

AGENDA
AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 17 July 2017

Time: 6.00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor J E Butts (Chairman)

Councillor P J Davies (Vice-Chairman)

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

Deputies: S Cunningham
Mrs S M Bayford



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

To confirm as a correct record the minutes of the Audit Committee meeting hold on 13 March 2017.
- 3. Chairman's Announcements**
- 4. Declarations of Interest and Disclosures of Advice or Directions**

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

To receive any deputations of which notice has been lodged.
- 6. External Audit Progress Update (Pages 9 - 18)**

To consider a report from the Director of Finance and Resources summarising the work undertaken by the External Auditors since the last meeting and providing an update of their plans for the 2016/17 audit.
- 7. Statement of Accounts (Pages 19 - 98)**

To consider a report by the Director of Finance and Resources on the draft Statement of Accounts for 2016/17.
- 8. Quarterly Audit Reports (Pages 99 - 122)**

To consider the latest Quarterly Audit report by the Head of Finance and Audit.
- 9. Head of Audits Annual Opinion (Pages 123 - 134)**

To consider the Head of Audit's Annual Opinion report by the Head of Finance and Audit.
- 10. Annual Governance Statement (Pages 135 - 164)**

To consider a report by the Head of Finance and Audit on the 2016/17 Annual Governance Statement.
- 11. Financial Regulation 19 - Write Offs (Pages 165 - 168)**

To consider a report by the Head of Finance and Audit proposing an amendment to Financial Regulation 19 in respective of Write Offs.
- 12. Review of Work Programme and Training Plan (Pages 169 - 172)**

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



P GRIMWOOD
Chief Executive Officer

Civic Offices
www.fareham.gov.uk
7 July 2017

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

FAREHAM

BOROUGH COUNCIL

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

Date: Monday, 13 March 2017

Venue: Collingwood Room - Civic Offices

PRESENT:

Miss T G Harper (Chairman)

P J Davies (Vice-Chairman)

Councillors: F Birkett, Mrs M Brady, J E Butts, Mrs T L Ellis and S D Martin

**Also
Present:**



1. APOLOGIES

There were no apologies received at this meeting.

2. MINUTES

RESOLVED that the minutes of the Audit and Governance Committee held on the 28 November 2016 be confirmed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

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

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest made at this meeting.

5. DEPUTATIONS

There were no deputations made at this meeting.

MATTERS CONSIDERED FOR CONFIRMATION

6. REVISED RISK MANAGEMENT POLICY

The Committee received a report by the Head of Finance and Audit on the Revised Risk Management Policy.

RESOLVED that the Committee approve the report for adoption by the Council.

7. ANNUAL AUDIT AND GOVERNANCE COMMITTEE REPORT, WORK PROGRAMME AND TRAINING PLAN

The Committee considered a report by the Head of Finance and Audit which summarises the work carried out by the Audit and Governance Committee during the current year 2016/17 and proposes the programme of work for 2017/18.

RESOLVED that the Committee: -

(a) note the contents of the report and;

(b) submit the work programme for 2017/18, as set out in Appendix A, to Council for endorsement.

DECISIONS MADE UNDER DELEGATED POWERS

8. EXTERNAL AUDIT ANNUAL CERTIFICATION REPORT

(Councillor J E Butts joined the meeting during agenda item-6, minute item-8)

The Committee considered a report from the Director of Finance and Resources on the External Auditors work carried out for the 2015/16 Housing Benefit Subsidy Claim.

RESOLVED that the Committee: -

- (a) considered the information contained within the report and;
- (b) commented on the findings of the Annual Certification Report 2015/16 submitted by the Councils external auditors.

9. EXTERNAL ANNUAL PLAN AND FEE

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

Members were introduced to Jason Jones from Ernst and Young who has recently been appointed Manager in charge of the Annual Plan and who will be presenting this report to the Committee at future meetings.

The Chairman addressed the Committee regarding paragraph 4.7 of the report asking members how they would like to receive the progress report at the July meeting. Members agreed that they would like to receive this item as a written report.

RESOLVED that the Committee approved: -

- (a) the 2016/17 Audit Plan, attached as Appendix A to the report and;
- (b) the fees proposed for the External Audit of 2016/17.

10. ARRANGEMENTS FOR THE APPOINTMENT OF THE NEXT EXTERNAL AUDITORS - UPDATE

The Committee received a verbal update from the Director of Finance and Resources updating members on the Arrangements for the Appointment of the next External Auditors from April 2018.

The Finance Strategy and Development Manager addressed the Committee giving Members an outline of the PSAA (Public Sector Audit Appointments) process and confirming that the Council had now formally opted into the process. They were also advised that following a consultation period the award should be officially announced at the end of December 2017. A further update will be brought to the Committee at the next meeting on the 17 July 2017.

RESOLVED that the Committee note the information within the verbal update.

11. TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2017-18

The Committee received a report by the Director of Finance and Resources on the proposed Treasury Management Strategy and Prudential Indicators for 2017/18.

RESOLVED that the Committee noted the contents of the report.

12. INTERNAL AUDIT ANNUAL PLAN

The Committee considered a report by the Head of Finance and Audit on the Internal Audit Annual Plan for 2017/18.

RESOLVED that the Internal Audit Annual Plan 2017/18, be approved.

13. QUARTERLY AUDIT REPORT

The Committee received a report by the Head of Finance and Audit on the work progress and findings from the Internal Audit Work.

RESOLVED that the Committee noted the contents of the report.

14. EXCLUSION OF PUBLIC AND PRESS

RESOLVED that in accordance with the Local Government Act 1972 the Public and Press be excluded from the remainder of the meeting, as the Audit and Governance Committee considers that it is not in the public interest to consider the matters in public on the grounds that they will involve the disclosure of exempt information, as defined in Paragraph 1 of Part 1 of Schedule 12A of the Local Government Act.

15. INTERNAL AUDIT PARTNERSHIP

The Committee considered a report by the Head of Finance and Audit on a proposed Internal Audit Partnership with Portsmouth City Council.

RESOLVED that the Committee delegates authority to the Head of Finance and Audit, in consultation with the Section 151 Officer, to enter into arrangements as are necessary, and on such terms as are reasonable to develop a partnership with Portsmouth City Council for the provision of Internal audit work.

(The meeting started at 6.00 pm
and ended at 7.07 pm).

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date 17 July 2017
Report of: Director of Finance and Resources
Subject: EXTERNAL AUDIT PROGRESS UPDATE

SUMMARY

This report provides an update from the Council's external auditors, Ernst & Young, on the progress made on delivering their Plan for the 2016/17 Audit.

RECOMMENDATION

That the Committee notes the contents of this report.

Appendices:

[Appendix A](#) – External Audit Progress Report 2017/18

Background Papers: None

Reference Papers: None

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

Fareham Borough Council

Audit and Governance Committee Progress Report

June 2017



Audit and Governance Committee
Fareham Borough Council
Civic Offices
Civic Way
Fareham
PO16 7AZ

21 June 2017

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Audit and Governance Committee in March 2017. The purpose of this report is to provide the Committee with an update of our plans for the 2016/17 audit, to ensure they are aligned with your service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Helen Thompson
Executive Director
For and on behalf of Ernst & Young LLP
Enc.

Contents

| | |
|--|----------|
| 2016/17 audit | 2 |
| Looking ahead | 3 |
| Appendix 1 – Timetable for the 2016/17 audit..... | 4 |

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psa.co.uk\)](http://www.psa.co.uk)

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit and Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

2016/17 audit

Financial statements audit

We issued our 2016/17 Audit Plan in March 2017 where we outlined how we intend to carry out our responsibilities as auditor, including our proposed audit approach. Our Plan was presented to the March meeting of the Audit and Governance Committee.

Interim visit

We carried out our interim visit in February 2017, to undertake outstanding documentation and walkthroughs of material systems, complete controls testing and undertake early substantive testing. We have not identified any additional risks from this work that we need to make the Committee aware of, nor are there any issues arising from our work that we need to report to you at this stage but this will be kept under review throughout the audit.

Post Statements audit

Anticipating the move to faster closing, whereby the Council will have to publish its audited statement of accounts by 31 July 2018 for the 2017/18 financial year, we are looking to start our post statements work on the 2016/17 statement of accounts at the beginning of August 2017, which is earlier than has traditionally been the case for the Council.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Our audit results report, setting out the findings of our work and overall conclusions, will be presented to the Audit and Governance Committee at its September meeting.

We have set out an outline timetable for the audit in Appendix 1.

Value for money assessment

We have identified one significant risk to our value for money conclusion, as reported in our Audit Plan.

We expect to complete our detailed work during our post statements audit visit.

2016/17 Grant Certification Work

We have carried out the initial testing of cases for the 2016/17 housing benefit subsidy claim in April 2017. This is significantly earlier than in previous years, and well ahead of the certification deadline of 30 November 2017. This will allow us to identify any areas requiring further testing earlier than has been the case in previous years and to conclude our work earlier, provided that no unforeseen issues are identified. The remaining aspects of our certification work will be carried out in October 2017.

We will present our grant claims certification report to the March 2018 meeting of the Audit and Governance Committee.

Looking ahead

Local appointment of auditors for financial statements audits

As previously reported to the Committee, the Council has joined the PSAA Ltd sector-led process to carry out the procurement and appointment of external auditors on behalf of local government bodies for 2018/19 onwards.

Firms meeting the qualification criteria for the procurement process submitted tenders for the local government audit contract in May 2017. The contract is divided into six lots, with each firm eligible to win a maximum of one lot. The precise make-up of each lot will be determined in the period following the outcome of the tendering process and will be based principally on ensuring auditor independence, trying to achieve continuity of appointed auditor where possible, and appointing a common auditor for bodies with a close association between them.

Tenders are evaluated based on an assessment of audit quality and price, with a 50/50 weighting between these criteria.

The outcome of the tender is expected to be confirmed mid June 2017.

Existing external audit arrangements for the financial statements will remain unchanged for the 2016/17 and 2017/18 financial years.

Local appointment of auditors for grant claim certification

As noted above, from 2018/19, the Council will be responsible for appointing their own auditor, including making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP. This process will be outside the PSAA Ltd sector-led procurement described above, so the Council will need to make its own individual arrangements to appoint an auditor for this work. The appointment process will need to be completed by the end of February 2018.

Further information can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/585740/s1-2017.pdf

Existing external audit arrangements for housing benefit grant claim certification will remain unchanged for the 2016/17 and 2017/18 financial years.

Appendix 1 – Timetable for the 2016/17 audit

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2016/17 Committee cycle. We will provide formal reports to the Audit and Governance Committee throughout our audit process as outlined below.

| Audit phase | EY Timetable | Deliverable | Committee date | Status |
|---|-----------------------------|--|--------------------------|------------------------|
| High level planning | Ongoing | Audit Fee Letter | July 2017 | Complete |
| Risk assessment and setting of scope of audit | February 2017 | Audit Plan | March 2017 | Complete |
| Testing of routine processes and controls | February 2017 | Audit Plan and Progress Report | March 2017 and July 2017 | Substantially complete |
| Year-end audit | August 2017 | Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate | September 2017 | Not yet started |
| Annual Reporting | October 2017 | Annual Audit Letter | November 2017 | Not yet started |
| Grant Claims 2016/17 | April - October 2017 | Annual certification report | March 2018 | In progress |

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

ey.com

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **17 July 2017**

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

Subject: **STATEMENT OF ACCOUNTS 2016/17**

SUMMARY

This report explains the process for auditing, approving and publishing the Statement of Accounts for the year ended 31 March 2017.

This report also summarises the changes to the process as a result of changes to the Accounts and Audit Regulations which requires next year's Accounts to be published by the end of May.

We have therefore carried out a pilot run this year to produce the accounts earlier and now bring the unaudited Statement of Accounts for 2016/17 for member's review.

RECOMMENDATION

It is recommended that the Committee notes:

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

INTRODUCTION

1. The Accounts and Audit Regulations 2015 require every local authority to produce and publish an annual Statement of Accounts in accordance with “proper practice”, and prescribes the procedures to be followed preceding the publication of the accounts and sets out the dates by which the accounts must be approved and published.
2. 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.
3. The unaudited Statement of Accounts set out in Appendix A has been prepared in accordance with the Code.

THE PURPOSE OF THE STATEMENT OF ACCOUNTS

4. 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

5. The Council’s external auditors, Ernst & Young LLP (EY) 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 2017.
6. The auditors will carry out a detailed audit during August 2017 in accordance with the Code of Audit Practice.
7. Before the audit opinion is issued, 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.
8. The published Statement of Accounts will contain the external auditor’s opinion on the accounts and their view as to whether the accounts are a true and fair view of the Council’s financial position and performance for the year.

FASTER CLOSING – ACCOUNTS AND AUDIT REGULATIONS 2015

9. The Accounts and Audit Regulations 2015 came into force with effect from 1 April 2015 required the Council to produce, audit and publish the accounts earlier in future years.
10. The requirements are that next year’s 2017/18 unaudited accounts are produced and published by the end of May (instead of the end of June) and the audited accounts be approved and published by the end of July (instead of the end of September).
11. Although this requirement is effective from 2017/18, officers have used the 2016/17 accounts as a dry run to ensure that the earlier deadlines for next year are achieved.

KEY ISSUES AND MATTERS OF INTEREST

12. The key issues and matters of interest arising from the unaudited Statement of Accounts for 2016/17 are:

- **Holly Hill Leisure Centre** – The £9 million leisure centre in Sarisbury Green opened in October 2016.
- **Housing Stock** – During the year, 10 homes were sold under the right to buy scheme (15 in 2015/16). Also, 35 new flats at the Sylvan Court Sheltered Housing Scheme, at a cost of £4.8 million and 16 new flats in Palmerston Avenue, at a cost of £1.9 million became operational.

The Council housing valuation increased by £18.1m. This was mainly due to the increase in the social housing adjustment factor which increased by 1% to 33% (£10.3 million) and new housing at Sylvan Court and Palmerston Avenue (£7.1 million).

- **Daedalus** - Assets at Daedalus were revalued by an external valuer and increased by £16.4 million. The main increase was at Daedalus East (£13.7 million) which largely reflected the increase in land value due to the development opportunities at the site.
- **Commercial Property Acquisitions** – During the year the Council purchased a new commercial property, as part of the commercial property investment acquisition programme, at a cost of £11.2 million (two were purchased in 2015/16 for £9.9 million).
- **Investments** – The Council's investments reduced from £32.4 million to £14.8 million at year end. This was mainly due to using internal borrowing for the commercial property acquisition and the purchase of two cottages on the proposed Welborne site.
- **Community Infrastructure Levy (CIL)** – The Council raised £2.5 million from CIL during 2016/17 (£1.1 million in 2015/16). This has been transferred to the Council's capital reserves. £370,000 of CIL reserves were used to fund the Hill Head coastal protection scheme and bus shelter improvements.
- **Pension Fund** – The Council's pension fund liability increased by £9.1 million to £58.3 million during 2016/17 (£2.8 million decrease in 2015/16). The main reason for the change is due to actuarial gains as a result of changes to the financial assumptions used.
- **Reserves** – The General Fund reserve increased by £812,000 reflecting the net underspend in year on revenue income and expenditure. Council reserves now total £156.2 million, £32 million of which are in 'usable' reserves which can be used to fund Council services; subject to certain limitations and the need to maintain prudent reserves for financial stability.

CHANGES TO THE CONTENT OF THE STATEMENT OF ACCOUNTS

13. The 2016/17 Code has changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced a new note (Note 1) called the Expenditure and Funding Analysis.
14. Both statements now include a segmental analysis based on how the Council is structured and how we operate, monitor and manage financial performance. The statements therefore show the costs separately by committees, portfolios and the Housing Revenue Account rather than a nationwide standardised type of service such as Cultural Services and Highways and Transport Services.
15. The Comprehensive Income and Expenditure Statement figures for 2015/16 have been restated to reflect the new reporting segments.
16. There are also two new notes to supplement the External and Funding Analysis:
 - Note 2 - Note to the Expenditure and Funding Analysis
 - Note 3 - Expenditure and Income Analysed by Nature

THE CONTENT OF THE STATEMENT OF ACCOUNTS

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

Narrative Report

18. The narrative report 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

19. 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

20. 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.

Core Statements

21. 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.

22. The following supplementary statements are also included:

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

Glossary

23. 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

24. The external auditor's opinion on the accounts will be included after the audit has been completed and will be included within the final published document will be published by 30 September 2017.

RISK ASSESSMENT

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

CONCLUSION

26. Members are asked to note:-

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

Background Papers: None

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

Appendix A: Unaudited Statement of Accounts 2016/17

Enquiries:

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



DRAFT

Statement of Accounts
Fareham Borough Council
2016/17

FAREHAM
BOROUGH COUNCIL

Contents

1. NARRATIVE REPORT AND WRITTEN STATEMENTS

Narrative Report

Page 6

Statement of Responsibilities for the Statement of Accounts

Page 12

2. CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

Page 16

Balance Sheet

Page 17

Movement in Reserves Statement

Page 18

Cash Flow Statement

Page 20

3. NOTES TO THE ACCOUNTS

Page 22

4. SUPPLEMENTARY ACCOUNTS AND EXPLANATORY NOTES

Housing Revenue Account and Explanatory Notes

Page 62

Collection Fund Account and Explanatory Notes

Page 67

5. GLOSSARY OF TERMS

Page 69

6. INDEPENDENT AUDITOR'S REPORT

Page 73

7. CONTACTS

Page 74



1. Written Statements and Narrative Report

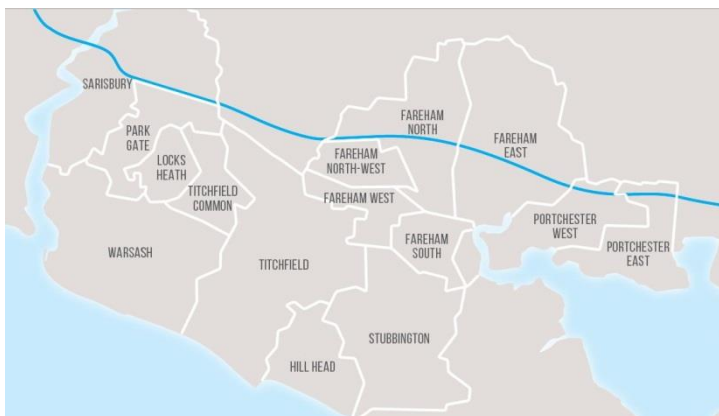
Narrative Report

An introduction to Fareham

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

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

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



What does the Council do?

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

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

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

Political issues

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

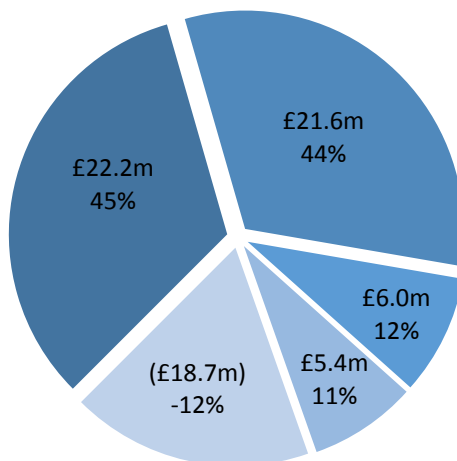
Each councillor is elected for a 4 year term of office. Elections are held every two years, with one half of the Council seats elected each time. There are currently three political groups within Fareham Borough Council; Conservative, Liberal Democrats and United Kingdom Independence Party and one Independent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

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

Where the money comes from

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

Total Income £43.2 million

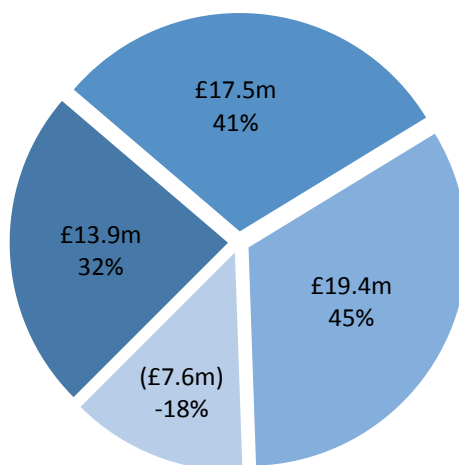


- Income from services
- Government grants to services
- Council tax payers
- Central government funding
- Use of reserves and corporate income

What the money is spent on

The main types of expenditure on services.

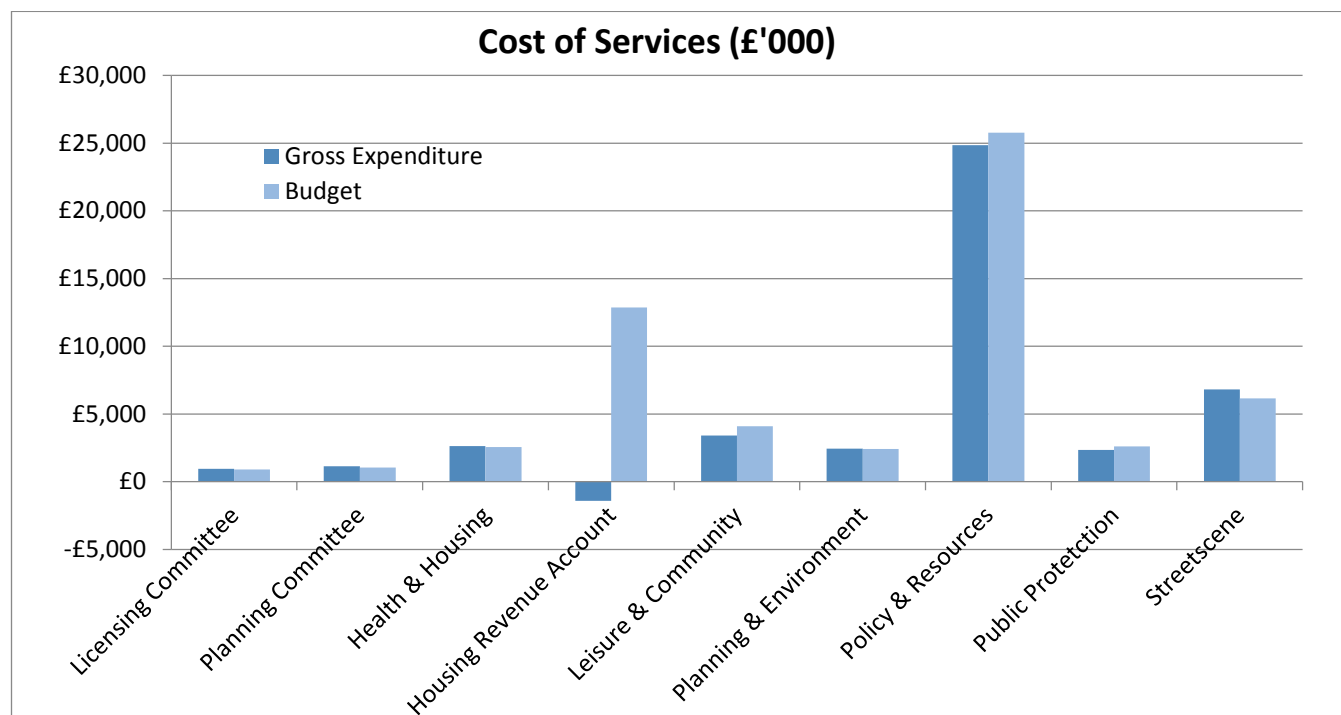
Total Spend £43.2 million



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

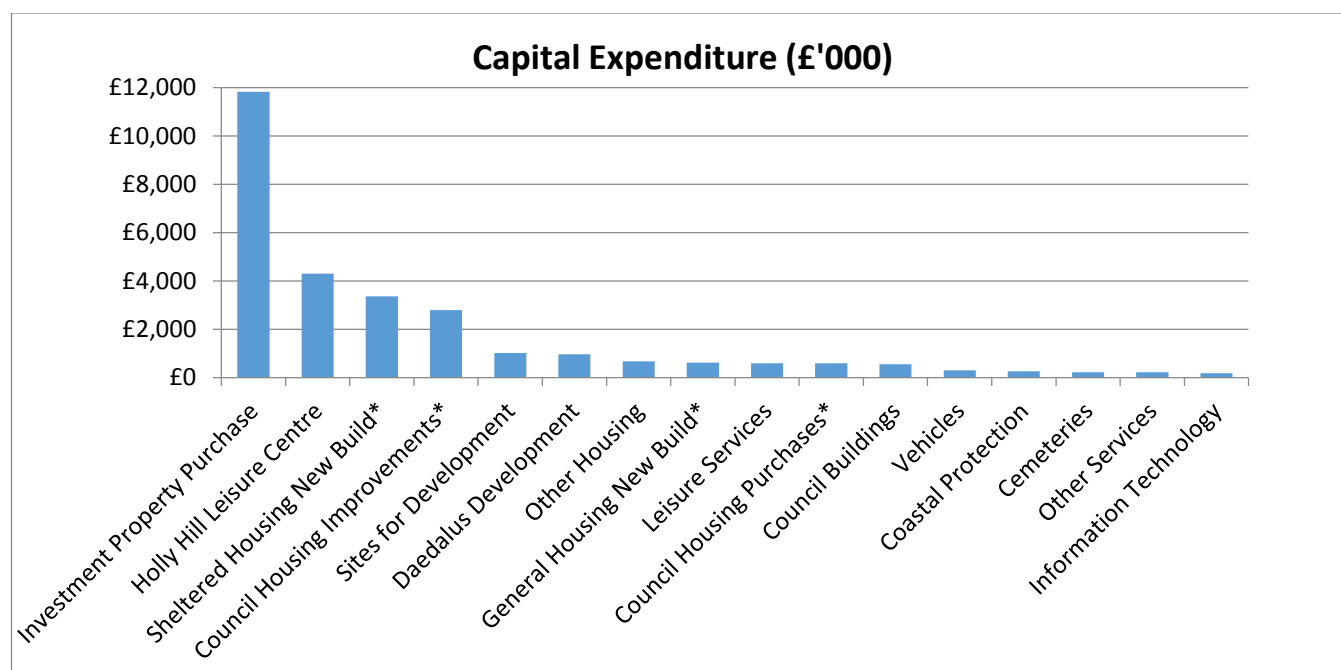
Services provided

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



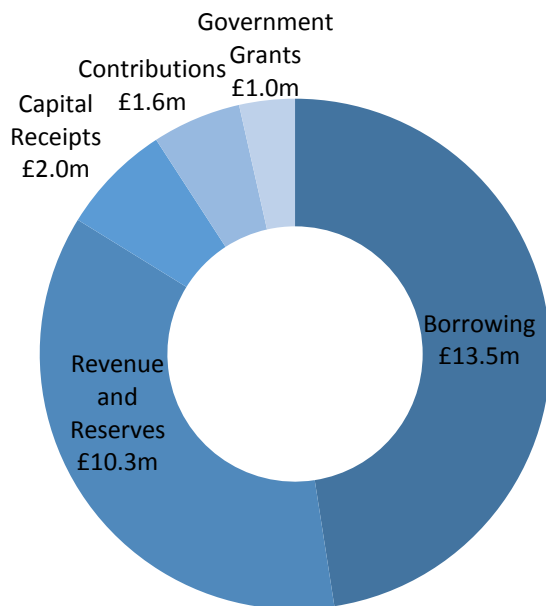
Capital

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



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

Capital Expenditure Financing



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

Assets are shown on the Balance Sheet net of depreciation. The net book value of the Council's non-current assets at 31 March 2017 was £258 million (2015/16 £207 million).

Reserves

The Council's total usable reserves at 31 March 2017 amounted to £32.0 million (2015/16 £35.7 million). Against this, the actuarial valuation of the Council's share of pension fund assets and liabilities at 31 March 2017 indicated a £58.3 million (2015/16 £49.2 million) deficiency of assets compared with future liabilities to current members of the pension scheme. This liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. The actuarial valuation will be reviewed each year, and will reflect further payments into the fund, and movements in the value of investments of which a large proportion is held in equities. The deficiency could increase, decrease, or become a surplus before the majority of liabilities (pension benefits) become payable.

Significant developments during the year

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

Holly Hill Leisure Centre

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



Sylvan Court

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

Solent Airport and Business Parks

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

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



Commercial Property Acquisitions

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

Explanation to accounting statements

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

The **Core Financial Statements** are:

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Movement in Reserves Statement

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

Cash Flow Statement

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

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

The **Supplementary Financial Statements** are:

Housing Revenue Account

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

Collection Fund

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

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

Statement of Responsibility for the Statement of Accounts

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. This is the Directors of Finance and Resources;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts. Responsibility for this has been delegated to the Audit and Governance Committee.

THE DIRECTOR OF FINANCE AND RESOURCES' RESPONSIBILITIES

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

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

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

The Director of Finance and Resources has also:

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

Andrew Wannell CPFA

Director of Finance and Resources

Date: 30 June 2017

APPROVAL OF THE STATEMENT OF ACCOUNTS

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

Councillor Jonathan Butts

Chairman of the Audit and Governance Committee

Date: 25 September 2017



2. Core Financial Statements

Comprehensive Income and Expenditure Statement

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

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

| 2015/16 (Restated) | | | | 2016/17 | | |
|--------------------|-----------------------|------------------|--|--------------------|-----------------------|------------------|
| Gross Exp £'000 | Gross Income £'000 | Net Exp £'000 | Note | Gross Exp £'000 | Gross Income £'000 | Net Exp £'000 |
| 737 | (348) | 389 | Licensing and Regulatory Affairs Committee | 959 | (430) | 529 |
| 1,084 | (499) | 585 | Planning Committee | 1,136 | (613) | 523 |
| 2,487 | (1,254) | 1,233 | Health and Housing Portfolio | 2,637 | (1,684) | 953 |
| 7,189 | (12,315) | (5,126) | Housing Revenue Account* | (1,417) | (12,540) | (13,957) |
| 4,326 | (1,569) | 2,757 | Leisure and Community Portfolio | 3,399 | (1,533) | 1,866 |
| 2,090 | (3,059) | (969) | Planning and Environment Portfolio | 2,448 | (2,749) | (301) |
| 25,974 | (22,083) | 3,891 | Policy and Resources Portfolio | 24,847 | (22,012) | 2,835 |
| 2,317 | (522) | 1,795 | Public Protection Portfolio | 2,342 | (521) | 1,821 |
| 6,433 | (2,077) | 4,356 | Streetscene Portfolio | 6,804 | (1,836) | 4,968 |
| 52,637 | (43,726) | 8,911 | Cost of Services | 43,155 | (43,918) | (763) |
| | | | Other Operating Expenditure | | | |
| | | (811) | (Gain)/loss on disposal of assets | | | (399) |
| | | 199 | Housing capital receipts | | | 179 |
| | | | Financing and Investment Income and Expenditure | | | |
| | | 1,405 | Interest payable | | | 1,405 |
| | | (382) | Interest receivable | | | (272) |
| | | 1,620 | Pension net interest cost | 15 | | 1,630 |
| | | | Changes in fair value of investment properties | 17 | | 1,708 |
| | | (2,451) | Investment properties rental and expenses | 17 | | (3,283) |
| | | | Taxation and Non-Specific Grant Income | | | |
| | | (5,867) | Council tax income | | | (6,121) |
| | | (2,003) | Non-domestic rates income | | | (2,394) |
| | | (5,908) | Grants and contributions not distributable to services | 9 | | (7,075) |
| | | (5,769) | (Surplus)/Deficit on Provision of Services | | | (15,385) |
| | | | (Surplus)/deficit on revaluation of property, plant and equipment assets | | | (19,646) |
| | | (4,752) | Pension liability re-measurements | 15 | | 7,346 |
| | | (5,234) | Other Comprehensive Income and Expenditure | | | (12,300) |
| | | (11,003) | Total Comprehensive Income and Expenditure | | | (27,685) |

* A revaluation gain of £8.7 million in 2016/17 has been charged to the Housing Revenue Account under gross expenditure. See note 19 and the Housing Revenue Account note 7 for more details.

Balance Sheet

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

| 31 March 2016 £'000 | | Note | 31 March 2017 £'000 |
|------------------------|--------------------------------------|--------|------------------------|
| | Property, Plant and Equipment | 16 | |
| 99,386 | - Council dwellings | | 117,519 |
| 50,939 | - Other land and buildings | | 81,554 |
| 435 | - Infrastructure | | 835 |
| 2,942 | - Vehicles, plant and equipment | | 2,769 |
| 348 | - Community assets | | 345 |
| 187 | Heritage assets | | 198 |
| 44,335 | Investment properties | 17 | 54,413 |
| 7,999 | Assets under construction | | 444 |
| | - Surplus assets held for disposal | | - |
| 57 | Intangible assets | | 34 |
| 3,000 | Long term investments | 29 | - |
| 72 | Long term debtors | | 69 |
| 209,700 | Total long term assets | | 258,180 |
| 27,229 | Short term investments | 29 | 9,068 |
| 341 | Assets held for sale | 18 | 341 |
| 75 | Inventories | | 124 |
| 4,417 | Short term debtors | 22 | 8,814 |
| 178 | Payments in advance | | 236 |
| 2,861 | Cash and cash equivalents | 21, 29 | 6,006 |
| 35,101 | Current assets | | 24,589 |
| (669) | Bank overdraft | 21 | (235) |
| (4,826) | Short term borrowing | 29 | (1,835) |
| (6,488) | Short term creditors | 23 | (11,953) |
| (33) | Depositors | | (39) |
| (4,057) | Provisions | 24 | (3,207) |
| (16,073) | Current liabilities | | (17,269) |
| (6,517) | Receipts in advance - capital grants | 25 | (7,525) |
| (1,163) | Receipts in advance - revenue grants | 25 | (334) |
| (40,000) | Long term borrowing | 29 | (40,000) |
| (3,369) | Long term creditors | | (3,200) |
| (49,194) | Pension scheme liability | 15 | (58,271) |
| (100,243) | Long term liabilities | | (109,330) |
| 128,485 | Net assets | | 156,170 |
| 35,705 | Usable reserves | 6, 26 | 32,023 |
| 92,780 | Unusable reserves | 28 | 124,147 |
| 128,485 | Total Reserves | | 156,170 |

Movement in Reserves Statement

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

| | General Fund Balance £'000 | Ear-marked Reserves £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Reserves £'000 |
|--|-------------------------------|------------------------------|----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|--------------------------------|----------------------------|-------------------------|
| Balance at 31 March 2016 | 6,038 | 20,000 | 3,688 | - | 4,631 | 1,348 | 35,705 | 92,780 | 128,485 |
| Movement in reserves in year | | | | | | | | | |
| Total Comprehensive Income and Expenditure | 2,623 | - | 12,762 | - | - | - | 15,385 | 12,300 | 27,685 |
| Adjustments between accounting basis and funding basis under regulations | (4,852) | (3,544) | (11,889) | (17) | (931) | 2,166 | (19,067) | 19,067 | - |
| Transfers to/(from) earmarked reserves | 3,041 | (922) | (2,120) | 24 | (23) | - | - | - | - |
| Increase/(decrease) in year | 812 | (4,466) | (1,247) | 7 | (954) | 2,166 | (3,682) | 31,367 | 27,685 |
| Balance at 31 March 2017 | 6,850 | 15,534 | 2,441 | 7 | 3,677 | 3,514 | 32,023 | 124,147 | 156,170 |

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

Cash Flow Statement

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

| 2015/16 £'000 | | Note | 2016/17 £'000 |
|------------------|--|------|------------------|
| 5,769 | Net surplus/(deficit) on the provision of services | | 15,385 |
| 7,620 | Adjustments to surplus/(deficit) on the provision of services for non-cash movements | 34 | (5,163) |
| (4,531) | Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities | 35 | 16,739 |
| 8,858 | Net Cash Flows from Operating Activities | | 26,961 |
| | Investing Activities | | |
| (23,188) | Purchase of property, plant and equipment, investment property and intangible assets | | (26,315) |
| (22,000) | Purchase of short and long term investments | | - |
| 1,685 | Proceeds from property, plant and equipment, investment property and intangible assets | | 1,205 |
| 19,000 | Proceeds from short and long term investments | | - |
| 1,686 | Other receipts from investing activities | | 3,299 |
| (22,817) | Net Cash Flows from Investing Activities | | (21,811) |
| | Financing Activities | | |
| 3,244 | Cash receipts of short and long term borrowing | | 209 |
| (3,079) | Other receipts from financing activities | | 1,421 |
| (200) | Repayments of short and long term borrowing | | (3,201) |
| (35) | Net Cash Flows from Financing Activities | | (1,571) |
| (13,994) | Net increase/(decrease) in cash and cash equivalents | | 3,579 |
| 16,186 | Cash and cash equivalents at the beginning of the reporting period | 22 | 2,192 |
| 2,192 | Cash and cash equivalents at the end of the reporting period | | 5,771 |



3. Notes to the Accounts

Note 1 Expenditure and Funding Analysis

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

| 2015/16 | | | 2016/17 | | | |
|--|---|--|--|--|---|--|
| Net Expenditure Chargeable to the General Fund and HRA Balances £'000 | Adjustments between the Funding and Accounting Basis £'000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 | | Net Expenditure Chargeable to the General Fund and HRA Balances £'000 | Adjustments between the Funding and Accounting Basis £'000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 |
| 378 | 11 | 389 | Licensing and Regulatory Affairs Committee | 524 | 5 | 529 |
| 538 | 47 | 585 | Planning Committee | 500 | 23 | 523 |
| 1,110 | 123 | 1,233 | Health and Housing Portfolio | 261 | 692 | 953 |
| (2,912) | (2,214) | (5,126) | Housing Revenue Account | 1,105 | (15,062) | (13,957) |
| 1,518 | 1,239 | 2,757 | Leisure and Community Portfolio | 1,367 | 499 | 1,866 |
| (631) | (338) | (969) | Planning and Environment Portfolio | (354) | 53 | (301) |
| 1,586 | 2,305 | 3,891 | Policy and Resources Portfolio | (398) | 3,233 | 2,835 |
| 1,861 | (66) | 1,795 | Public Protection Portfolio | 1,925 | (104) | 1,821 |
| 4,082 | 274 | 4,356 | Streetscene Portfolio | 4,208 | 760 | 4,968 |
| 7,530 | 1,381 | 8,911 | Cost of Services | 9,138 | (9,901) | (763) |
| (8,166) | (6,514) | (14,680) | Other Income and Expenditure | (4,236) | (10,386) | (14,622) |
| (636) | (5,133) | (5,769) | (Surplus) or Deficit | 4,902 | (20,287) | (15,385) |
| (29,090) | | | Opening General Fund and HRA Balance at 1 April | (29,726) | | |
| 1,686 | | | Less Surplus/(Deficit) on General Fund and HRA Balance in Year | 435 | | |
| (2,322) | | | Less Transfers (to)/from Earmarked Reserves | 4,466 | | |
| (29,726) | | | Closing General Fund and HRA Balance at 31 March | (24,825) | | |

Note 2 Note to the Expenditure and Funding Analysis

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

| 2016/17 | | | | |
|--|---|--|--------------------------------|----------------------------|
| Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes (1) £'000 | Net Changes for the Pension Adjustments (2) £'000 | Other Differences (3) £'000 | Total Adjustments £'000 |
| Licensing and Regulatory Affairs Committee | - | 5 | - | 5 |
| Planning Committee | - | 23 | - | 23 |
| Health and Housing Portfolio | 672 | 20 | - | 692 |
| Housing Revenue Account | (8,733) | 42 | (6,371) | (15,062) |
| Leisure and Community Portfolio | 594 | 21 | (116) | 499 |
| Planning and Environment Portfolio | 27 | 26 | - | 53 |
| Policy and Resources Portfolio | 1,440 | 122 | 1,671 | 3,233 |
| Public Protection Portfolio | (127) | 23 | - | (104) |
| Streetscene Portfolio | 693 | 67 | - | 760 |
| Net Cost of Services | (5,434) | 349 | (4,816) | (9,901) |
| Other income and expenditure from the Expenditure and Funding Analysis | 1,114 | 1,672 | (13,172) | (10,386) |
| Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services | (4,320) | 2,021 | (17,988) | (20,287) |
| 2015/16 | | | | |
| Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes (1) £'000 | Net Changes for the Pension Adjustments (2) £'000 | Other Differences (3) £'000 | Total Adjustments £'000 |
| Licensing and Regulatory Affairs Committee | - | 10 | 1 | 11 |
| Planning Committee | - | 47 | - | 47 |
| Health and Housing Portfolio | 29 | 44 | 50 | 123 |
| Housing Revenue Account | (2,322) | - | 108 | (2,214) |
| Leisure and Community Portfolio | 1,247 | 52 | (60) | 1,239 |
| Planning and Environment Portfolio | 36 | 39 | (413) | (338) |
| Policy and Resources Portfolio | (377) | 143 | 2,549 | (2,305) |
| Public Protection Portfolio | (124) | 47 | 11 | (66) |
| Streetscene Portfolio | 517 | 143 | (386) | 274 |
| Net Cost of Services | (994) | 525 | 1,850 | 1,381 |
| Other income and expenditure from the Expenditure and Funding Analysis | (3,128) | 1,930 | (5,316) | (6,514) |
| Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services | (4,122) | 2,455 | (3,466) | (5,133) |

Notes

1) Adjustments for Capital Purposes:

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

Other Income and Expenditure from the Expenditure and Funding Analysis

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

2) Net Changes for the Pension Adjustments:

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

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

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

3) Other Differences:

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

Note 3 Expenditure and Income Analysed by Nature

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

| Expenditure/Income | 2016/17 £'000 | 2015/16 £'000 |
|--|------------------|------------------|
| Expenditure | | |
| Employee benefits expenses | 13,102 | 13,854 |
| Other services expenses | 43,610 | 43,146 |
| Support service recharges | (1,523) | (765) |
| Interest payments | - | (1,728) |
| Depreciation, amortisation and impairment | (7,025) | (2,211) |
| Payments to housing receipts pool | 179 | 574 |
| Gain/loss on the disposal of assets | (399) | (1,186) |
| Total expenditure | 47,944 | 55,140 |
| Income | | |
| Fees, charges and other service income | (26,487) | (25,125) |
| Interest and investment income | (551) | (705) |
| Income from council tax and non-domestic rates | (8,516) | (7,870) |
| Government grants and contributions | (27,775) | (27,209) |
| Total Income | (63,329) | (60,909) |
| Surplus or Deficit on the Provision of Services | (15,385) | (5,769) |

Note 4 New Accounting Standards yet to be adopted

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

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

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

Note 5 Critical Judgements in Applying Accounting Policies

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

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

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

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

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

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

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

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

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

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

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|--|--|
| 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 £52,000 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 15 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 £1.66 million in 2015/16 (2015/16 £1.7 million) based on what it believes to be a prudent but realistic level. | If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £83,000 (2015/16 £85,000). |
| Provisions | The Council has made provisions for outstanding insurance claims, accumulated absences and land charges. The calculation for accumulated absences is based on an average of annual leave accrued over the past 4 years and the total of flexi leave at year end. | A 10% increase or decrease in provisions would require an adjustment of £29,600 (2015/16 £28,300) |
| 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 properties market trends and other valuation issues including the potential for certain proposals to be withdrawn. | The Council has made an allowance of £9.6 million (2015/16 £9.4 million) for these refunds within the Collection Fund. The Council's share of the provision is £2.91 million (2015/16 £3.76 million) which has reduced the amount of income that is distributed from the Collection Fund to the Council's General Fund. A 10% increase or decrease in the Council's share of the provision would require an adjustment of £291,000 (2015/16 £376,000). |

Note 7 Adjustments between Accounting Basis and Funding Basis under Regulation

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

| 2016/17 | General Fund Balance £'000 | Ear-marked Reserves £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | Unusable Reserves £'000 |
|--|-------------------------------|------------------------------|----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Capital Adjustment Account Adjustments | | | | | | | |
| Depreciation and impairment of non-current assets | 1,276 | - | 1,569 | - | - | - | (2,845) |
| Revaluation losses on property, plant and equipment | (660) | - | (10,307) | - | - | - | 10,967 |
| Revaluation of investment properties | 1,724 | - | (16) | - | - | - | 1,708 |
| Amortisation of intangible assets | 18 | - | 5 | - | - | - | (23) |
| Capital grants and contributions applied | (1,584) | - | (440) | - | - | (370) | 2,394 |
| Revenue Expenditure funded from capital under statute | 618 | - | - | - | - | - | (618) |
| Property written out on disposal | 55 | - | 594 | - | - | - | (649) |
| Statutory provision for the financing of capital investment | (159) | - | - | - | - | - | 159 |
| Capital expenditure charged to the General Fund and HRA Balances | (2,718) | (3,544) | (993) | - | - | - | 7,255 |
| Capital Grants Unapplied Account Adjustments | | | | | | | |
| Capital grants and contributions unapplied | (2,536) | - | - | - | - | 2,536 | - |
| Capital Receipts Reserve Adjustments | | | | | | | |
| Proceeds from disposal of property | - | - | (1,047) | - | 1,047 | - | - |
| Capital receipts applied | - | - | - | - | (1,986) | - | 1,986 |
| Housing capital receipts | (184) | - | - | - | 187 | - | (3) |
| Payments to the Government housing capital receipts pool | 179 | - | - | - | (179) | - | - |
| Major Repairs Reserve Adjustments | | | | | | | |
| Depreciation re-credited to HRA | - | - | (1,568) | 1,568 | - | - | - |
| Major Repairs Reserve to finance new capital expenditure | - | - | - | (1,585) | - | - | 1,585 |
| Pension Reserve Adjustments | | | | | | | |
| Net charges for retirement benefits | 3,441 | - | 689 | - | - | - | (4,130) |
| Employer's contribution to Pension Fund/directly to pensioners | (2,024) | - | (375) | - | - | - | 2,399 |
| Collection Fund Adjustment Account | | | | | | | |
| Collection Fund adjustment | (2,298) | - | - | - | - | - | 2,298 |
| Total Adjustments | (4,852) | (3,544) | (11,889) | (17) | (931) | 2,166 | 19,067 |

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

Note 8 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Finance and Resources on 30 June 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 9 Grant Income

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

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

Note 10 Audit Fees Payable

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

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

Note 11 Members' Allowances

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

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

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

Note 12 Remuneration of Staff

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

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

Note 13 Senior Officer Emoluments

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

Notes:

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

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

Note 14 Termination Benefits

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

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

Note 15 Pensions

Participation in Pension Schemes

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

The disclosures below relate to the following schemes:

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

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

Contributions for the Accounting Period Ending 31 March 2017

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

Transactions Relating to Post-Employment Benefits

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

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

Pension Assets and Liabilities Recognised in the Balance Sheet

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

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

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

| | |
|---------------------|-----|
| Active members | 29% |
| Deferred Pensioners | 16% |
| Pensioners | 55% |

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

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

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

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

Local Government Pension Scheme Assets Comprised

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

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

| | Asset split at 31 March 2017 | | | Asset split at 31 March 2016 |
|------------------|---------------------------------|---------------|--------------|---------------------------------|
| | % Quoted | % Unquoted | % Total | % |
| Equities | 56.8 | 3.5 | 60.3 | 56.3 |
| Property | 0.5 | 6.0 | 6.5 | 8.2 |
| Government Bonds | 25.0 | 0.2 | 25.2 | 25.7 |
| Corporate Bonds | 1.4 | - | 1.4 | 2.1 |
| Cash | 3.4 | - | 3.4 | 4.7 |
| Other | - | 3.2 | 3.2 | 3 |
| Total | 87.1 | 12.9 | 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 2016 for funded benefits and 31 March 2017 for unfunded benefits.

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

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

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

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

Discount rate assumption

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

Rate of general increase in salaries

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

Rate of increase to pensions in payment and deferred pension assumptions

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

Post retirement mortality assumption

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

Note 16 Property, Plant and Equipment

Valuation information

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

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

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

| | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant and Equipment £'000 | Total £'000 |
|--------------|------------------------------------|---|--|------------------------|
| Historic | - | 12,142 | 9,654 | 21,796 |
| 2012/13 | - | 1,241 | - | 1,241 |
| 2013/14 | - | 2,297 | - | 2,297 |
| 2014/15 | - | 15 | - | 15 |
| 2015/16 | - | 9,797 | - | 9,797 |
| 2016/17 | 118,979 | 57,317 | - | 176,296 |
| Total | 118,979 | 82,807 | 9,654 | 211,440 |

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

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

Depreciation

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

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

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

Capital Commitments

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

Movement in Non-Current Assets 2016/17

| | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant and Equipment £000 | Infrastructure Assets £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total £'000 |
|---|----------------------------|-----------------------------------|---------------------------------------|--------------------------------|---------------------------|-------------------------|------------------------------------|----------------|
| Cost or Valuation | | | | | | | | |
| At 1 April 2016 | 100,695 | 52,686 | 9,192 | 1,281 | 377 | - | 7,999 | 172,230 |
| Additions | 2,755 | 5,966 | 691 | 450 | - | - | 4,428 | 14,290 |
| Revaluation increases/(decreases) to RR | - | 18,588 | - | - | - | - | - | 18,588 |
| Revaluation increases/(decreases) to SDPS | 8,999 | 716 | - | - | - | - | - | 9,715 |
| Derecognition – Disposals | (601) | - | (230) | - | - | - | - | (832) |
| Reclassified to/from Held for Sale | - | - | - | - | - | - | - | - |
| Other movements | 7,131 | 4,852 | - | - | - | - | (11,983) | - |
| At 31 March 2017 | 118,979 | 82,808 | 9,653 | 1,731 | 377 | - | 444 | 213,992 |
| Depreciation and impairment | | | | | | | | |
| At 1 April 2016 | 1,309 | 1,748 | 6,250 | 846 | 29 | - | - | 10,182 |
| Depreciation Charge | 1,468 | 506 | 810 | 50 | 3 | - | - | 2,837 |
| Depreciation written out to RR | - | (1,000) | - | - | - | - | - | (1,000) |
| Depreciation written out to SDPS | (1,309) | - | - | - | - | - | - | (1,309) |
| Derecognition – Disposals | (8) | - | (175) | - | - | - | - | (182) |
| At 31 March 2017 | 1,460 | 1,254 | 6,885 | 896 | 32 | - | - | 10,527 |
| Net Book Value | | | | | | | | |
| At 31 March 2017 | 117,519 | 81,554 | 2,768 | 835 | 345 | - | 444 | 203,465 |
| At 31 March 2016 | 99,386 | 50,938 | 2,942 | 435 | 348 | - | 7,999 | 162,048 |

Movement in Non-Current Assets 2015/16

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

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

The figures for Other Land & Buildings, Vehicles Plant & Equipment and Assets Under Construction include assets owned by the Housing Revenue Account. Details for these can be found on page 63 note 2.

Note 17 Investment Properties

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

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

Movement in Fair Value of Investment Properties

| | Value at 31 March 2016 £'000 | Acquisitions £'000 | Change in Value £'000 | Re- classifications £'000 | Value at 31 March 2017 £'000 |
|--------------|------------------------------------|-----------------------|-----------------------------|---------------------------------|------------------------------------|
| Commercial | 8,113 | - | 43 | - | 8,156 |
| Leisure | 1,024 | - | 71 | - | 1,095 |
| Office | 3,252 | - | 122 | - | 3,374 |
| Other | 2,623 | - | (5) | - | 2,618 |
| Retail | 29,323 | 11,786 | (1,939) | - | 39,160 |
| Total | 44,335 | 11,786 | (1,708) | - | 54,413 |

| | Value at 31 March 2015 £'000 | Acquisitions £'000 | Change in Value £'000 | Re- classifications £'000 | Value at 31 March 2016 £'000 |
|--------------|------------------------------------|-----------------------|-----------------------------|---------------------------------|------------------------------------|
| Commercial | 8,037 | - | 73 | - | 8,113 |
| Leisure | 996 | - | 28 | - | 1,024 |
| Office | 3,638 | - | (386) | - | 3,252 |
| Other | 675 | 1,964 | (26) | 10 | 2,623 |
| Retail | 20,612 | 7,922 | 789 | - | 29,323 |
| Total | 33,958 | 9,886 | 481 | 10 | 44,335 |

Fair Value Measurement of Investment Properties

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

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

Note 18 Assets Held for Sale

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

The asset currently held for sale is land at Daedalus.

Note 19 Impairment Losses

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

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

Note 20 Leases

Council as Lessee – Finance Leases

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

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

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

Council as Lessor – Operating Leases

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

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

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

| | 31 March 2017 £'000 | 31 March 2016 £'000 |
|---|---------------------------|---------------------------|
| Not later than one year | 3,506 | 2,669 |
| Later than one year and not later than five years | 10,863 | 9,525 |
| Later than five years | 44,254 | 40,681 |
| Total | 58,623 | 52,875 |

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

Note 21 Cash and Cash Equivalents

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

Note 22 Short Term Debtors

| | 31 March 2017 £'000 | 31 March 2016 £'000 |
|--------------------------------|---------------------------|---------------------------|
| Central government bodies | 699 | 1,369 |
| Other local authorities | 1,010 | 605 |
| Other entities and individuals | 8,760 | 4,148 |
| Total | 10,469 | 6,122 |
| Provision for doubtful debts | (1,655) | (1,705) |
| Total | 8,814 | 4,417 |

Note 23 Short Term Creditors

| | 31 March 2017 £'000 | 31 March 2016 £'000 |
|--------------------------------|---------------------------|---------------------------|
| Central government bodies | 4,661 | 1,943 |
| Other local authorities | 1,601 | 1,464 |
| Other entities and individuals | 5,691 | 3,081 |
| Total | 11,953 | 6,488 |

Note 24 Provisions

| | Balance at 1 April £'000 | Provision in year £'000 | Applied in year £'000 | Balance at 31 March £'000 |
|-----------------------|--------------------------------|-------------------------------|-----------------------------|---------------------------------|
| Business rate appeals | 3,763 | 82 | 934 | 2,911 |
| Insurance | 75 | 54 | 25 | 104 |
| Employee related | 188 | 188 | 188 | 188 |
| Land charges | 31 | - | 27 | 4 |
| Total 2016/17 | 4,057 | 324 | 1,174 | 3,207 |
| Total 2015/16 | 3,021 | 1,454 | 418 | 4,057 |

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

Note 25 Receipts in Advance

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

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

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

Note 26 Transfers to/from Earmarked Reserves

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

| | 1 April 2015 £'000 | Transfers Out £'000 | Transfers In £'000 | 31 March 2016 £'000 | Transfers Out £'000 | Transfers In £'000 | 31 March 2017 £'000 |
|----------------------------|--------------------------|---------------------------|--------------------------|---------------------------|---------------------------|--------------------------|---------------------------|
| General Fund | | | | | | | |
| Major Repairs and Renewals | 1,302 | - | - | 1,302 | - | - | 1,302 |
| Other Earmarked Reserves | 2,773 | (295) | 4,017 | 6,495 | (2,936) | 458 | 4,017 |
| Earmarked Capital Reserve | 6,265 | (3,400) | 2,772 | 5,597 | (3,587) | 3,026 | 5,036 |
| | 10,340 | (3,735) | 6,789 | 13,394 | (6,523) | 3,484 | 10,355 |
| HRA | | | | | | | |
| Housing Repairs Account | 1,000 | - | 500 | 1,500 | - | - | 1,500 |
| Capital Development Fund | 6,136 | (3,400) | 2,164 | 4,900 | (3,544) | 2,164 | 3,520 |
| Leaseholder Repairs | 200 | - | 3 | 203 | (44) | - | 159 |
| | 7,366 | (3,400) | 2,667 | 6,603 | (3,588) | 2,164 | 5,179 |
| Total | 17,676 | (7,135) | 9,456 | 19,997 | (10,111) | 5,648 | 15,534 |

Note 27 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

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

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|------------------|
| 54,250 | Opening Capital Finance Requirement | 61,878 |
| Capital Investment | | |
| 13,322 | Property, Plant and Equipment | 14,309 |
| 9,886 | Investment Properties | 11,786 |
| 579 | Revenue Expenditure Funded from Capital under Statute | 617 |
| Sources of Finance | | |
| (2,776) | Capital Receipts | (1,986) |
| (4,375) | Government Grants and Other Contributions | (2,394) |
| Sums set aside from revenue: | | |
| (1,489) | HRA Major Repairs Reserve | (1,585) |
| (7,519) | Direct Revenue Contributions | (7,255) |
| - | Minimum Revenue Provision | (159) |
| 61,878 | Closing Capital Finance Requirement | 75,211 |
| Explanation of movements in year | | |
| 7,628 | Increase in underlying need to borrow | 13,492 |

Note 28 Unusable Reserves

| | 31 March | |
|------------------------------------|----------------|---------------|
| | 2017 £'000 | 2016 £'000 |
| Revaluation Reserve | 35,593 | 15,990 |
| Capital Adjustment Account | 147,629 | 129,086 |
| Pensions Reserve | (58,271) | (49,194) |
| Collection Fund Adjustment Account | (616) | (2,914) |
| Accumulated Absences Account | (188) | (188) |
| | 124,147 | 92,780 |

a) Revaluation Reserve

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

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

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

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--|------------------|
| 15,783 | Balance at 1 April | 15,990 |
| 1,299 | Upward revaluation of assets | 20,322 |
| (817) | Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services | (676) |
| 482 | | 19,646 |
| (265) | Difference between fair value depreciation and historical cost depreciation | (43) |
| (10) | Accumulated gains on assets disposed or reclassified to Investment Properties | - |
| (275) | Amount written off to the Capital Adjustment Account | (43) |
| 15,990 | Balance at 31 March | 35,593 |

b) Capital Adjustment Account

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

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

| 2015/16 £'000 | | 2016/17 £'000 |
|--|--|------------------|
| 115,894 | Balance at 1 April | 129,086 |
| Reversal of items relating to capital expenditure in the Comprehensive Income and Expenditure Statement | | |
| (3,365) | Charges for depreciation and impairment of non-current assets | (2,845) |
| 1,125 | Revaluation losses on property, plant and equipment | 10,967 |
| (30) | Amortisation of intangible assets | (23) |
| (579) | Revenue expenditure funded from capital under statute | (618) |
| (873) | Amounts of non-current assets written off on disposal or sale as part of gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (649) |
| 112,172 | | 135,918 |
| (3) | Amount credited to Capital Receipts Reserve relating to part repayment of principal on long term debtor | (3) |
| 11 | Cumulative (gains)/losses on assets sold or reclassified as Investment Properties | - |
| 265 | Adjustment amounts written out of the Revaluation Reserve | 43 |
| 112,445 | Net written out amount of the cost of non-current assets consumed in the year | 135,958 |
| Capital financing applied in the year | | |
| 2,776 | Use of the Capital Receipts Reserve to finance new capital expenditure | 1,986 |
| 1,489 | Use of the Major Repairs Reserve to finance new capital expenditure | 1,585 |
| 4,375 | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 2,394 |
| - | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | 159 |
| 7,519 | Capital expenditure charged against the General Fund and HRA balances | 7,255 |
| 16,159 | | 149,337 |
| (482) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | (1,708) |
| 129,086 | Balance at 31 March | 147,629 |

c) Pensions Reserve

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

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

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

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--|------------------|
| (51,992) | Balance at 1 April | (41,194) |
| 4,752 | Actuarial gains or losses on pension assets and liabilities | (7,346) |
| (4,600) | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (4,130) |
| 2,646 | Employers' pension contributions and direct payments to pensioners payable in the year | 2,399 |
| (49,194) | Balance at 31 March | (58,271) |

d) Collection Fund Adjustment Account

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

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---|------------------|
| 267 | Balance at 1 April | (2,914) |
| (46) | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax calculated for the year in accordance with statutory requirements | (115) |
| (3,135) | Amount by which NDR income credited to the Comprehensive Income and Expenditure Statement is different from NDR calculated for the year in accordance with statutory requirements | 2,413 |
| (2,914) | Balance at 31 March | (616) |

Note 29 Financial Instruments

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

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

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

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

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

Fair Values of Assets and Liabilities

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

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

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

The fair value of the borrowing is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

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

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

Nature and Extent of Risks Arising from Financial Instruments

Liquidity Risk

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

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

The maturity analysis of financial assets is as follows:

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

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

Credit Risk

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

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

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

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

The Council's maximum exposure to credit risk in relation to its £14.8 million investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence as at the 31 March 2017 that this was likely to crystallise.

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

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

Market Risk

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

Note 30 Trust Funds

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

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

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

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

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

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

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

Note 31 Related Party Transactions

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

Central Government

Central Government has effective control over the general operations of the Council as it is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are 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 2016/17, there were no material related party transactions between the Council and Council Members. Any declarations of interest are recorded in the Register of Member's Interests which is open to public inspection. The total of members' allowances paid in 2016/17 is shown in note 10.

Chief Officers

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

Portchester Crematorium Joint Committee

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

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

Fareham and Gosport Building Control Partnership

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

Fareham and Gosport Environmental Health Partnership

The Fareham and Gosport Environmental Health Partnership provides environmental health services to both Fareham and Gosport Borough Council. The Partnership came into operation in 2015/16. During 2016/17, the Partnership charged Gosport Borough Council £677,837 (2015/16 £674,679) for statutory environmental health services. The Partnership has a policy of sharing expenditure (excluding internal recharges) on a 50/50 basis. All income is retained by the relevant authority.

Note 32 Contingent Liabilities

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

Note 33 Cash Flow Statement - Operating Activities (Interest)

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

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

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

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---|------------------|
| 3,365 | Depreciation and Impairment | 2,845 |
| (1,125) | Downward Valuations | (10,967) |
| 30 | Amortisation of Intangible Assets | 23 |
| (552) | Increase/Decrease in Creditors | 3,709 |
| (70) | Increase/Decrease in Interest Debtors | 161 |
| 2,648 | Increase/Decrease in Debtors | (4,123) |
| (48) | Increase/Decrease in Inventories | (49) |
| 1,954 | Movement in pension liability | 1,731 |
| 873 | Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised | 649 |
| 545 | Other non-cash items charged to the net surplus or deficit on the provision of services | 858 |
| 7,620 | | (5,163) |

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

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

Note 36 Accounting Policies

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

GENERAL PRINCIPLES

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

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

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

ACCRUALS OF INCOME AND EXPENDITURE

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

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

CASH AND CASH EQUIVALENTS

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

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

EXCEPTIONAL ITEMS

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

PRIOR PERIOD ADJUSTMENTS IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

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

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

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

CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

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

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

EMPLOYEE BENEFITS

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

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

Termination Benefits

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

Post-Employment Benefits (Retirement Pensions)

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

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

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

Service cost comprising:

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

Re-measurement comprising:

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

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

Discretionary Benefits

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

EVENTS AFTER THE BALANCE SHEET DATE

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

- Adjusting events - those that provide evidence of conditions that existed at the Balance Sheet date - for this type of event the accounts are adjusted to reflect such events.
- Non-adjusting events - those that are indicative of conditions that arose after the Balance Sheet date - for this type of event the accounts are not adjusted to reflect such events. However, where the event would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

FINANCIAL INSTRUMENTS

Financial Liabilities

Financial liabilities are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. In most cases the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year.

Financial Assets

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

GRANTS AND CONTRIBUTIONS

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

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

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

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

HERITAGE ASSETS

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

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

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

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

INTANGIBLE ASSETS

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

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

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

INVENTORIES AND LONG TERM CONTRACTS

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

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

INVESTMENT PROPERTIES

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

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

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

LEASES

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

Where an arrangement includes both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council as Lessee – Finance Leases

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

Lease payments are apportioned between:

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

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

The Council as Lessee – Operating Leases

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

The Council as Lessor – Finance Leases

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

The Council as Lessor – Operating Leases

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

OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of CIPFA's Service Reporting Code of Practice 2015/16 (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.

PROPERTY, PLANT AND EQUIPMENT

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

Recognition

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

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

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

Impairment

Assets are assessed at each year-end for impairment. Where there is impairment and the amount is estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount, an impairment loss is recognised for the shortfall.

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

Componentisation of an asset will be considered where:

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

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and current value less costs to sell. Where there is a subsequent decrease to current value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to a housing disposal is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are made where an event has taken place that gives the Council a financial obligation that probably requires settlement but where the timing and amount of settlement is uncertain. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Contingent Liabilities

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

RESERVES

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

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

VAT

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



4. Supplementary Accounts and Explanatory Notes

Housing Revenue Account - Income and Expenditure Statement

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

| | 2016/17 £'000 | 2015/16 £'000 |
|---|------------------|------------------|
| Income | | |
| Gross rent income | | |
| - Dwellings | (11,233) | (11,197) |
| - Other | (318) | (273) |
| Charges for services and facilities | (964) | (820) |
| Contributions towards expenditure | (25) | (25) |
| Total income from service | (12,540) | (12,315) |
| Expenditure | | |
| Repairs and maintenance | 4,471 | 4,027 |
| Supervision and management | 2,645 | 2,511 |
| Rents, rates, taxes and other charges | 44 | 35 |
| Depreciation and impairment of non-current assets (note 7) | (8,734) | 624 |
| Debt management expenses | 27 | 34 |
| Provision for doubtful debts | 130 | (42) |
| Total expenditure on service | (1,417) | 7,189 |
| Net Expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement | (13,957) | (5,126) |
| HRA service share of corporate and democratic core | 147 | 160 |
| Net Expenditure for HRA Services | (13,810) | (4,966) |
| Gain on sale of HRA non-current assets | (453) | (574) |
| Change in fair value of Investment Properties | (16) | - |
| Interest payable | 1,795 | 1,857 |
| Interest receivable | (110) | (129) |
| Pension interest cost | 272 | 252 |
| Capital grants and contributions receivable | (440) | (1,033) |
| (Surplus) or Deficit for Year on HRA Services | (12,762) | (4,593) |

Movement on the HRA Statement

| | 2016/17 £'000 | 2015/16 £'000 |
|---|------------------|------------------|
| Balance on the HRA at the end of previous year | (3,688) | (4,870) |
| (Surplus) or Deficit for year on HRA Income and Expenditure Statement | (12,762) | (4,593) |
| Remove gain on sale of HRA non-current assets | 453 | 574 |
| Pension reserve contributions | (314) | (310) |
| Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements | - | (1) |
| Capital expenditure charged to revenue | 4,537 | 4,429 |
| Transfers to/from Major Repairs Reserve | 1,569 | 1,407 |
| Transfers to/from Capital Adjustment Account | 9,190 | 408 |
| Adjustments between accounting basis and funding basis under statute | 15,435 | 6,507 |
| Net (increase) or decrease before transfers to or from the reserves | 2,673 | 1,914 |
| Transfer to/(from) reserves | (1,424) | (732) |
| (Increase) or decrease in year on the HRA | 1,249 | 1,182 |
| Surplus Carried Forward | (2,439) | (3,688) |

The total surplus carried forward excludes balances of:

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

These are included within the Movement in Reserves Statement.

Notes to the Housing Revenue Account

Note 1 Housing Stock

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

| | 31 March 2017 | 31 March 2016 |
|-----------|------------------|------------------|
| Houses | 794.75 | 799.75 |
| Flats | 1,465.00 | 1,414.00 |
| Bungalows | 166.00 | 166.00 |
| | 2,425.75 | 2,379.75 |

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

Note 2 Value of Housing Revenue Account Property

Council dwellings have been valued in their current use with an allowance for the right to buy. The vacant possession value at 1 April 2016 is £338.6 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.

| Movement in Values 2016/17 | Council Dwellings £'000 | Other Land and Buildings £'000 | Plant and Equipment £'000 | Assets Under Construction £'000 | Total £'000 |
|---|-------------------------------|--------------------------------------|---------------------------------|---------------------------------------|----------------|
| Cost or Valuation | | | | | |
| At 1 April 2016 | 100,695 | 4,760 | 87 | 2,792 | 108,334 |
| Additions | 2,755 | - | - | 3,984 | 6,739 |
| Revaluation Increases/(decreases) to RR | - | 252 | - | - | 252 |
| Revaluation Increases/(decreases) to SDPS | 8,999 | - | - | - | 8,999 |
| Derecognition - Disposals | (601) | - | - | - | (601) |
| Other reclassifications | 7,131 | (355) | - | (6,776) | - |
| At 31 March 2017 | 118,979 | 4,657 | 87 | - | 123,723 |
| Depreciation and Impairment | | | | | |
| At 1 April 2016 | 1,309 | 87 | 4 | - | 1,400 |
| Depreciation Charge | 1,468 | 93 | 8 | - | 1,569 |
| Depreciation written out to RR | - | (87) | - | - | (87) |
| Depreciation written out to SDPS | (1,309) | - | - | - | (1,309) |
| Derecognition - Disposals | (8) | - | - | - | (8) |
| At 31 March 2017 | 1,460 | 93 | 12 | - | 1,565 |
| Net Book Value | | | | | |
| At 31 March 2017 | 117,519 | 4,564 | 75 | - | 122,158 |
| At 31 March 2016 | 99,386 | 4,673 | 83 | 2,792 | 106,394 |

| Movement in Values 2015/16 | Council Dwellings £'000 | Other Land and Buildings £'000 | Plant and Equipment £'000 | Assets Under Construction £'000 | Total £'000 |
|---|----------------------------|-----------------------------------|------------------------------|------------------------------------|----------------|
| Cost or Valuation | | | | | |
| At 1 April 2015 | 92,855 | 4,513 | 38 | 4,917 | 102,323 |
| Additions | 2,594 | 31 | 49 | 4,314 | 6,988 |
| Revaluation Increases/(decreases) to RR | - | 292 | - | - | 292 |
| Revaluation Increases/(decreases) to SDPS | (373) | (76) | - | - | (449) |
| Derecognition - Disposals | (820) | - | - | - | (820) |
| Other reclassifications | 6,439 | - | - | (6,439) | - |
| At 31 March 2016 | 100,695 | 4,760 | 87 | 2,792 | 108,334 |
| Depreciation and Impairment | | | | | |
| At 1 April 2015 | 1,238 | 82 | - | - | 1,323 |
| Depreciation Charge | 1,319 | 87 | 3 | - | 1,407 |
| Depreciation written out to RR | - | (82) | 1 | - | (82) |
| Depreciation written out to SDPS | (1,238) | - | - | - | (1,238) |
| Derecognition - Disposals | (10) | - | - | - | (10) |
| At 31 March 2016 | 1,309 | 87 | 4 | - | 1,400 |
| Net Book Value | | | | | |
| At 31 March 2016 | 99,386 | 4,673 | 83 | 2,792 | 106,394 |
| At 31 March 2015 | 91,617 | 4,431 | 35 | 4,917 | 101,000 |

RR = Revaluation Reserve
SDPS = Surplus/Deficit on the Provision of Services

Note 3 Major Repairs Reserve

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

Note 4 Housing Repairs Account

| | 2016/17 £'000 | 2015/16 £'000 |
|----------------------------|------------------|------------------|
| Balance at 1 April | 1,500 | 1,000 |
| Contribution from HRA | 4,383 | 3,944 |
| Other Income | 87 | 4 |
| Expenditure | (4,514) | (3,945) |
| Transfer from HRA | - | 500 |
| Transfer to Reserve | 44 | (3) |
| Balance at 31 March | 1,500 | 1,500 |

Note 5 Capital Financing

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

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

Note 6 Capital Receipts

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

Note 7 Depreciation and Impairment

| | | 2016/17 £'000 | 2015/16 £'000 |
|---------------------|---------------------|------------------|------------------|
| Depreciation | Dwellings | 1,468 | 1,319 |
| | Garages | 93 | 87 |
| | Plant and Equipment | 8 | 1 |
| | Total | 1,569 | 1,407 |
| Amortisation | Intangible Asset | 5 | 5 |
| Impairment | Dwellings | - | 4,062 |
| Revaluation Gain | Dwellings | (10,308) | (4,850) |
| Total Charge | | (8,734) | 624 |

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

Note 8 Arrears

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

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

Collection Fund

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

| | Council Tax £'000 | Business Rates £'000 | 2016/17 Total £'000 | 2015/16 Total £'000 |
|--|----------------------------------|-------------------------------------|------------------------------------|------------------------------------|
| Income | | | | |
| Council Tax (notes 1 and 2) | | | | |
| Billed to Taxpayers | 61,064 | - | 61,064 | 58,486 |
| Non-Domestic Rates - Due (note 3) | - | 43,105 | 43,105 | 41,540 |
| Transitional Protection Payments | - | (34) | (34) | (24) |
| Family Annexes Grant | - | - | - | - |
| Total Income | 61,064 | 43,071 | 104,135 | 100,002 |
| Expenditure | | | | |
| Collection Fund Surplus/(Deficit) in Previous Year | | | | |
| Central Government | - | (1,867) | (1,867) | 1,769 |
| Fareham Borough Council | 136 | (1,494) | (1,358) | 1,491 |
| Hampshire County Council | 1,008 | (336) | 672 | 879 |
| Police and Crime Commissioner for Hampshire | 153 | - | 153 | 84 |
| Hampshire Fire and Rescue | 60 | (38) | 22 | 68 |
| | 1,357 | (3,735) | (2,388) | 4,291 |
| Precepts, Demands and Shares | | | | |
| Central Government | - | 20,150 | 20,150 | 21,360 |
| Fareham Borough Council | 6,100 | 16,121 | 22,221 | 22,925 |
| Hampshire County Council | 45,336 | 3,627 | 48,963 | 47,051 |
| Police and Crime Commissioner for Hampshire | 6,740 | - | 6,740 | 6,550 |
| Hampshire Fire and Rescue | 2,629 | 403 | 3,032 | 2,982 |
| | 60,805 | 40,301 | 101,106 | 100,868 |
| Charges to the Collection Fund | | | | |
| Cost of Collection Allowance | - | 142 | 142 | 142 |
| Increase/(Decrease) in Appeals Provision | - | 205 | 205 | 2,804 |
| Increase/(Decrease) in Bad Debt Provision | 59 | 202 | 261 | 181 |
| | 59 | 549 | 608 | 3,127 |
| Total Expenditure | 62,103 | 37,115 | 99,218 | 108,286 |
| Fund balance brought forward at 1 April | 900 | (7,511) | (6,611) | 1,673 |
| Surplus/(Deficit) for the Year | (1,157) | 5,956 | 4,799 | (8,284) |
| Fund balance carried forward at 31 March | (257) | (1,555) | (1,812) | (6,611) |

NOTES TO THE COLLECTION FUND

Note 1 Council Tax

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

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

| | 2016/17 £'000 | 2015/16 £'000 |
|---|------------------|------------------|
| Fareham Borough Council | 145.23 | 140.22 |
| Police and Crime Commissioner for Hampshire | 160.46 | 157.33 |
| Hampshire Fire and Rescue | 62.60 | 61.38 |
| Hampshire County Council | 1,079.28 | 1,037.88 |
| Total | 1,447.57 | 1,396.81 |

Note 2 Non-Domestic Rates (NDR)

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

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

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

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

Note 3 Collection Fund Balance

The Collection Fund balance for 2016/17 was a deficit of £1.8 million (a deficit of £6.6 million in 2015/16) which is included within the Balance Sheet. The amounts in respect of Fareham Borough Council are contained within the reserves section of the Balance Sheet and amounts due to the other major preceptors are shown within creditors.

GLOSSARY OF TERMS

Accruals

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

Actuarial Gains and Losses

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

Amortised Cost

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

Carrying Amount

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

Cash and Cash Equivalents

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

Community Assets

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

Contingency

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

Corporate and Democratic Core

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

Current Service Costs (Pensions)

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

Defined Benefit Scheme

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

Depreciation

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

Depreciated Replacement Cost (DRC)

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

Discretionary Benefits

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

Exceptional Items

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

Expected rate of return on pensions assets

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

Fair Value

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

Finance Lease

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

Government Grants

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

Heritage Assets

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

Historical Cost

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

Infrastructure Assets

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

Interest Cost (Pensions)

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

Investments (Non Pensions Fund)

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

Investments (Pensions Fund)

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

Investment Properties

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

Material

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

Net Book Value

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

Net Current Replacement Cost

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

Non-Current Assets

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

Non-Operational Asset

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

Operating Leases

A lease other than a finance lease.

Operational Assets

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

Past Service Costs

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

Post Balance Sheet Events

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

Prior Year Adjustments

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

Projected Unit Method

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

Property, Plant and Equipment

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

Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

Related Parties

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

Retirement Benefits

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

Scheme Liabilities

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

Useful Life

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

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

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

HOW TO CONTACT US

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

For more information please contact us at:

Director of Finance and Resources

Fareham Borough Council
Civic Offices
Civic Way
Hampshire
PO16 7AZ

Tel: 01329 236100
Fax: 01329 550576

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

www.fareham.gov.uk

customerservices@fareham.gov.uk



FAREHAM
BOROUGH COUNCIL

**Report to
Audit and Governance Committee**

Date **17 July 2017**

Report of: **Head of Finance and Audit**

Subject: **QUARTERLY AUDIT REPORT**

SUMMARY

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

RECOMMENDATION

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

INTRODUCTION

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

FINALISING PREVIOUS AUDIT PLANS

2. The current status of the 6 audits remaining from the previous Audit Plans is detailed in [Appendix One](#) . Further work has been carried out on 1 of these which is close to being finalised.

DELIVERY OF 2016/17 AUDIT PLAN

3. Significant progress has now been made to deliver the rest of the plan as detailed in [Appendix Two](#) and a further nine audits have now reached the final report stage. An interim report and action plan has been produced for the Building Services work and further testing and analyses will be carried out as part of the 2017/18 plan.

DELIVERY OF 2017/18 AUDIT PLAN

4. Work has started on the delivery of the current years audit plan, with testing is underway for 4 audits and planning underway for a further 5, as noted in Appendix Three.

FINDINGS FROM COMPLETED AUDITS

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

| Audit | Assurance Opinion | Recommendations Made | | |
|--|-------------------|---|---------------|---|
| | | New Essential | New Important | Outstanding Previous Essential or Important |
| Payroll & Employee Expenses 2016/17 | Strong | - | 1 | 2 |
| Sheltered Housing 2016/17 | Reasonable | - | 3 | - |
| Countryside 2016/17 | Reasonable | - | 3 | - |
| Technology Forge 2016/17 | Reasonable | - | 3 | - |
| Building Control 2016/17 | Reasonable | - | 4 | 1 |
| Air Quality and Pollution 2016/17 | Reasonable | - | 6 | - |
| Outdoor Recreation 2016/17 | Limited | 1 | 8 | - |
| Data Protection | Not applicable | - | 8 | - |
| Building Services Invoicing and Stock Control (part 1) | Not applicable | Joint plan with 15 actions developed - some of which are fact finding rather than system improvements | | |

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

RISK ASSESSMENT

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

Appendices:

Appendix One - Update on Outstanding Audits from Previous Plans

Appendix Two - Audits in the 2016/17 Audit Plan

Appendix Three - Audits in the 2017/18 Audit Plan

Appendix Four - Findings from the Latest Completed Audits

Appendix Five - Reference Tables

Background Papers: None

Reference Papers:

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

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

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

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

Enquiries:

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

Update on Outstanding Audits from Previous Plans

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

| Audit Title | Type of Audit** | Days in Plan | Stage reached of 10* | Assurance Opinion* | New Recommendations* | | | Previous Recs. (E and I only) | | |
|--------------------------------|---------------------------------------|--------------|----------------------|--------------------|----------------------|-----------|----------|-------------------------------|-----------|-----------------|
| | | | | | Essential | Important | Advisory | Implemented | Cancelled | Not Implemented |
| 2014/15 | | | | | | | | | | |
| Income Collection & Banking | Fundamental | 15 | Stage 8 | | | | | | | |
| Information Governance Opinion | Computer | 6 | Stage 8 | | | | | | | |
| Contract Completion | Corporate, Specialist, Governance | 10 | Stage 8 | | | | | | | |
| 2015/16 | | | | | | | | | | |
| Recruitment and Selection | Corporate, Specialist, Governance (V) | 15 | Stage 9 | | | | | | | |
| Land Charges | Service and Systems – HR | 12 | Stage 8 | | | | | | | |
| Contract Deeds Management | Thematic Review | 15 | Not started | | | | | | | |

* 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

Audits in the 2016/17 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 |
| OPINION AUDITS | | | | | | | | | | | |
| 1 | Banking | Fundamental System | 10 | Stage 10 | Reasonable | - | 2 | 2 | - | - | - |
| 2 | Treasury Management | | 10 | Stage 10 | Strong | - | 2 | 3 | - | - | - |
| 3 | Housing Rents | | 15 | Stage 9 | | | | | | | |
| 4 | Accounts Payable | | 10 | Stage 10 | Strong | - | 1 | - | 1 | - | - |
| 5 | Payroll & Employee Expenses - New | | 10 | Stage 10 | Strong | - | 1 | 1 | 1 | - | 2 |
| 6 | Sheltered Housing - New | Service and Systems – High Risk | 15 | Stage 10 | Reasonable | - | 3 | 1 | - | - | - |
| 7 | Trade Waste and Recycling | | 15 | Stage 10 | Strong | - | - | 1 | - | - | - |
| 8 | Building Control - New | | 15 | Stage 10 | Reasonable | - | 4 | 1 | - | - | 1 |
| 9 | Daedalus Project | | 12 | Stage 8 | | | | | | | |
| 10 | Outdoor Sport & Recreation New | | 15 | Stage 10 | Limited | 1 | 8 | 1 | - | - | - |
| 11 | Neighbourhood Working, Public Relations & Consultation | Service and Systems - Other | 10 | Stage 10 | Strong | - | - | 3 | - | - | - |
| 12 | Air Quality & Pollution (V) - New | | 15 | Stage 10 | Reasonable | - | 6 | 1 | - | - | - |
| 13 | Countryside Management - New | | 8 | Stage 10 | Reasonable | - | 3 | - | - | - | - |
| 14 | Technology Forge - New | Computer | 15 | Stage 10 | Reasonable | - | 3 | 1 | - | - | - |
| 15 | Cloud Based Computing | | 15 | Stage 8 | | | | | | | |
| | Contingency | | 10 | | | | | | | | |
| | In-house team support | | 50 | | | | | | | | |
| | Total Planned Time | | 250 | | | | | | | | |
| WIDER WORK | | | | | | | | | | | |
| 16 | Leaseholder Charges | Joint working | | Stage 5 | | | | | | | |

| 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 |
| | | project | | | | | | | | | |
| 17 | Building Health and Safety Risks | Follow Up / Joint working project | | Stage 5 | | | | | | | |
| 18 | Data Protection - New | Joint working project | | Stage 10 | N/A | - | 8 | - | - | - | - |
| 19 | Risk Management Approach | New Process | | Stage 10 | N/A | - | - | - | - | - | - |
| 20 | Effectiveness of Ethics related activities (part 2 – physical security) | Thematic Review | | Stage 9 | | | | | | | |
| 21 | Building Service Invoicing and Stock Control (part 1) - New | Post investigation systems work | | Stage 10 | N/A | Joint action plan in place containing 15 actions for the service - some of which are fact finding rather than system improvements | | | - | - | - |

APPENDIX THREE

Audits in the 2017/18 Plan

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

Findings from the Latest Completed Audits

APPENDIX FOUR

| | | |
|--------------------------------|--------------------------------------|---|
| Audit Title | Payroll and Employee Expenses | Overview of Subject: Fareham BC employs approximately 465 people with annual payroll costs including all allowances and expenses totalling £8.7m. The Council uses the CHRIS 21 payroll system and expense claims are handled through a separate online system. As at the end of November 2016, 11,353 items had been claimed through the system since April 2016. |
| Year of Audit | 2016/17 | |
| Type of Work | Opinion audit | |
| Assurance Opinion Given | Strong | |
| Direction of Travel | ↔ 2015/16 | |

Page 107

| 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 |
| Establishment Management | | | - | - | - | - | - | - |
| Standing Data | | | - | - | - | - | - | - |
| Basic Salary Calculations (Inc statutory & voluntary deductions) | | | - | - | - | - | - | - |
| Expenses | | | - | - | 1 | - | - | - |
| Payroll Run Control | | | - | - | - | - | - | - |
| Ledger Postings and Interfaces | | | - | - | - | - | - | - |
| Pay Advances | | | - | - | - | - | - | - |
| Salary Sacrifice schemes | | | - | - | - | - | - | - |
| Allowances | | | - | 1 | - | 1 | - | 1 |
| Tax codes | | | - | - | - | - | - | - |
| Follow Up – Chris 21 Password Controls | | | - | - | - | - | - | 1 |

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

| | |
|---------------------------|---|
| Important | First aid allowance - Testing found when reconciling the list of those with a first aid allowance to the list maintained by the Facilities Manager that 3 staff in receipt of the allowance do not have an up to date certificates and 2 had certificates due to expire. A number of actions have been agreed to improve control over who and when employees receive this allowance. |
| Previous Important | Essential User Checks – No annual review of this allowance had occurred since the last audit and a few more cases were found during testing where |

| Weaknesses identified during the audit and the proposed action (Essential and Important only) | |
|--|---|
| | the post may no longer be meeting the criteria for the allowance. An annual review is now due to be introduced for each September. |
| Previous Important | Passwords – A problem was still found with the way that passwords are issued to new users such that they do not force the user to change it when they first access the system. The service is to change their process to avoid this problem in the future. |

| | | |
|--------------------------------|--------------------------|--|
| Audit Title | Sheltered Housing | Overview of Subject: The Authority owns 26 Sheltered Housing Schemes. The service provides accommodation for people who are aged 60 or over, who require supported need. Five of these Schemes have an on-site Sheltered Housing Officer (SHO) and communal facilities. The remaining Schemes have mobile SHOs. Income from Hampshire County Council for supporting people stopped in April 2015 so the Council now charge the tenant for services provided on top of their rents. The charges made to people contain a management element for the Sheltered Housing service (which is eligible for Housing Benefits) and a support element (not eligible for HB). In 2016/17 the Council levied charges totalling £385k for the sheltered housing service and a further £84k for the support element. |
| Year of Audit | 2016/17 | |
| Type of Work | Opinion audit | |
| Assurance Opinion Given | Reasonable | |
| Direction of Travel | ↔2006/07 | |

| 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 Tenants Placements | | | - | 1 | - | - | - | - |
| Service Charges including supporting people | | | - | - | - | - | - | - |
| Other Fees and Charges Income | | | - | 1 | - | - | - | - |
| Supervision and Management of Scheme and Mobile SHO's and in-house Cleaners | | | - | - | - | - | - | - |
| Arrangements for Building Security including CCTV | | | - | - | 1 | - | - | - |
| Management of Guest Room Lettings | | | - | 1 | - | - | - | - |
| TV Licence Fees | | | - | - | - | - | - | - |
| Recording of Gifts (Corporately) | | | - | - | - | - | - | - |

| Weaknesses identified during the audit and the proposed action (Essential and Important only) | |
|---|--|
| Important | Verifying the Identity of New Tenants - Testing of a sample of ten new sheltered housing tenants found three instances where there was no evidence held on file to support that the applicant's ID had been verified. Action: The ID of each new tenant will now be checked and evidence retained on file to support this. |
| Important | Guest Room Lettings – The SHO Handbook requires the completion of booking forms and the recording of Guest Room lettings in the Daybook. Testing of a sample of seven guest room lettings found three exceptions to this process. Action: Managers to review process to ensure the recording of lettings is completed in accordance with the stated procedure. |
| Important | Discretionary Fees and Charges - There are a number of sources of income collected outside of the service charges. However, only guest room letting charges are including in the Council's Fees and Charges Book and therefore get approved by members. It was also noted that there was some inconsistency in the rates |

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

| | |
|--|---|
| | being charged for hot water. Action: The Finance Business Partner for the service will liaise with the Manager to standardise the hot water rates and add the additional discretionary charges to the Fees and Charges book. |
|--|---|

| | | |
|--------------------------------|-------------------------------|---|
| Audit Title | Countryside Management | Overview of Subject: The Countryside Service aims to conserve the natural environment of the Borough including the countryside, coast and open spaces. The Council manages 134 hectares of land for nature conservation which is divided into varied sites which are spread across the Borough. The sites cover a range of habitats including woodlands, grass land and wetlands. A new site called Titchfield Country Park is also being planned for 2017. The Service consists of one Countryside Officer and two Countryside Rangers. The Countryside Officer leads on developing the management plans for each of the sites, including H&S risk assessments. There are a number of volunteer groups which assist in the management of the sites. |
| Year of Audit | 2016/17 | |
| Type of Work | Opinion audit | |
| Assurance Opinion Given | Reasonable | |
| 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 (ℹ) | Implemented | Cancelled | Not Implemented |
| Site Management Plans | | | - | - | - | - | - | - |
| Roles and Responsibilities | | | - | - | - | - | - | - |
| Team Work Scheduling | | | - | - | - | - | - | - |
| Special Events | | | - | 2 | - | - | - | - |
| Vehicle Use | | | - | - | - | - | - | - |
| Unsociable Hours Claims | | | - | 1 | - | - | - | - |
| Budget Expenditure | | | - | - | - | - | - | - |

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

| | |
|------------------|---|
| Important | Expired DBS Checks - Rangers attending public events are required to be DBS checked and they oversee volunteers at the event. Testing of DBS checks noted that it is Council policy to carry out checks every three years, but for two of the three Rangers tested, the checks were overdue by two to three months. This issue was rectified during the audit. |
| Important | Policy on Dealing with Members of the Public who haven't booked – The policy/guidance to staff was not clear on how they should deal with customers who turn up at fee paying events and wish to participate. Action: Rangers are to be briefed that they should refuse to allow anyone without a ticket attending an event. |

| Weaknesses identified during the audit and the proposed action (Essential and Important only) | |
|--|---|
| Important | Retention of Toil Authorisations – Testing on a sample of ten Time off in Lieu records highlighted five where no records could be found to confirm that the TOIL had been authorised by line management. In addition, there was a misconception by some staff that monitoring was being carried out by the Business Support Team who were being copied into authorising emails, but did not do anything with them. Action: The service will clarify with the Business Support Team on its role in monitoring TOIL requests and the need to retain evidence of approval. |

| | | |
|--------------------------------|--------------------------------------|--|
| Audit Title | Technology Forge Application | <p>Overview of Subject: The Technology Forge application was introduced in 2004 to retain and manage the Council's electronic estate records (both land and property) for the Council. The application contains historic estate records that were imported on the application's introduction, as well as continuing to record all current and previous tenants, lease and licence records since that point in time.</p> <p>The application is used to record jobs (such as repairs and maintenance) as well as perform financial functions (including raising orders and paying invoices). The application also allows electronic documents to be attached to the individual asset records.</p> |
| Year of Audit | 2016/17 | |
| Type of Work | Computer audit | |
| Assurance Opinion Given | Reasonable | |
| Direction of Travel | 2009/10 Minor reduction in assurance | |

| 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 |
| Application Management and Governance | | | - | 1 | - | - | - | - |
| System Security | | | - | 1 | - | - | - | - |
| Interface Controls and Processes | | | - | 1 | - | - | - | - |
| Data Input | | | - | - | 1 | - | - | - |
| Data Output | | | - | - | - | - | - | - |
| Change Control | | | - | - | - | - | - | - |
| System Support (including third party access) | | | - | - | - | - | - | - |

| Weaknesses identified during the audit and the proposed action (Essential and Important only) | |
|---|--|
| Important | <p>Strengthening Password Format and Lock out - The application's password policy was found to be only partially compliant with best practice and Council policy in that complex (i.e. alphanumeric) passwords are not mandatory on the application. In addition, it was identified that user accounts are not locked after a certain amount of incorrect password attempts.</p> <p>Action: The supplier will be contacted to request that the Technology Forge application should be amended to a) include a lockout after 10 unsuccessful attempts at entering a password; and b) the password format requires 3 of the 4 categories of character.</p> |
| Important | <p>Information Asset Register – The Technology Forge Application was not included on the information asset register which would help the Council to manage the information risks associated with the application. Action: The Technology Forge application will now be added to the Council's Information Asset Register.</p> |
| Important | <p>Identifying and Documenting Interfaces - An interface map for the Technology Forge application was not in place that defines the interface between the application and other systems. Action: A map and documentation of system interfaces with Technology Forge will be created.</p> |

| | | |
|--------------------------------|---------------------------------------|---|
| Audit Title | Building Control Partnership | <p>Overview of Subject: The Building Control partnership was established between Fareham Borough Council and Gosport Borough Council to deliver both fee earning work (Building Regulations applications) and the non-fee earning work (such as dangerous structures inspection and resolution, access advice and control of demolition works). In month 8 of 2015/16 the partnership was expanded to include Portsmouth City Council.</p> <p>This audit was carried out by the Gosport BC audit team to give assurance on the procedures used by the partnership across the 3 councils.</p> |
| Year of Audit | 2016/17 | |
| Type of Work | Opinion audit | |
| Assurance Opinion Given | Reasonable (FBC equivalent) | |
| Direction of Travel | ↓ 2010/11 | |

| 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 |
| Application management and workflow | | | - | - | - | - | - | - |
| Fees setting and exemptions | | | - | 1 | - | - | - | 1 |
| Income Collection | | | - | - | - | - | - | - |
| Accounting across the partnership | | | - | 2 | - | - | - | - |
| Partnership Governance | | | - | - | - | - | - | - |
| Surplus calculation, distribution and spend | | | - | - | 1 | - | - | - |
| Refunds | | | - | 1 | - | - | - | - |
| Non chargeable work | | | - | - | - | - | - | - |

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

| | |
|---------------------------|---|
| Previous Important | Negotiated Fees – Records are not being kept of how negotiated fees have been calculated. It has been agreed that the quote supporting documents will now be attached to the case file. |
| Important | Discounts – The authority and criteria for calculating and agreeing discounts for regular customers' needs to be agreed and documented for the whole partnership. |
| Important | Accounting for Disabled Adaptations – Some of the costs for Fareham work on Disabled Adaptations (which incur no charge) had not been posted to the accounts. New members of staff have now been instructed on the process and the costs now posted. |
| Important | Income Coding – Some inconsistencies found with identifying income attributed to each partner. Admin staff to be briefed on the codes and to try and |

| Weaknesses identified during the audit and the proposed action (Essential and Important only) | |
|--|--|
| | build a validation process into the input of applications. |
| Important | Refund cheques – Refund cheques were being returned to Building Control Officers who had requested them rather than being sent out separately by the administration team. A separation of duties is now being introduced. |

| | | |
|--------------------------------|----------------------------------|--|
| Audit Title | Air Quality and Pollution | <p>Overview of Subject: The Environmental Partnership between Fareham and Gosport Borough Councils (BCs) delivers shared Environmental Health services to both Councils. This includes pollution services which cover air quality monitoring, contaminated land, environmental pollution & nuisance, neighbour nuisance, private water supply and water quality monitoring in line with regulatory and legislative requirements.</p> <p>The Councils have 42 diffusion tubes installed between Fareham and Gosport to monitor pollution levels. There are also three monitoring stations at Fareham and Gosport, which provide readings for other pollutants. There are 2 recognised Air Quality Management Areas (AQMA) with their own specific action plans. There are currently 14 companies in Fareham who have been granted Part B (environmental pollution) permits and there is one private supplier of water which is monitored by the partnership.</p> |
| Year of Audit | 2016/17 | |
| Type of Work | Opinion audit | |
| Assurance Opinion Given | Reasonable | |
| Direction of Travel | No previous opinion | |

| Areas of Scope | Adequacy and Effectiveness of Controls | | New Recommendations Raised | | | Previous Rec Implementation (E and I only) | | |
|---|--|--|----------------------------|---------------|--------------|--|-----------|-----------------|
| | | | Essential (●*) | Important (▲) | Advisory (P) | Implemented | Cancelled | Not Implemented |
| Air Quality | | | - | 1 | - | - | - | - |
| Contaminated Land | | | - | 1 | - | - | - | - |
| Environmental Pollution and Nuisance | | | - | 2 | - | - | - | - |
| Neighbour Nuisance | | | - | - | - | - | - | - |
| Out of Hours Service | | | - | 1 | - | - | - | - |
| Private Water Supplies / Minor Drainage Works | | | - | 1 | - | - | - | - |
| Water Quality | | | - | - | - | - | - | - |

| Weaknesses identified during the audit and the proposed action (Essential and Important only) | |
|---|--|
| Important | <p>Risk Assessment and Periodic Sampling of Private Water Supply - Regular Risk Assessment and periodical sampling of private water supplies is required to ensure that water is safe for the persons using it. There is one establishment that is being monitored and in 2015 installation of UV treatment was implemented. Although sampling was carried out immediately after the UV treatment was installed, during 2016, the Council had not completed any water samplings. This was because the Laboratory previously used to complete the testing has been relocated. Although there were occasions where sampling was undertaken during 2016, these were only completed to detect existence of specific type of bacteria and did not include testing of metals and other bacteria. Action: The risk assessment for the private water supply will be updated and further action will be taken to source a supplier who can test the water samples required.</p> |
| Important | <p>Prompt reporting to DEFRA - The DEFRA Technical Guidance 2016 requires the submission of an Annual Status Report by April each year with the first having been due on 30 June 2016. We ascertained that the Council's report hadn't been presented to DEFRA until January 2017. However, DEFRA hadn't responded to the report until May 2017. Action: Service to discuss with DEFRA how frequently we need to submit the Annual Status Report (ASR) and will aim to issue it within the agreed timescale.</p> |

| Weaknesses identified during the audit and the proposed action (Essential and Important only) | |
|--|--|
| Important | Public Register of Regulatory Action Taken - Part IIA of the EPA 1990 establishes that acting as regulators Councils should keep a public register of regulatory action taken but currently none is in place. Action: A Public Register of Regulatory Action Taken will be introduced, when resources are available. |
| Important | Inspection Programme of Permitted Activities - The inspection programme for the 2016/17 period did not reflect the properties that should be reviewed as per the inspection frequency based on risk scoring. Action: The Inspection Programme of permitted activities will be reviewed to confirm it reflects the required inspections each year. |
| Important | Review of Activities of New Companies – There is currently no proactive identification of any new installations that are potentially polluting and require a permit. Action: the service will evaluate whether we can resource carrying out an annual review of new companies located within each borough to identify any new ones that may require a Part B permit. |
| Important | Monitoring of Performance Measures for Neighbourhood Nuisance - Monitoring measures relating to pollution complaints have been defined but not yet implemented. Action: Monthly Performance Measures for Neighbourhood Nuisance will be produced. |

| | | |
|--------------------------------|---------------------------|---|
| Audit Title | Outdoor Recreation | Overview of Subject: There are 17 Parks/Recreation grounds in Fareham with sports pitch provision. The Grounds Maintenance Team maintains the surfaces and pitches in line with bookings. There is also a planned programme of improvements as part of the Council's Capital programme. Charges for recreational services are set out in the Council's Fees and Charges book. Some charges can vary e.g. discounted for block bookings and increased charges for non-resident clubs of the Borough. VAT exemption is available for the provision of a series of lets to Schools, Clubs, Associations or Organisations representing affiliated clubs or constituent associations (such as local league) subject to the guidelines set out in the Fees and Charges book. |
| Year of Audit | 2016/17 | |
| Type of Work | Opinion audit | |
| Assurance Opinion Given | Limited | |
| 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 (🟢) | Implemented | Cancelled | Not Implemented |
| Management of Pitch Bookings | | | 1 | 3 | - | - | - | - |
| Income Collection | | | As above | 2 | - | - | - | - |
| Debt Recovery | | | - | 1 | - | - | - | - |
| Capital Projects | | | - | - | - | - | - | - |
| Leisure Strategy | | | - | - | - | - | - | - |
| Miscellaneous Charges | | | - | - | 1 | - | - | - |
| Cleaning – Contract Management | | | - | - | - | - | - | - |
| Grounds Maintenance | | | - | - | - | - | - | - |
| Repairs and Maintenance of Buildings | | | - | - | - | - | - | - |
| Equipment Purchases | | | - | 1 | - | - | - | - |
| Charges for Damages Arising from Hiring | | | - | 1 | - | - | - | - |

| Weaknesses identified during the audit and the proposed action (Essential and Important only) | |
|--|---|
| Essential | Improving the Spreadsheets used to control bookings. Weaknesses were found with the system used to manage income collection for sports pitch bookings such that errors were found on a number of invoices tested and we cannot give assurance that all income due has been collected or if we have not over collected. Action: The service had already been challenging the systems they were using and a new system for booking / invoicing in which a sheet is maintained for each club is being trialed. |

| Weaknesses identified during the audit and the proposed action (Essential and Important only) | |
|--|---|
| Important | Checking the Clarity and Accuracy of Invoices. Testing revealed discrepancies with some invoices. Action: More time will be spent checking the accuracy of invoices and assistance will be sought if required. |
| Important | VAT Exemption and Advanced Invoicing. The current invoicing spreadsheet gives the total of games played for each club, it does not identify where gaps have occurred which may mean that the VAT exemption cannot be given. Action: The Council is looking to move to two 'Fixed' and 'Flexible' booking options, the former will attract VAT exemptions (providing the VAT criteria have been met) and the later will not attract VAT exemption. Meetings with the clubs will take place to explain the options to them. |
| Important | Records of Verbal Information relating to Bookings and Cancellations. There was limited information available to support all pitch bookings and cancellations received via the phone Action: Evidence to support bookings and cancellations received by phone will now be retained. In addition evidence will be kept to support the issuing of refunds / credit notes. |
| Important | Debtors' checks: When a pitch booking is received no checks are made to establish whether the customer owes money from previous pitch bookings. Action: When the season is about to start the Business Support Officer will send a list of clubs expected to make bookings to the finance team to check if the clubs have any outstanding debts. |
| Important | Documented Procedures for Booking Process. Few documented procedures outlining how the booking process works are available for other officers to refer to when the key Officer is absent. Action: The procedure notes that are in place to manage outdoor recreation bookings will be revisited and revised / brought up to date in line with expected practice. |
| Important | Password for Booking Sheet. The booking spreadsheet is not password protected to prevent any unauthorised alterations. Action: A Password or specific access group will now be set up to protect the bookings sheet from unauthorised changes. |
| Important | Records of Council Owned Equipment: The value of the equipment held is not recorded on the equipment spreadsheet and there was no record of periodic checks that equipment is still at the documented location. Action: The approach to the inventory records for outdoor recreation equipment will be reviewed in line with the requirements of Financial Regulation 13. |
| Important | Acceptance of Responsibility for Equipment in Booking Conditions: Booking conditions do not make it clear that any hiring club is responsible for the cost of repairs or replacement of any equipment while the premises or equipment is within their care. |

| | | |
|---|------------------------------------|---|
| Audit Title | Data Protection in Services | Overview of Subject: This report is one in a series looking at the procedures and controls in place at the Council to ensure compliance with the Data Protection Act 1998. |
| Year of Audit | 2016/17 | An internal review of the Corporate Data Protection arrangements was completed in 2013/14 and 2014/15 and a number of recommendations were made. One of these was to use a collaborative approach using Democratic Services and Audit Services to work with one or more manager a year to cover aspects of information management at the service level. These are generally reviewed by way of collaborative discussion amongst the working group. This is then supplemented by some audit testing. |
| Type of Work | Wider work | |
| Assurance Opinion Given | N/A | |
| Direction of Travel | N/A | |
| This report is the first review of this series and covers the Community Safety service. | | |

The actions below are attributable to the Community Safety Team. However, the audit also collated a number of recommendations that need to be addressed corporately

Page 120

| Areas of Scope | Adequacy and Effectiveness of Controls | | New Recommendations Raised | | | Previous Rec Implementation (E and I only) | | |
|-----------------------------|--|--|----------------------------|---------------|--------------|--|-----------|-----------------|
| | | | Essential (⚡) | Important (▲) | Advisory (P) | Implemented | Cancelled | Not Implemented |
| Team Awareness | | | - | - | - | - | - | - |
| Data Collection | | | - | - | - | - | - | - |
| Data Accuracy | | | - | - | - | - | - | - |
| Data Sharing | | | - | 2 | - | - | - | - |
| Data Security | | | - | 5 | - | - | - | - |
| Data Retention and Disposal | | | - | 1 | - | - | - | - |

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

| | |
|------------------|---|
| Important | Need to Restrict Internal Circulation of Case Data – Some internal emails contained minutes for meetings that also contained sensitive data. It was agreed that items like this would no longer be attached to emails. |
| Important | Dealing with Requests for Data from the Police – The corporate process for dealing with data information requests for the police has stalled and once re-established will be observed by the service. |
| Important | Data on PC Screens – The team have now installed privacy screens to their PCs to prevent any nearby traffic being able to see any sensitive information being worked on on their computers. |
| Important | Access Rights On Filing System – One team in the Council was found to have access to the confidential filing area used by the service. These accesses have now been removed. |

| Weaknesses identified during the audit and the proposed action (Essential and Important only) | |
|--|---|
| Important | Duplication of data outside the management system – Data and files that are maintained on the management system used by the service were being duplicated within the filing system. It has been agreed that the filing will be reviewed and deletions made where possible. |
| Important | Manual Note Books – It was agreed that only clear note pads would be taken to meetings etc., to prevent any sensitive data/notes being inappropriately viewed at meetings. |
| Important | Calendar Entries – It was agreed that the team would work with ICT to lock down their calendars to team members only to allow meeting location and details to be recorded in the calendar system but not be visible to others. |
| Important | Data Retention and Disposal – It was agreed that the data maintained on the filing system would be reviewed and where no longer required, deleted, to ensure there is no breach of the DP legislation in terms of inappropriate retention. |

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 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 | The work completed by the Auditor is being reviewed by their manager. |
| Stage 6 | An exit meeting has been held with the Sponsor giving the preliminary feedback from the work. |
| Stage 7 | Any additional testing identified has been completed. |
| Stage 8 | The draft report has been received by the in-house audit team. |
| Stage 9 | The draft report has been issued to the Service Sponsor and is awaiting their response. |
| Stage 10 | The final report has been issued. |

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **17 July 2017**

Report of: **Head of Finance and Audit**

Subject: **HEAD OF AUDITS ANNUAL OPINION 2016/17**

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2016/17 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

It is recommended that the contents of the report are noted as a source of evidence for the 2016/17 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 to inform this year's Annual Governance Statement.

ASSURANCES AVAILABLE TO SUPPORT THE OPINION

Completion of Planned Assignments

3. The audit plan for 2016/17 included 21 audit assignments of different types to give a good representation of the audit universe (which contained 162 audit titles). 16 of these assignments were designed to produce an audit opinion and 195 days, plus 50 days in-house support, have been used in this work.
4. At the time of giving this annual opinion, all of the 2016/17 assignments have been undertaken and sufficient conclusions have been drawn for 18 of these to be fully useable as a source of assurance. 15 have been fully completed and actions agreed with the Audit Sponsor.
5. Two of the three pieces of work from the 2015/16 plan which had not progressed sufficiently at the end of last year, for an assurance opinion to be issued, have now been fully completed so and so are also relied upon for this report.
6. This is considered adequate coverage as set out in the Internal Audit Strategy to allow the annual opinion to be produced. [Appendix A](#) gives the latest status of the assignments and the key assurance measures arising from the work.

Spread of Individual Assignment Opinions

7. 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:

| Table 1 - Spread of Assignment Assurance Opinions Given | | | | | |
|---|----------|------------|---------|---------|-------|
| Year | Strong | Reasonable | Limited | Minimal | Total |
| 2016/17 | 8 (47%) | 8 | 1 | 0 | 17 |
| 2015/16 | 4 (27%) | 11 | 1 | 0 | 16 |
| 2014/15 | 6 (40%) | 8 | 1 | 0 | 15 |
| 2013/14 | 13 (41%) | 18 | 1 | 0 | 32 |
| 2012/13 | 8 (30%) | 16 | 3 | 0 | 27 |

8. No opinions of 'Minimal Assurance' were issued again in the year. There was one 'Limited Assurance opinion' awarded for the Outdoor Recreation audit. Weaknesses were found with the system used to manage income collection for sports pitch bookings such that errors were found on a number of invoices tested. This had already been recognised during the vanguard review and a management plan is being implemented.

9. The audit of the service (Air Quality and Pollution) in the year which had undergone a “Systems Thinking” intervention was given a *reasonable* assurance opinion.

Income or Expenditure Errors found

10. Errors are defined as spending we incurred when we shouldn’t have, or uncollected income. Income errors of £475 were noted from one audit in the year.

Implementation of Recommendations

11. During 2016/17, only 4 of the audits included a review of the progress made with implementing previous recommendations. These covered 8 essential or important actions. This was because a high number of audits in the plan had not been audited before, or we already had confirmation of the implementation of previous recommendations associated with the audit.
12. Testing confirmed that **50%** of the recommendations have been implemented. 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 or closed |
| 2016/17 | 4 | 8 | 50% |
| 2015/16 | 8 | 23 | 57% + 17% in progress |
| 2014/15 | 13 | 69 | 57% + 14% in progress |
| 2013/14 | 17 | 68 | 66% |
| 2012/13 | 16 | 77 | 61% |

13. No other follow up work has been completed in 2016/17. During the year the new action database was fully updated for movements since the initial import was completed and it is now used on a daily basis by the team. However, we have yet to roll the system out to services and it will be a priority for the service to get this completed in the coming months and to commence the next full survey of outstanding recommendations, so that stronger assurance is available for next year.

Other Sources of Assurance in the Year

14. [Appendix C](#) 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. Particularly significant pieces of work were collaborative workshops held with 2 services to see if a better way of collecting and recording credit card income or income through the post can be found.

Governance, Ethics and IT

15. The Public Sector Internal Audit Standards require the *‘internal audit activity to evaluate the design, implementation and effectiveness of the organisation’s ethics-related objectives, programmes and activities’*. A programme of work has been drawn up to help provide on-going assurances on our ethics arrangements.
16. This year’s work involved an audit of building security at the Civic Offices in support of

the Council's value to *respect the privacy of our customers and keep their personal information confidential*.

17. The conclusions from this work are that reasonable assurance was given in relation to physical security, and that some controls could be strengthened in relation to the management of non-employees who are given access to the building. This had already been recognised by the service and action was in progress including an upgrade to the Tensor system which will allow better recording of access requests.
18. The actions identified from last year's ethics work have yet to be progressed with the exception of assigning ownership over the Transparency information being published.

Information Technology Governance

19. 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*'.
20. The conclusion arising from this work for 2016/17 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 findings from the Technology Forge audit and the work being done by the service to realign the IT strategy and workforce to meet the needs of the organisation and meet the Public Services Network (PSN) requirements. The work being carried out by the new ICT Security Officer appointed during the year was also noted although there is still some work needed to strengthen the arrangements to manage software licences and clarify the ICT security policies for the Council.

Risk Management

21. The review of our risk management processes was completed in 2016/17 and a new policy approved. The principles in the policy now need to be rolled out across the organisation and the proposed monitoring and reporting arrangements implemented to confirm the effectiveness of the process.

HEAD OF AUDIT OPINION

22. 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.
23. 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 2016/17 which was generally working effectively. There is awareness amongst managers about their top risks and the importance of control mechanisms within the Systems Thinking culture, and the need to address any major weaknesses found.
24. The opinion is particularly based on the fact that:
 - no "minimal" audit assurance opinions were again given this year;
 - income or expenditure errors were only recorded in one audit in the year, totalling

£500;

- the service audited which have undergone a Systems Thinking intervention (Air Quality and Pollution) this year have been given a 'reasonable' audit assurance opinion; another part way through their intervention (Outdoor Recreation) had already identified a similar issue to the audit such that management action had been planned to change the way the system worked;
- only 1 new essential recommendation has arisen from the opinion work this year, which is already being progressed;
- collaborative working on system problem areas in the year has been introduced and the 3 carried out in the year have led to improved control and efficiency.

25. However, there are a few areas noted where action will enhance the adequacy and effectiveness of governance, risk management and control. These include:

- a) finalising the work to put together the framework agreements for spend with contractors and suppliers used by Housing, Property and Building Services, which at the moment is breaching FBC Contract Procedure Rules;
- b) fully embedding the new system for managing costs associated with housing repairs;
- c) rolling out the new approach to Risk Management across the organisation;
- d) rolling out the Data Protection refresher training to incorporate the requirements of the General Data Protection Regulation.

26. These issues had already been recognised by managers and they are working to address them.

27. Other issues highlighted last year where progress has been made but work is still needed are:

- e) roll out the new action management system to services to improve the management of recommendations arising from audit reports, and update the data available on the level of implementation;
- f) clarify the ICT security policies for the Council;
- g) finalise the action plan for the Contract Completion audit which includes updating the Financial Regulation on Procurement to be clear on the expectations in relation to pricing variation orders and reporting overspends.

AUDIT SERVICE QUALITY ASSURANCE

28. As required by the Public Sector Internal Audit Standards (PSIAs), the service has developed 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.

29. 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.*

30. 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

31. In conformance with PSiAs 1110, it is confirmed that that the internal audit activity was organisationally independent.
32. This is assessed on the basis that the arrangements laid out in the Audit Charter had been adhered to; the Head of Finance and Audit 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.
33. Whilst there is a potential conflict from the dual role of Head of Finance and Head of Audit there are compensating controls in place as follows:
- opinion audit work is bought in from other providers reporting to their own head of audit; the work is reviewed by their manager and a copy of the report they send to us is filed as part of the audit trail;
 - as the teams do liaise on the scope of the audit and the content of the final audit report, we send the audit manager a copy of the final report allowing them to raise any concerns they have with the content with the Section 151 manager;
 - the Section 151 manager meets annually with the audit manager of the external provider.

Self-Assessment against the Standards

34. Our self-assessment against the standards for 2016/17 concludes that we have fully conformed to 48 [as per last year] of the 52 applicable standards with partial conformance with the other 4. It should be noted that there are 128 parts making up the 52 standards.
35. Improvements made since the last report involved:
- ✓ carrying out a desktop peer discussion with the Hampshire Audit Managers Group across 38 (79%) of the standard sections, to provide some additional assurance in relation to external assessment requirements;
 - ✓ documenting what assurances members of the Hampshire Audit Managers Group will provide on partnerships which can be relied upon by other audit teams;
 - ✓ introducing 10/10 questions into the customer feedback process.
36. Instances of non or part conformance are given in [Appendix D](#); we are now down to those where no further action is planned to improve conformance. None of the areas are considered significant enough for reporting in the Annual Governance Statement, particularly as the external assessment requirement is not due for another 2 years.
37. New standards have been introduced from 2017/18 and a review of the changes contained in them will be carried out during the year.

Local Performance Measures

38. Three local performance measures were used for the service in 2016/17, as discussed below.

Completion of Plan

39. The first measure covers the amount of planned work that is finalised by the time of the Annual Report. There has been some improvement in this indicator this year, as summarised in the table below, but it is still an aspect of the service that we are focusing on.

| Table 3 – Completion of Plan | 2016/17 | 2015/16 | 2014/15 | 2013/14 | 2012/13 |
|---|----------------|----------------|----------------|----------------|----------------|
| % of reports finalised by time of Head of Audits Report | 68% (15/21) | 59% (13/22) | 29% (6/21) | 67% (22/33) | 84% (26/31) |

Time Taken to Deliver Assignments

40. The second measure covers the length of time between the initial audit scoping meeting with the customer and the provision of a final report for the work. This is a known area of weakness for the service and there has been a slight improvement on last year.

| Time Taken | 2016/17 | 2015/16 | 2014/15 |
|--|----------------|----------------|----------------|
| Average number of calendar months between start and finish of audits finalised since the last annual report. (Number of audits in the measure) | 6.7 (21) | 7.2 (11) | 6.8 (12) |

Customer Feedback

41. The third measure covers customer feedback. We now use a face to face interview with an auditor not involved in the assignment in order to obtain feedback. 15 interviews, or other methods of feedback, have been completed since the last report (8 relating to the 2016/17 plan) and a score applied as shown in the table below.

| Level of Customer Satisfaction | 2016/17 | 2015/16 | 2014/15 |
|---------------------------------------|----------------|----------------|----------------|
| Audit was above expectations | | 22% (2) | |
| Happy with the audit | 66% (10) | 33% (3) | 100% (5) |
| Minor problems with the audit | 27% (4) | 45% (4) | |
| Significant problems with the audit | 7% (1) | 0 | |

42. Generally feedback has been positive in relation to the revised audit approach to assignments. The main themes with services expressing problems with the audit is where a) the audit report does not adequately express the context of the service being audited or b) the services' expectations from the opening meeting were not met. This feedback is discussed with the provider for each audit so that any lessons can be learnt.

RISK ASSESSMENT

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

CONCLUSION

44. 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 2016/17
- B. Results of Planned Assignments from previous years not available last year
- C. Additional Sources of Assurance this year
- D. Areas of Non Conformance with the Public Sector Internal Audit Standards

Background Papers: None

Reference Papers:

Report to Audit and Governance Committee on 27/06/16 on Head of Audit's Annual Opinion 2015/16

Quarterly audit reports to the Audit and Governance Committee during 2016/17

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 2016/17

| Audit Title | Stage reached of 10* | 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 | | | | | | | | | | | |
| Banking | 10 | 10 | Reasonable | ↔ | - | 2 | 2 | - | - | - | - |
| Accounts Payable | 10 | 10 | Strong | ↑ | - | 1 | - | 1 | - | - | - |
| Payroll and Employee Expenses | 10 | 10 | Strong | ↔ | - | 1 | 1 | 1 | - | - | 2 |
| Treasury Management | 10 | 10 | Strong | ↔ | - | 2 | 3 | - | - | - | - |
| Housing Rents | 9 | 15 | Reasonable | ↔ | - | 5 | 3 | 2 | - | - | 1 |
| CORPORATE, SPECIALIST, GOVERNANCE, RISK AUDITS | | | | | | | | | | | |
| NONE | | | | | | | | | | | |
| SERVICES & SYSTEMS – HIGH RISK | | | | | | | | | | | |
| Building Control | 10 | 15 | Reasonable | ↓ | - | 4 | 1 | - | - | - | 1 |
| Sheltered Housing | 10 | 15 | Reasonable | ↔ | - | 3 | 1 | - | - | - | - |
| Trade Waste and Recycling | 10 | 15 | Strong | ↔ | - | - | 1 | - | - | - | - |
| Daedalus | 8 | 12 | Strong | N/A | - | - | 1 | - | - | - | - |
| Outdoor Sport and Recreation | 10 | 18 | Limited | ↓ | 1 | 8 | 1 | - | - | - | - |
| SERVICES & SYSTEMS – Other | | | | | | | | | | | |
| Neighbourhood Working, Public relations and Consultation | 10 | 10 | Strong | N/A | - | - | 3 | - | - | - | - |
| Air Quality and Pollution | 10 | 17 | Reasonable | N/A | - | 6 | - | - | - | - | - |
| Countryside Management | 10 | 8 | Reasonable | N/A | - | 3 | - | - | - | - | - |
| COMPUTER AUDITS | | | | | | | | | | | |
| Technology Forge | 10 | 15 | Reasonable | ↓ | - | 3 | 1 | - | - | - | - |
| Cloud Computing | 8 | 15 | | N/A | - | 7 | 4 | - | - | - | - |
| WIDER WORK | | | | | | | | | | | |
| Leaseholder Charges | 5 | N/A | N/A | N/A | | | | - | - | - | - |
| Effectiveness of Ethics Related activities – physical security | 9 | 5 | Reasonable | N/A | - | 1 | 2 | - | - | - | - |

| Audit Title | Stage reached of 10* | 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 |
| Data Protection | 10 | N/A | N/A | N/A | - | 8 | 1 | - | - | - | - |
| Risk Management | 10 | N/A | N/A | N/A | - | - | - | - | - | - | - |
| Building Health and Safety Risks | 5 | 5 | N/A | ↑ | | | | | | | |
| Building Service Invoicing and Stock Control (part 1) | 10 | N/A | N/A | N/A | Joint action plan in place containing 15 actions for the service - some of which are fact finding rather than system improvements | | | - | - | - | - |
| Totals | | 205 | | | 1 | 54 | 25 | 4 | - | - | 4 |

APPENDIX B

RESULTS OF PLANNED ASSIGNMENTS FROM PREVIOUS YEARS NOT AVAILABLE FOR LAST YEAR'S OPINION

| Audit Title | Stage reached of 10* | 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 |
| SERVICE AND SYSTEM AUDITS – High Risk | | | | | | | | | | | |
| Household Waste Collection | Stage 10 | 10 | Strong | ↔ | - | 1 | - | - | - | - | - |
| Recycling | Stage 10 | 10 | Strong | ↔ | - | - | - | - | - | - | - |

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

| | |
|---|--|
| <p>Reactive work undertaken by the Team</p> <p><i>* Opportunities found to improve internal controls</i></p> | <p>Password protection testing of facebook and twitter accounts.</p> <p>Assistance with former tenant who believed he owed the Council money since 2000.</p> <p>Review of Right to Buy Calculations process.</p> <p>Review of Temporary Creditor Coding on Financial Management System*</p> <p>Work undertaken to understand the monitoring reports relating to the batch file transfer process to County Court for unpaid PCNs.</p> |
| <p>Other work undertaken by the team</p> <p><i>* Opportunities found to improve internal controls</i></p> | <p>NFI Fair Processing Checks*</p> <p>Fraud risk assessment of Recruitment and Selection*</p> <p>Leading on working group to improve Credit Card Payment system in Building Control *</p> <p>Leading on working group to improve Street Scene income collection process through the post*</p> <p>Leading on working group to improve urgent payment process for Housing Options*</p> <p>Participation on working group applying system thinking to the Cash Office</p> <p>Advisory work on residents permits process</p> <p>Horizon scanning on Apprenticeship Levy.</p> |
| <p>Other sources</p> | <p>Coastal Partnership audit undertaken by Portsmouth CC</p> <p>PUSH audit by Hampshire CC</p> <p>Project Integra audit by Hampshire CC</p> <p>Portchester Crematorium audit by Fareham BC</p> <p>Property risk surveys undertaken by Allianz insurance</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. It 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 meetings occur between the Section 151 Officer and the Head of Finance and Audit [HFA]. 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 HFA. The HFA 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. |
| 1312 External Assessments | No external assessments are currently included in the Quality Assurance and Improvement Plan. | No further action proposed This requirement is not yet due for another 2 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 do, however, monitor any feedback on conformance to the standards received from the external auditors, and internal audit partners. We have also introduced peer discussions in the Hampshire Audit managers group in which one authority presents how they comply with a section of standards and leads a discussion on the strengths and weaknesses of their approach. |
| 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. |

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date 17 July 2017

Report of: Head of Finance and Audit

Subject: ANNUAL GOVERNANCE STATEMENT 2016/17

SUMMARY

This report brings the 2016/17 Annual Governance Statement for member approval before publishing with the Statement of Accounts.

RECOMMENDATION

It is recommended that the Committee:

- 1) approve the Annual Governance Statement for 2016/17, as attached in [Appendix C](#) of the report; and
- 2) approve any identified changes required.

INTRODUCTION

1. The Accounts and Audit Regulations 2015 require the Council to publish a statement on its systems of internal control as follows:

‘The relevant authority must ensure that it has a sound system of internal control which –

a) facilitates the effective exercise of that body’s functions and the achievement of its aims and objectives:

b) ensures that the financial and operational management of the authority is effective; and

c) includes effective arrangements for the management of risk.’

The relevant authority must, each financial year - conduct a review of the effectiveness of the system of internal control... and prepare an annual governance statement. ... it must consider the findings of the review... by a committee or by members of the authority meeting as a whole; and approve the annual governance statement prepared...by resolution of a committee or by members of the authority meeting as a whole.

The annual governance statement ... must be approved in advance of the relevant authority approving the statement of accounts...and be prepared in accordance with proper practices...’

2. The ‘proper practices’ for this obligation are regarded to be the CIPFA/SOLACE publication ‘Delivering Good Governance in Local Government, which was revised in April 2016.
3. This report therefore informs members of the processes that have been used to prepare the Annual Governance Statement for 2016/17 as attached as [Appendix C](#), and seeks approval for this to accompany the audited Statement of Accounts for 2016/17 due to be published at the end of September 2017.

CHANGES TO THE PROCESS IN THE 2016 PROCESS

4. 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*’.
5. The Council has defined its Governance Framework as consisting of 23 components as listed in [Appendix A](#). This list has been updated to ensure it is consistent with the latest guidance given in the ‘proper practices’, published in April 2016. In particular there have been a few changes to the areas of the Governance Framework to be covered as summarised in the table below:

| Removed | Added |
|-------------------------|-----------------------|
| Vision and Governance | Scrutiny |
| Change Management | Openness |
| Other service providers | External Audit |
| Complaints | Conflicts of Interest |

6. Other changes noted in the latest guidance are:
- we need to make reference to the latest **Local Code of Corporate Governance** adopted by the Council in November 2016 which complies with the latest 'proper practices';
 - most of the **standard text** in the Annual Governance Statement has been removed and the Council now has more freedom on what it includes in the Statement about the Governance Framework, with an expectation that there is a greater focus on improvements made in the year;
 - we are now required to make reference to how **issues raised** in the last Annual Governance Statement have been resolved.

RESPONSIBILITIES OF THIS COMMITTEE

7. 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.
8. 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.
9. 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.

SOURCES OF EVIDENCE

10. 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 Finance and Audit. The following additional evidence was also reviewed to support the discussions:
- Outcomes of Audit work in 2016/17.
 - 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

11. The Annual Governance Statement, as attached as [Appendix C](#), has been drafted in accordance with the CIPFA proper practices guidance. The lists of improvements identified during this review are highlighted on pages 21 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

12. 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 auditors.

CONCLUSION

13. 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 2016/17.

Appendices:

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

[Appendix B](#) – Sources of External Assurance Reviewed this year

Appendix C – Draft Annual Governance Statement 2016/17 ([attachment](#)).

Background Papers: None











Reference Papers:












CIPFA/ SOLACE - Delivering Good Governance in Local Government - Framework and Guidance 2016



Enquiries:

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

Components of the Fareham BC Governance Framework

| Element | | |
|---------|---|--|
| 1 |  | <p>Vision and Outcomes</p> <p>Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.</p> |
| 2 |  | <p>Vision and Actions</p> <p>Translating the vision into courses of action for the authority, its partnerships and collaborations.</p> |
| 3 |  | <p>Service Quality and Value for Money</p> <p>Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.</p> |
| 4 |  | <p>Constitution</p> <p>Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.</p> |
| 5 |  | <p>Codes of Conduct</p> <p>Developing codes of conduct which define standards of behaviour for members and staff and that these codes and policies are communicated effectively.</p> |
| 6 |  | <p>Decision Making</p> <p>Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships, information provided to decision makers, and robustness of data quality.</p> |
| 7 |  | <p>Scrutiny (NEW)</p> <p>Ensuring an effective scrutiny function is in place.</p> |
| 8 |  | <p>Risk Management</p> <p>Reviewing the effectiveness of the framework for identifying and managing risks and for performance demonstrating clear accountability.</p> |
| 9 |  | <p>Counter Fraud</p> <p>Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).</p> |
| 10 |  | <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 (2015) and, where they do not, explain why and how they deliver the same impact.</p> |

| Element | | |
|---------|---|---|
| 11 |  | Internal Audit 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. |
| 12 |  | External Audit (NEW) Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations. |
| 13 |  | Monitoring Officer Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function. |
| 14 |  | Head of Paid Service Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function. |
| 15 |  | Audit Committee Undertaking the core functions of an Audit Committee, as identified in CIPFA's <i>Audit Committees: Practical Guidance for Local Authorities (2013)</i> . |
| 16 |  | Laws and Policies Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful. |
| 17 |  | Whistleblowing and Conflicts of Interest Developing policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively |
| 18 |  | Training and Development Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training. |
| 19 |  | Communication Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation. |
| 20 |  | Openness (NEW) Documenting a commitment to openness and acting in the public interest |
| 21 |  | Partnerships and Governance 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. |

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

Sources of External Assurance Reviewed this Year

| Type | Report |
|--|---|
| External Audit | Annual Audit Letter 2015/16 (October 2016) |
| | Audit Results Report 2015/16 (September 2016) |
| | Annual Certification Report 2015/16 (November 2016) |
| Government Department or Agency | Local Government Ombudsmen Report 2015/16 (June 2016) and cases investigated during 2016/17 |
| | Public Service Network Compliance (2016/17) |
| | Driver and Vehicle Licensing Agency (DVLA) data assurance audit of our use of Web Enabled Enquiry Facilities (December 2016) |
| | Driver and Vehicle Standards Agency (DVSA) Vehicle Operators Compliance Risk Score (April 2017) and Vehicle Test History (April 2017) |
| Insurers | Allianz Insurance property risk improvement surveys of the Motor Fleet, Ferneham Hall and 3 investment properties (May 2016 – January 2017) |
| Other | <p>Hampshire Safeguarding Children Board (HSCB) S11 Audit Self-Assessment Tool (June 2016) and HCSB Evaluation Letter (August 2016)</p> <p>Partnership Coverage by other Audit Teams (PUSH, Project Integra, Eastern Solent Coastal Partnership)</p> <p>Hampshire County Council Property Services Annual Review of the Building Control Partnership (March 2016)</p> <p>External and Internal Penetration Health checks performed by a specialist company on our IT systems.</p> |

FAREHAM
BOROUGH COUNCIL

Annual Governance Statement 2016/17

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 securing continuous improvements to the ways in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

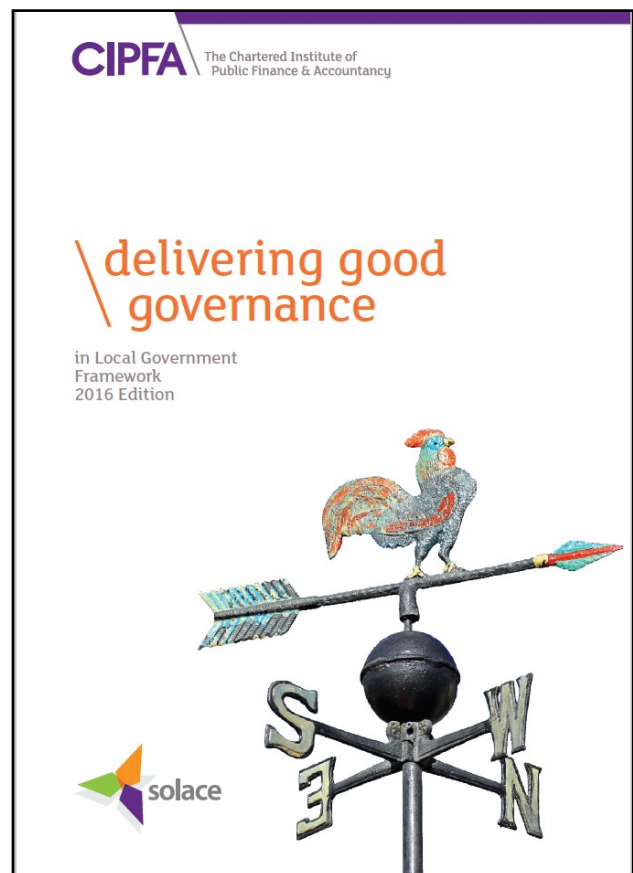
In discharging this overall responsibility, Fareham Borough Council is responsible for putting arrangements in place for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

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 2015, regulation 6 (1b) which requires all relevant authorities to prepare an annual governance statement.



THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises of the systems and processes, culture and values by which the authority is directed and controlled and the 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 2017 and up to the date of approval of the Statement of Accounts.

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

Openness

The Council seeks to be open and to act in the public's interest. The Community Action Team meetings in particular allow open debate on hot topics that come up.

We have developed a Freedom of Information Publication Scheme which is published on its internet site along with a Transparency portal which provides financial information and other data about the way the Council is being run. This can be found on our website using the following path: http://www.fareham.gov.uk/about_the_council/financial_information/intro.aspx

We are currently reviewing compliance with

the latest mandatory and discretionary requirements of the Transparency Code and are also working to meet the new equal pay requirements due to be published by the end of March 2018.

During consultations we aim to be open about the data sources used and how decisions are made.

In 2017/18 we will be working to strengthen the "Have your say" content on our website by improving the feedback available on the website to issues raised by the public.

Community Communication

The Council's approach to communication is set out in the Communications and Engagement Strategy which is monitored and updated regularly.

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.

Specific websites were set up in the year to aid communication in relation to the Solent Airport (June 2016) and the Welborne Garden Village (January 2017).

We use the Council Connect stand in the Town Centre to display a range of material on targeted themes throughout the year. The Team also work with the media to convey important messages.



The Council has a Public Relations, Marketing and Consultation Team who coordinate and undertake community consultations using a variety of methods which includes an e-panel of over 2200 residents.

We also now have conversations (10/10 surveys) with a sample of residents who have used a key service in the year which allows us to receive feedback about what matters to our customers for future improvements.

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



Meetings are held in the community when there is a need to focus on hot topics of interest to that neighbourhood.

Key consultations this year have been on the Fareham and Portchester Town Centre visions as part of the Local Plan review and a number of successful business breakfasts were used in the consultation process.

Council's Visions and Outcomes

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 available on our website at: <http://www.fareham.gov.uk/about-the-council/strategies/keystrategies.aspx>.

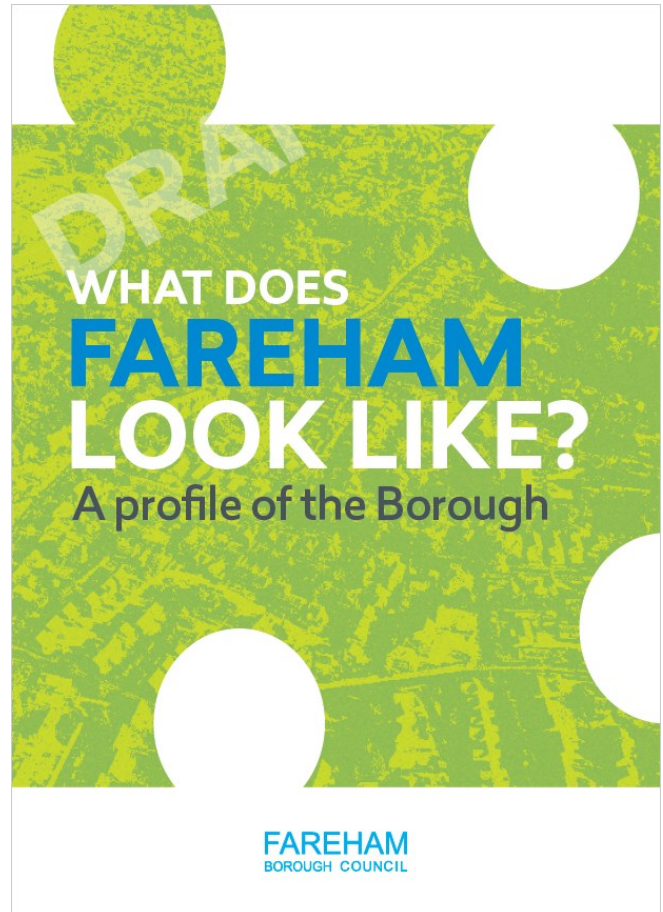
During 2016/17 we documented the achievements from the existing strategy and are in the process of producing the next strategy spanning 2017-2023.

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

A "Big Picture" report covering the hot topics in the Borough and what people are talking about using social media or other sources is reviewed every six months by the Chief Executive's Management Team. This includes the results of the 10/10 surveys.

This report also includes analysing any changes in demographics in the Borough which may influence what our priorities should be.

During 2016/17 the profile of the Borough was updated to inform the latest corporate strategy.



The Leader of the Council chairs discussions at the summer Community Action Team meetings around the Borough, each year on the Council's vision, objectives, achievements and priorities.

Service Quality and Value for Money

The Council is implementing a programme of cultural change which is leading 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.

During 2016/17 interventions have progressed in relation to Streetscene, Information and Communication Technology and the Cash Office, resulting in improved customer experiences and faster service delivery. Funding is now in place to allow for the interventions in Streetscene to continue as well as expansion of the interventions in Parking and ICT. The extension would also enable the Vanguard method to be introduced to other services, including Council Tax and Business Rates, Finance and Democratic Services.

Internal audit and external inspections provide an independent layer of assurance on the services being provided.

Our Local Service Agreements (LSAs) set out how well we are doing on delivering key services in line with our corporate priorities. They are updated annually and reviewed by the Chief Executives Management Team and the Executive.

A major update is planned for 2017/18 following the update of the corporate strategy. The LSAs include a list of key performance measures which are monitored during the year and over years. These

indicators are being revised as we determine what measures truly match the purpose of the service.

The 10/10 surveys carried out in 2016/17 will feed into the LSAs from 2017/18.

In 2016/17 the Building Control Partnership



was the winner of the *Best Partnership with a Local Authority Building Control Team*, in the Local Authority Building Control South East Building Excellence Awards.

The Council has a corporate efficiency plan which identifies cost saving actions to offset funding reductions. In 2016/17 we made £670,000 of savings and we have identified £986,000 worth of efficiencies for 2017/18.

The Council continue to buy goods and services jointly with other Councils, and build upon successful services delivered jointly with other local authorities.

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;
- 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 lays out how communication is effected between the two roles.

The Constitution documentation continues to be reviewed to keep it as a single reference source that meets the needs of its users.

A member and officer working group meets periodically to review the content. During 2016/17 work commenced to review the Schemes of Delegation to Officers and Individual Executive members which will be completed in 2017/18.

There is a designated post which covers the Monitoring Officer responsibilities. The post holder keeps apprised of changes in the requirements by attending appropriate courses and the Council subscribes to a national service to obtain advice as necessary.

Decision Making

The Constitution sets out how different types of decisions are made, including who has the responsibility for making them and what procedures should be followed.

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 Notice of Key Decisions highlights any 'key decisions' due to be made and these are published 28 days before the

decision is made to enable wider transparency and opportunities for representation to the decision makers.

The Scheme of Delegation sets out when and how the Executive, portfolio holders and officers can make executive decisions. There are also Schemes of Delegation for the Planning Development Control and Licensing and Regulatory functions.

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

7

Scrutiny

Our committee structure follows the Executive Leader and cabinet model, which requires us to have a Scrutiny function. This is carried out by the Scrutiny Board which meets every two months. The board is made up of nine councillors and reflects the political balance of the elected members.

Its purpose is to monitor and review the delivery of services and scrutinise the decisions of the Executive to make sure it is delivering effective services and providing value for money.

Three of the six executive members gave a presentation to the board this year and the other three are scheduled to do the same in 2017/18. In 2016/17 there was one decision called in which related to the provision of the Traffic Management service.

The Board also scrutinises the activities of external agencies whose operations have an impact on the Borough.

In 2016/17 a presentation was received from Project Integra and a further two presentations are planned in 2017/18.

Project Integra is the partnership between 11 District and Borough authorities in Hampshire, Hampshire County Council, Veolia Environmental Services and the unitary authorities of Portsmouth and Southampton who work to provide a long-term solution for Hampshire's household waste in an environmentally sound, cost effective and reliable way.



The work of the Scrutiny Board is supplemented by eight Policy Development and Review panels. The chairmen of the panels make up the Scrutiny Board.

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 is presented annually to the Audit and Governance Committee setting out the number of complaints received about member conduct. In addition, any breaches of code handled by the Monitoring Officer are reported at the next available meeting. The standards sub-committee was convened once in the year and one breach of conduct was referred to the Full Council in May 2016.

The Council's 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. A review of the code started in 2016/17 to update and simplify it for users and this will be finalised in 2017/18. All new employees have access to a copy of the code. Other arrangements, such as an electronic system for registering employee interests, help everyone keep 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 2017/18.

An audit of "ethics" was carried out in 2015/16 which gave positive assurance that appropriate arrangements are in place to manage member and employee behaviours. Follow up work to the audit is planned for 2017/18.

Whistleblowing

The Council's Whistleblowing Policy is reviewed by the Audit and Governance Committee as required. No further changes have been required since the last update in October 2013.

The Policy is available to all employees via the intranet where periodic updates are also displayed. 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.

Member and Officer Development

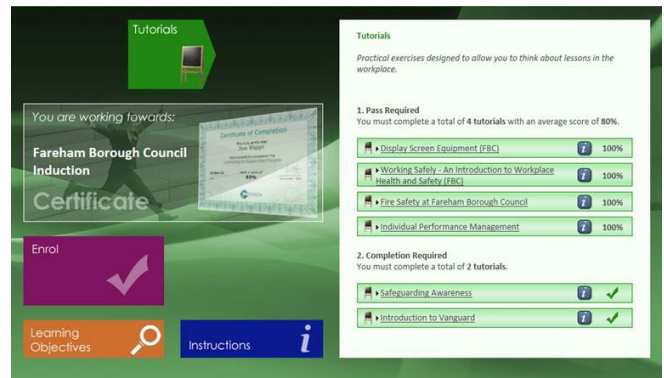
A modular induction and training programme is in place for members. The induction modules for new members are completed within a few months of being elected.

These modules were reviewed individually with the nine new members appointed in 2016/17 and any additional training needs identified. A central library was also set up to allow members to access briefing information outside of training events.

The programme is supplemented by specific topic briefings for members. Eleven member training/briefing events took place in 2016/17, including one on emergency planning.

Officer training and 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. This was reviewed in 2015/16 and the process was made more flexible and agile to address both planned and reactive training needs. In-house training sessions are delivered by a combination of on-line training for theory with face to face sessions for practical learning.

The Council's on-line training suite, called Skillgate, is used by both members and employees. We have expanded our use of the authoring tool to create local courses when the generic course does not meet our needs. All new employees complete an on-line induction package through Skillgate.



In 2016/17 face to face training included a series of managing conflict courses and refresher briefings on safeguarding responsibilities and the 'Prevent' agenda (Government counter terrorism strategy).

Dementia awareness training will be rolled out for front line services in 2017/18 and we will be re-running support workshops for managers and supervisors using outside resources.

From 2016/17 we have been developing a new approach to recruiting, developing and employing apprentices in line with the new government scheme.



Financial Management

The Council's arrangements conform to the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

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 Council's financial plans 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 budget holders, directors and the relevant portfolio holder. These meetings cover all aspects of service delivery that have a financial consequence. Accountants are established as finance business partners to the services they support and they meet periodically to maintain knowledge of current developments and share experiences and ideas.

Monthly summary financial information is published online for all Members and the public. This can be found on our website at: http://www.fareham.gov.uk/pdf/about_the_council/councilport.pdf.

Periodic financial reports showing expenditure against budgets are prepared and presented to the Chief Finance Officer and Executive Members. These focus on services with high spend or which are subject to fluctuations. Corporate financial forecasting meetings are held monthly by the senior finance officers to review the budgetary position and forthcoming pressures.

Quarterly reports on the Council's loans and investments are presented to the Chief Finance Officer, Chief Executive Officer, and half yearly to the 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.

Risk Management

In 2016/17 the Council completed a review of its approach to Risk Management using system thinking principles. A new policy has been introduced which seeks to embed risk management into the everyday workings of the Council rather than maintain a rigid corporate process. This policy consists of seven principles and includes arrangements for

monitoring the effectiveness of the policy.

Workshops are planned in 2017/18 to roll out the new approach including the expectations of managers and employees.

Specific work is planned in 2017/18 to look at the ownership of risk inspections in public areas.

11

Internal Audit and Audit and Governance Com-

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

In 2016/17 the service was jointly delivered by an in-house team, an external contractor and two neighbouring councils. This helps the delivery of the whole scope of audit work and maintain independence. Arrangements were also put in place to enter into a shared service with a neighbouring authority for future provision of the service. An exercise was also carried out with other audits teams in Hampshire in 2016/17 to document where assurances will be shared.

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




These actions are tracked until they are completed. A new action management system has been developed to improve the information available to managers and help capture updates on implementation. The data in the system was brought fully up to date in

2016/17 and will be rolled out to users in 2017/18.

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

We considered that in 2016/17 we fully conformed with 48 of the 52 Public Sector Internal Audit Standards and partially conformed with the other four. This reflects some improvements made in 2016/17 including the introduction of peer discussions by the Hampshire Audit Managers Group on how councils comply with the standards.

The Council has an Audit and Governance Committee which undertakes the core functions of an Audit Committee in accordance with the CIPFA guidance. It reports directly to the Full Council. 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.

| Report Title / Audit Subject | Report Date | Report Type | Audit Team | Directorate / Workgroup / Group | Opinion | Essential Actions | Important Actions | Other Actions | Actions still to do | Actions still to be signed off by Audit |
|---|-------------|---------------|----------------|---|---|-------------------|-------------------|---------------|---------------------|---|
| Trade Waste (1089) view <i>Trade refuse collection and recycling (525)</i> | 13/03/2017 | Planned audit | Mazars General | OPERATIONS REFUSE COLLECTION DSO <i>Refuse Collection DSO</i> | Strong  | 0 | 0 | 0 | 0 | 0 |
| Housing Benefits (1033) view <i>Housing Benefits (380)</i> | 08/11/2016 | Planned audit | Mazars General | COMMUNITY REVENUES AND BENEFITS | Strong  | 0 | 0 | 0 | 0 | 0 |
| Neighbourhood working, Public Relations and Consultation (1084) view <i>Publicity & Promotion (124)</i> | 04/11/2016 | Planned audit | Portsmouth CC | FINANCE & RESOURCES CORPORATE SERVICES <i>Customer Engagement</i> | Strong  | 0 | 0 | 0 | 0 | 0 |
| Recycling (1076) view <i>Recycling (524)</i> | 27/10/2016 | Planned audit | Mazars General | OPERATIONS REFUSE COLLECTION DSO <i>Refuse & Recycling</i> | Strong  | 0 | 0 | 0 | 0 | 0 |

Ensuring Compliance with Relevant Laws and Polices

Fareham Borough Council and Southampton City Council are in an established partnership for the provision of legal services. 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 polices where assurance is needed as part of the governance framework. Part of this assurance is provided by the Internal Audit Service and additional assurance mechanisms may be introduced to provide information when needed.

For example, in 2016/17 we introduced a new annual report covering information governance assurance. This report highlights the work that will be required in 2017/18 to prepare for the General Data Protection Regulation.

In 2016/17 we also implemented assurance procedures for our new employee 'grey fleet' procedures which confirmed that the data from the process was reliable.

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. In 2016/17 CPR and defibrillator training was attended by more than 80 employees including all senior managers.



The Council's Financial Regulations are being streamlined to include key rules. These will enable the Council to manage its financial affairs using available resources. At the time of writing all but one have been reviewed and presented to the Audit and Governance Committee.

A further series of documents provide guidance on the purpose of the regulations and methods to ensure compliance.

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

This policy was updated in 2016/17 alongside the Sanctions and Redress Policy as a result of the Benefit Investigators transferring to the Department of Work and Pensions.

The Council has retained professional investigation skills and resources which are used to deliver a full programme of work. During 2017/18 a further two employees will complete training to become accredited in fraud investigation.

We carry out risk assessments on the top frauds faced by councils to ensure our approach to prevention and detection of fraudulent activity remains cost effective.

In 2016/17 enhanced vetting checks were introduced for Right To Buy applications as this was identified as an increasing area of risk.

Also in 2016/17 three fraud awareness campaigns aimed at the public were carried out. The first in July 2016 was a general campaign involving posters, power-point presentations, an article in Fareham Today and a press release. This was expanded in September 2016 in

partnership with Argos and Poundland to include publicity on the back of their receipts.



A further campaign was then carried out in November 2016, to coincide with International Fraud Week which included presentation stands in 4 libraries/leisure centres across the Borough. The number of referrals received during these periods doubled.

The Audit and Governance Committee receive an annual update on the work carried out on the counter fraud framework and the nature and results of investigations carried out.

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 resources involved. Nine partnerships were deemed significant to the Council in 2016/17.

The Council maintains a Corporate List of its significant partnerships. This was last reviewed by the Chief Executive's Management Team in May 2017 to confirm the significance of the partnership, review any potential governance issues and review how each is performing.

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.

New partnerships are being introduced in 2017/18 with Portsmouth City Council for Internal Audit services and Home Improvement Grants.



Emergency Planning and Business Continuity

In accordance with the Civil Contingencies Act 2004, the Council works in partnership with the Emergency Planning & Resilience Unit at Hampshire County Council to maintain its readiness to respond to emergencies in the Borough.

Bi-monthly meetings identifies updates needed to the Emergency Response Plan. A fully staffed emergency control centre or table top training exercise is carried out each year to test and train the officers involved in the emergency response process. This is supplemented by refresher training of the different roles recognised by the response plan.

In 2016/17 the theme of training was the recovery phase and in 2017/18 it will be training following the national incidents that occurred earlier in 2017.

The purpose of business continuity is to ensure that the authority can still provide its critical services when it is involved in an emergency response or faced with a disruption. Business continuity plans are in place for all critical services and are supported by an overarching Disruption Management Plan and response plans for specific disruptions such as adverse weather. These plans were tested in November 2016 as part of a recovery exercise.

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 Directors within the authority, who have responsibility for the development and maintenance of the governance environment, and is led by the Chief Executive's Assurance Group. This consists of all directors, which includes the Monitoring Officer and Chief Finance Officer, and is chaired by the Chief Executive Officer. The Head of Finance and Audit also attends.

The group reviewed the following evidence:

- analysis of the 23 parts of our governance framework against current knowledge, including reports seen by Senior Officers during the year;
- Head of Audit's Annual Report 2016/17;
- summary of what reports and feedback we have received from external auditors, inspectors or other external agencies in the year;
- review of progress made on the actions included in the previous Annual Governance Statement.

Head of Internal Audit's Annual Report

Internal audit cannot give absolute assurance but an opinion was provided to the Audit and Governance Committee in July 2017. The opinion given was that:

The Council had a framework of governance, risk management and control for the year 2016/17 which was generally working effectively. There is awareness amongst managers about their top risks and the importance of control mechanisms within the 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; .*
- income or expenditure errors were only recorded in one audit in the year, totalling £500;*
- the service audited which have undergone a Systems Thinking intervention (Air Quality and Pollution) this year have been given a ‘reasonable’ audit assurance opinion; another part way through their intervention (Outdoor Recreation) had already identified a similar issue to the audit and management action had already been planned to change the way the system worked;*
- only 1 new essential recommendation has arisen from the opinion work this year, which is already being progressed;*
- collaborative working on system problem areas in the year has been introduced and the 3 carried out in the year have led to*

improved control and efficiency.

However, there are a few areas noted where action will enhance the adequacy and effectiveness of governance, risk management and control. These include:

- a) finalising the work to put together the framework agreements for spend with contractors and suppliers used by Housing, Property and Building Services which at the moment is breaching Contract Procedure Rules.*
- b) fully embedding the new system for managing costs associated with housing repairs;*
- c) rolling out the new approach to Risk Management across the organisation so;*
- d) rolling out the Data Protection refresher training to incorporate the requirements of the General Data Protection Regulation.*

These issues had already been recognised by managers and they are working to address them.

Other issues highlighted last year where progress has been made but work is still needed are:

- e) roll out the new action management system to services to improve the management of recommendations arising from audit reports, and update the data available on the level of implementation.*
- f) clarify the ICT security policies for the Council.*
- g) finalise the action plan for the Contract Completion audit which includes updating the Financial Regulation on Procurement to be clear on the expectations in relation to pricing variation orders and reporting overspends.*

External Audit and Other 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 Letter which was presented to the Audit and Governance Committee in November 2016 and circulated to Members and the statutory officers. This report was very positive and unqualified opinions were given by the auditors. There are no outstanding recommendations to be implemented.

The Council has opted in to using the Appointed Person (Public Sector Audit Appointments) to lead on the appointment of our external auditors from 2018/19.

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 2015/16;

- report of the Local Government Ombudsman 2015/16;
- Data Assurance audit result from the Driver and Vehicle Licensing Agency;
- assessments by the Driver and Vehicle Standards Agency;
- compliance work undertaken to meet the requirements of the Public Service Network;
- results of the insurable risk reviews carried out by Allianz in 2016/17;
- 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 address the issues raised in the previous Annual Governance Statement

The annual review of effectiveness has identified the following progress made on the actions identified in the previous year:

| Issue 2015/16 | Status | Update 2016/17 |
|---|---------------------|---|
| Continue with the next phase of Systems thinking reviews. | Complete | Interventions have progressed in relation to Street Scene, Information and Communication Technology (ICT) and the Cash Office. Funding is now in place to apply the methodology to other named Council services. |
| Produce the next 6 year corporate strategy, including an update of the Council's objectives. | In progress | First draft and supporting documents have been produced. Public consultation and member review and approval is scheduled for 2017 so that the Strategy can be finalised by April 2018. |
| Governance arrangements to be established for the New Welborne Community. | Not yet due | The Council is implementing a Delivery Strategy for the new Welborne Community in order to secure a Development Partner(s). Governance arrangements will be introduced once the nature of the Partner(s) is known. |
| Consider what governance arrangements are needed if Devolution in the Solent area occurs. | Not yet due | This is not currently needed as devolution proposals have not been approved. |
| The efficiency plan to be refreshed in light of the 4 year financial settlement to enable us to set a balanced and sustainable budget through to 2020. | Complete | In 2016/17 we made £607,000 of efficiency savings to offset funding reductions. In 2017/18 we have identified £986,300 worth of efficiencies of which £802,700 have been captured |
| Review the progress and impact of the new individual performance management initiative. | No progress to date | A joint working review of the process is scheduled for August 2017. |
| Further review the Risk Management Policy to apply Systems Thinking to the process. | Complete | Working groups have met to design a new policy aligned to Systems Thinking, which has now been approved. |
| Review the Code of Conduct and Disciplinary Rules and Procedure to update it and make it simpler for users. | In progress | Work has started to update and simplify the Code of Conduct which will be completed in 2017/18. |
| Finalise and launch the revised employee gifts and hospitality and interests policy. | No progress to date | This will now be completed in 2017/18. |
| Provide appropriate training and support for the new Chairman of the Audit and Governance Committee. | Complete | The new chairman was provided with appropriate training and support and has successfully completed the first year in the role. |
| Roll out the new action management system to improve the efficiency in the way that we manage recommendations arising from audit reports. | In progress | The data in the new action management system was brought up to date in 2016/17 and is now fully functional for the audit service. Use of the system by services will be rolled out in 2017/18. |
| Roll out bespoke Data Protection training on Skillgate. | In progress | A training package was drafted but needs to be updated to include the General Data Protection Regulation requirements before it is rolled out. |
| Roll out an updated Fraud awareness campaign. | Complete | Three fraud awareness campaigns aimed at the public were carried out. The first in July 2016 was a general campaign involving posters, power-point presentations, and press releases. This was expanded in September 2016 in partnership with Argos and Poundland to include publicity on the back of their receipts. A further campaign was then carried out in November 2016, to coincide with International Fraud Week which included presentation stands in 4 libraries/leisure centres in the Borough. |
| Update the Sanctions and Redress Policy to reflect the changes that have occurred to benefits fraud investigation. | Complete | This policy was updated and approved by members in June 2016. |
| Continue challenging the documentation maintained for emergency planning and business continuity to make sure it is proportionate and serves a purpose in a real situation. | In progress | Emergency plan documentation has been streamlined in line with other councils in Hampshire. A full review will be carried out in 2017/18. A review of the documentation of our IT Disaster Recovery arrangements and links to other business continuity plans will be carried out in 2017/18. |

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:

- Continue with the next phase of Systems thinking reviews of Council services.
- Finalise the next 5 year corporate strategy, including an update of the Council's major projects.
- Publish the new equal pay information required;
- Review our Freedom of Information request processes and publication scheme to allow us to meet the new Information Commissioners response targets.
- Review the implications of the General Data Protection Regulation and develop an action plan and training to meet the requirements.
- Reconvene the member/officer working group to continue updating the constitution.
- Finalise the review of the Disciplinary Code of Conduct and Disciplinary Rules to update it and make it simpler for users.
- Review the progress and impact of the new individual performance management initiative.
- Finalise and launch the revised employee gifts and hospitality and interests policy.
- Roll out the new action management system to improve the efficiency in the way that we manage recommendations arising from audit reports.
- Provide appropriate training and support for the new Chairman of the Audit and Governance Committee.
- Two further employees to complete fraud accreditation training.
- Roll out the new risk management approach covering what is expected from managers and employees.
- Carry out emergency planning briefings and testing in relation to national incidents that occurred in earlier in 2017.

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 on behalf of Fareham Borough Council by:

Councillor S.D.T. Woodward
Executive Leader

P.K.Grimwood
Chief Executive Officer

FAREHAM
BOROUGH COUNCIL

**Report to
Audit and Governance Committee**

Date **17 July 2017**

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

Subject: **UPDATE TO FINANCIAL REGULATION 19 – WRITE OFFS**

SUMMARY

A change is proposed to the wording in Financial Regulation 19 (Income and Banking) to allow approved housing officers to be able to write off low value former tenant arrears.

RECOMMENDATION

It is recommended that the Committee:

- a) consider the proposed changes; and
- b) that any comments are forwarded to Council, to aid its decision in approving the revised regulation.

INTRODUCTION

1. Financial Regulations form part of the Council's constitution and provide a detailed strategic and operational framework for managing the authority's financial affairs.
2. Work has been carried out in recent years to streamline the regulations down to the key rules that are necessary for the Council to adequately manage its financial affairs. A further amendment is now proposed to Regulation 19.

REGULATION 19 – INCOME & BANKING

3. Part 4 of Financial Regulation 19 sets out the Council's rules on who and how monies owing to the council can be written off. Currently the thresholds set are as follows:

| | |
|--|----------------|
| Designated officers of the Service | £50 or less |
| Statutory Chief Finance Officer or Nominated General Finance Manager | £5,000 or less |
| Executive or relevant committee | Over £5,000 |

4. Some work is being carried out to look at how we are handling arrears from tenants once they leave a Council House. Since 2008 these types of debt have been managed by Financial Services. Collection rates are generally low and we end up writing off approximately 1/3 of all former tenants' debt.
5. We are intending to carry out a pilot exercise, applying vanguard principles, in which the debt stays with Housing Services for longer to use the knowledge and relationships they have built with the customer in deciding how best to pursue the debt. The Housing Officers will then make a judgement on the likelihood of collection before passing a debt to the finance debt collection team to pursue. Any debts deemed uncollectable, in accordance with a set of guidelines, will be submitted for write-off.
6. The aim of this project is to see if we can improve debt collection rates by better customer management and reduce time spent chasing debts with little probability of success.
7. Given the nature of tenant arrears the current write off threshold for the service of £50 is considered to be too low and it is proposed to increase it to £200 just for rent arrears, which is equivalent to about 2 weeks of rent. For example, in March and April 9 accounts were passed to finance for collection, only 2 of these were under £50 but 7 of them were under £200 and would therefore fall within the proposed threshold.
8. It is therefore proposed that a change is made to Financial Regulations to allow the designated officers in housing to write off debts under £200. The proposed revised wording is highlighted in [Appendix A](#).

RISK ASSESSMENT

9. This may lead to an increase in accounts being written off by the service and not pursued; and almost certainly means that some accounts deemed uncollectable will be written off earlier. However, guidance notes will be produced as to what circumstances it would be appropriate to write off the debt and all cases will be reviewed and approved by housing managers.

10. They will also be visible to the Statutory Chief Finance Officer or Nominated General Finance Manager who will review the impact over the 6 months pilot study.

Background Papers: None

Reference Papers: None

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

Proposed Changes to Wording of Financial Regulation 19 (highlighted in grey)**19.4 RECOVERY AND WRITE-OFFS**

19.4.1 **Recovery Procedures:** Services must establish appropriate recovery procedures, including legal action where necessary, for debts that are not paid promptly. Any recovery procedure utilised must conform to the Council's Collection and Recovery Policy.

19.4.2 **Write-Offs:** Debts due to the Council may only be written off in accordance with the following rules:-

- a) by designated officers of a service where the debt is £50 or less and appropriate steps have been taken to collect the debt such that it has been deemed irrecoverable. The write off should subsequently appear on the **monitoring reports** received by the Statutory Chief Finance Officer or Nominated General Finance Manager;
- b) by designated officers of the housing service where the Former Tenant arrears debts are £200 or less and appropriate steps have been taken to collect the debt such that it has been deemed irrecoverable. The write off should subsequently appear on the monitoring reports received by the Statutory Chief Finance Officer or Nominated General Finance Manager;
- c) by the Statutory Chief Finance Officer or Nominated General Finance Manager for other debts where the amount for any one debtor is less than **£5,000**;
- d) if they are **penalty charge notices** they can be cancelled in accordance with the Parking Enforcement Policy, or written off under the authority of the Nominated Director or Head of Service with responsibility for Enforcement;
- e) if they relate to housing rent income which has been waived as **rent free weeks** under the authority of the Nominated Director or Head of Service with responsibility for Housing;
- f) in all other cases by the Executive, or other relevant committee.
- g) The total value and number of write-offs carried out by officers, under the delegated powers outlined above, should be reported to the relevant committee each year.

19.4.3 Sufficient information about the debt and recovery action taken must be provided and documented before authorisation for write-off can be given.

19.4.4 A list of officers designated to write off debts in accordance with this policy will be maintained as part of the "*Posts assigned to the roles required by Financial Regulations*" document.

19.4.5 A record must be kept of all write-offs authorised and actioned which is totalled at the end of each financial year.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date 17 July 2017

Report of: Head of Finance and Audit

Subject: REVIEW OF WORK PROGRAMME

SUMMARY

This report reviews the current work programme for the Committee.

RECOMMENDATION

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

INTRODUCTION

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

WORK PROGRAMME 2017/18

2. The work programme for the year 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. There have been two changes to the programme, as follows:
 - (a) An extra item has been added to the July agenda to bring a revised version of Financial Regulation 19 (Income and Banking) for comment in relation to who can approve debt write-offs;
 - (b) The annual Counter Fraud Report has been postponed until the next meeting.

RISK ASSESSMENT

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

CONCLUSION

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

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

Background Papers: None

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

Enquiries:

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

WORK PROGRAMME FOR 2017/18

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

| Committee Function and Report Subject | Frequency | Last Covered | July 2017 | September 2017 | November 2017 | March 2018 |
|--|------------------|---------------------|------------------|-----------------------|----------------------|-------------------|
| Internal Audit Annual Plan | Annual | 2015-16 | | | | YES |
| Quarterly Audit Reports | Quarterly | 2016-17 | Completed | YES | YES | YES |
| Head of Audit's Annual Opinion | Annual | 2016-17 | Completed | | | |
| EXTERNAL ASSURANCE | | | | | | |
| Update on Arrangements for Appointment of External Auditors | As needed | None | | YES | | |
| Annual Plan and Fee | Annual | 2016-17 | | | | YES |
| External Audit Progress Update | Annual | New | Completed | | | |
| Annual Audit Letter | Annual | 2016-17 | | | YES | |
| Annual Certification Report | Annual | 2016-17 | | | | YES |
| Specific reports from inspection agencies | As needed | 2014-15 (RIPA) | | | | |
| STATEMENT OF ACCOUNTS | | | | | | |
| Statement of Accounts | Annual | 2016-17 | Completed | | | |
| External Audit – Audit Results Report | Annual | 2016-17 | | YES | | |
| 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 | | | 7 | 7 | 6 | 7 |