets and liabilities	(4,991)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the	
(4,900) Comprehensive Income and Expenditure Statement	(4,360)
Employers' pension contributions and direct payments to pensioners	
2,071 payable in the year.	2,578
<u>(45,219) Balance at 31 March</u>	<u>(51,992)</u>

28. 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 2015 £'000	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000
Borrowing at amortised cost	40,200	40,400	1,582	1,430
Trade Creditors	0	0	3,452	3,368
Financial Liabilities	<u>40,200</u>	<u>40,400</u>	<u>5,034</u>	<u>4,798</u>
Loans and receivables	4,000	2,000	39,345	38,475
Mortgages	78	81	0	0
Trade Debtors	0	0	3,895	1,978
Financial Assets	<u>4,078</u>	<u>2,081</u>	<u>43,240</u>	<u>40,453</u>

All borrowing is on fixed terms and shown at amortised cost. A 5 year interest free loan of £1 million was received from Hampshire County Council during 2012/13. Of the £400,000 balance remaining, £200,000 is shown within long term borrowing and £200,000 within short term borrowing.

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 2015 of £175,525 is included within the current total investment outstanding of £39,345,000.

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

Fair Values of Assets and Liabilities

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

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

	31 March 2015		31 March 2014	
	Balance Sheet £'000	Fair Value £'000	Balance Sheet £'000	Fair Value £'000
Borrowing	40,200	44,049	40,400	34,149
Loans and receivables	4,000	4,050	2,000	2,019

The fair value of the borrowing is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2015) arising from a commitment to pay interest to lenders above current market rates.

The fair value of the loans and receivables is higher than the carrying amount because the Council's portfolio of investments includes fixed rate loans where the rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2015) attributable to the commitment to receive interest above current market rates.

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

29. Nature and Extent of Risks Arising from Financial Instruments

Liquidity risk

The Council manages its liquidity position through the setting and approval of prudential indicators and the treasury and investment strategy (approved by full Council on 21 February 2014) and through cash flow management which seeks to ensure that cash is available when needed.

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

The maturity analysis of financial assets is as follows:

	As at 31 March 2015 £'000	As at 31 March 2014 £'000
Maturity of Investments		
Less than 3 months	29,266	18,399
3 to 6 months	6,041	8,046
6 months to 1 year	4,017	12,030
1 to 2 years	4,021	2,000
Total	<u>43,345</u>	<u>40,475</u>

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. It also considers maximum amounts and time limits in respect of each financial institution.

The following analysis shows the gross credit exposure by credit rating of the Council's investments as at 31 March 2015.

Rating Category	£'000
AA or equivalent	10,013
A or equivalent	28,301
BBB or equivalent	5,031
Total	<u>43,345</u>

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

The Council's maximum exposure to credit risk in relation to its £43.3 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 2015 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 (£342,000 at 31 March 2015, £421,000 as at 31 March 2014). 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 2015		Bad Debt Provision		Amount Outstanding as at 31 March 2014		Bad Debt Provision	
	£'000	%	£'000	%	£'000	%	£'000	%
Less than 1 year old	2,660	3	78		708	6	39	
1 and 2 years old	136	15	21		168	16	27	
2 and 3 years old	45	57	26		70	60	42	
More than 3 years old	229	95	217		329	95	313	
Total	3,070		342		1,275		421	

Market risk

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

30. Trust Funds

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

The fund is invested with the Council. It does not represent assets of the Council and is not included in the Balance Sheet. The capital value of the fund is £284,819 at 31 March 2015.

In 2014/15, the fund's income was £820 and there was no expenditure. (In 2013/14, the fund's income was £1,322 and there was no expenditure). The fund's only asset was investments with the Council of £284,819 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 Expenditure		Assets
	£'000	£'000	
Sarisbury recreation ground	11	11	land
Swanwick Lane recreation ground	3	3	land
King George V playing fields	3	3	land
Crofton recreation ground	18	18	land
Titchfield recreation ground	16	16	land
Hook and Warsash allotments	2	2	land

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

31. Related Party Transactions

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the

Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over the general operations of the Council as it is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 7 on reporting for resource allocation decisions and shown in the Grant Income note in note 8.

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2014/15, 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 2014/15 is shown in note 10.

Chief Officers

Chief Officers have the ability to influence the Council. During 2014/15, there were no material related party transactions between the Council and Chief Officers.

Portchester Crematorium Joint Committee

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

Fareham Borough Council's share of the net assets of PCJC is £1,931,000 (2013/14 £1,960,000). In 2014/15, PCJC paid a contribution of £150,000 to the Council (£150,000 in 2013/14). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2015, £1,091,400 was invested with the Council (£940,000 at 31 March 2014).

Fareham and Gosport Building Control Partnership

The Fareham and Gosport Building Control Partnership provides building control services to both Fareham and Gosport Borough Council. The Partnership has been in operation since 2003. During 2014/15, the Partnership charged Gosport Borough Council £132,465 (2013/14 £157,931) for statutory building control services. The Partnership has a policy of dividing generated surpluses between the two authorities based on fee generating work in each Authority area. At 31 March 2015, the balance of retained surplus for future investment in the service held by Fareham Borough Council was £78,065 and £55,423 held by Gosport Borough Council. In May 2015, Portsmouth City Council joined the partnership. Any surpluses generated in 2015/16 will be distributed between the three authorities based on fee generating work in each Authority area. Surpluses generated in previous years will be retained by Fareham Borough Council and Gosport Borough Council.

Fareham and Gosport Environmental Health Partnership

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

32. Contingent Liabilities

During 1992/93, the Council's insurers MMI Limited ceased taking new business. In November 2012, the decision was made to trigger the Scheme of Arrangement whereby a proportion of claims paid may be clawed back. The Scheme Administrator, Ernst & Young LLP, has determined that a Levy rate of 15% of the value of outstanding claims of £148,000 is required. A £22,000 levy was paid during 2013/14 and there is a contingent liability of £126,000 for the remaining balance.

33. Cash Flow Statement - Operating Activities (Interest)

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

2013/14 £'000	2014/15 £'000
586 Interest received	382
<u>(1,405) Interest paid</u>	<u>(1,399)</u>
<u>(819)</u>	<u>(1,017)</u>

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

2013/14 £'000	2014/15 £'000
4,381 Depreciation and impairment	2,673
(2,615) Downward valuations	(5,541)
43 Amortisation of intangible assets	31
1,686 Increase/decrease in creditors	(1,242)
155 Increase/decrease in interest debtors	0
(417) Increase/decrease in debtors	(3,383)
4 Increase/decrease in inventories	0
2,829 Movement in pension liability	1,782
2,227 Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised	1,594
2,776 Other non-cash items charged to the net surplus or deficit on the provision of services	2,479
<u>11,069</u>	<u>(1,607)</u>

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

2013/14 £'000	2014/15 £'000
(1,402) Capital grants credited to surplus/deficit on the provision of services	(6,248)
(940) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(1,842)
<u>(2,342)</u>	<u>(8,090)</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.

	2014/15	2013/14
	£'000	£'000
Income		
Gross rent income		
- Dwellings	(10,836)	(10,344)
- Other	(274)	(249)
Charges for services and facilities	(925)	(614)
Contributions towards expenditure	(222)	(314)
Total income from service	(12,257)	(11,521)
Expenditure		
Repairs and maintenance	2,929	2,640
Supervision and management	2,489	2,617
Rents, rates, taxes and other charges	31	33
Depreciation and impairment of non-current assets (note 7)	(6,436)	482
Debt management expenses	40	32
Provision for doubtful debts	(69)	(22)
Total expenditure on service	(1,016)	5,782
Net expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement	(13,273)	(5,739)
HRA service share of corporate and democratic core	130	147
Net Expenditure for HRA Services	(13,143)	(5,592)
Gain on sale of HRA non-current assets	(174)	(319)
Interest payable	1,860	1,870
Interest receivable	(137)	(123)
Pension interest cost	243	305
Capital grants and contributions receivable	0	(313)
(Surplus)/Deficit for year on HRA Services	(11,351)	(4,172)

MOVEMENT ON THE HRA STATEMENT

	2014/15 £'000	2013/14 £'000
Balance on the HRA at the end of previous year	(4,118)	(4,358)
(Surplus) or Deficit for year on HRA I&E Statement	(11,351)	(4,172)
Remove gain on sale of HRA non-current assets	174	319
Pension reserve contributions	(239)	(354)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	7	(7)
Capital expenditure charged to revenue	1,516	0
Transfers to/from Major Repairs Reserve	1,323	2,443
Transfers to/from Capital Adjustment Account	6,436	(169)
Adjustments between accounting basis and funding basis under statute	9,217	2,232
Net (increase) or decrease before transfers to or from the reserves	(2,134)	(1,940)
Transfer to/(from) reserves	1,382	2,180
Increase or (decrease) in year on the HRA	(752)	240
Surplus Carried Forward	(4,870)	(4,118)

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 2015	31 March 2014
Houses	804.75	809.75
Flats	1,378.00	1,374.00
Bungalows	166.00	166.00
	2,348.75	2,349.75

During the year, 6 homes were sold under the right to buy scheme. The stock was partly replenished by buying back 5 homes sold under right to buy in earlier years.

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 2014 is £288.6 million. The difference in valuation is the economic cost to the government of providing council housing at less than open market rents.

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

	Council Dwellings	Other Land & Buildings	Plant & Equipment	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000
Movement in Values 2014/15					
Cost or Valuation					
At 1 April 2014	85,228	3,498	38	1,124	89,888
Additions	2,529			3,793	6,322
Revaluation Increases/(decreases) to RR		583			583
Revaluation Increases/(decreases) to SDPS	5,409				5,409
Derecognition - Disposals	(311)				(311)
Other reclassifications		432			432
At 31 March 2015	92,855	4,513	38	4,917	102,323
Depreciation and Impairment					
At 1 April 2014	2,358	140	2		2,500
Depreciation Charge	1,242	82	1		1,325
Depreciation written out to SDPS	(2,358)	(140)			(2,498)
Derecognition - Disposals	(4)				(4)
At 31 March 2015	1,238	82	3	0	1,323
Net Book Value					
At 31 March 2015	91,617	4,431	35	4,917	101,000
At 31 March 2014	82,870	3,358	36	1,124	87,388

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

Movement in Values 2013/14	Council Dwellings £'000	Other Land & Buildings £'000	Plant & Equipment £'000	Assets Under Construction £'000	Total £'000
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

3. Major Repairs Reserve

	2014/15 £'000	2013/14 £'000
Balance at 1 April	3,048	2,650
Receipts in year	1,242	2,442
Used in year:		
- Houses and flats	(4,208)	(2,044)
Balance at 31 March	<u>82</u>	<u>3,048</u>

4. Housing Repairs Account

	2014/15 £'000	2013/14 £'000
Balance at 1 April	1,800	1,800
Contribution from Housing Revenue Account	2,030	2,510
Other Income	48	44
Expenditure	(2,878)	(2,554)
Balance at 31 March	<u>1,000</u>	<u>1,800</u>

5. 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	163		163
Major Repairs Reserve	496	3,793	4,289
Revenue Contributions	2,357		2,357
Expenditure in 2014/15	<u>3,016</u>	<u>3,793</u>	<u>6,809</u>

6. Capital Receipts

Capital receipts from the sale of Housing Revenue Account property in 2014/15 were £480,000 (£887,000 in 2013/14).

7. Depreciation and Impairment

		2014/15 £'000	2013/14 £'000
Depreciation	Dwellings	1,242	2,373
	Garages	82	70
	Plant & Equipment	1	1
	Total	<u>1,325</u>	<u>2,444</u>
Amortisation	Intangible Asset	5	5
Impairment	Dwellings	0	785
Revaluation Gain	Dwellings	(7,766)	(2,752)
Total Charge		<u>(6,436)</u>	<u>482</u>

For 2014/15, there has been no change to the 32% 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.

8. Arrears

At 31 March 2015, arrears were 2.78% of the gross income due in the year. 2014/15 was a 52 week rent year and 2013/14 a 53 week rent year. The arrears figures are as follows:

	£'000	£'000
Arrears at 31 March	326	437
Gross incomes	11,744	10,951
Provision for uncollectable rents	117	374
Arrears as a percentage of gross income	2.78%	3.99%

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.

	2014/15		2013/14	
	£'000	£'000	£'000	£'000
	Council Tax	Business Rates	Total	Total
Income				
Council Tax (notes 1 and 2)				
Billed to Taxpayers	57,756			56,962
Non-Domestic Rates - Due (note 3)		41,651		40,644
Transitional Protection Payments		(165)		(397)
Family Annexes Grant	2			
	<u>57,758</u>	<u>41,486</u>	<u>99,244</u>	<u>97,209</u>
Expenditure				
Collection Fund Surplus/(Deficit) in Previous Year (note 5)				
Central Government		(1,784)		
Fareham Borough Council		(1,427)		28
Hampshire County Council		(321)		207
Police and Crime Commissioner for Hampshire				29
Hampshire Fire and Rescue		(36)		12
	0	(3,568)	(3,568)	276
Precepts, Demands and Shares				
Central Government		20,647		18,085
Fareham Borough Council	5,745	16,517		20,111
Hampshire County Council	42,527	3,716		45,023
Police and Crime Commissioner for Hampshire	6,321			6,449
Hampshire Fire and Rescue	2,515	413		2,470
	<u>57,108</u>	<u>41,293</u>	<u>98,401</u>	<u>92,138</u>
Charges to the Collection Fund				
Cost of Collection Allowance		142		143
Increase/(Decrease) in Appeals Provision		3,226		3,377
Increase/(Decrease) in Bad Debt Provision	46	222		(52)
Write Off of Uncollectable Amounts				565
	46	3,590	3,636	4,033
	<u>57,154</u>	<u>41,315</u>	<u>98,469</u>	<u>96,447</u>
Fund balance brought forward at 1 April	753	145	898	136
Surplus/(Deficit) for the Year	604	171	775	762
Fund balance carried forward at 31 March	<u>1,357</u>	<u>316</u>	<u>1,673</u>	<u>898</u>

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 based on 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. The council tax base for 2014/15 was 40,974 (40,244 for 2013/14). 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:

	2014/15	2013/14
	£	£
Fareham Borough Council	140.22	140.22
Police & Crime Commissioner for Hampshire	154.26	151.25
Hampshire Fire and Rescue Authority	61.38	61.38
Hampshire County Council	1,037.88	1,037.88
Total	<u>1,393.74</u>	<u>1,390.73</u>

2. Non-Domestic Rates (NDR)

NDR is organised on a national basis. The Government specifies a rate in the £ (in 2014/15, 47.1p for small businesses and 48.2p for large; in 2013/14, 46.2p for small businesses and 47.1p 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 2015 was £102,134,522 (£102,381,887 as at 31 March 2014). This rateable value is based on the valuation list effective from 1 April 2010.

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

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

At the end of the year the Council compares its 40% retained rates income with the Business Rates Baseline set at the start of the system (based on rates collected up to 2011/12) and the Baseline funding level for the financial year. For 2014/15 the Business Rates Baseline was £16,582,089 and the Baseline funding level was £1,717,625.

3. Collection Fund Balance

The Collection Fund balance for 2014/15 was £1.673 million (£0.898 million in 2013/14) which is included within the Balance Sheet. The amounts in respect of Fareham Borough Council are contained within the reserves section of the Balance Sheet and amounts due to the other major preceptors are shown within creditors.

GLOSSARY OF TERMS

Accruals

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

Actuarial Gains and Losses

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

Amortised Cost

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

Carrying Amount

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

Cash and Cash Equivalents

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

Community Assets

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

Contingency

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

Corporate and Democratic Core

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

Current Service Costs (Pensions)

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

Defined Benefit Scheme

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

Depreciation

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

Depreciated Replacement Cost (DRC)

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

Discretionary Benefits

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

Exceptional Items

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

Expected rate of return on pensions assets

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

Fair Value

The 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

This Statement and a summary of accounts can be viewed via the Council's website at www.fareham.gov.uk.

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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date 21 September 2015

Report of: Director of Finance and Resources

Subject: QUARTERLY AUDIT REPORT

SUMMARY

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

RECOMMENDATION

That the Committee notes the progress and findings arising from Internal Audit work.

INTRODUCTION

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

FINALISING THE 2014/15 AUDIT PLAN

2. The current status of the audits remaining from the 2014/15 Internal Audit Plan in the last report is detailed in [Appendix One](#). The table below shows the progress that has been made in finalising the plan of work.

2014/15 Plan	Last Committee	This Committee
Number of audits in plan	21	21
Audits finalised	8	12
Audits where draft report issued to service	0	1
Audits where exit meeting held	7	7
Audits in progress	6	1

DELIVERY OF 2015/16 AUDIT PLAN

3. Work has now started on the audits in the 2015/16 plan as detailed in [Appendix Two](#). This plan has been set in accordance with the revised Audit Strategy approved in March 2015.

FINDINGS FROM COMPLETED AUDITS

4. Since the previous Audit and Governance Committee, four 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
2014/15 Plan				
Payroll	Strong	-	-	-
Tenancy Management	Reasonable	-	7	3
Payroll and Personnel IT System	Reasonable	-	5	-
Database Administration	Not Applicable	2	4	-

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

RISK ASSESSMENT

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

CONCLUSION

7. The full 2014/15 plan of work is nearing completion and work has progressed on the audits for 2015/16. From the latest audits completed 2 essential recommendations have been made.

Background Papers: None

Reference Papers:

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

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

Enquiries:

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

Update on Outstanding Audits from the 2014/15 Plan

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

Audit Title	Type of Audit**	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
					Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
Payroll (Light Touch)	Fundamental	7	Stage 10	Strong	-	-	3	2	-	-
Tenancy Management	Service - Public	10	Stage 10	Reasonable	-	7	2	1	3	3
Payroll & Personnel IT System (CHRIS 21)	Computer	10	Stage 10	Reasonable	-	5	1	-	-	-
Database Administration	Computer	9	Stage 10	Not Applicable	2	3	-	-	-	-
VAT	Corporate, Specialist, Governance	10	Stage 9							
Information Governance Opinion	Computer	6	Stage 8							
PAYE	Corporate, Specialist, Governance	13.5	Stage 8							
Contract Completion	Corporate, Specialist, Governance	10	Stage 7							
Benefits	Fundamental (V)	30	Stage 7							
Accounts Receivable	Fundamental	12	Stage 7							
Accounts Payable (Light Touch)	Fundamental	9	Stage 7							
Income Collection & Banking	Fundamental	15	Stage 5							
Data Protection	Corporate, Specialist, Governance	5	Stage 4							

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

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

APPENDIX TWO

Progress on Delivering the 2015/16 Plan

No.	Audit Title	Type of Audit**	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
1	Express (Electoral Register)	Computer	5	Stage 5							
2	Individual Electoral Registration	Service and Systems - Other	7	Stage 4							
3	Local Tax Collection	Fundamental System	15	Stage 4							
4	Capital Expenditure and Accounting	Fundamental System	10	Stage 4							
5	Fixed Assets	Fundamental System	10	Stage 3							
6	Parking Enforcement	Service and Systems – HR (V)	15	Stage 1							
7	Contract Deeds Management	Thematic Review	15	Not started							
8	Land Charges	Service and Systems – HR	10	Stage 1							
9	Payroll	Fundamental System	10	Not started							
10	Accounts Payable	Fundamental System	10	Not started							
11	Software Control	Computer	10	Not started							
12	Recruitment and Selection	Corporate, Specialist, Governance (V)	15	Not started							
13	Right to Buy	Service and Systems - Other	10	Not started							
14	Effectiveness of Ethics	Thematic Review	15	Not							

No.	Audit Title	Type of Audit**	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
	Related Activities			started							
15	Vehicle Repairs Procurement	Wider Work – Follow Up	8	Not started							
16	Recycling	Service and Systems – HR	10	Not started							
17	Household Waste Collection	Service and Systems – HR	10	Not started							
18	IT Disaster Recovery	Computer	15	Not started							
19	Data Protection	Wider Work – Follow Up	7	Not started							
20	Protection of Trees	Service and Systems - Other	8	Not started							
	Contingency		20								
	In-house team support		50								
	Total Planned Time		285								

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

** V denotes this audit is covering a service which has been subject to a Vanguard intervention. HR denotes this audit was assessed as meeting the High Risk criteria so is a priority for completion this year.

Findings from the Latest Completed Audits

Audit Title	PAYROLL	Overview of Subject: The Payroll service is currently operated in house and produces 4 sets of pay runs: FBC Employees, FBC members, Portchester Crematorium Employees and Election Staff. The CHRIS21 software package is used for this system. An audit of the service is carried out each year and some of the coverage is designed to be used by the external auditors.
Year of Audit	2014/15	
Assurance Opinion Given	Strong	
Direction of Travel	↔2013/14	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Annual Updates to the Pay Parameters on the System			-	-	-	-	-	-
New posts added to the establishment			-	-	-	-	-	-
Grade and Spinal Column Point of new starters set up on CHRIS agree to appointment form and contract			-	-	-	1	-	-
Accuracy of final salary calculation for leavers			-	-	-	-	-	-
Employees whose payments increase by more than 2% between payrolls			-	-	-	-	-	-
Control totals produced for each pay run and agreed to BACS and transfer to efinancials			-	-	-	-	-	-
Monthly reconciliation of CHRIS to efinancials			-	-	-	-	-	-
Appropriate supporting information and authorisation of expenses claims			-	-	1	1	-	-
Control totals produced for each month from the Expenses claim system and agreed to CHRIS			-	-	-	-	-	-
Duplicate Bank Accounts			-	-	1	-	-	-
Current staff on Payroll system with no NINO			-	-	1	-	-	-

Audit Title	TENANCY MANAGEMENT	Overview of Subject: The Council has 2,300 properties of which approximately 25% are sheltered housing properties which either have wardens on site or access to a mobile warden. The Tenancy Management service covers supporting the residents of the properties, rent collection and managing movements in occupants.
Year of Audit	2014/15	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2003/04	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Not Implemented
New Tenancies			-	4	1	-	-	-
Tenancy Changes			-	2	-	-	1	-
Tenancy Terminations			-	-	-	1	-	1
Transfer Grant Scheme			-	1	1	-	-	-
Follow Up of Other Previous Recommendations - Recharges			-	-	-	-	2	2

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Tenant ID - The information created by the Allocations team was not accessible to the Tenancy Services team so that they were not in a position to confirm that the tenant they were dealing with was the same as had passed the verification process, as a check against tenancy fraud. It has now been agreed that the documents can be shared and Tenancy Services will check the ID and signature at the time the tenancy agreements are signed.
Important	Missing ID Docs - Instances were found where photo ID evidence was missing from the records of the verification process so would not be available for Tenancy Services to use. Photo ID or some other form of ID will now be retained on file for all new tenants.
Important	Debt Status Checks - A process now exists for checking whether new tenants are "bad debtors". However, this does not involve consulting Exchequer Services who have a good overview of the general debts customers have with the Council and may be aware of other debts that a potential tenant has. It was agreed that Exchequer Services will now be included in the consultation process.

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Missing Evidence of standard tenancy change checks – There were a number of key checks in the Tenancy change process which it was not possible to confirm had been carried out (e.g. eligibility check for mutual exchange). The checklists used are to be amended to record the completion of all the required checks.
Important	Advertising the Transfer Incentive Scheme – The scheme was not considered to be well advertised. It has been agreed that more information will be provided on the Housing pages of the Council's website.
Important	Evidence to Support Property brought up to Standard or Disclaimer Signed – It was not always possible to confirm whether the works needed to bring a mutual exchange property back to the required standard had been completed or whether the new tenant had signed a disclaimer form. Housing Officers are now to start to attach the relevant evidence to the exchange paperwork
Important	Old Void Procedure Notes - The Voids Property Procedures notes were found to be out of date (2002) and did not reflect amendments that had been made to the process. They are due to be updated once the process had been further refined following the Vanguard intervention.
Previous Important (2)	Delays in raising invoices for recharges - Analysis of Private Works Orders found that 48% had not been raised within 30 days of supply as required by the VAT regulations. However, there are a number of reasons why delays are occurring and it is noted that charges to current tenants are being greatly reduced as the amount being collected is outweighed by the cost of collection and impact on the customer. The use of recharges for Voids works are currently being challenged as part of the Vanguard intervention and a clear policy produced.
Previous Important	Evidence supporting Write-Offs – One Private Works Order account had been proposed for write-off. However, the supporting evidence supplied was found to relate to a different account.

Audit Title	PAYROLL & PERSONNEL IT SYSTEM	Overview of Subject: The Chris 21 computer system has been in use at the Council since at least 1998. It facilitates the integration of personnel and payroll services in one application. The system is used by members of the Personnel, Payroll and Finance teams and managers can also be given access to look up details for their work group. This audit looked at the technological aspects of the system as part of our cyclical coverage of computer systems used by fundamental services.
Year of Audit	2014/15	
Assurance Opinion Given	Reasonable	
Direction of Travel	↔2007/08	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (●*)	Important (▲)	Advisory (P)	Implemented	Cancelled	Non Implemented
System Security			-	3	1	-	-	-
Data Processing and Interface Controls			-	-	-	-	-	-
Data Input			-	1	-	-	-	-
Data Output			-	-	-	-	-	-
Audit Trails			-	-	-	-	-	-
Change Control			-	-	-	-	-	-
System Resilience and Recovery Arrangements			-	1	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Password settings and access violations - Password parameters set did not include preventing recycling of passwords and forcing new users to change their passwords on the initial logon. These parameters were changed during the audit. There is also no monitoring of unsuccessful access attempts. Officers reported that a security violation report was available and used to be run but was considered not to be useful or proportionate to the risk. The risk has therefore been accepted and the report will only be run if it is suspected that something odd is happening with a particular user.
Important	Database Administrator Access - Full access to the CHRIS 21 front end system had been granted to a database administrator (DBA) via the DBA account that is used for performing upgrades to the application. This could be used to make changes to critical data in the system. During

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
	the audit this account was disabled and it was agreed that it will only now be enabled temporarily when needed. Reliance will be placed on the variation report to identify any changes made to critical data, such as pay scales, during the time it is active.
Important	Live account for Leaver - There was an Active account with front end access to the system belonging to a former DBA who has now left the Council. The back end access had been terminated but a decision was made to keep the account live in case any DBA actions were needed. A new DBA for the system is now in place with his own personal account, so it has now been agreed that the leaver's account can be fully disabled.
Important	Storage of Documents outside of the CHRIS 21 System – The access to one of four storage areas where documents containing payroll input and output information are stored was found to be too wide allowing a high number of people access to sensitive payroll information. The four most sensitive folders were identified during the audit and action has been taken to lock down the access to them.
Important	Backup Verification Settings - The backup verification settings have been disabled for the tape backups as this doubled the time it takes for them to run. These are the copies that are stored in the remote location. It was not known if verification was working on the disk version of the backup. This will now be ascertained. A process is also to be implemented for annual test restores of data which includes use of both the disks and tapes in the restore programme.

Audit Title	DATABASE ADMINISTRATION	Overview of Subject: There are approximately 300 databases used at the Council. The database administration role includes designing, implementing, and maintaining the database system; establishing policies and procedures pertaining to the management, security, maintenance, and use of the database management system. The audit was requested by the manager to review how the move to spreading out responsibilities to a number of people rather than having one designated officer was working.
Year of Audit	2014/15	
Assurance Opinion Given	Not Applicable	
Direction of Travel	No previous audit	





Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation (E and I only)		
			Essential (🔴)	Important (🟡)	Advisory (🟢)	Implemented	Cancelled	Non Implemented
Awareness of the type and number of databases to be supported			-	-	-	-	-	-
Defined roles and responsibilities of the database administrators			-	3	-	-	-	-
Skills available for the DBA role			1	1	-	-	-	-
Database Security			1	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Essential	Training for Oracle Database Administrators (DBAs) - The training received by the Oracle database team had not left them (and their users) as confident in their role as that received by the SQL DBAs. However, it is noted that some suppliers are reluctant to provide strong training so that support services will be purchased from them. Further face to face training to increase Oracle skills has now been sourced and booked.
Essential	Security Responsibilities – It was not clear if responsibility for overseeing that best security practices relating to databases are implemented was with the DBAs or the lead officer for ICT security. This is going to be considered and strengthened as part of the planned review of the structure of the team.
Important	Change Control - There is no process to discuss and record significant changes that are being made to the databases (such as extra capacity added, change to the map of tables) to ensure consistency with different applications and to try and pre-empt unintended consequences. A clearer change control process is going to be established and communication within the service has already been strengthened.
Important	Knowledge Base - No procedure notes or knowledge base were being produced to cover processes such as how to clone an environment, how to add capacity, how to clear the cache etc. The 3 IT managers are now taking responsibility for developing reference information for the databases managed in their areas.




Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Active liaison with System Administrators - Some system administrators felt that more communication was needed with the DBAs acting as a conduit between IT and them so that any potential impacts of IT changes can be discussed in advance to minimise system issues and downtime for their users. Work has already started to strengthen the relationship between service users and ICT.
Important	No Separation of Duties - The database administrator and the system administrator for one key system are the same person. This is not usual practice as it removes an element of internal check and adds the potential for a single point of failure. This weakness has been risk accepted as this system is not seen as being at any more risk than other ones used by the Council given the nature of accesses that IT officers need to have.

Reference Tables

1. Scale of Assurance Opinions

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.

2. Scale of Recommendation Priorities

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 A&G 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 A&G 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. Actions are not tracked.

3. Stages of An Audit Assignment

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

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **21 September 2015**

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

Subject: **HEAD OF AUDIT'S ANNUAL OPINION**

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2014/15 and gives an overall assurance opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

It also covers the results of the Quality Assurance and Improvement Plan for the internal audit service for the year.

RECOMMENDATION

That the contents of the report are noted as a source of evidence for the 2014/15 Annual Governance Statement.

INTRODUCTION

1. This report covers the assurances that are available through the work of the Internal Audit service on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
2. It is one of the key documents which inform this year's Annual Governance Statement.

ASSURANCES AVAILABLE TO SUPPORT THE OPINION

Completion of Planned Assignments

3. The audit plan for 2014/15 included 21 audit assignments of different types to give a good spread across the audit universe. This is fewer compared to previous years as we have changed our focus from 2014/15 to carry out fewer but longer audits which give a deeper understanding of weaknesses found before any actions are agreed with the Sponsor.
4. At the time of giving this annual opinion all 21 assignments had been undertaken and sufficient conclusions drawn to be useable as a source of assurance. 12 had been fully completed and actions agreed with the Audit Sponsor. [Appendix A](#) gives the latest status of the assignments and the key assurance measures arising from the work.

Spread of Individual Assignment Opinions

5. The majority of assignments result in an individual assurance opinion which reflects the level of internal control found within the system for those areas tested. The table below provides a summary of this information compared to previous years:

Year	Strong	Reasonable	Limited	Minimal	Total
2014/15	6 (40%)	8	1	0	15
2013/14	13 (41%)	18	1	0	32
2012/13	8 (30%)	16	3	0	27
2011/12	13 (46%)	14	1	0	28

6. No opinions of 'Minimal Assurance' were issued in the year. There is 1 'Limited Assurance opinion' likely to be awarded in the year for the Contract Completion audit. Issues were found in relation to the clarity of policy and levels of compliance covering the Contracts Payment Register, pricing variation orders and reporting overspends. These will be need to be addressed as part of the major rewrite of the Financial Regulation on Procurement which is planned following a Systems Thinking review of the process.
7. Work has been carried out in the last couple of years to address issues arising from the Data Protection audits. In particular a computer training package (Skillgate) is being developed for roll out to all employees. This is a significant action in terms of governance.

8. It should be noted that the major audit of a service (Benefits) in the year which had undergone a “Systems Thinking” intervention is likely to be given a Strong assurance opinion.

Income or Expenditure Errors found

9. The following two errors were identified in the year from the testing carried out in planned assignments:
- An invoice was incorrectly raised giving a customer a 50% discount (£400) on the annual beach hut fee when he was not a resident of the borough.
 - A variation order had been made to a contract reducing the work that needed to be carried out by £700. However, it had been included in the Final Account and paid.

Essential Recommendations

10. As at the end of 2013 survey there were 4 essential recommendations awaiting implementation. A further 4 were added after the survey. The 2014 survey confirmed that all 8 were now implemented or could be cancelled and have been closed down by internal audit.
11. However, 8 new essential recommendations are likely to arise from the 2014/15 audits of Contract Completion, Penetration testing and Database Administration.

Implementation of All Recommendations

12. During 2014/15, 13 of the audits included a review of the progress made with implementing previous recommendations. These covered a total of 69 essential or important actions. Testing confirmed that **57%** of the recommendations have been implemented with a further 14% in progress. The table below compares this to previous years.

Table 2 – Trend in Implementation of Recommendations			
	No of audits with recommendation reviews	No. of recs tested	% of recommendations tested signed off by audit as implemented
2014/15	13	69	57% + 14% in progress
2013/14	17	68	66%
2012/13	16	77	61%
2011/12	23	147	68%
2010/11	25	262	79%

13. A similar implementation rate was found in the 2014 survey of all 120 recommendations which were reported as still unimplemented at the end of the previous survey or had since been added from new reports. **70 (58%)** were reported by services as implemented and a further **5 (4%)** were nearly complete.
14. However, it should be noted that the audit follow up work during the year concluded that 16/45 (36%) of recommendations previously reported by services as implemented actually required further work.

15. A small pilot was carried out this year in which some audit resources were used to facilitate managers in the implementation of recommendations which have been outstanding for some time. 3 recommendations have been targeted, 2 of which are now signed off as complete and the last 1 is in progress. We will therefore be expanding this approach in 2015/16.
16. A new action database has also been designed to improve the management and reporting of recommendation progress. This will be launched in the next few months and will be a strong addition to the governance framework. Another full survey of outstanding recommendations will then be undertaken.

Other Sources of Assurance in the Year

17. [Appendix B](#) lists other sources of assurance that have been available this year to support the Annual Audit Opinion, and shows where some opportunities to strengthen internal controls were found. The most significant covering the Transport Policy is summarised below.

Governance

18. Two specific pieces of work were undertaken in the year in relation to governance. The first was a planned audit carried out to test compliance with Financial Regulations in relation to the security and banking of income. The results are summarised in the table below. No significant problems were found.

Table 3 – Results from Testing of Compliance with Financial Regulations		
Rule Tested	Level of Compliance Found	Notes
19.1.6 – Security - Appropriate arrangements must be made for all income collected to safeguard against loss or theft.	9 areas of local income collection tested. Minor issues found for 2 areas.	Managers have now taken action to deal with the minor issues found.
19.1.8 – Timeliness – All income received should be banked in full as soon as practical and within 5 working days.	Arrangements for 9 areas tested including 16 individual receipts. Some issues with promptness found for 2 areas.	Action has been taken to deal with issues found and wider work is planned to make the processes more efficient.
17.1.4 – Floats – Petty cash and float holders are responsible for the safekeeping of the cash.	2 local cash floats tested. No issues found.	N/A

19. The second was a piece of reactive work following a request from the Chief Executives Assurance Group to look at compliance with the Transport Policy, in relation to employees and members who drive their own vehicle for Council business.

Testing was only able to give limited assurance on the level of compliance and it was concluded that the current control process needed strengthening. An action has therefore been agreed to develop a new electronic declaration process linked to the Council's Claims and Expenses process.

Information Technology Governance

The Public Sector Internal Audit Standards require the *“internal audit activity to assess whether the information technology governance of the organisation supports the organisation’s strategies and objectives”*. Resource has been used this year to develop and pilot a process by which this can be achieved.

20. The conclusion arising from this work for 2014/15 is that the information technology governance of the Council is adequate to support the organisation's strategies and objectives. This is based on the knowledge of the work that has been done to realign the IT strategy and workforce to meet the needs of the organisation, and the findings from the computer audit work this year. However, full implementation of the strategic direction will not be possible until the conclusions from the Systems Thinking intervention are reached. One key action will be to clarify the ICT security and assurance responsibilities within the team.

Ethical Governance

21. The Public Sector Internal Audit Standards also require the *'internal audit activity to evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities'*. Resource has been included in the 2015/16 plan to develop a way to carry out this evaluation. However, no assurances are available for 2014/15.

Risk Management

22. During 2014/15 the Committee received six monthly updates on the Corporate Risk Register in accordance with the revised Risk Management Policy adopted in 2012/13. The risk management framework was last audited in 2013/14 and a strong assurance opinion was given.
23. However, the framework is currently being challenged in relation to whether it is providing the information most needed by senior managers. The Systems Thinking process is therefore currently being applied to the framework.

HEAD OF AUDIT OPINION

24. I am satisfied that sufficient internal work has been undertaken to allow an opinion to be given on the adequacy and effectiveness of governance, risk management and control. However, it should be noted that as audit cannot review every decision and transaction of the council the opinion cannot provide absolute assurance.
25. Using the information outlined in this report, in the opinion of the Head of Audit and Assurance, the Council had a framework of governance, risk management and control for the year 2014/15 which was generally working effectively. There is awareness amongst managers about their top risks and the importance of control mechanisms within the developing Systems Thinking culture, and the need to address any major weaknesses found.
26. The opinion is particularly based on the fact that:
- a) no "minimal" audit assurance opinions were again given this year;
 - b) the service audited which had undergone a Systems Thinking intervention has been given a 'strong' audit assurance opinion.
 - c) there were no outstanding essential recommendations at the time of the 2014 recommendation survey.
 - d) 2 of the 3 older recommendations targeted for assistance with implementation this year have now been signed off as implemented.

27. However, it is noted that 2 errors in income and expenditure totalling £1,000 were found this year during audits which is higher than in previous years.
28. Actions have been agreed where opportunities to enhance the adequacy and effectiveness of governance, risk management and control have been noted during the year. Key projects include:
- a) Applying Systems Thinking to the Risk Management framework
 - b) Strengthening the processes which give assurance on compliance with the Council's Transport Policy by those who drive their own vehicles on Council business.
 - c) Rolling out of the Data Protection refresher training that is being developed in Skillgate.
 - d) Clarifying the ICT security and assurance responsibilities following the Systems Thinking intervention and team restructure.
 - e) Updating the Financial Regulation on Procurement to be clear on the expectations in relation to pricing variation orders and reporting overspends.

Actions a to c have been recommended for inclusion in the Annual Governance Statement, as is the need to roll out the new action management system to improve the management of recommendations arising from audit reports.

AUDIT SERVICE QUALITY ASSURANCE

29. As required by the Public Sector Internal Audit Standards (PSIAs), the service has been developing a documented Quality Assurance and Improvement Plan (QAIP) which consists of a self- assessment against the standards, on-going monitoring arrangements and local performance measures.
30. The QAIP is designed to provide reasonable assurance to its key stakeholders that the service: *performs its work in accordance with its Charter; operates in an effective and efficient manner; is perceived by its key stakeholders as adding value and improving the service that it provides.*
31. The PSIAs require the Head of Internal Audit to report on the outcomes of the QAIP each year which is covered by the following sections.

Audit Independence

32. In conformance with PSIAs 1110, it is confirmed that that the internal audit activity was organisationally independent.
33. This is assessed on the basis that the arrangements laid out in the Audit Charter had been adhered to, the Head of Audit and Assurance reported functionally to the Audit and Governance Committee during the year and had free and unfettered access to the Chief Executive Officer and Chair of the Committee.

Self-Assessment against the Standards

34. Our self-assessment against the standards for 2014/15 concludes that we have fully conformed to 45 [39 last year] of the 52 applicable standards with partial conformance with another 5. It should be noted that there are 128 parts making up the 52 standards.
35. Significant improvements made since the last report involved:
- ✓ Updating the Audit Strategy
 - ✓ Updating the Audit Needs Risk Assessment and Strategic Audit Plan
 - ✓ Reviewing the sources of Information Governance assurance
 - ✓ Changing the Head of Audits report to reflect the required format of the opinion and including the results of the self-assessment.
36. Instances of non or part conformance are given in [Appendix C](#). None of the areas of non-conformance are considered significant enough for reporting in the Annual Governance Statement, particularly as the external assessment requirement is not due for another 3 years. An action plan is being progressed to address the areas of none or part conformance indicated where it is considered to be of benefit to the Council.

Local Performance Measures

37. Two local performance measures were used for the service in 2014/15. An additional one on the “Time taken to deliver individual assignments” is being added for 2015/16 as this is something we want to improve for next year by strengthening the management information on what most causes the delays.

Completion of Plan

38. The first measure covered the amount of planned work that is finalised by the time of the Annual Report. There have been a number of problems in this area during the year, which have reduced our performance on this indicator, as summarised in the table below, and indeed caused the Annual Report to be delayed until September.

Table 4 – Completion of Plan	2014/15	2013/14	2012/13	2011/12	2010/11
% of reports finalised by time of Head of Audits Report (June)	29% (6/21)	67% (22/33)	84% (26/31)	80% (28/35)	87% (33/38)

39. We have therefore made a number of changes to the audit process for 2015/16 with the expectation that we will see an improvement on this measure next year.

Customer Feedback

The second measure covered customer feedback. We moved away from issuing questionnaires in 2014/15 and instead introduced a face to face interview with an auditor not involved in the assignment. 5 interviews have been completed to date and a score applied as shown in the table below. Generally feedback has been positive in relation to the new audit approach to assignments.

Table 5 - Level of Customer Satisfaction 2014/15	
Audit was above expectations	
Happy with the audit	100% (5)
Minor problems with the audit	
Significant problems with the audit	

RISK ASSESSMENT

40. The Head of Audit's Opinion above highlights those significant control issues where it is recommended that action is taken.

CONCLUSION

41. This annual audit report contains the information required by the Public Sector Internal Audit Standards. The opinion offered within it, is that the Council continues to have a good framework of governance, risk management and control.

Appendices:

- A. Results of Planned Assignments 2014/15
- B. Additional Sources of Assurance this year
- C. Areas of Non Conformance with the Public Sector Internal Audit Standards

Background Papers: None

Reference Papers:

Report to Audit and Governance Committee on 23/06/14 on Head of Audit's Annual Report 2013/14

Quarterly audit reports to the Audit and Governance Committee during 2014/15

Public Sector Internal Audit Standards [PSIAS] and Local Government Application Note Guidance [LGAN].

Enquiries:

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

RESULTS OF PLANNED ASSIGNMENTS 2014/15

APPENDIX A

Audit Title	Stage of Audit	Days in Plan	Assurance Opinion	Direction of Travel	New Recommendations			Previous Recs. (E and I only)				
					Essential	Important	Advisory	Implemented	Cancelled	In Progress	Not Implem	
FUNDAMENTAL SYSTEM AUDITS												
Payroll (Light Touch)	Stage 10	7	Strong	↔	-	-	3	2	-	-	-	
Benefits (V)	Stage 7	30	Strong	↔	-	-	-	1	-	-	-	
Accounts Receivable	Stage 7	12	Reasonable	↔	-	2	-	1	1	-	1	
Accounts Payable (Light Touch)	Stage 7	9	Reasonable	↔	-	2	1	3	-	-	-	
Income Collection & Banking	Stage 5	15	Not yet available					-	-	1	-	
CORPORATE, SPECIALIST, GOVERNANCE, RISK AUDITS												
Policy Compliance Checks	Stage 10	12	Not Applicable	-	-	2	-	-	-	-	-	
VAT	Stage 9	10	Strong	-	-	-	1	5	-	-	-	
PAYE	Stage 8	13.5	Strong	-	-	3	-	-	2	1	-	
Contract Completion	Stage 7	10	Limited	↔	4	2	2	3	1	-	1	
Data Protection	Stage 4	7.5	Not yet available					3	1	5	-	
SERVICE AND SYSTEM AUDITS												
Comm. Parks & Open Spaces	Stage 10	6	Strong	-	-	-	1	-	-	-	-	
Foreshore (Beach Huts)	Stage 10	5	Strong	-	-	1	2	-	-	-	-	
Tenancy Management	Stage 10	10	Reasonable	↔	-	7	2	1	2	2	2	
Cheque Control	Stage 10	6	Reasonable	-	-	2	2	-	-	-	-	
Virtual Procurement Card	Stage 10	3	Reasonable	-	-	1	1	-	-	-	-	
COMPUTER AUDITS												
Payroll & Personnel System	Stage 10	10	Reasonable	↔	-	5	1	-	-	-	-	
Penetration Testing	Stage 10	12	Reasonable	-	2	1	2	5	-	-	-	
Database Administration	Stage 10	9	Not Applicable	-	2	4	-	-	-	-	-	
Information Governance Opinion	Stage 8	6	Not Applicable	-	-	-	-	-	-	-	-	
FOLLOW UP												
Legionella and Gas Safety	Stage 10	5	Reasonable	↔	-	3	-	6	9	-	-	
IT Recommendations	Stage 10	3	Not Applicable	-	-	-	1	11	1	-	1	
		201			8	35	19	39 (57%)	16 (23%)	10 (14%)	4 (6%)	

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

<p>Reactive work undertaken by the Team</p> <p><i>Opportunities found to improve internal controls are marked with an asterisk</i></p>	<p>Assurances available for employees who use their own vehicles on Council Business*</p> <p>The parking enforcement service's use of the DVLA batch enquiry facility*</p> <p>Review of new Ferneham Hall voucher scheme</p> <p>Review of CCTV signage*</p> <p>Follow up of payments to supplier with a previous history of receiving late payments</p> <p>Follow up of sources of invoices which were being raised late*</p> <p>Certification of Inspire grant usage</p> <p>Risk analysis of the T card system</p> <p>Participation on working group applying system thinking to procurement in relation to the Building Repairs service.</p>
<p>Other work undertaken by the team</p>	<p>Work undertaken as part of the Counter Fraud Strategy</p> <p>Updates to key policy documents including financial regulations</p> <p>Systems analysis and follow ups arising from investigations</p>
<p>Other sources</p>	<p>Review of assurances available from External organisations</p>

Areas of Non Conformance with the Public Sector Internal Audit Standards

Standard	Area of Non Conformance	Comments
1000 Purpose, Authority and Responsibility (part)	The Internal Audit Charter is not presented to senior managers in addition to the board.	No further action proposed The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility which has been reviewed by the Section 151 Officer and approved by the Audit and Governance Committee where the Monitoring Officer was also present. It is considered unnecessary to formally present the Charter to the rest of the Senior Officers.
1100 Independence and Objectivity (part)	The Chief Executive Officer and Chair of the Audit and Governance Committee do not formally feed into the performance appraisal of the Chief Audit Executive.	No further action proposed Informal mechanisms are in place for concerns about independence to be raised. Regular one to ones occur between the Section 151 Officer and the Head of Audit and Assurance [HAA]. There are also regular one to ones between the Chief Executive Officer and Section 151 Officer and an annual one to one between the Chief Executive Officer and the HAA. The HAA has access to the Chair and Vice chairs of the Audit and Governance Committee during the quarterly chairman briefings and can approach them directly should she have any concerns.
1310 Requirements of the Quality Assurance and Improvement Programme	No external assurances are currently included in the Quality Assurance and Improvement Plan.	Limited further action proposed This requirement is not yet due for another 4 years. However, given the current financial climate it is unlikely that we would want to incur additional costs to pay for an independent external verification of our self-assessment. We will, however, monitor any feedback on conformance to the standards received by the external auditors and internal audit contractor. We will also monitor discussions on the potential use of peer reviews to provide this assurance which can be met within budget, bearing in mind that the professional body has some reservations about using a near neighbour for peer reviews as they cannot be truly independent.
1312 External Assessments		
1320 Reporting on the QAIP (part)	The outcomes of the full Quality Assurance and Improvement Programme are not yet being fully reported.	Included in action plan We have drafted a QAIP which covers the different processes that will be used to monitor quality and adherence to the standards. The results of the self-assessment are reported annually to the Section 151 Officer. We will be working to expand this with other components of the QAIP.
2020 Communication and Approval (part)	The entire internal audit activity's plan and resource requirements were not presented to senior managers in addition to the board for review.	No further action proposed The Audit and Governance Committee is responsible for endorsing the Annual Plan of work which the Director of Finance and Resources as the Section 151 Officer has previously reviewed. Other Directors are consulted on coverage in the plan for their departments before the plan is put together. They also receive information on the proposed Annual Plans and any changes to these before approval and are invited to provide feedback.
2110 Governance (part)	No specific assurance has been given on the effectiveness of ethics related objectives.	Included in action plan Some assurances are currently provided each year from counter fraud initiatives. However, a specific assignment to provide assurance on this is included in the 2015/16 audit plan.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **21 September 2015**

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

Subject: **REVIEW OF MEMBERS' TRAINING AND DEVELOPMENT AND
DETERMINATION OF PROGRAMME**

SUMMARY

The Audit and Governance Committee is charged with monitoring the arrangements for members' training and development to ensure that the capacity of members to provide effective governance and community leadership continues to develop. This report proposes a framework for the programme of development for 2015/16 and reviews the new member induction package which was first introduced in May 2013.

RECOMMENDATION

The Committee is recommended to:

- a) approve the framework for the 2015/16 programme as set out in Appendix A;
and
- b) approve the new Member induction programme as set out in Appendix B.

INTRODUCTION

1. In 2003, the Council adopted a strategy for members' training and development which the Audit and Governance Committee monitors to ensure that the capacity to provide effective governance and community leadership continues to develop. This report invites the Committee to note the training programme provided and the programme for 2015/16
2. In March 2013, this committee recommended that a new approach to new member induction training be approved in a modular form to provide on-going support to new members.
3. From May 2014, a total of 13 Training / briefing sessions have been run with an aggregate attendance of 184 – giving an average of 14 members at each session.

THE STRATEGY

4. The committee is reminded of the main provisions of the Council's training and development strategy which contributes to the Council's aims and objectives and underpins good practice.
5. The strategy aims to provide members with opportunities for developing a range of skills and a depth of knowledge which will equip them to fulfil their roles and provide effective community governance. It recognises that these skills and knowledge are developed through a variety of means, not just through formal training events. Thus, members skills and knowledge may be equally developed through informal arrangements such as personal reading and research, newsletters and briefing reports; interaction with other members, officers, constituents, joint working with other authorities and with partners; shadowing, coaching and mentoring.
6. The strategy recognises that in the main, members' development can be managed by the individual members themselves; however, in order to establish a development framework, an annual programme of training events which reflects more precisely the needs of Fareham Councillors would be established. As local elections will be held in May 2016, all members will be invited to complete a schedule of training needs in June 2016 to enable them to identify the skills or knowledge which needs to be developed. This information will feed into a programme of training events to deliver key elements on general topics and a breadth of service related training. In addition, individual needs will be addressed wherever possible and a variety of development methods offered to suit the individual member. In addition, new members will receive a Member Induction package as described in the following paragraphs.
7. A framework for the programme for 2015/16 is attached as Appendix A for the Committee's consideration and approval. Further topics will be added to the programme following the results of the training needs questionnaire to accommodate member needs together with new legislation or service developments as appropriate.
8. The majority of knowledge-based training can be delivered in-house within existing budgets. Where externally led training does need to be provided, priority will be given to those topics which benefit a number of members. Where budget permits, lower priority items will be delivered. Where external trainers are used, they are chosen for their knowledge of the subject as well as experience in training delivery.
9. Members are informed of training opportunities available to them in the following ways:

- Members are invited to training sessions by email invitation which enables members to accept or decline and the session is immediately in their diary;
- Members Newsletter;
- Flyers;
- Email invites for specialist training such as licencing panel members; and
- Links to partner organisations such as South East Employers and Local Government Improvement and Development.

NEW MEMBER TRAINING MODULES

10. During previous consultations, members raised issues regarding the form of training provided for new Councillors following their election to office. A new form of training which included an introduction session followed by a number of modules covering the Council's constitution, financial regulations, budget, code of conduct and role of members was approved by this committee at the meeting held on 11 March 2013. As a result of local elections held in 2014, only one new councillor was elected therefore the new training modules have not been robustly tested.
11. It is suggested that new members will continue to be supplied with a briefing pack on election night summarising the functions of the council and the role of members. This will include an invitation to an introduction session followed by a number of modules as suggested as Appendix B for consideration and approval.

RISK ASSESSMENT

12. The decision the committee is asked to make presents minimal risk but considerable opportunity. Failure to adopt a programme of training and development which is responsive to Members' needs is likely to restrict the capacity of the Council to fulfil its responsibilities of community leadership and local governance. In contrast, the opportunities presented by developing members are considerable.

CONCLUSION

13. The committee is invited to :
- (a) approve the framework for the 2015/16 programme
 - (b) approve the new Member Induction programme, as revised

Appendix A – Programme for 2015/16

Appendix B – New member training programme

Background Papers:

None

Reference Papers:

Enquiries:

For further information on this report please contact Elaine Wildig. (Ext 4587)

FRAMEWORK FOR MEMBERS' DEVELOPMENT PROGRAMME 2015/16

KNOWLEDGE / SKILLS AREA	Comments
Democratic / constitutional matters	Ongoing updates and refreshers on corporate governance and ethical standards. Session on the constitution, democratic process, standing orders and questions to Council
Portfolio areas and service operations	Refresher training on work undertaken and updates on new developments
Licencing	Continuing skills training for committee members
Finance and budgets	Greater understanding of local government finance required. General awareness of budgets and financial management, including funding
Procurement	An update on current arrangements
IT skills	Use of M Drive, spread sheet improver courses and use of calendar. 1:1 sessions on use of applications as required and group courses
Planning Policy	On going updates on large projects and government policies
Role of Monitoring Officer and seeking advice	Update on new developments and refresher courses
Public speaking, presentation and chairing meetings	Some demand for these areas
Facebook, twitter and creating web pages	Some demand for these areas. Introduction to social media.
Working with legislation	Briefings explaining how Data Protection, Human Rights, Freedom of Information and Social inclusion impact on decisions
Understanding new funding streams	Continuing skills training on obtaining grants and funding from other sources.
Dealing with constituents' enquiries	Update / refresher.

- Development of the Members' newsletter to include top tips for using IT software, FAQs in service operations and promoting good news items in addition to the usual forthcoming committee meetings and training available. Regular updates on service responsibilities and who to contact as changes occur
- Copies of presentations to be available on M Drive
- New Member Induction training sessions to be available to all members as a refresher..

NEW MEMBER INDUCTION TRAINING

Elected Thursday/Friday – letter to accept office given immediately with request for bank details, car registration and declaration of interests form

Mayor making / Annual Council meeting following Thursday- come in for photo for ID badge

Friday induction training

Module 1 - Introduction

- 1.1. Establish how would like to be addressed for business cards
- 1.2. What is my role / LGA handbook / ward profile / political makeup / training programme
- 1.3. How does committee system work – establish whether papers received electronically or paper – Newsletter – location of pigeon holes
- 1.4. On which committees do I sit and when are meetings held
- 1.5. Organisational structure and details of the Management Team. Who are my main contacts and where do I find them
- 1.6. Claiming allowances
- 1.7. Declaration of interests
- 1.8. ICT provided
- 1.9. Group rooms

Module 2 – what is the scope of my committee work

1. Set up meetings with relevant Director / Head of Service to give presentation of work undertaken, explain forward plan / Vanguard

Module 3

1. Presentation by Monitoring Officer – roles and responsibilities
2. Council's Constitution including Standing Orders and Financial Regulations
3. Corporate Strategy and key objectives
4. Committee Structure, scrutiny, motions to Council, petitions, code of conduct
5. Equality and Inclusion
6. Freedom of Information and Data Protection
7. Overview of budgets and financial information (further training to follow)
8. Meet the Chief Executive and "Walk the Ward" meeting to be arranged

Module 4 - ICT

1. Visit from ICT to home address to explain usage policy and areas
2. Finding your way around the website and filing structure
3. Communication tools - Social media, media and personal web pages
4. Use of Freephone number

Module 5 – 3 months later

1. How am I doing?
2. I don't understand.....

3. What further training do I need?

Module 6 – 6 months later

1. I don't understand.....
2. Feedback questionnaire on induction programme

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date 21 September 2015

Report of: Director of Finance and Resources

Subject: ANNUAL GOVERNANCE STATEMENT 2014/15

SUMMARY

This report brings the 2014/15 Annual Governance Statement for member approval before publishing with the Statement of Accounts.

RECOMMENDATION

That the Annual Governance Statement for 2014/15, 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 2014/15 as attached as [Appendix C](#), and seeks approval for this to accompany the Statement of Accounts for 2014/15 due to be published in October 2015.

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](#).

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:
 - Outcomes of Audit work in 2014/15.
 - 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 review to allow the Annual Governance Statement to be drawn up for 2014/15.

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 2014/15 ([attachment](#)).


Enquiries:

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

Components of the Fareham BC Governance Framework

New Ref	Element	
1		<p>Vision and Outcomes</p> <p>Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users.</p>
2		<p>Vision and Governance</p> <p>Reviewing the authority's vision and its implications for the authority's governance arrangements.</p>
3		<p>Vision and Objectives</p> <p>Translating the vision into objectives for the authority and its partnerships.</p>
4		<p>Quality and Value for Money</p> <p>Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring they represent the best use of resources and value for money.</p>
5		<p>Constitution</p> <p>Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements.</p>
6		<p>Codes of Conduct</p> <p>Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.</p>
7		<p>Decision Making</p> <p>Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality.</p>
8		<p>Risk Management</p> <p>Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability.</p>
9		<p>Counter Fraud</p> <p>Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.</p>
10		<p>Change Management</p> <p>Ensuring effective management of change and transformation.</p>
11		<p>Financial Management</p> <p>Ensuring the authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and, where they do</p>

New Ref		Element
		not, explain why and how they deliver the same impact.
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>
22		<p>Emergency Planning</p> <p>Ensuring we can respond effectively to an emergency within the borough.</p>

New Ref	Element
23	 <p data-bbox="587 280 1463 376">Business Continuity Management 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 2013/14 (October 2014)
	Audit Results Report 2013/14 (September 2014)
	Annual Certification Report 2013/14 (February 2015)
Government Department or Agency	Local Government Ombudsmen Report 2013/14 (July 2014) and cases referred during 2014/15
	Food Standards Agency Update Letter (February 2015)
	Public Service Network Compliance (2014/15)
	Driver and Vehicle Licensing Agency (DVLA) - Use of Web Enabled Enquiry (WEE) System (July 2014) Driver and Vehicle Licensing Agency (DVLA) - Use of Batch Enquiries (July 2014, December 2014, May 2015) Driver and Vehicle Licensing Agency (DVLA) – Data Sharing Check (May 2015)
	Officer of the Surveillance Commissioners (January 2015)
Insurers	Zurich Corporate Inspection Regimes Review (September 2014)
	Risk Management Standards Assessment – Housing Property and Public Liability (April 2014)
Other	Hampshire Safeguarding Children Board (HSCB] 2014 S11 Audit Self-Assessment Tool (June 2014) and Safeguarding Disabled Children Audit Report (May 2014) and HCSB Evaluation Letter (November 2014)
	Partnership Coverage by other Audit Teams (PUSH 2013/14)
	External and Internal Penetration Health checks performed by a specialist company on our IT systems.

FAREHAM
BOROUGH COUNCIL

Annual Governance Statement 2014/15

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

The governance framework has been in place at Fareham Borough Council for the year ended 31 March 2015 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 also use the Council Connect stand in the Town Centre to display a range of material on targeted themes throughout the year.

The Council has a Public Relations, Marketing and Consultation Team who coordinate and undertake community consultations using a variety of methods. These include an e-panel of nearly 2000 residents. We also carry out residents' surveys, although a review of this process is being carried out in 2015/16 to make the measures of customer satisfaction used more meaningful.

We are also putting more resources into managing face to face discussions about subjects of interest to the community. The Team also work with the media to convey important messages.

The team encourages all departments to seek advice on the best communication methods to be used for events and information, and when our equality objectives need to be considered.

Community Action Teams (CATs) have been established in ten neighbourhoods in the Borough. A review of the effectiveness of the CATS meetings from the customers point of view was completed in 2014/15 and these are now being used as and when needed to focus on hot topics of interest to that neighbourhood.



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 Leader of the Council also chairs discussions at the summer CATS meetings each year on the Council's vision, objectives, achievements and priorities.

The next major review is in progress and is scheduled to be completed by March 2016. This review is taking into account the learning from the 'System Thinking' work being undertaken throughout the organisation 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 implementing a programme of cultural change which will lead to better quality and value for money services. We have been 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 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 maintains a corporate efficiency action plan which identifies cost saving improvement actions. Additional efficiency actions, totalling £500k, were identified in 2014/15. £795k of actions from the previous year have been delivered. The Chief Executive's Management Team regularly review the delivery of the plan enabling a balanced and sustainable budget to be set for 2015/16, with sound prospects for the forthcoming budget year.

The Council continued to jointly buy goods and services with other Councils, and build upon successful services delivered jointly with other local authorities. In 2015/16 we are looking to further develop partnership working with neighbouring councils in relation to procurement .



The Council has been proactive in launching a transparency portal on its website, as linked below, which provides 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](http://www.fareham.gov.uk/about_the_council/financial_information/intro.aspx)

Member and Officer Roles and Responsibilities

The Council's Constitution sets out:

- How the Council operates.
- The roles, responsibilities and relationships between the different Council committees.
- How decisions are made and what procedures are to be followed.
- The roles of Executive Members, Committee Chairmen, Ward Councillors and Chief Officers.
- The functions, responsibilities and post holders of the 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. A major update of

the Constitution documentation is in progress to check that it matches legislative changes, includes all changes made as a result of a council decision and continues to serve as a single reference document that meet the needs of its users. An updated version of the constitution was published online in 2014/15 and a member and officer working group will be meeting periodically to further review the content. This has been concluded as a faster way to make updates without losing control over the process. The new Monitoring Officer is now embedded in the role and completed the training and development programme in 2014/15. The Council continues to subscribe to a national service to obtain advice where necessary.

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 Scheme of Delegation sets out when and how the Executive Committee, portfolio holders and officers can

make Executive decisions. There are also schemes of delegation for the Planning Development Control and Licensing and Regulatory functions. The scheme of delegation to officers in relation to the Planning Committee was updated in 2014/15. following findings arising from the Planning System's Thinking review.

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. A further review is planned for 2015/16 to apply System Thinking to the process. The arrangements are tested every three years by internal audit.

The last review was in 2013/14 and there were no major findings. A Central Risk Directory identifies the links between the corporate priorities, significant projects, top

risks managed by Heads of Service, all of which contribute to 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 was carried out in 2014/15 which resulted in some changes to the way and what insurance cover we purchase.

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, reviewing how the first year of the current arrangements had gone.

A report is also presented annually to the Committee setting out the number of complaints about member conduct that have been received. In addition, any breaches of code handled by the Monitoring Officer are now being reported at the next available meeting.

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. A revised policy on employee gifts and hospitality and interests has been drafted to meet the needs of the Bribery Act and will be finalised in 2015/16.

Member and Officer Development

A new 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 13 member training/briefing events took place in 2014/15 with 142 attendees in total, averaging 11 attendees per briefing.

In 2015/16 we will be refreshing the training plan and reviewing how well the new process is working for members.

Officer training & development is based around a simplified individual performance management process. There is a coordinated approach to the identification of the training

needs of the organisation which helps us make the most of money spent on employee development and training.

The Council receives the benefits of an on-line training suite called Skillgate and we have expanded our use of the authoring tool available to create our own local courses where the generic course does not meet our needs. For example, in 2014/15 a local safeguarding course was developed which better covered the services delivered by a district council. The facility was also used to role out Systems Thinking training across the council. Reviews of the effectiveness of the new processes adopted for training and development is planned for 2015/16

Academy10 - Windows Internet Explorer provided by Fareham Borough Council
http://www.fareham.skillgate.com/skg/home/acq_tut.cfm?ses=18333&a=b&acqiframe=0&portal=1&CFID=54561015&CFTOKEN=31753501

FAREHAM BOROUGH COUNCIL

Safeguarding Awareness

Safeguarding Awareness

- Introduction
- Safeguarding - What is it?
- What is Abuse?
- A Family Portrait & Vulnerable Adults
- Guidance & Reassurance
- So What Now?
- Conclusion

Welcome to Fareham's Safeguarding Awareness training module. The aim of this course is to increase your awareness and understanding of what Safeguarding means and how it might affect you as an employee of Fareham Borough Council.

Please work through the module which has been produced using both written learning material and video content. You will need access to a set of headphones for when you are watching the videos.

The course should take about half an hour to complete.
When you are ready to go to the next lesson, click on the link below.

[Proceed](#)

Change Management

The Council seeks to avoid complacency and continuously challenges the way it works. We are applying the 'Systems Thinking' approach to front line and support services and sharing the lessons learned to employees via 'show

and tell' days. As new ways of delivering services are adopted, the employee structure of the service is also reviewed so that resources match the revised process of working.

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 and the public, showing actual performance against budgets for the year to date. This can be found at http://www.fareham.gov.uk/pdf/about_the_council/councilport.pdf.

Periodic 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 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).

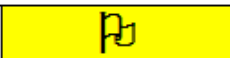

Internal Audit and Audit and Governance Committee

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

In 2014/15 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 and maintain independence.

Managers receive a report of findings following an internal audit review and an action plan is agreed to address any weaknesses found.

FINDINGS CATEGORIES

+	Advisory	
	Important	
	Essential	

These actions are tracked until they are completed. A new action management system has been developed in 2014/15 to improve the information available to managers and help capture updates on implementation. The system will be rolled out to users in 2015/16.

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 that in 2014/15 we

fully conformed with 45 of the 52 standards and partially conformed with another 5. This reflects some improvements made in 2014/15 including an updated risk assessment of the audit universe and launch of a stronger Audit Strategy in terms of the needs of the organisation and compliance with the 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 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 gives joint responsibility for ensuring the Council identifies changes in legislation and has the right policies and procedures in place to ensure on-going compliance.

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 carry out tests of compliance with key rules. Additional assurance mechanisms may be introduced to provide information on compliance with our policies when needed.

For example, in 2015/16 we will be piloting a new assurance process in relation to our Transport Policy.

Key policies are regularly reviewed to ensure they are up to date and relevant and new and refresher training is rolled out when considered appropriate.

For example, in 2014/15 investigator workshops were held giving updates on the Data Protection Act and Regulation of Investigatory Powers Act.

The Council's Financial Regulations are being reviewed. This is to streamline them down to the key rules that are necessary for the Council to manage its financial affairs within the resources available. All but one 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.

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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. The next report is due to be received in July 2015 where one conclusion of maladministration by the Council is expected.

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. These include training, data matching exercises and strengthening our policies and procedures.

Risk assessments are being carried out on the top frauds faced by councils, to maximise the cost effectiveness of our approach to the prevention and detection of the risks posed by these frauds in our borough.

In 2014/15 the Council's benefit investigators were transferred to the Department of Work and Pensions. However, the Council has taken action to ensure that it still has professional

investigator resources available. Work will be carried out in 2015/16 to update our investigation and sanctions policies to reflect the changes.

Benefit cheat family members brought to book over Whiteley house



The family pleaded guilty to fraud charges.



by Kimberley Barber

kimberley.barber@fareham.gov.uk

published

07:39 Saturday 28 June 2014

THREE members of a family who faked rent books and forged signatures in order to claim housing benefit have been given conditional discharges.

The Audit and Governance Committee receive 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 some services by entering into partnership agreements. These are assessed for their significance 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 risks managed on the Council's Corporate Risk Register.

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 March 2015 to confirm the significance of the partnership, review any potential governance issues and review how each is performing. 10 partnerships were deemed significant to the Council in 2014/15.

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.

A new Joint Panel was set up in 2014/15 to oversee the new Environmental Health Partnership with Gosport Borough Council which was the recipient of an IESE award in 2015. Governance arrangements will be updated in 2015/16 for the Building Control Partnership which is expanding to include Portsmouth City Council.

Review of Effectiveness

Fareham Borough Council has responsibility for conducting a review of the effectiveness of its governance framework, including the system of internal control. This is done at least once a year. 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.
- 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 once 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 2014/15 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.

FAREHAM BOROUGH COUNCIL

CHIEF EXECUTIVE'S ASSURANCE GROUP AGENDA

Meeting to be held on 26 March 2015

at 15.00 in the Chief Executive's Office, Floor 7

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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 September 2015.

The opinion given was that:

The Council had a framework of governance, risk management and control for the year 2014/15 which was generally working effectively. There is awareness amongst managers about their top risks and the importance of control mechanisms within the developing Systems Thinking culture, and the need to address any major weaknesses found.

The opinion is particularly based on the fact that:

- no “minimal” audit assurance opinions were again given this year;
- the service audited which had undergone a Systems Thinking intervention has been given a “strong” audit assurance opinion.
- there were no outstanding essential recommendations at the time of the 2014 recommendation survey.
- 2 of the 3 older recommendations targeted for assistance with implementation this year have now been signed off as implemented .

However, it is noted that 2 errors in income and expenditure totalling £1,000 were found this year during audits which is higher than in previous years.

Actions have been agreed where opportunities to enhance the adequacy and effectiveness of governance, risk management and control have been noted during the year. Key projects include:

- Applying Systems Thinking to the Risk Management framework
- Strengthening the processes which give assurance on compliance with the Council's Transport Policy by those who drive their own vehicles on Council business.
- Rolling out of the Data Protection refresher training that is being developed in Skillgate.
- Clarifying the ICT security and assurance responsibilities following the Systems Thinking intervention and team restructure.
- Updating the Financial Regulation on Procurement to be clear on the expectations in relation to pricing variation orders and reporting overspends.

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 the work carried out last year were

summarised in their Annual Audit Results Report which was presented to the Audit and Governance Committee in September 2014 and circulated to Members and the statutory officers. This report was



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

- Certification report from the External auditors 2014.
- Report of the Local Government Ombudsman 2013/14.
- Report of the Office of Surveillance Commission 2015.
- Food Standards Agency letter in 2015 confirming completion of actions.
- Inspections by the Driver and Vehicle Licensing Agency on our use of their web-enabled and batch enquiry services .
- Results of the Risk Management Standards Assessment Health checks carried out by Zurich Municipal in 2014.
- Results of IT Health checks (external and internal penetration tests) carried out by an external firm.
- Hampshire County Council review of our safeguarding arrangements.
- Partnership coverage by other internal audit teams.



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 2014/15

The annual review of effectiveness have identified that the following significant actions were taken during 2014/15 to strengthen our governance arrangements:

- ✓ Second phase of Systems Thinking work delivered. Five services have progressed through a Systems Thinking intervention with reported savings of £168,000 and significant improvement in service measures and customer satisfaction.
- ✓ Council website updated to publish information required under the Local Government Transparency Code 2014.
- ✓ Review of the effectiveness of the Community Action Team meetings from the customers point of view completed.
- ✓ A new Joint Panel was set up to oversee the new Environmental Health Partnership.
- ✓ Governance arrangements established for The Local Housing Company and the Western Wards Pool.
- ✓ Updated version of the constitution was published online and a new approach has been established to speed up updating the constitution in the future.
- ✓ Officer scheme of delegation updated following the outcomes of the Planning System Thinking intervention.
- ✓ Training and development undertaken by the new Monitoring Officer.
- ✓ Breaches of member code of conduct, which have been handled by the Monitoring Officer, are now being reported to the next available Audit and Governance Committee meeting.
- ✓ Local pay review completed.
- ✓ Review completed to rationalise our cover of insurable risks and align the approaches taken by neighbouring authorities.
- ✓ Expanded our use of the Skillgate authoring tool to create our own local online training courses where the generic course does not meet our needs.
- ✓ The new Internal Audit Strategy for the Council was devised and the risk assessment of the audit universe was updated.
- ✓ Investigator workshops were held giving updates on the Data Protection Act and Regulation of Investigatory Powers Act. (RIPA)
- ✓ The Councils RIPA policy was updated as recommended by the office of Surveillance Commissioners inspector and the new code of practice .
- ✓ Ensured investigative resources still available after officers transferred to the Department of Work and Pensions.
- ✓ Introduced council wide collation of statistics of fraud cases investigated and abuse found and published these in accordance with the transparency code.
- ✓ The new responsible team for business continuity were embedded in the role and first actions completed which were reported to the Audit and Governance Committee.

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:

- Complete the third phase of works to apply Systems Thinking to the Council's services.
- Review the residents' survey process to make the measures of customer satisfaction more meaningful.
- Governance arrangements to be established for the New Welborne Community and the Solent Enterprise Zone at the Daedalus site.
- Review the progress and impact of the new individual performance management initiative.
- Review the effectiveness of the new corporate approach to employee training.
- Further review the Risk Management Policy to apply Systems Thinking to the process.
- Finalise and launch the revised employee gifts and hospitality and interests policy.
- Refresh the member training plan and review how well the new process is working for members.
- Roll out the new action management system to improve the efficiency in the way that we manage recommendations arising from audit reports.
- Embed the new arrangements for Health and Safety Management .
- Roll out bespoke Data Protection training on Skillgate.
- Pilot the proposals to strengthen the assurance available on compliance with the Council's Transport Policy.
- Update the Sanctions and Redress Policy to reflect the changes that have occurred to benefits fraud investigation.
- Governance arrangements to be updated for the Building Control Partnership to take account of the new third partner.
- Carry out a fundamental review of the emergency planning process and apply System Thinking principles.

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: September 2015

Signed:

P.K.Grimwood
Chief Executive Officer
Fareham Borough Council

Dated: September 2015

FAREHAM
BOROUGH COUNCIL

**Report to
Audit and Governance Committee**

Date **21 September 2015**

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

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

SUMMARY

This report reviews the current Work Programme and training plan 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 2015/16

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. One change has been made to the programme as follows:
 - The six-monthly progress report on the Corporate Risk register has been postponed as we are currently challenging our risk management framework using “system thinking” principles.

TRAINING PLAN

4. The training session on the Annual Governance Statement (AGS) will be delivered before this meeting.

RISK ASSESSMENT

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

CONCLUSION

6. 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 2015/16

Appendices:

[Appendix A](#) – Audit and Governance Committee Work Programme 2015/16 as at September 2016.

Enquiries:

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

WORK PROGRAMME FOR 2015/16

Committee Function and Report Subject		Frequency	Last Reviewed	June 2015	September 2015	November 2015	March 2016
COMMITTEE WORKING ARRANGEMENTS							
Review of Work Programme and training plan		Quarterly	2015-16	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							
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	2014-15		Completed		
Member Training and Development	Review of Members Training and Development and Determination of Programme	Annual	2014-15	Postponed to Sept	Completed		
GOVERNANCE FRAMEWORK							
Framework	Local Code of Corporate Governance	As needed	2012-13				
	Annual Governance Statement	Annual	2014-15		Completed		
Key Policy	Review of Financial Regulations	3 yearly	2014-15	Postponed			
	Review of Contract Procedure Rules	3 yearly	2013-14	Postponed			
	Treasury Management Policy and Strategy	Annual	2014-15			YES- implementation	YES- Policy and indicators
Risk Management	Policy and Strategy	As needed	2012-13				
	Risk Management Progress Reports	6 monthly	2014-15		Postponed		YES
	Business Continuity	3 yearly	2014-15				
	Specific Risk Management topics	As needed	None				
Counter Fraud	Benefits Anti-Fraud and Corruption Policy	As needed	2013-14				
	Counter Fraud Policy and Strategy	3 yearly	2013-14				
	Anti-Bribery Policy	As needed	2011-12				
	Sanctions and Redress Policy	As needed	2008-09			YES	
	Counter Fraud Progress	6 monthly	2015-16	Completed		YES	
INTERNAL AUDIT ASSURANCE							
Internal Audit Strategy		3 yearly	2014-15				

Committee Function and Report Subject	Frequency	Last Reviewed	June 2015	September 2015	November 2015	March 2016
Internal Audit Annual Plan	Annual	2014-15				YES
Quarterly Audit Reports	Quarterly	2015-16	Completed	Completed	YES	YES
Head of Audit's Annual Opinion	Annual	2014-15	Postponed to Sept	Completed		
EXTERNAL ASSURANCE						
Annual Plan and Fee	Annual	2015-16	Completed (2 reports)			
Annual Audit Letter	Annual	2014-15			YES	
Annual Certification Report	Annual	2014-15				YES
Specific reports from inspection agencies	As needed	2014-15 (RIPA)				
STATEMENT OF ACCOUNTS						
Statement of Accounts	Annual	2014-15		Completed		
External Audit Audit Results Report	Annual	2014-15		Completed		
OTHER						
Updates on legal issues	As needed	2014-15				
Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
Number of Items			5	8	6	6