

# FAREHAM

BOROUGH COUNCIL

## AGENDA

### AUDIT AND GOVERNANCE COMMITTEE

**Date:** Monday, 23 July 2018

**Time:** 6.00 pm

**Venue:** Collingwood Room - Civic Offices

**Members:**

Councillor J E Butts (Chairman)

Councillor S D Martin (Vice-Chairman)

Councillors P J Davies

T Davies

Mrs T L Ellis

Mrs C Heneghan

J G Kelly

**Deputies:** I Bastable

S Cunningham



**1. Apologies**

**2. Minutes (Pages 5 - 10)**

To confirm as a correct record the minutes of the Audit Committee meeting hold on 12 March 2018.

**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. Statement of Accounts 2017/18 (Pages 11 - 106)**

To consider a report by the Director of Finance and Resources on the draft Statement of Accounts for 2017/18.

**7. External Audit - Audit Results Report (Pages 107 - 152)**

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 2017/18 audit.

**8. IPCO Inspection Report 2018 (Pages 153 - 162)**

To consider a report by the Head of Finance and Audit which reviews the inspection report from the Investigatory Powers Commissioners Office (IPCO) 2018.

**9. Annual Counter Fraud Report (Pages 163 - 176)**

To consider the Annual Counter Fraud Report by the Head of Finance and Audit.

**10. Internal Audit Progress Report (Pages 177 - 202)**

To consider the latest Internal Audit Progress report by the Head of Finance and Audit.

**11. Head of Audits Annual Opinion 2017/18 (Pages 203 - 216)**

To consider the Head of Audit's Annual Opinion report by the Head of Finance and Audit.

**12. Annual Governance Statement 2017/18 (Pages 217 - 248)**

To consider a report by the Head of Finance and Audit on the 2017/18 Annual Governance Statement.

**13. Review of Work Programme (Pages 249 - 252)**

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

**14. Procurement and Contract Procedure Rules (Pages 253 - 284)**

To consider a report from the Head of Democratic Services and the Head of Finance and Audit on updates to the Contract Procedure Rules and how these updates improve the Council's procurement process.

**15. Exclusion of Public and Press**

To consider whether it is in the public interest to exclude the public and representatives of the Press from the remainder of the meeting on the grounds that the matters to be dealt with involve the likely disclosure of exempt information, as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

**16. Update on appointment of External Auditors for Certification Work (Pages 285 - 288)**

To receive and update report from the Director of Finance and Resources on the appointment of the External Auditors for the Council's certification work.



P GRIMWOOD  
Chief Executive Officer  
Civic Offices  
[www.fareham.gov.uk](http://www.fareham.gov.uk)  
13 July 2018

**For further information please contact:  
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# FAREHAM

BOROUGH COUNCIL

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

**Date:** Monday, 12 March 2018

**Venue:** Collingwood Room - Civic Offices

**PRESENT:**

**Councillor** J E Butts (Chairman)

**Councillors:** Miss T G Harper, Mrs C Heneghan, Mrs K Mandry, S D Martin,  
S Cunningham and Mrs T L Ellis (deputising for P Davies)

**Also  
Present:**



## 1. APOLOGIES

Apologies of absence were received from Councillor P J Davies and Councillor Mrs M Brady.

## 2. MINUTES

RESOLVED that the Minutes of the Audit and Governance Committee meeting held on the 27 November 2017 be confirmed and signed as a correct record.

## 3. CHAIRMAN'S ANNOUNCEMENTS

The Chairman made the following announcement –

### **RIPA Inspection**

Members will be aware that the Council can use investigatory powers under the Regulation of Investigatory Powers Act (RIPA). These include surveillance and the use of communications data.

I mentioned at the last meeting that the body now responsible for the inspections (The Investigatory Powers Commissioner's Office (IPCO) had issued the Council with a questionnaire to complete about the way the Council currently manages its use of investigatory powers.

Following their review of the questionnaire we were chosen for inspection which took place on the 27 February. We understand that this was because: a) we are one of the few district Councils who use the powers; and b) have had positive inspection reports in the past and the inspector wanted to see how we did it. The feedback received at the close of this inspection was again positive and we expect a good report in a few weeks.

### **Appointment of External Auditors for the Certification work**

Members will be aware that Ernst and Young have been appointed as our external auditors for the audit of the accounts from 2018/19.

You will also recall that we need to make a separate appointment for the certification work which we expected to do at the end of February.

However, there has been a delay waiting for the Department of Work and Pensions to publish the revised Housing Benefit (Subsidy) Assurance arrangements (HBAP) that can be used to assess potential external audit applications. Once they publish the HBAP arrangements they will also notify all local authorities of a new deadline for the appointment of a reporting accountant, which is likely to be June 2018.

### **Update on framework agreements (housing contracts)**

Members may recall that following the Head of Audit's Annual Report in July 2017, the Committee asked to receive an update on the action being taken to put together the framework agreements for spend with contractors and

suppliers used by Housing, Property and Building Services, which now is breaching FBC Contract Procedure Rules. An update on this will be provided to Members of the Committee by the Director of Fareham Housing before the next meeting.

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

In accordance with Standing Orders and the Council's Code of Conduct, Councillor S D Martin declared a non-pecuniary interest for Minute item 6 – External Audit Annual Certification Report, as his company has business dealings with Ernst & Young.

**5. DEPUTATIONS**

There were no deputations made at this meeting.

**6. EXTERNAL AUDIT ANNUAL CERTIFICATION REPORT**

The Committee considered a report from the Director of Finance and Resources on the external auditor's certification work carried out for 2016/17.

RESOLVED that the Committee: -

- (a) accepts the findings of the Annual Certification Report 2016/17 submitted by the Council's external auditors; and
- (b) commented on the findings as appropriate.

**7. EXTERNAL AUDIT ANNUAL PLAN AND FEE**

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

This item was led by Kevin Suter, Partner in Charge at Ernst & Young who has now taken over from Helen Thompson as lead for the Council's external audit.

RESOLVED that the Committee: -

- (a) approves the 2017/18 Audit Plan, attached at appendix A to the report; and
- (b) approves the fees proposed for the External Audit 2017/18 (paid in 2018/19).

**8. TREASURY MANAGEMENT POLICY AND STRATEGY**

The Committee received a report by the Director of Finance and Resources on the Treasury Management Policy and Strategy.

RESOLVED that the Committee notes the contents of the report.

## **9. RISK MANAGEMENT MONITORING REPORT**

The Committee considered the latest Risk Management Monitoring Report from the Director of Finance and Resources as proof that the Council's Risk Management Policy is effective.

The Chairman suggested that future reports could also highlight risks that are now considered to have reduced in probability or impact. Officers agreed to include examples as part of the monitoring reports.

RESOLVED that the Committee notes the report as a source of evidence that the Risk Management Policy is operating in practice.

## **10. CONSTITUTION UPDATES**

The Committee considered a report by the Monitoring Officer on the ongoing work to update and review the Council's Constitution.

Members expressed their thanks for the work that has been done to revamp the Constitution webpages, which will help significantly with navigating through the Constitution document online.

RESOLVED that the Committee: -

(a) notes the contents of the report; and

(b) approves the addition of an annual report to the Committee's work programme – Review of the Constitution.

## **11. REVIEW OF CONTRACT PROCEDURE RULES AND FINANCIAL REGULATION 15 - CONTRACTS AND PROCUREMENT PROCEDURES**

The Committee considered a report from the Head of Finance and Audit and the Head of Democratic Services on an update on the review of the Contract Procedure Rules and Financial Regulation 15 – Contract and Procurement Procedures.

The Committee discussed the expected timetable to finalise the new rules which incorporate the draft principals developed following a Vanguard review last year. It was agreed that the Chairman will be informed by officers of any potential delays to the proposed production and implementation of the updated Contract Procedure Rules.

RESOLVED that the Committee: -

(a) agrees that any delays to producing and implementing the updated Contract Procedure Rules be notified to the Chairman;

(b) notes the update on the review of the Contract Procedure Rules currently underway; and

(c) agrees that the approach to amending the Contract Procedure Rules is appropriate.

**12. INTERNAL AUDIT ANNUAL PLAN**

The Committee considered a report by the Head of Finance and Audit on the Internal Audit Annual Plan for 2018/19.

RESOLVED that the Committee approves the draft plan for 2018/19 as attached at Appendix A to the report.

**13. QUARTERLY AUDIT REPORT**

The Committee considered a report by the Head of Finance and Audit on the progress and findings arising from the latest internal audit work.

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

**14. 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 2017/18 and proposes the programme for 2018/19.

As agreed at item 10 - Constitution Updates, an item - Review of the Constitution will be added to the work programme as an annual report.

RESOLVED that the Committee: -

(a) notes the contents of the report; and

(b) with the addition of item – Review of the Constitution being added, submits the work programme for 2018/19, as shown in Appendix A, to Council for endorsement.

(The meeting started at 6.04 pm  
and ended at 7.24 pm).



# FAREHAM

## BOROUGH COUNCIL

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

**Date:** 23 July 2018

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

**Subject:** STATEMENT OF ACCOUNTS 2017/18

#### **SUMMARY**

Local Authorities have a duty to prepare and publish an annual Statement of Accounts in accordance with regulations issued by the Secretary of State. Members are requested to formally approve the annual Statement of Accounts for 2017/18 that is attached to this report.

#### **RECOMMENDATION**

It is recommended that the Committee approves the audited Statement of Accounts for 2017/18, attached as Appendix A, for publication by 31 July 2018, subject to the external auditors completing their outstanding procedures and any further amendments being agreed by the Director of Finance and Resources in consultation with the Chairman of the Audit and Governance Committee.

## **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 audited Statement of Accounts 2017/18 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 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 2018.
6. The auditors carried out a detailed audit during July 2018 in accordance with the Code of Audit Practice. All audit differences identified during the audit, and listed in the external auditor’s Audit Results Report, have been adjusted for.

## **FASTER CLOSING – ACCOUNTS AND AUDIT REGULATIONS 2015**

7. The Accounts and Audit Regulations 2015, which came into force with effect from 1 April 2015, required the Council to produce, audit and publish the accounts earlier in future years.
8. 2017/18 is the first year the unaudited accounts were produced and published by the end of May (instead of the end of June) and the audited accounts have to be approved and published by the end of July (instead of the end of September).

## **KEY ISSUES AND MATTERS OF INTEREST**

9. The Statement of Accounts includes a new look Narrative Report which highlights the Council’s performance and achievements during 2017/18. Key issues and matters of interest are:
  - **Daedalus** – There was capital investment of £18.5 million at Solent Airport including the expansion of Fareham Innovation Centre, purchase of plot 15/16, new general aviation and business hangars, refurbishment of the air traffic control tower and the provision of a fuel farm. The Council used low cost borrowing of £14.8 million to fund the majority of the capital works.

- **Welborne** – The Welborne Delivery Strategy was finalised in the year which has been successful in moving the project forward. The working balance reserve was used to finance this work over the last 3 years. We have also been successful in secure grant funding, including £495,000 garden village capacity funding in 2017/18.
- **Community Infrastructure Levy (CIL)** – The Council raised £1.5 million from CIL during 2017/18 (£2.5 million in 2016/17). This has been transferred to the Council's capital reserves. £773,000 of CIL reserves were used to fund the Hill Head coastal protection scheme, bus shelter improvements and the Holly Hill cemetery extension.
- **Housing Stock** – During the year, 16 homes were sold under the right to buy scheme (10 in 2016/17) and 2 were bought back using 1:4:1 housing capital receipts (5 in 2016/17).
- **Assets** – The overall value of the Council's assets increased by £18 million mainly from assets created from the Council's capital programme.
- **Borrowing and Investments** – The Council's investments reduced from £14.8 million to £11.5 million at year end and short-term borrowing increased by £10.2 million to £12 million.
- **Reserves** – The General Fund reserve increased by £1.7 million partly due to the net underspend on revenue income and expenditure. Council reserves now total £161.6 million, £34 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.
- **Pension Fund** – The Council's pension fund liability increased by £2.9 million to £61.2 million (£9.1 million increase in 2016/17). The main reason for the change is due to actuarial losses as a result of changes to the financial assumptions used.

## **THE CONTENT OF THE STATEMENT OF ACCOUNTS**

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

### **Narrative Report**

11. The Narrative Report provides information about the Council's main objectives and strategies and the principal challenges that it faces. It also provides a commentary on how the Council has used its resources to achieve its desired outcomes.
12. The Narrative Report is not formally part of the Statement of Accounts and is not covered directly by the statutory requirements for an audit opinion.

### **Statement of Responsibilities for the Statement of Accounts**

13. The 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 and is signed by the Director of Finance and Resources. It also carries the signature of the Chairman of the Audit and Governance Committee to confirm the approval of the Statement of Accounts by the Audit and Governance Committee.

## **Core Statements**

14. The following core accounting statements are included:

**Comprehensive Income and Expenditure Statement** - This statement brings together all of the Council's day to day (revenue) income and expenditure, including the Housing Revenue Account (HRA), as well as transactions relating to the value of long term assets and pension costs.

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

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

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

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

15. The following supplementary statements are also included:

- HRA Income and Expenditure Account
- Statement of Movement on the HRA Balance
- Collection Fund (Council Tax and Business Rates)

## **Glossary**

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

## **Independent Auditor's Report**

17. 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. This will be included within the final published document and published by 31 July 2018.

## **RISK ASSESSMENT**

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

## **CONCLUSION**

19. Members are asked to formally approve the Statement of Accounts for 2017/18.

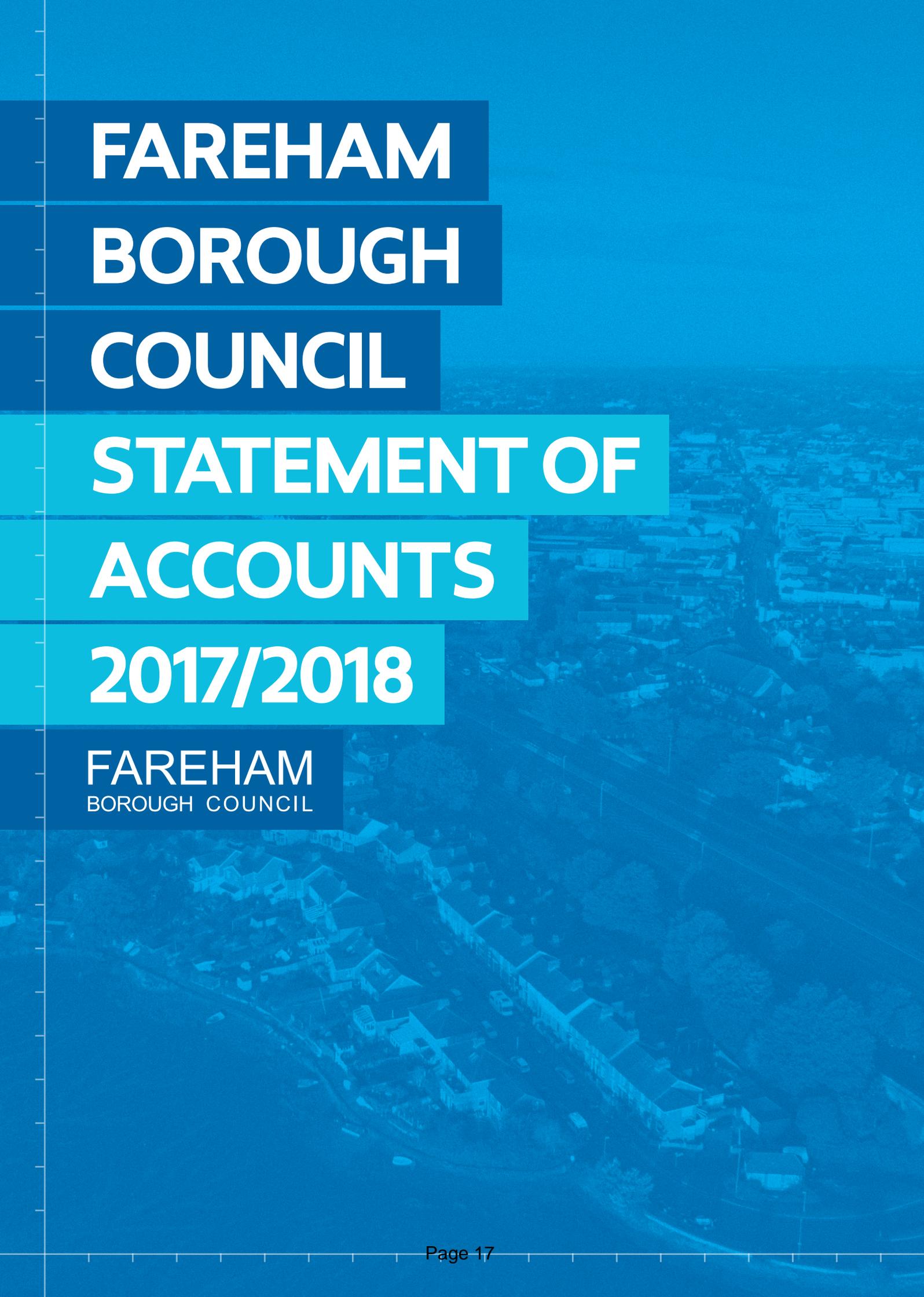
**Background Papers:** None

**Reference Papers:** Code of Practice on Local Authority Accounting 2017/18

**Appendix A:** Statement of Accounts 2017/18 (currently the unaudited version)

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



An aerial photograph of a town, likely Fareham, is shown in a monochromatic blue color scheme. The image is overlaid with several horizontal bars of varying shades of blue, which serve as a background for the text. The text is white and bold, providing a high contrast against the blue background.

**FAREHAM**

**BOROUGH**

**COUNCIL**

**STATEMENT OF**

**ACCOUNTS**

**2017/2018**

**FAREHAM**  
BOROUGH COUNCIL



Fareham Borough Council's Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

This narrative report gives an overview of the Council's purpose, financial position and performance. Its aim is to demonstrate to residents and stakeholders how the available resources are being used to deliver the corporate plans for the Borough.

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# NARRATIVE REPORT AND WRITTEN STATEMENTS

# NARRATIVE REPORT



## Introducing the Borough of Fareham

Fareham comprises approximately 30 square miles located on the south coast of Hampshire between Portsmouth and Southampton and is particularly well connected for travel with easy access to the area’s major road network which includes the M27 and M3 motorways. Fareham railway station is served by trains to Southampton and Bournemouth or the Midlands to the west, or Portsmouth and London to the east. There is also easy access to the ferry ports and Southampton International Airport.

Benefiting from its rich heritage as a market town, Fareham is well-placed for a range of leisure activities for residents and visitors. It enjoys an enviable location with the seafront to the south and open countryside to the north and there are many parks and community spaces.

The Borough has 15 wards across five distinct communities: **Fareham town, Portchester, Titchfield, Western wards, Hill Head and Stubbington.**



## RESIDENTS

Population of 117,000 expecting to rise to 130,000 by 2037

Approx. 50,000 households

Largest rise in Hampshire of residents aged 85+ in the last 20 years

Reduction in the number of people of working age, particularly aged between 25 and 39

 Approximately 25% of households are people living alone

 80% of homes are owner occupied

 94.7% of the population is white British against a national average of 79.8%

## BUSINESSES

Approx. 3,200 businesses

Part of Solent Enterprise Zone encouraging and supporting a thriving aviation-led employment area

Just 0.6% of residents were claiming Jobseeker's Allowance against a national average of 1.1%

Higher than south east average of residents educated to college level and above

**Fareham is a growing Borough both in terms of residents and the local economy.** To help meet the future housing need this trend will create, a new community, Welborne, is being developed in the Borough to provide up to 6,000 homes. Welborne will be a distinct community located to the north of the M27 and has been awarded status as one of the Government's first new garden villages.

### Putting customers at the heart of our organisation

In 2013 the Council embarked on a new approach to delivering services. Systems Thinking puts the customer at the heart of service delivery and looks

at everything we do through their eyes. Rather than follow processes that have 'always been done that way' or pass customers from department to department, officers now take ownership of a customer to ensure, wherever possible, that a customer's needs are met and they only have one officer as their point of contact.

Since 2013, services have been reviewed and redesigned adopting this new way of working. We believe our new approach makes it easy for our customers to do business with us and easy for us to do the right thing for our customers. It also leads to a more cost-effective provision of services as we concentrate on what matters to customers and drive out costs associated with 'failure work' (where we have failed to address the customer's needs at the earliest opportunity).



# OUR VISION

To make Fareham a prosperous, safe and attractive place to live and work

## CORPORATE VALUES

Listening and being responsive to our customers

Recognising and protecting the identity of existing communities

Enhancing prosperity and conserving all that is good

Being efficient, effective and providing value for money

Leading our communities and achieving change for the better

## PRIORITIES

Providing Housing Choices 

Protect and enhance the environment 

Strong, safe, inclusive and healthy communities 

Maintain and extend prosperity 

Leisure opportunities for health and fun 

Dynamic, prudent and progressive Council 

## Preparing for the future

The Council's Vision, Values and Priorities are set out in the Corporate Strategy which can be viewed in full on the Council's website. In 2017, following public consultation, the Corporate Strategy was revised to ensure it is fit for purpose in terms of relevance, threats and opportunities. It recognises the constraint of continued reduction in Government funding and seeks to continue to deliver priorities but within a balanced and sustainable budget. It has now been adopted and covers the period up to 2023. The Council's Vision, Values and Priorities have been defined above.

## The Council

Fareham Borough Council is a 'shire district' Council which means some services are provided

by Hampshire County Council. It operates a leader and cabinet model of political management. This means that a councillor is appointed as leader of the Executive (cabinet). The leader then has responsibility for appointments to the cabinet, the allocation of portfolios and the delegation of Executive functions. A Mayor is also elected by his/her fellow councillors each year to represent the Council at civic events and functions and organise events to raise funds for nominated charities.

The day to day delivery of services is overseen by the Chief Executive's Management Team made up of the Chief Executive, three Directors and two Heads of Service.

## MEMBERS

15 wards  
31 Councillors  
4 political groups:  
Conservative (majority)  
Liberal Democrats  
UKIP  
Independents

## EMPLOYEES

Approximately 402 employees (326 full time & 76 part time)  
7 employees undertaking apprentice training  
3 Directors  
12 Heads of Services

## PARTNERSHIPS

10 significant partnerships including shared services for:  
Legal Services  
Building Control  
Environmental Health  
Coastal Protection  
CCTV  
Internal Audit

## ORGANISATION

4 Directorates:  
Finance & Resources  
Planning & Regulation  
Street Scene  
Fareham Housing

## ORGANISATIONAL SUMMARY

Eight committee portfolios, led by Members, oversee more than 60 functions of the Council which deliver services such as Planning, Leisure, Environmental Health and Housing.

In October 2017 the Council approved changes to the senior management structure and the creation of the new department of Fareham Housing. Fareham Housing is responsible for the strategic direction of social housing in the Borough. Its purpose is to provide affordable and sustainable housing solutions for residents, prioritising those in greatest need. It will also focus on the long-term sustainability of the Housing Revenue Account against the pressures of increases in the cost of repairs and rent reductions.

Most employees are based at the Civic Offices or the Council's Depot, both of which are based in Fareham. Some services, however, are delivered by working in partnership with other organisations. The Council actively seeks shared service and partnership opportunities where they improve resilience, drive efficiency and improve service delivery. The performance of all partnerships is subject to a strict monitoring programme and constant review to ensure they remain beneficial to the Fareham community and financially robust.

Changes to partnership and shared service arrangements in 2017/18 included:

- **new partnerships with Portsmouth City Council to provide Internal Audit Services and a Disabled Facilities Grants Service;**
- **new partnership with Hampshire Cultural Trust to manage Westbury Manor Museum;**
- **extension of the Legal Services Partnership with Southampton City Council;**
- **termination of the agency arrangement with Hampshire County Council for Traffic Management;**
- **outsourcing of the management of Fareham's markets to a private provider.**

These changes resulted in a reduction of four posts from the establishment, and the creation of one additional post in the Legal Services Partnership.

**For more information about our Governance arrangements see the Annual Governance Statement on our website under 'about the council'.**



## 2017/18 Financial Position: overview

Despite reductions in funding and other pressures, the Council has continued to perform well, improve services and deliver capital projects and priorities for the Borough during 2017/18 including:

**Implementing the Welborne Delivery Strategy to drive forward the delivery of more housing in the Borough.**

**Implementing the next phase of developments at the Solent Airport site at Daedalus.**

**Completion of the Hill Head Coastal Protection project.**

This has been achieved by maintaining a Medium-Term Finance Strategy to ensure we remain financially robust and stable and can finance the delivery of the Council's corporate plans.

The table below summarises the revenue outturn position<sup>1</sup> on the General Fund for the year compared to last year, which shows that there was a reduction in the Council's revenue spend compared to the previous year and the net cost of services came in below the revised budget.

The following risks and pressures were recognised when setting the original and revised 2017/18 budgets and Council Tax:

**Reduction in non-specific Government Funding of £1,033,000 (35%)**

**Increase in payments to and on behalf of employees of £350,000**

**Contributions needed from revenue reserves to capital projects of over £2 million**

**£1.2 million to be returned to reserves, including £500,000 for future maintenance of assets**

**Projected reductions of income generated from commercial rents and the town centre of £300,000**

**Increase of £256,000 in the Minimum Revenue Provision (MRP) needed to cover the borrowing costs of recent purchases of investment properties and cottages as part of the Welborne plan**

**Increase in business rates on Council assets of £80,000**

**Continued reduction in interest earned on financial investments by £76,000**

	2016/17 Actual	2017/18 Budget	2017/18 Actual
<b>Gross Cost of Services</b>	£48,043,612	£46,851,800	£47,909,965
<b>Net Cost of Services</b>	£9,757,888	£12,026,500	£11,480,635
<b>Other Provisions</b>	£1,473,011	-£1,215,700	-£1,234,456
<b>Non-Service Specific Income</b>	-£2,748,482	-£2,194,100	-£2,141,406
<b>Net Underspend on Services</b>	£420,579	£0	£512,213
<b>Net Budget</b>	£8,902,996	£8,616,700	£8,616,986
<b>Core Funding Sources</b>			
<b>Revenue Support Grant</b>	£827,826	£288,274	£288,274
<b>Business Rates</b>	£1,765,033	£1,799,749	£1,799,749
<b>Council Tax</b>	£6,100,068	£6,365,062	£6,365,062
<b>Other Funding Sources</b>	£210,069	£163,615	£163,901
	£8,902,996	£8,616,700	£8,616,986

<sup>1</sup> These figures are those used in the reports to members and will differ from the Comprehensive Income and Expenditure Statement because of the way in which the information is presented to meet Statement of Account requirements.

These risks and pressures were managed by prudent planning to produce a balanced budget which included:

**Continued use of investment properties as a funding stream which generated income of £1,704,000**

**Building in efficiency savings of £800,000 identified from work carried out in 2016/17**

**Increasing fees and charges and introducing new charges where it was felt that the market was robust enough to not cause a detrimental effect**

**Increasing Council Tax for the second year running by the maximum £5; this again represented 13% of the funding sources used**

**Continuing to adopt Systems Thinking across many of our services to reduce costs whilst improving customer satisfaction**

**Use of low cost borrowing of £15,800,000 to fund capital works**





The General Fund Reserve has increased in the year partly due to the net underspend on revenue income and expenditure. Total 'usable' reserves have increased by **£2 million** to a total of **£34 million**. This includes a provision of **£2.4 million** put aside in a Spending Reserve for unforeseen fluctuations in revenue expenditure and income which represents 5% of planned gross expenditure.

The Council raised **£1.5 million** from Community Infrastructure Levy (CIL) during 2017/18 (£2.5 million in 2016/17). This has been transferred to the Council's capital reserves. A total of **£773,000** CIL reserves were used in the year including £740,000 to fund the second phase of the Hill Head coastal protection scheme.

Unexpected pressures arising in the year included severance costs of £531,000 to bring some contracts

to an end which have been funded through vacancy savings and the Spending Reserve.

The overall value of Council's assets has increased in value by **£18 million**.

We are not, however, complacent as further challenges lie ahead including the continued reduction in government funding.

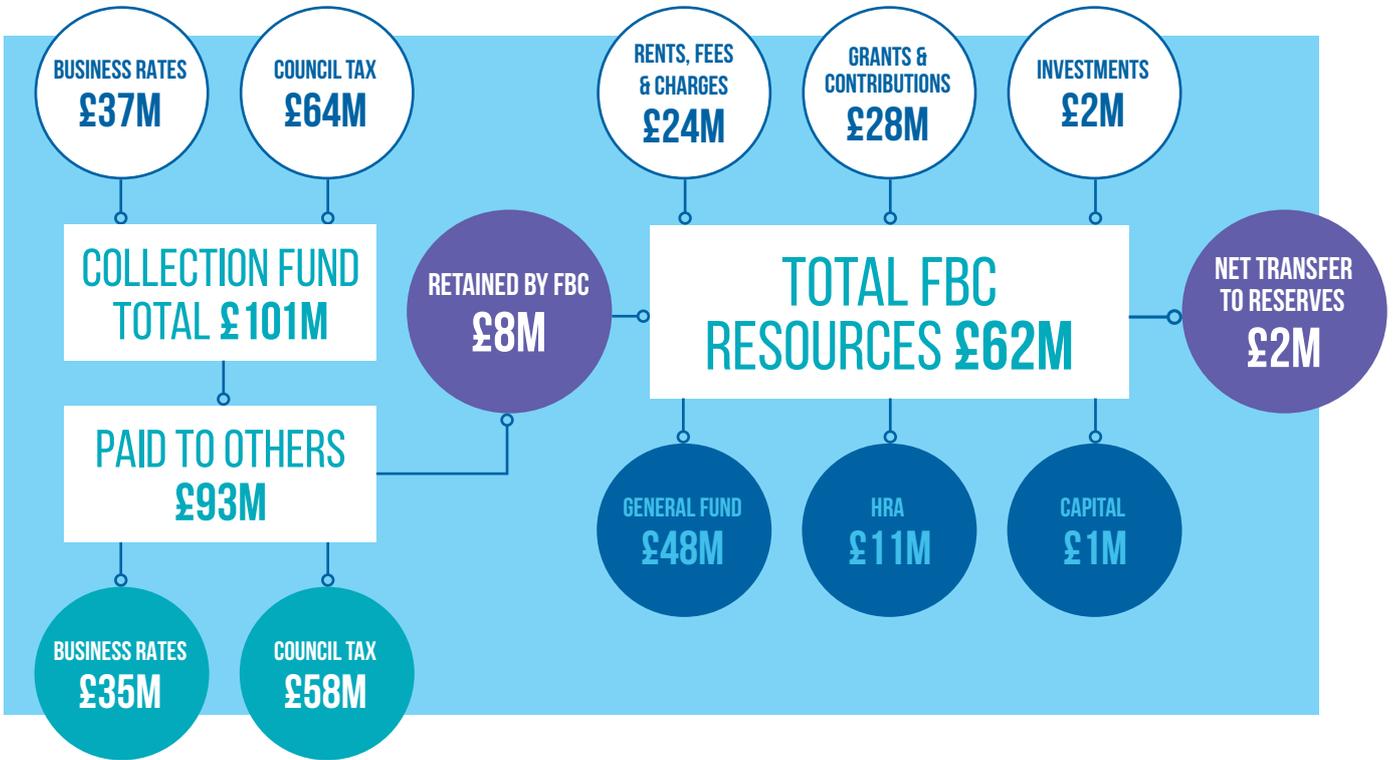
There has also been continued pressure on the Housing Revenue Account and the value of the Housing Revenue Account Reserve has again decreased this year by £546,000 to **£1.8 million**. The new department of Fareham of Housing has been tasked with turning this position around.

**The following sections provide further details of the financial and non-financial performance of the Council.**

## Sources of Revenue Funding in 2017/18

The diagram below gives an overview of the Revenue flows in and out of the Council in the General Fund and Housing Revenue Account

in the year. It shows that, although the Council manages the Collection Fund cash flow for the area, it only retains a small proportion for our use.



## Central Government Funding

2017/18 was Year 2 of the Government's finance settlement and the Council received the final element of Revenue Grant Support it is due. This was £288,000 compared to £828,000 in 2016/17.

Reduced levels of other Government Funding (New Homes Bonus and Transitional Grant) were also received, taking the total of non-specific Grant funding from the Ministry for Housing, Communities and Local Government for the year to £1,940,000. This represents a reduction of £1,033,000 (35%) in this funding compared to 2016/17.

## Government Grants to Services

It was a successful year in terms of securing other specific service grant funding. Examples of how this has allowed us to increase spending across services are shown below.

**Funding to fully cover the cost of Disabled Facilities Grants of £506,000**

**Funding towards the Daedalus development of £265,000**

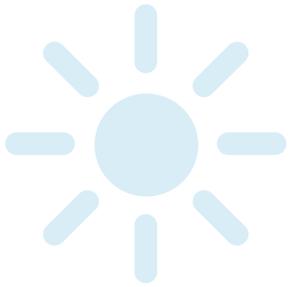
**Funding towards homelessness initiatives of £237,000**

**Funding towards Coastal Protection of £100,000**

**Funding towards the Local Plan of £50,000**

## Income from Services

Discretionary fees and charges were generally increased in 2017/8 where it was seemed feasible to do so. These changes, together with the targeted income streams shown, led to a total income of **£6.2 million** in the year which is a 3.3% increase on 2016/17.



Consolidating our investment portfolio generating **£1,704,000** in the year for the Council

Rented out more Civic Office space to other organisations generating **£323,000** in the year compared to **£202,000** in 2016/17

Introduced new charges for rodent control treatments, football tournaments, providing recycling bins to developers and for the hire of rooms

The Council had an increased number of planning applications in the year generating **£30,000** more income and the Government increase in charges from January 2018 has resulted in an additional **£18,000**.



### Council Tax and Business Rates

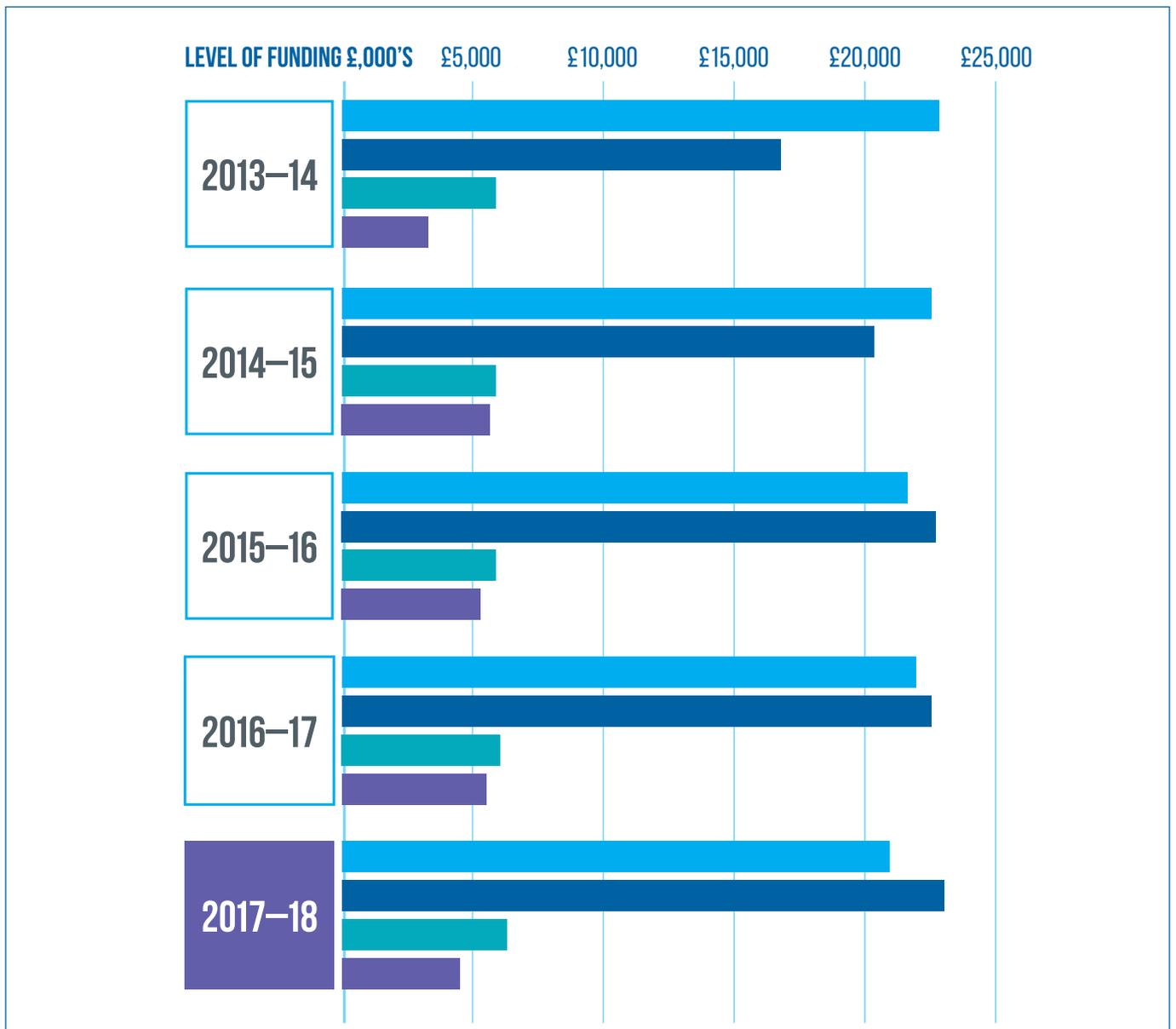
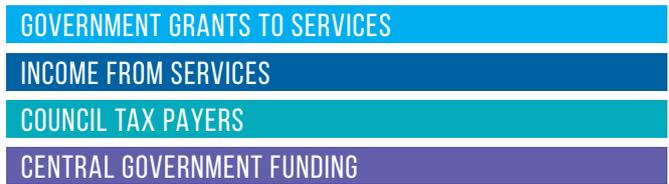
The Council used the available Collection Fund surplus in the year but also needed to increase the rate of Council Tax by £5. This was the second time we had needed to do this since this became permissible and the amount of the increase was kept within the Government referendum limits. The overall level for Council Tax for a band D

property in the Borough was £1,512.62 of which £150.22 related to Fareham Borough Council funding. This compared to £1,447.56 and £145.22 in 2016/17 at which point we were in the lower quartile of council taxes in the country.

As at the end of March 2018 we had collected 99.46% of Council Tax due and 99.62% of Business Rates due.

### Trends in sources of funding

The diagram below summarises the reduction in funding from the Government and the greater reliance now placed on local sources of income.

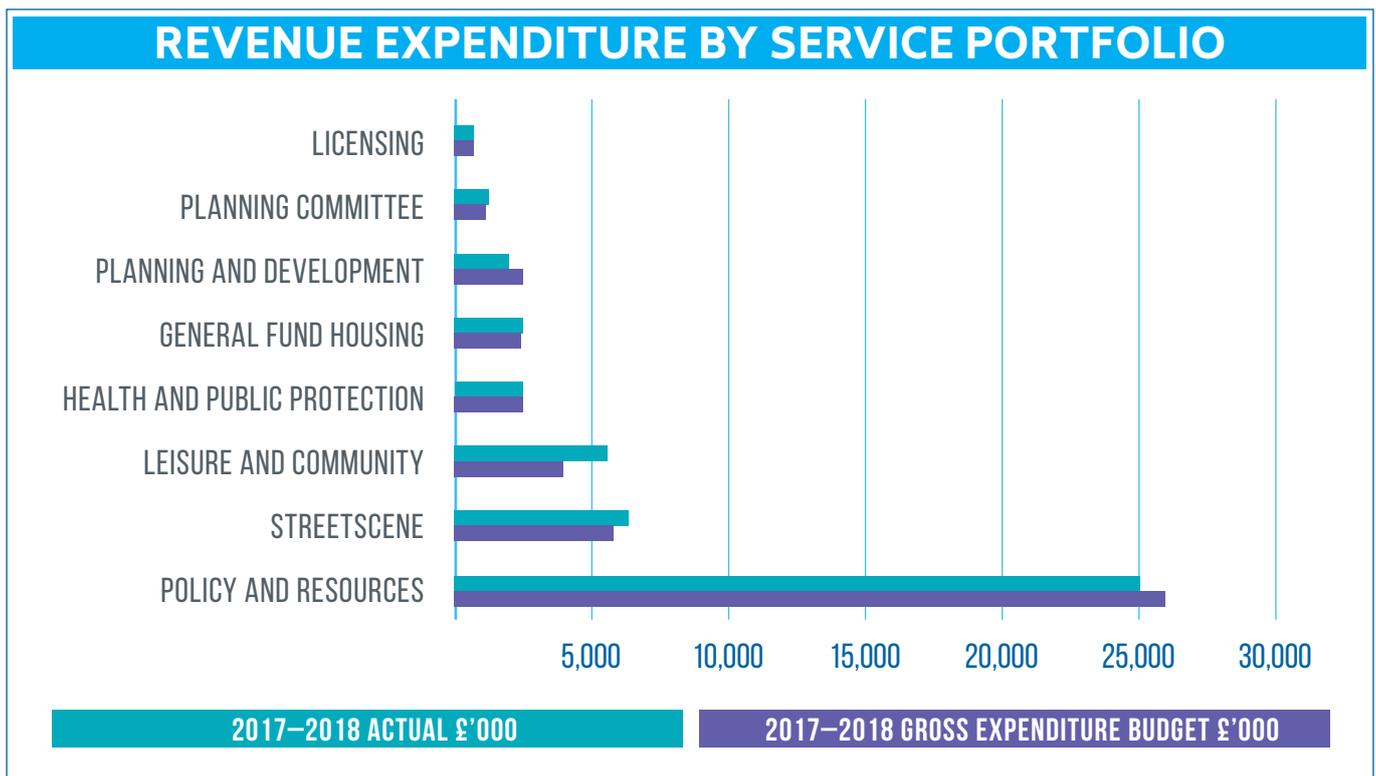




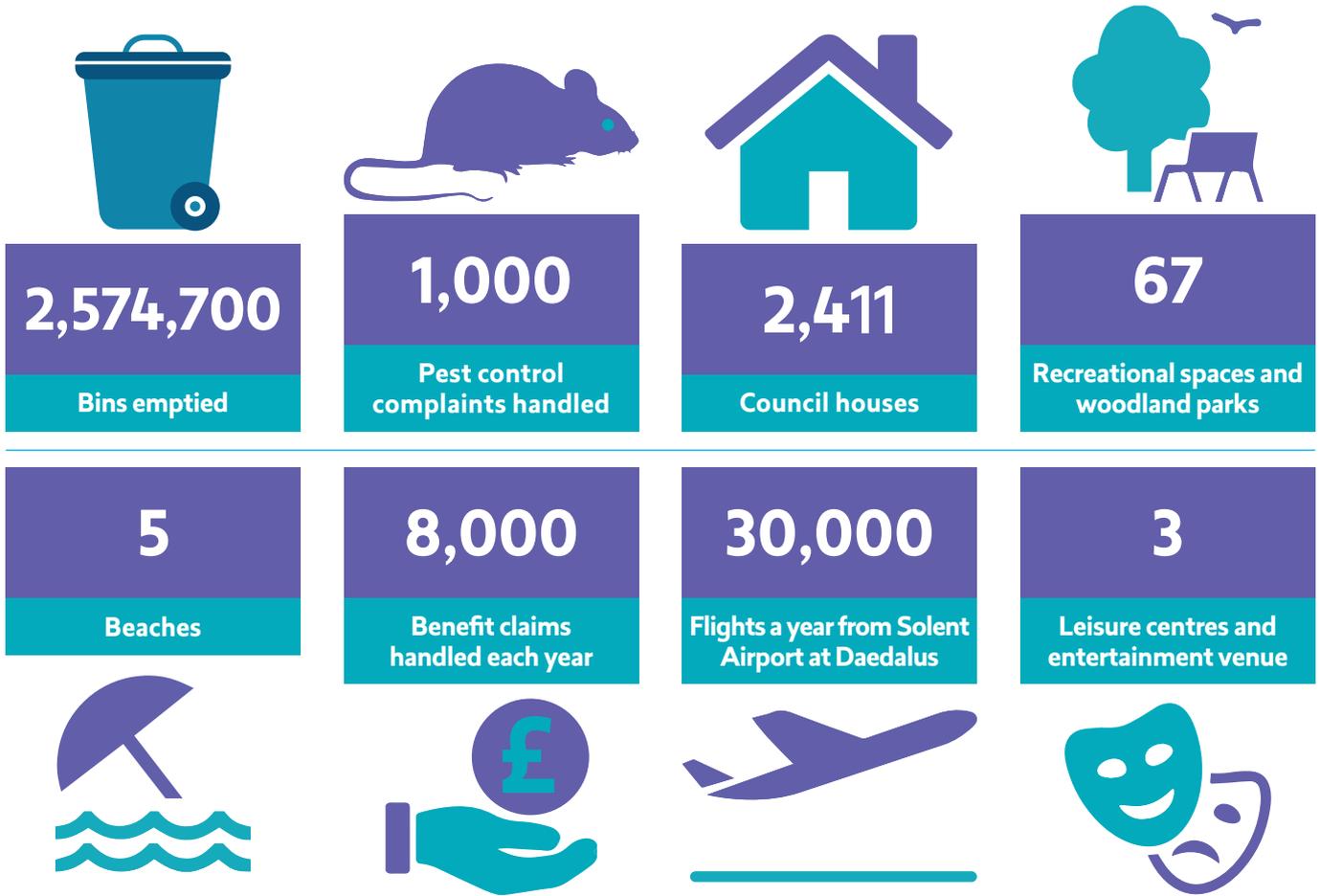
## Revenue Spending on Services in 2017/18

The chart below shows how money has been spent across the Council's services.

Spend on employees was **24%** of the total spend compared to **21%** last year.



## Snapshot of services provided in 2017/18



## Service changes, challenges and successes

Service changes, challenges and success of note in 2017/18 (including non-financial performance) were:

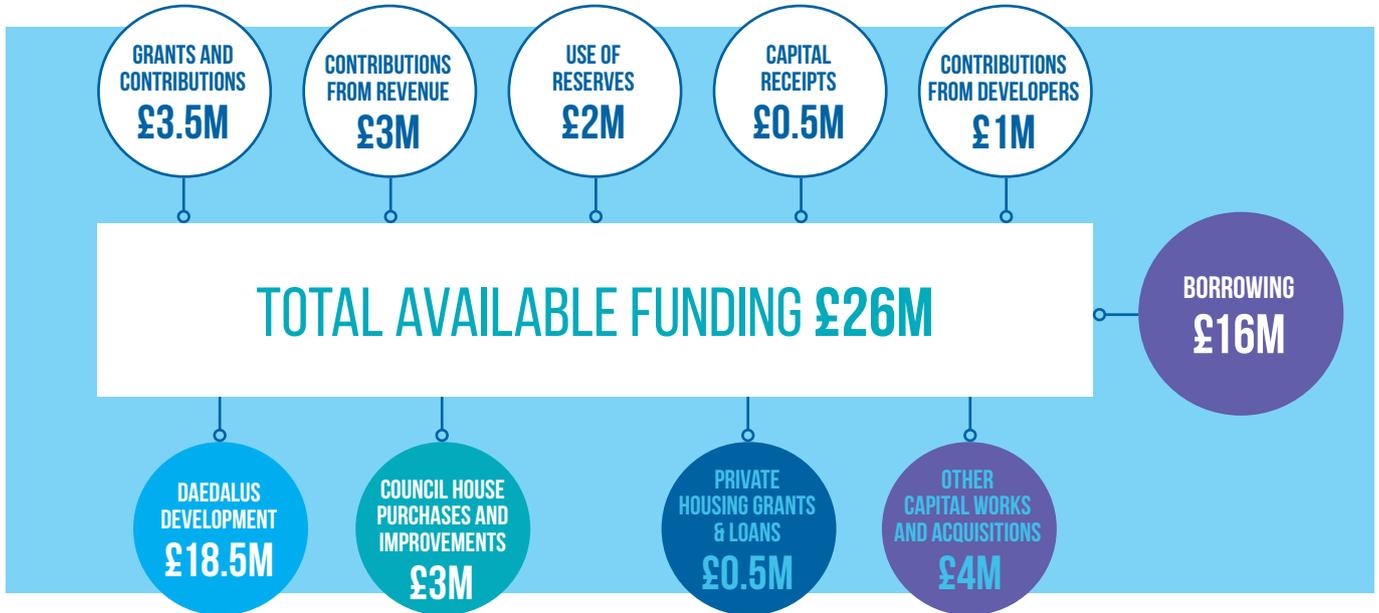
- Publishing a draft Local Plan for consultation in October 2017. This sets out how we can meet the housing needs up to 2036. This has had a significant impact for the Council in terms of managing the consultation process, enquiries and complaints. In the meantime, there has been a significant increase in the number of planning applications received and the number that are going to appeal, leading to both increases in income and costs.
- It was the first full year of the new leisure complex at Holly Hill. Average visitor numbers of around 40,000 per month have already exceeded targets.
- During the year, 16 council homes were sold under the Right to Buy scheme (10 in 2016/17) and two were bought back.
- One of two new housing schemes, Sylvan Court, is now fully occupied. The £4.8m building in Sarisbury Green provides 36 flats for people aged 60 and over. Residents enjoy facilities such as a communal lounge area, mobility and bike store, hairdressing room and landscaped gardens. The site also includes parking, laundry room, CCTV and secure door entry system.
- The second new housing scheme, Stevenson Court, features 16 new flats, all of which are now occupied. All flats include a private balcony or terrace, bike storage, and convenient access to local shops and services. The units, which cost £1.9 million to build, are Lifetime Homes compliant and meet the Code of Sustainable Homes, Level 4.

- We used Government grants to increase our resources to prepare for the new Homeless Reduction Act responsibilities. We also continued to part-fund a 'Money Advisor' post at the local Citizen's Advice Office, and used a 'tenancy assistance' fund to help customers threatened with homelessness find their own alternative accommodation. During the winter months we also funded additional beds in a local hostel to help rough sleepers.
- The programme of 'Systems Thinking' interventions has continued and the Council Tax section is the latest to have transformed its service. The new approach has already led to better understanding and flexibility so the team can meet customer individual need without incurring a noticeable drop in collection rates.
- Although the introduction of Universal credit for single people had commenced in March 2016, the Government halted the programme in December 2017. Changes are being made to the scheme which is expected to recommence in November 2018.
- It was another successful year for the Portchester Crematorium Joint Committee which generated a surplus leading to a contribution of £145,000 to the Council.



## Capital finances 2017/18

The diagram below gives an overview of the Capital expenditure by the Council in the year and the sources of funding used:



## Capital spending and significant projects

### WELBORNE

In 2017/18 the Council finalised its Welborne Delivery Strategy. Over the last three years a working balance reserve of £720,000 had been made available to finance a number of initiatives targeted at resolving land ownership issues. Land ownership has now been successfully resolved and the project is moving forward.

Welborne has been designated a 'Garden Village' under the Government's new scheme and was one of the first fourteen announced. As part of this initiative the Council has successfully bid for:

- £495,000 garden village capacity funding (£8,000 of which was used in 2017/18)
- £9,000,000 contributions towards the motorway junctions works





## SOLENT AIRPORT/DAEDALUS

The Council has continued to invest in Daedalus as it seeks to fulfil its commitment to preserve the future of the airfield. The Council's Vision is for Daedalus to become the premier location for marine, aviation, aerospace engineering and advanced manufacturing businesses in the south; contributing to 3,500 new local jobs over the next ten years.

During 2017/18 significant progress has been made:

- **Capital investment of £7 million, £2 million of which was provided by the Solent Local Enterprise Partnership, has funded the expansion of Fareham Innovation Centre, doubling its capacity. The Centre now benefits from 33 new offices, 5 new workshops and state-of-the-art conference facilities.**
- **Refurbishment of two industrial buildings and 11 hangars were completed at a cost of £10 million.**
- **Refurbishment of the air traffic control tower, the airport lounge, Café@05 and a new outdoor viewing area are nearing completion.**
- **The lease for land was granted to allow the National Grid's IFA2 development to proceed to construction stage. This will establish an electricity interconnector on the site, increasing clean energy security for the UK. The Borough will benefit from future land value income and the creation of Daedalus common.**
- **A funding agreement with the Solent Local Enterprise Partnership has been secured to retain business rate growth on Swordfish Business Park which will offset the borrowing costs of improved infrastructure on this part of the site.**
- **Provision of a fuel farm costing £400,000.**



Works have helped to put in place the building blocks necessary to achieve cost neutrality in 2018/19. The running costs of the airfield will be met by:

- **property rents and service charges (£322,000 in 2017/18)**
- **income from the Fareham Innovation Centre (£477,000 in 2017/18)**
- **flight movements have increased by 50%, generating ancillary income from fuel sales and parking charges**

At the same time, the costs recharged to airport tenants have remained relatively stable.

#### OTHER SIGNIFICANT CAPITAL

- **Completion of Hill Head Coastal Protection project. Funded through £740,000 of CIL contributions, the works undertaken at Hill Head will protect the coastline from the effects of extreme weather and sea level rise.**
- **Capital Funding of Westbury Manor Museum of £385,000 in partnership with the Hampshire Cultural Trust to improve the business plan for the museum in terms of being self-sustaining and reducing the Council's annual revenue contribution. The Museum reopened in summer 2017 as a vibrant new 'culture stop' and now features artist's studios together with a mix of interactive exhibits and digital media. The reception area and café experience has been transformed and now includes a shop selling local Hampshire produce.**
- **Holly Hill Play Area opened in 2017. Located next to Holly Hill Leisure Centre in Sarisbury, the park features a wide range of exciting facilities for children, young people and families to enjoy. The children's play area offers a variety of play equipment, suitable for all ages and abilities. It includes a zip wire, inclusive swing, huge climbing units and much more. For older children there is a multi-use games area (MUGA), which is a hard standing surface that can be used all year round to play outdoor sports. Items of outdoor gym equipment are also included within the site as well as a selection of seats, picnic tables and footpaths.**
- **The Council is investing in five fuel-efficient refuse trucks compliant with the Euro VI emissions regulations as part of the move to a cleaner greener vehicle fleet. These are being purchased over 2 years at a cost of £813,000.**
- **Negotiations were completed with a developer to secure a historic piece of land in the Borough for long term community benefit. Titchfield Park as it is currently called is due to open in the Summer of 2019.**
- **Detailed reviews of the Council's fire safety arrangements were undertaken in the wake of the Grenfell fire. Works to improve / update fire precautions in our housing properties have been carried out which were met from on-going works budgets.**

## Outlook for the Future: risks and pressures

The medium-term Finance Strategy for 2018/19 recognises that the Council will continue to face financial pressures. Currently we are forecasting a **£500,000** deficit by 2020/21.

Particular risks and pressures include:

- There will be no Revenue Support Grant in the third year of the financial settlement and a potentially negative settlement in year four.
- The full impact of the Government's decision to reduce the number of years that New Homes Bonus grant is payable from six to four years will be felt in 2018/19 resulting in a possible additional loss of **£500,000**.
- Continued increase in Pension Fund liabilities.
- The need to carry out stock condition surveys of the Council's assets which are likely to lead to an increased spend to maintain our assets and meet future service needs. We have therefore been building up reserves to help cover this cost.
- Increases in national insurance premiums due to the change in limits for catastrophic injury settlements, and the increase in Insurance Premium Tax. We are also anticipating a local increase in our premiums for housing insurance cover following 2 fires in our properties.
- Future loss of land charges income (£118,000) when the service migrates to the national Local Land Charges (LLC) Service.
- Unknown financial impact of the increased risk of planning application appeals.
- Unknown impact of decisions being taken by Hampshire County Council to reduce their costs which may increase the costs for district councils.
- Unknown impact of any future economic uncertainty on income streams such as our investment properties and Building Control applications.

## PREPARING FOR THE CHALLENGE

To mitigate these, the Council is implementing a series of finance strategy reviews across all Council services. The review will identify opportunities to reduce the funding gap by designing out costs or increasing income streams. This will include reviewing how we use technology to deliver services and embracing the savings that a cloud based ICT Strategy can offer. We will also continue our philosophy of using Systems Thinking to improve service efficiency and effectiveness.

Additional borrowing in 2018/19 will fund further development and investment in the borough and support delivery of the Corporate Strategy. This is likely to include enabling hotel provision in the town as well as new housing initiatives. Our Visions for the regeneration of Fareham and Portchester Town Centres were approved in 2017 which will allow these proposals also to be progressed.



## 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 2018. 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 2017/18, which in turn is underpinned by International Financial Reporting Standards.

### The Core Financial Statements are:

<h3>COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</h3>	<h3>BALANCE SHEET</h3>
<ul style="list-style-type: none"> <li>• Records all of the Council’s income and expenditure for the year.</li> <li>• Top half of the statement provides an analysis by Council Portfolio.</li> <li>• Bottom half deals with corporate transactions and funding.</li> </ul>	<ul style="list-style-type: none"> <li>• A snapshot of the Council’s assets, liabilities, cash balances and reserves at the year-end date.</li> </ul>
<h3>MOVEMENT IN RESERVES STATEMENT</h3>	<h3>CASH FLOW STATEMENT</h3>
<ul style="list-style-type: none"> <li>• A summary of changes to the Council’s reserves over the course of the year.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• 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).</li> </ul>

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

### The Supplementary Financial Statements are:

<h3>HOUSING REVENUE ACCOUNT</h3>	<h3>COLLECTION FUND</h3>
<ul style="list-style-type: none"> <li>• Separately identifies the Council’s statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

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

# Statement of Responsibilities 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 Director 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: 31 July 2018.

## 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: 31 July 2018.



# 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 8.

2016/17			2017/18			
Gross Exp £'000	Gross Income £'000	Net Exp £'000	Note	Gross Exp £'000	Gross Income £'000	Net Exp £'000
959	(430)	529	Licensing and Regulatory Affairs Committee	847	(451)	396
1,136	(613)	523	Planning Committee	1,399	(662)	737
2,660	(1,684)	976	Housing Portfolio*	2,726	(1,846)	880
(3,972)	(12,540)	(16,512)	Housing Revenue Account**	10,433	(12,421)	(1,988)
4,223	(1,533)	2,690	Leisure and Community Portfolio	5,683	(1,678)	4,005
2,448	(2,749)	(301)	Planning and Development Portfolio	2,208	(2,469)	(261)
24,939	(22,012)	2,927	Policy and Resources Portfolio	27,270	(21,382)	5,888
2,488	(521)	1,967	Health & Public Protection Portfolio*	2,741	(564)	2,177
6,804	(1,836)	4,968	Streetscene Portfolio	6,880	(1,892)	4,988
<b>41,685</b>	<b>(43,918)</b>	<b>(2,233)</b>	<b>Cost of Services</b>	<b>60,187</b>	<b>(43,365)</b>	<b>16,822</b>
<b>Other Operating Expenditure</b>						
	(399)		(Gain)/loss on disposal of assets			(596)
	179		Housing capital receipts			214
<b>Financing and Investment Income and Expenditure</b>						
	1,405		Interest payable			1,404
	(272)		Interest receivable			(79)
	1,630		Pension net interest cost	16		1,420
			Changes in fair value of investment properties	18		(2,287)
	(3,283)		Investment properties rental and expenses	18		(3,279)
<b>Taxation and Non-Specific Grant Income</b>						
	(6,121)		Council tax income			(6,373)
	(2,494)		Non-domestic rates income			(2,586)
	(7,075)		Grants and contributions not distributable to services	10		(7,239)
	<b>(16,955)</b>		<b>(Surplus)/Deficit on Provision of Services</b>			<b>(2,579)</b>
	(20,730)		(Surplus)/deficit on revaluation of property, plant and equipment assets			(606)
	-		(Surplus)/deficit on revaluation of available-for-sale financial assets			156
	7,346		Pension liability re-measurements	16		299
	<b>(13,384)</b>		<b>Other Comprehensive Income and Expenditure</b>			<b>(151)</b>
	<b>(30,339)</b>		<b>Total Comprehensive Income and Expenditure</b>			<b>(2,730)</b>

\* In 2017/8 the Housing Portfolio was renamed from the Health & Housing Portfolio and the Health & Public Protection Portfolio was renamed from the Public Protection Portfolio. The services that report to each portfolio has not changed.

\*\* A revaluation gain of £11.4 million in 2016/17 has been charged to the Housing Revenue Account under gross expenditure. See note 17 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 2017		Note	31 March 2018
£'000			£'000
	Property, Plant and Equipment	17	
120,144	- Council dwellings		117,780
81,554	- Other land and buildings		92,915
835	- Infrastructure		1,168
2,769	- Vehicles, plant and equipment		3,441
345	- Community assets		343
444	- Assets under construction		3,944
198	Heritage assets		189
54,413	Investment properties	18	58,973
34	Intangible assets		27
-	Long term investments	29	1,844
69	Long term debtors		133
<b>260,805</b>	<b>Total long term assets</b>		<b>280,757</b>
9,068	Short term investments	29	7,007
341	Assets held for sale	19	-
124	Inventories		87
6,451	Short term debtors	22	8,474
236	Payments in advance		230
6,006	Cash and cash equivalents	21, 29	3,005
<b>22,226</b>	<b>Current assets</b>		<b>18,803</b>
(235)	Bank overdraft	21	(334)
(1,835)	Short term borrowing	29	(12,017)
(9,760)	Short term creditors	23	(12,425)
(39)	Depositors		(45)
(3,008)	Provisions	24	(1,874)
<b>(14,877)</b>	<b>Current liabilities</b>		<b>(26,695)</b>
(7,525)	Receipts in advance - capital grants	25	(4,468)
(334)	Receipts in advance - revenue grants	25	(2,210)
(40,000)	Long term borrowing	29	(40,000)
(3,200)	Long term creditors		(3,468)
(58,271)	Pension scheme liability	16	(61,165)
<b>(109,330)</b>	<b>Long term liabilities</b>		<b>(111,311)</b>
<b>158,824</b>	<b>Net assets</b>		<b>161,554</b>
31,853	Usable reserves	8, 26	33,924
126,971	Unusable reserves	28	127,630
<b>158,824</b>	<b>Total Reserves</b>		<b>161,554</b>

## Movement in Reserves Statement

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

	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
<b>Balance at 31 March 2017</b>	6,950	15,335	2,370	7	3,677	3,514	31,853	126,971	158,824
<b>Movement in reserves in year</b>									
Total Comprehensive Income and Expenditure	2,209	-	370	-	-	-	2,579	151	2,730
Adjustments between accounting basis and funding basis under regulations	(3,505)	-	327	977	942	751	(508)	508	-
Transfers to/(from) earmarked reserves	3,010	(1,754)	(1,243)	-	-	(13)	-	-	-
<b>Increase/(decrease) in year</b>	<b>1,714</b>	<b>(1,754)</b>	<b>(546)</b>	<b>977</b>	<b>942</b>	<b>738</b>	<b>2,071</b>	<b>659</b>	<b>2,730</b>
<b>Balance at 31 March 2018</b>	<b>8,664</b>	<b>13,581</b>	<b>1,824</b>	<b>984</b>	<b>4,619</b>	<b>4,252</b>	<b>33,924</b>	<b>127,630</b>	<b>161,554</b>

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

## 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).

2016/17 £'000		Note	2017/18 £'000
<b>16,955</b>	<b>Net surplus/(deficit) on the provision of services</b>		2,579
(6,733)	Adjustments to surplus/(deficit) on the provision of services for non-cash movements	34	13,187
16,739	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	35	(5,815)
<b>26,961</b>	<b>Net Cash Flows from Operating Activities</b>		<b>9,951</b>
	<b>Investing Activities</b>		
(26,315)	Purchase of property, plant and equipment, investment property and intangible assets		(25,103)
-	- Purchase of short and long term investments		-
1,205	Proceeds from property, plant and equipment, investment property and intangible assets		1,509
-	- Proceeds from short and long term investments		-
3,299	Other receipts from investing activities		850
<b>(21,811)</b>	<b>Net Cash Flows from Investing Activities</b>		<b>(22,744)</b>
	<b>Financing Activities</b>		
209	Cash receipts of short and long term borrowing		15,478
1,421	Other receipts from financing activities		(490)
(3,201)	Repayments of short and long term borrowing		(5,295)
<b>(1,571)</b>	<b>Net Cash Flows from Financing Activities</b>		<b>9,693</b>
<b>3,579</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(3,100)</b>
2,192	Cash and cash equivalents at the beginning of the reporting period	21	5,771
<b>5,771</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>2,671</b>



# 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.

2016/17			2017/18			
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	
524	5	529	Licensing and Regulatory Affairs Committee	379	17	396
500	23	523	Planning Committee	653	84	737
261	715	976	Housing Portfolio	251	629	880
1,105	(17,617)	(16,512)	Housing Revenue Account	(3,274)	1,286	(1,988)
1,367	1,323	2,690	Leisure and Community Portfolio	1,382	2,623	4,005
(354)	53	(301)	Planning and Development Portfolio	(446)	185	(261)
(398)	3,325	2,927	Policy and Resources Portfolio	45	5,843	5,888
1,925	42	1,967	Health and Public Protection Portfolio	1,964	213	2,177
4,208	760	4,968	Streetscene Portfolio	4,173	815	4,988
9,138	(11,371)	(2,233)	<b>Cost of Services</b>	<b>5,127</b>	<b>11,695</b>	<b>16,822</b>
(4,236)	(10,654)	(14,721)	Other Income and Expenditure	(4,543)	(14,858)	(19,401)
4,902	(22,025)	(16,954)	<b>(Surplus)/Deficit</b>	<b>584</b>	<b>(3,163)</b>	<b>(2,579)</b>
(29,726)			Opening General Fund and HRA Balance at 1 April	(24,653)		
410			Less Surplus/(Deficit) on General Fund and HRA Balance in Year	(1,170)		
4,663			Less Transfers (to)/from Earmarked Reserves	1,754		
(24,653)			<b>Closing General Fund and HRA Balance at 31 March</b>	<b>(24,069)</b>		

## Note 2 Note to the Expenditure and Funding Analysis

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

<b>2017/18</b>				
<b>Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts</b>	<b>Adjustments for Capital Purposes (1) £'000</b>	<b>Net Changes for the Pension Adjustments (2) £'000</b>	<b>Other Differences (3) £'000</b>	<b>Total Adjustments £'000</b>
Licensing and Regulatory Affairs Committee	-	17	-	17
Planning Committee	-	85	(1)	84
Housing Portfolio	564	66	(1)	629
Housing Revenue Account	3,447	303	(2,464)	1,286
Leisure and Community Portfolio	2,923	87	(387)	2,623
Planning and Development Portfolio	91	94	-	185
Policy and Resources Portfolio	(518)	310	6,051	5,843
Health and Public Protection Portfolio	131	81	1	213
Streetscene Portfolio	564	251	-	815
<b>Net Cost of Services</b>	<b>7,202</b>	<b>1,294</b>	<b>3,199</b>	<b>11,695</b>
Other income and expenditure from the Expenditure and Funding Analysis	(2,960)	1,420	(13,318)	(14,858)
<b>Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>4,242</b>	<b>2,714</b>	<b>(10,119)</b>	<b>(3,163)</b>
<b>2016/17</b>				
<b>Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts</b>	<b>Adjustments for Capital Purposes (1) £'000</b>	<b>Net Changes for the Pension Adjustments (2) £'000</b>	<b>Other Differences (3) £'000</b>	<b>Total Adjustments £'000</b>
Licensing and Regulatory Affairs Committee	-	5	-	5
Planning Committee	-	23	-	23
Housing Portfolio	695	20	-	715
Housing Revenue Account	(15,897)	42	(1,762)	(17,617)
Leisure and Community Portfolio	1,418	21	(116)	1,323
Planning and Development Portfolio	27	26	-	53
Policy and Resources Portfolio	1,532	122	1,671	3,325
Health and Public Protection Portfolio	19	23	-	42
Streetscene Portfolio	693	67	-	760
<b>Net Cost of Services</b>	<b>(11,513)</b>	<b>349</b>	<b>(207)</b>	<b>(11,371)</b>
Other income and expenditure from the Expenditure and Funding Analysis	(9,736)	1,382	(2,300)	(10,654)
<b>Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(21,249)</b>	<b>1,731</b>	<b>(2,507)</b>	<b>(22,025)</b>

## 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	2017/18 £'000	2016/17 £'000
<b>Expenditure</b>		
Employee benefits expenses	14,517	13,102
Other services expenses	44,578	41,885
Support service recharges	(582)	(1,523)
Interest payments	1,795	1,795
Depreciation, amortisation and impairment	1,001	(8,566)
Payments to housing receipts pool	214	179
Gain/loss on the disposal of assets	(596)	(399)
<b>Total Expenditure</b>	<b>60,927</b>	<b>46,473</b>
<b>Income</b>		
Fees, charges and other service income	(26,302)	(26,487)
Interest and investment income	(419)	(551)
Income from council tax and non-domestic rates	(8,959)	(8,615)
Government grants and contributions	(27,826)	(27,775)
<b>Total Income</b>	<b>(63,506)</b>	<b>(63,428)</b>
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(2,579)</b>	<b>(16,955)</b>

## Note 4 Segmental Income

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

Services	2017/18 £'000	2016/17 £'000
Licensing and Regulatory Affairs Committee	451	430
Planning Committee	662	613
Housing Portfolio	730	712
Housing Revenue Account	12,279	12,450
Leisure and Community Portfolio	1,678	1,533
Planning and Development Portfolio	2,330	3,213
Policy and Resources Portfolio	5,970	5,769
Health and Public Protection Portfolio	564	521
Streetscene Portfolio	1,892	1,836
<b>Total Income Analysed on a Segmental Basis</b>	<b>26,556</b>	<b>27,077</b>

## Note 5 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 new or amended standards within the 2018/19 Code. New standards introduced in the 2018/19 Code that apply from 1 April 2018 are:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

IFRS 9 includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a forward looking 'expected loss' model for impairment rather than the current 'incurred loss' model. The full impact is still currently being assessed but it is anticipated that, due to the classification and security of the majority of the Council's financial instruments, it is unlikely to have a material impact on the financial statements.

IFRS 15 introduces a five-step process for recognising revenue based on the transfer of control rather than the current transfer of risk and rewards. This new approach is not expected to have a material impact on the financial statements.

Amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value and only apply to group accounts. Amendments to IAS 7 may require additional disclosures around changes in liabilities arising from financing activities. Neither of these amendments is considered to have a material impact on the financial statements.

## Note 6 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 an Associate of the Council and under the Code the Council would normally recognise in its financial statements its share of PCJC's net assets and profits and losses. Group Accounts have not been produced as the differences between the Council's group and single entity accounts would be very minor.

## Note 7 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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Property, Plant and Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions about the service being delivered by the asset and the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases resulting in a fall in the carrying value of assets. It is estimated that the annual depreciation charge for all assets would increase by £287,200 for every year that useful lives had to be reduced.
<b>Pensions Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. Note 16 provides details of the impact of changes to the key assumptions.
<b>Financial Assets and Liabilities</b>	Estimation of fair values for financial assets and liabilities are based on current lending rates for equivalent loans and investments. These are provided by the Council's treasury advisors.	Fair value estimates do not apply to instruments which mature within the next 12 months. The values are disclosed as a note to the accounts and do not impact on the primary statements.
<b>Bad Debt Provision</b>	The Council has made allowances for doubtful debts of £1.87 million in 2017/18 (2016/17 £1.66 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 £93,500 (2016/17 £83,000).
<b>Provisions</b>	The Council has made provisions for outstanding insurance claims, accumulated absences and land charges. The calculation for accumulated absences is based on an average of annual leave accrued over 4 years and the total of flexi leave at year end.	A 10% increase or decrease in provisions would require an adjustment of £26,000 (2016/17 £29,600)
<b>Business Rates Appeals Provision</b>	Under the 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 £4 million (2016/17 £6.8 million) for these refunds within the Collection Fund. The Council's share of the provision is £1.6 million (2016/17 £2.7 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 £161,500 (2016/17 £271,000).

## Note 8 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.

2017/18	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
<b>Capital Adjustment Account Adjustments</b>							
Depreciation and impairment of non-current assets	2,628	-	2,578	-	-	-	(5,206)
Revaluation losses on property, plant and equipment	2,569	-	864	-	-	-	(3,433)
Revaluation of investment properties	(2,287)	-	-	-	-	-	2,287
Amortisation of intangible assets	2	-	5	-	-	-	(7)
Capital grants and contributions applied	(4,293)	-	-	-	-	(760)	5,053
Revenue Expenditure funded from capital under statute	520	-	-	-	-	-	(520)
Property written out on disposal	21	-	881	-	-	-	(902)
Statutory provision for the financing of capital investment	(415)	-	-	-	-	-	415
Capital expenditure charged to the General Fund and HRA Balances	(1,722)	-	(461)	-	-	-	2,183
<b>Capital Grants Unapplied Account Adjustments</b>							
Capital grants and contributions unapplied	(1,511)	-	-	-	-	1,511	-
<b>Capital Receipts Reserve Adjustments</b>							
Proceeds from disposal of property	-	-	(1,497)	-	1,497	-	-
Capital receipts applied	-	-	-	-	(358)	-	358
Housing capital receipts	(6)	-	-	-	17	-	(11)
Payments to the Government housing capital receipts pool	214	-	-	-	(214)	-	-
<b>Major Repairs Reserve Adjustments</b>							
Depreciation re-credited to HRA	-	-	(2,577)	2,577	-	-	-
Major Repairs Reserve to finance new capital expenditure	-	-	-	(1,600)	-	-	1,600
<b>Pension Reserve Adjustments</b>							
Net charges for retirement benefits	4,153	-	807	-	-	-	(4,960)
Employer's contribution to Pension Fund/directly to pensioners	(2,092)	-	(273)	-	-	-	2,365
<b>Collection Fund Adjustment Account</b>							
Collection Fund adjustment	(1,286)	-	-	-	-	-	1,286
<b>Total Adjustments</b>	<b>(3,505)</b>	<b>-</b>	<b>327</b>	<b>977</b>	<b>942</b>	<b>751</b>	<b>508</b>

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

## Note 9 Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Director of Finance and Resources on 31 July 2018. 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 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## Note 10 Grant Income

The Council credited the following grants and contributions over £50,000 to the Comprehensive Income and Expenditure Statement.

<b>Service Specific Revenue Grants and Contributions (included in Cost of Services)</b>	<b>2017/18 £'000</b>	<b>2016/17 £'000</b>
<b>Department for Works and Pensions</b>		
Rent Allowances Subsidy	12,146	12,809
Rent Rebates	6,638	6,717
Housing and Council Tax Benefit Administration	206	222
Discretionary Housing Payments	154	96
New Burdens Grants	80	49
<b>Ministry for Housing, Communities and Local Government</b>		
Disabled Facilities Grant	506	568
NNDR Collection Allowance	138	142
Preventing Homelessness Grants	237	-
Council Tax Support Administration	77	80
Local Plan Grants	50	-
<b>Homes England</b>		
Welborne Capacity Funding	-	229
Daedalus Development	265	637
<b>Department for Environment, Food and Rural Affairs</b>		
Air Quality Feasibility Study Grant	100	-
<b>Environment Agency</b>		
Coast Monitoring Grant	100	214
<b>Other</b>		
Portchester Crematorium	145	130
S106 Developer Contributions	116	108
Whiteley Joint Fund	6	116
Hampshire County Council One Public Estate Grant	50	55
<b>Total</b>	<b>21,014</b>	<b>22,172</b>
<b>Credited to Taxation and Non-Specific Grant Income</b>		
	<b>2017/18 £'000</b>	<b>2016/17 £'000</b>
<b>Ministry for Housing, Communities and Local Government</b>		
New Homes Bonus	1,578	2,068
Revenue Support Grant	288	828
Transition Grant	74	74
<b>Homes England</b>		
Daedalus Development	1,262	-
National Affordable Housing Programme	-	440
<b>Other</b>		
Solent Local Enterprise Partnership	1,790	210
Community Infrastructure Levy	1,511	2,536
Developer Contributions	448	785
Winifred Cocks Bequest	288	-
Public Health England	-	134
<b>Total</b>	<b>7,239</b>	<b>7,075</b>

## Note 11 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.

	2017/18 £'000	2016/17 £'000
External audit services	50	48
Certification of grant claims and returns	16	11
<b>Total</b>	<b>66</b>	<b>59</b>

## Note 12 Members' Allowances

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

	2017/18 £'000	2016/17 £'000
Basic Allowances	211	209
Special Responsibility Allowances	159	156
Superannuation and National Insurance	18	18
Travelling and Subsistence Allowances	5	5
Conference Expenses	1	1
Internet Rental Allowance	2	2
<b>Total</b>	<b>396</b>	<b>391</b>

Details of individual allowances including travel and subsistence are published in full on the Council's website.

## Note 13 Remuneration of Staff

The number of employees, including senior officers (see note 14), whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 are set out in the table below.

Remuneration Band	2017/18 Number of Employees	2016/17 Number of Employees
£50,000 - £54,999	3	3
£55,000 - £59,999	2	1
£60,000 - £64,999	2	4
£65,000 - £69,999	5	4
£70,000 - £74,999	2	3
£75,000 - £79,999	3	-
£80,000 - £84,999	1	-
£85,000 - £89,999	-	1
£90,000 - £94,999	2	2
£95,000 - £99,999	2	-
£140,000 - £144,999	1	-
£145,000 - £149,999	-	1

## Note 14 Senior Officer Emoluments

Post Title	Salary inc fees and allowances £	Expense Allowances £	Compensation for loss of office £	Total remuneration excl pension contributions £	Pension contributions £	Total remuneration incl pension contributions £
<b>2017/18</b>						
Chief Executive Officer (1)	139,786	298	-	140,084	17,979	158,063
Director of Planning and Regulation	89,784	411	-	90,195	12,960	103,155
Director of Finance and Resources	97,617	-	-	97,617	13,895	111,512
Managing Director of Fareham Housing (2)	96,417	186	-	96,603	13,595	110,198
	<b>423,604</b>	<b>895</b>	<b>-</b>	<b>424,499</b>	<b>58,429</b>	<b>482,928</b>
<b>2016/17</b>						
Chief Executive Officer (1)	144,577	604	-	145,181	16,539	161,720
Director of Planning and Regulation	88,895	145	-	89,040	11,645	100,685
Director of Finance and Resources	92,120	887	-	93,007	12,133	105,140
Director of Operations	92,120	309	-	92,429	12,068	104,497
	<b>417,712</b>	<b>1,945</b>	<b>-</b>	<b>419,657</b>	<b>52,385</b>	<b>472,042</b>

### 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 Directors. Roles and responsibilities can be found on the Council's website.

- (1) Includes pay in respect of the Returning Officer role in elections.  
 (2) With effect from 1 November 2017.

## Note 15 Termination Benefits

The Council terminated the contracts of a number of employees in 2017/18, incurring liabilities of £593,040 (£204,685 in 2016/17). 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	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
£0 - £20,000	-	-	14	14	14	14	£76,810	£67,238
£20,001 - £40,000	1	1	2	1	3	2	£84,503	£62,816
£40,001 - £60,000	1	-	-	-	1	-	£53,414	-
£60,001 - £80,000	1	1	-	-	1	1	£60,460	£74,631
£140,001 - £160,000	1	-	-	-	1	-	£154,105	-
£160,001 - £180,000	1	-	-	-	1	-	£163,748	-
<b>Total</b>	<b>5</b>	<b>2</b>	<b>16</b>	<b>15</b>	<b>21</b>	<b>17</b>	<b>£593,040</b>	<b>£204,685</b>

## Note 16 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 2019

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2019 are estimated to be £2.62 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 2019, 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	
	2017/18	2016/17	2017/18	2016/17
	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Statement:</b>				
Cost of Services				
- Current service cost	3,480	2,450	-	-
- Past service cost	60	50	-	-
Financing and Investment Income and Expenditure				
- Interest net defined benefit liability	1,350	1,530	70	100
<b>(Surplus)/deficit on the provision of services</b>	<b>4,890</b>	<b>4,030</b>	<b>70</b>	<b>100</b>
<b>Other Charges to the Comprehensive Income and Expenditure Statement:</b>				
Remeasurement of the net defined benefit liability comprising				
- Return on plan assets (in excess of)/below that recognised in net interest	(560)	(20,108)	-	-
Actuarial (gains)/losses due to				
- Changes in financial assumptions	(160)	29,120	-	263
- Changes in demographic assumptions	-	(2,080)	-	(80)
- Liability experience	990	210	29	20
<b>Total amount recognised in Other Comprehensive Income and Expenditure</b>	<b>270</b>	<b>7,142</b>	<b>29</b>	<b>203</b>
<b>Total Amount Recognised</b>	<b>5,160</b>	<b>11,172</b>	<b>99</b>	<b>303</b>
<b>Movement in Reserves Statement:</b>				
Reversal of net charges made to the surplus/(deficit) in accordance with the Code	(4,890)	(4,030)	(70)	(100)
<b>Actual amount charged against the General Fund</b>				
<b>Balance for pensions in year:</b>				
Employers' contribution payable to scheme	(2,160)	(2,190)	-	-
Retirement benefits payable to pensioners	-	-	(205)	(209)

### 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	
	2017/18	2016/17	2017/18	2016/17
	£'000	£'000	£'000	£'000
Fair value of assets	110,941	109,690	-	-
Present value of defined benefit obligation	169,150	164,900	2,955	3,061
Funded status	(58,209)	(55,210)	-	-
Liability recognised on the Balance Sheet	(58,209)	(55,210)	(2,955)	(3,061)

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	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000
Opening balance at 1 April	109,690	88,512	-	-
Interest income	2,720	2,980	-	-
Remeasurement gains and (losses)				
- Return on plan assets, excluding amount included in net interest expense	560	20,108	-	-
Contributions by the employer	2,161	2,190	205	209
Contributions by participants	740	720	-	-
Benefits paid	(4,930)	(4,820)	(205)	(209)
<b>Closing balance at 31 March</b>	<b>110,941</b>	<b>109,690</b>	<b>-</b>	<b>-</b>

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

	Funded Benefits		Unfunded Benefits	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000
Opening balance at 1 April	164,900	134,740	3,061	2,967
Current service cost	3,480	2,450	-	-
Interest expense	4,070	4,510	70	100
Contribution by participants	740	720	-	-
Remeasurement gains and (losses) on liabilities				
- Financial assumptions	(160)	29,120	-	263
- Demographic assumptions	-	(2,080)	-	(80)
- Experience	990	210	29	20
Benefits paid	(4,930)	(4,820)	(205)	(209)
Past service cost	60	50	-	-
<b>Closing balance at 31 March</b>	<b>169,150</b>	<b>164,900</b>	<b>2,955</b>	<b>3,061</b>

Local Government Pension Scheme Assets Comprised

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

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

	Asset split at 31 March 2018			Asset split at 31 March 2017
	% Quoted	% Unquoted	% Total	% Total
Equities	58.5	4.1	62.6	60.3
Property	0.7	6.3	7.0	6.5
Government Bonds	23.5	0.2	23.7	25.2
Corporate Bonds	1.0	-	1.0	1.4
Cash	2.6	-	2.6	3.4
Other	0.2	2.9	3.1	3.2
<b>Total</b>	<b>86.5</b>	<b>13.5</b>	<b>100.0</b>	<b>100.0</b>

### Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries. Estimates for the Hampshire County Council Fund are based on the latest full valuation of the scheme as at 31 March 2016 for funded benefits and 31 March 2018 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	
	2018 % p.a	2017 % p.a	2018 % p.a	2017 % p.a
<b>Mortality assumptions:</b>				
Future lifetime from age 65 (aged 65 at accounting date)				
Men	24.1	24.0	24.1	24.0
Women	27.2	27.0	27.2	27.0
Future lifetime from age 65 (aged 45 at accounting date)				
Men	26.2	26.0	n/a	n/a
Women	29.4	29.3	n/a	n/a
<b>Principal financial assumptions (% per annum)</b>				
Discount rate	2.6	2.5	2.6	2.5
RPI inflation	3.2	3.1	3.2	3.1
CPI inflation	2.1	2.0	2.1	2.0
Pension increases	2.1	2.0	2.1	2.0
Pension accounts revaluation rate	2.1	2.0	n/a	n/a
Salary increases	3.6	3.5	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 2018 and the projected service cost for the year ending 31 March 2019 is set out in the table below.

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

**Discount rate assumption**

	<b>+0.1% p.a.</b>	<b>Base Figure</b>	<b>-0.1% p.a.</b>
Adjustment to discount rate			
Present value of total obligation (£M)	166.15	169.15	172.20
% change in present value of total obligation	-1.80		1.80
Projected service cost (£M)	3.50	3.61	3.72
Approximate % change in projected service cost	-3.00		3.10

**Rate of general increase in salaries**

	<b>+0.1% p.a.</b>	<b>Base Figure</b>	<b>-0.1% p.a.</b>
Adjustment to salary increase rate			
Present value of total obligation (£M)	169.69	169.15	168.61
% change in present value of total obligation	0.30		-0.30
Projected service cost (£M)	3.61	3.61	3.61
Approximate % change in projected service cost	0		0

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

	<b>+0.1% p.a.</b>	<b>Base Figure</b>	<b>-0.1% p.a.</b>
Adjustment to pension rate increase			
Present value of total obligation (£M)	171.66	169.15	166.68
% change in present value of total obligation	1.50		-1.50
Projected service cost (£M)	3.72	3.61	3.50
Approximate % change in projected service cost	3.10		-3.00

**Post retirement mortality assumption**

	<b>-1 year</b>	<b>Base Figure</b>	<b>+1 year</b>
Adjustment to mortality age rating assumption			
Present value of total obligation (£M)	174.12	169.15	164.20
% change in present value of total obligation	2.90		-2.90
Projected service cost (£M)	3.74	3.61	3.48
Approximate % change in projected service cost	3.60		-3.60

## Note 17 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 is revalued on a rolling basis by the Council's own valuers K. Boothroyd MRICS, M. Newman MRICS and G. Hobday MRICS; except for Council dwellings which have been revalued as at 1<sup>st</sup> March 2018 by Hellier Langston, chartered surveyors.

The various sites at Daedalus were revalued by M. Newman MRICS to 31 March 2018.

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:

	<b>Council Dwellings £'000</b>	<b>Other Land and Buildings £'000</b>	<b>Vehicles, Plant and Equipment £'000</b>	<b>Total £'000</b>
Historic	-	8,855	10,666	19,521
2013/14	-	1,615	-	1,615
2014/15	-	15	-	15
2015/16	-	4,726	-	4,726
2016/17	-	12,781	-	12,781
2017/18	120,239	67,384	-	187,623
<b>Total</b>	<b>120,239</b>	<b>95,376</b>	<b>10,666</b>	<b>226,281</b>

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

Council dwellings were re-valued as at 1<sup>st</sup> March 2018. 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	20 to 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 the major components of between 20 and 50 years.

### Capital Commitments

At 31 March 2018, the Council had entered into a number of contracts for the construction, purchase or enhancement of Property, Plant and Equipment in 2018/19 and future years, budgeted to cost £1.6 million. Similar commitments at 31 March 2017 were £1.7 million. The major commitments are purchases of vehicles and refurbishment of bus shelters.

## Movement in Non-Current Assets 2017/18

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £000	Infrastructure Assets £'000	Community Assets £'000	Assets Under Construction £'000	Total £'000
<b>Cost or Valuation</b>							
At 1 April 2017	121,604	82,808	9,673	1,731	377	444	216,637
Additions	1,859	15,554	1,475	375	-	3,845	23,108
Revaluation increases/(decreases) to RR	-	(81)	-	-	-	-	(81)
Revaluation increases/(decreases) to SDPS	(2,325)	(2,569)	-	-	-	-	(4,894)
Derecognition – Disposals	(899)	-	(482)	-	-	-	(1,381)
Reclassified to/from Held for Sale	-	341	-	-	-	-	341
Other movements	-	(677)	-	-	-	(345)	(1,022)
<b>At 31 March 2018</b>	<b>120,239</b>	<b>95,376</b>	<b>10,666</b>	<b>2,106</b>	<b>377</b>	<b>3,944</b>	<b>232,708</b>
<b>Depreciation and impairment</b>							
At 1 April 2017	1,460	1,254	6,905	896	32	-	10,547
Depreciation Charge	2,477	1,893	781	42	2	-	5,195
Depreciation written out to RR	-	(686)	-	-	-	-	(686)
Depreciation written out to SDPS	(1,460)	-	-	-	-	-	(1,460)
Derecognition – Disposals	(18)	-	(461)	-	-	-	(479)
<b>At 31 March 2018</b>	<b>2,459</b>	<b>2,461</b>	<b>7,225</b>	<b>938</b>	<b>34</b>	<b>-</b>	<b>13,117</b>
<b>Net Book Value</b>							
At 31 March 2018	117,780	92,915	3,441	1,168	343	3,944	219,591
At 31 March 2017	120,144	81,554	2,768	835	345	444	206,090

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

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

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

## Note 18 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 MRICS.

	2017/18 £'000	2016/17 £'000
Rental, sales income and service charges	(3,964)	(4,073)
Direct operating expenses	684	790
<b>Net (gain)/loss</b>	<b>(3,279)</b>	<b>(3,283)</b>

### Movement in Fair Value of Investment Properties

	Value at 31 March 2017 £'000	Acquisitions £'000	Change in Value £'000	Re- classifications £'000	Value at 31 March 2018 £'000
Commercial	8,156	-	1,619	-	9,775
Leisure	1,095	385	342	-	1,138
Office	3,375	-	291	-	3,666
Other	2,619	866	145	1,023	4,652
Retail	39,168	-	574	-	39,741
<b>Total</b>	<b>54,413</b>	<b>1,251</b>	<b>2,287</b>	<b>1,023</b>	<b>58,973</b>

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

### 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 2018 £'000
Commercial	5,970	3,734	70	9,775
Leisure	-	18	1,120	1,138
Office	2,066	964	636	3,666
Other	2,964	1,437	252	4,652
Retail	39,374	367	-	39,741
<b>Total</b>	<b>50,374</b>	<b>6,520</b>	<b>2,078</b>	<b>58,973</b>

## Note 19 Assets Held for Sale

	2017/18 £'000	2016/17 £'000
Balance at 1 April	341	341
Assets newly classified as held for sale:		
- Property, Plant and Equipment	-	-
Assets declassified as held for sale:		
- Property, Plant and Equipment	(341)	-
Assets sold	-	-
<b>Balance at 31 March</b>	<b>-</b>	<b>341</b>

## 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 2018 £'000	31 March 2017 £'000
Property, Plant and Equipment	10,511	10,075
Investment Property	5,840	5,228
<b>Total</b>	<b>16,351</b>	<b>15,303</b>

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

### Council as Lessor – Operating Leases

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

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

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

	31 March 2018 £'000	31 March 2017 £'000
Not later than one year	3,769	3,462
Later than one year and not later than five years	12,164	10,686
Later than five years	46,202	38,684
<b>Total</b>	<b>62,135</b>	<b>52,832</b>

The minimum lease payments receivable does not include rents that are contingent rents on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18, contingent rents of £0.56 million were received by the Council (2016/17 £0.63 million).

## Note 21 Cash and Cash Equivalents

	31 March 2018 £'000	31 March 2017 £'000
Cash held by the Council	5	5
Bank current accounts	-	-
Short-term deposits with banks	3,000	6,001
<b>Total cash and cash equivalent</b>	<b>3,005</b>	<b>6,006</b>
Bank overdraft	(334)	(235)
<b>Net cash and cash equivalent</b>	<b>2,671</b>	<b>5,771</b>

## Note 22 Short Term Debtors

	31 March 2018 £'000	31 March 2017 £'000
Central government bodies	1,944	658
Other local authorities	2,229	1,011
Other entities and individuals	6,168	6,437
<b>Total</b>	<b>10,341</b>	<b>8,106</b>
Provision for doubtful debts	(1,867)	(1,655)
<b>Total</b>	<b>8,474</b>	<b>6,451</b>

## Note 23 Short Term Creditors

	31 March 2018 £'000	31 March 2017 £'000
Central government bodies	6,663	4,760
Other local authorities	897	1,601
Other entities and individuals	4,865	3,398
<b>Total</b>	<b>12,425</b>	<b>9,759</b>

## Note 24 Provisions

	Balance at 1 April £'000	Provision in year £'000	Applied in year £'000	Balance at 31 March £'000
Business rate appeals	2,712	32	(1,130)	1,614
Insurance	104	57	(89)	72
Employee related	188	188	(188)	188
Land charges	4	-	(4)	-
<b>Total 2017/18</b>	<b>3,008</b>	<b>277</b>	<b>(1,411)</b>	<b>1,874</b>
<b>Total 2016/17</b>	<b>4,057</b>	<b>125</b>	<b>(1,174)</b>	<b>3,008</b>

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

## Note 25 Receipts in Advance

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

	31 March 2018 £'000	31 March 2017 £'000
<b>Balance at 1 April</b>	<b>7,859</b>	<b>7,680</b>
Movements in year:		
Amounts received (with conditions)	3,505	3,236
Amounts recognised as income (conditions subsequently met):		
- Within Cost of Services	(1,187)	(1,488)
- Within Taxation and Non-Specific Grants	(3,499)	(1,569)
<b>Balance at 31 March</b>	<b>6,678</b>	<b>7,859</b>
<b>Receipts in Advance (Capital Grants)</b>		
Leisure developer contributions	1,939	2,394
Homes England	1,413	2,674
Affordable housing developer contributions	450	253
Other developer contributions	435	366
Other capital contributions	231	48
Solent Local Enterprise Partnership	-	1,790
	<b>4,468</b>	<b>7,525</b>
<b>Receipts in Advance (Revenue Grants)</b>		
Air quality grants	650	-
Titchfield Country Park developer contribution	571	-
Welborne Garden Village contribution	488	-
National Grid IFA2 developer contribution	457	-
Other developer contributions	44	69
Homes England	-	265
	<b>2,210</b>	<b>334</b>
<b>Total Receipts in Advance</b>	<b>6,678</b>	<b>7,859</b>

## Note 26 Transfers to/from Earmarked Reserves

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

	1 April 2016 £'000	Transfers Out £'000	Transfers In £'000	31 March 2017 £'000	Transfers Out £'000	Transfers In £'000	31 March 2018 £'000
<b>General Fund</b>							
Major Repairs and Renewals	1,302	-	-	1,302	-	-	1,302
Other Earmarked Reserves	6,495	(3,135)	458	3,818	(2,291)	286	1,813
Earmarked Capital Reserves	5,597	(3,587)	3,026	5,036	(2,192)	1,200	4,044
	<b>13,394</b>	<b>(6,722)</b>	<b>3,484</b>	<b>10,156</b>	<b>(4,483)</b>	<b>1,486</b>	<b>7,159</b>
<b>HRA</b>							
Housing Repairs Account	1,500	-	-	1,500	-	-	1,500
Capital Development Fund	4,900	(3,544)	2,164	3,520	-	-	3,520
Debt Repayment Fund	-	-	-	-	-	1,140	1,140
Leaseholder Repairs	203	(44)	-	159	-	103	262
	<b>6,603</b>	<b>(3,588)</b>	<b>2,164</b>	<b>5,179</b>	<b>-</b>	<b>1,243</b>	<b>6,422</b>
<b>Total</b>	<b>19,997</b>	<b>(10,310)</b>	<b>5,648</b>	<b>15,335</b>	<b>(4,483)</b>	<b>2,729</b>	<b>13,581</b>

## Note 27 Capital Expenditure and Capital Financing

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

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

2016/17 £'000		2017/18 £'000
<b>61,878</b>	Opening Capital Finance Requirement	<b>75,211</b>
<b>Capital Investment</b>		
14,309	Property, Plant and Equipment	23,107
11,786	Investment Properties	1,251
617	Revenue Expenditure Funded from Capital under Statute	520
-	Long Term Capital Debtors	76
<b>Sources of Finance</b>		
(1,986)	Capital Receipts	(358)
(2,394)	Government Grants and Other Contributions	(5,053)
Sums set aside from revenue:		
(1,585)	HRA Major Repairs Reserve	(1,600)
(7,255)	Direct Revenue Contributions	(2,183)
(159)	Minimum Revenue Provision	(415)
<b>75,211</b>	Closing Capital Finance Requirement	<b>90,556</b>
<b>Explanation of movements in year</b>		
<b>13,333</b>	Increase in underlying need to borrow	<b>15,345</b>

## Note 28 Unusable Reserves

	31 March	
	2018 £'000	2017 £'000
Revaluation Reserve	36,842	36,677
Capital Adjustment Account	151,428	149,170
Pensions Reserve	(61,165)	(58,271)
Collection Fund Adjustment Account	869	(417)
Accumulated Absences Account	(188)	(188)
Available for Sale Financial Instruments Reserve	(156)	-
	<b>127,630</b>	<b>126,971</b>

### a) Revaluation Reserve

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

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

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

2016/17 £'000		2017/18 £'000
<b>15,990</b>	Balance at 1 April	<b>36,677</b>
21,406	Upward revaluation of assets	5,430
(676)	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services	(4,824)
<b>20,730</b>		<b>606</b>
(43)	Difference between fair value depreciation and historical cost depreciation	(441)
-	Accumulated gains on assets disposed or reclassified to Investment Properties	-
<b>(43)</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>(441)</b>
<b>36,677</b>	<b>Balance at 31 March</b>	<b>36,842</b>

**b) Capital Adjustment Account**

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

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2016/17 £'000		2017/18 £'000
<b>129,086</b>	Balance at 1 April	<b>149,170</b>
	<b>Reversal of items relating to capital expenditure in the Comprehensive Income and Expenditure Statement</b>	
(3,929)	Charges for depreciation and impairment of non-current assets	(5,206)
13,592	Revaluation losses on property, plant and equipment	(3,434)
(23)	Amortisation of intangible assets	(7)
(618)	Revenue expenditure funded from capital under statute	(520)
(649)	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	(901)
<b>137,459</b>		<b>139,102</b>
(3)	Amount credited to Capital Receipts Reserve relating to part repayment of principal on long term debtor	(11)
43	Adjustment amounts written out of the Revaluation Reserve	441
<b>137,499</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>139,532</b>
	<b>Capital financing applied in the year</b>	
1,986	Use of the Capital Receipts Reserve to finance new capital expenditure	358
1,585	Use of the Major Repairs Reserve to finance new capital expenditure	1,600
2,394	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	5,053
159	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	415
7,255	Capital expenditure charged against the General Fund and HRA balances	2,183
<b>150,878</b>		<b>149,141</b>
<b>(1,708)</b>	<b>Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement</b>	<b>2,287</b>
<b>149,170</b>	<b>Balance at 31 March</b>	<b>151,428</b>

**c) Pensions Reserve**

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

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

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

2016/17 £'000		2017/18 £'000
<b>(49,194)</b>	Balance at 1 April	<b>(58,271)</b>
(7,346)	Actuarial gains or losses on pension assets and liabilities	(299)
(4,130)	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	(4,960)
2,399	Employers' pension contributions and direct payments to pensioners payable in the year	2,365
<b>(58,271)</b>	<b>Balance at 31 March</b>	<b>(61,165)</b>

**d) Collection Fund Adjustment Account**

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

2016/17 £'000		2017/18 £'000
<b>(2,914)</b>	Balance at 1 April	<b>(417)</b>
(115)	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	82
2,612	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	1,204
<b>(417)</b>	<b>Balance at 31 March</b>	<b>869</b>

## Note 29 Financial Instruments

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

	Long Term		Current	
	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Borrowing at amortised cost	40,000	40,000	12,017	1,835
Trade creditors	-	-	4,296	5,808
<b>Financial Liabilities</b>	<b>40,000</b>	<b>40,000</b>	<b>16,313</b>	<b>7,643</b>
Loans and receivables	-	-	9,678	14,838
Available-for-sale investments	1,844	-	-	-
Long term debtors	133	69	-	-
Trade debtors	-	-	4,361	6,608
<b>Financial Assets</b>	<b>1,977</b>	<b>69</b>	<b>14,039</b>	<b>21,446</b>

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

All investments and cash and cash equivalents are classified as Loans and Receivables carried in the Balance Sheet at amortised cost. The accrued interest at 31 March 2018 of £7,675 is included within the current total investment outstanding of £9,678,000.

Available-for-sale investments are carried in the Balance Sheet at fair value.

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, business rates, government grants etc. are excluded.

### Fair Values of Assets and Liabilities

The fair value of each class of financial instrument, except available-for-sale, 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 2018		31 March 2017	
	Balance Sheet £'000	Fair Value £'000	Balance Sheet £'000	Fair Value £'000
Borrowing	40,000	52,356	40,000	54,321

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 2018) arising from a commitment to pay interest to lenders above current market rates.

Movements in the fair value during the life of long term debtors 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 24 February 2017) and through cash flow management which seeks to ensure that cash is available when needed.

The Council has ready access to borrowing at favourable rates from the PWLB and other local authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments.

The maturity analysis of financial instruments is as follows:

Time to Maturity	As at 31 March 2018		As at 31 March 2017	
	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000
Less than 3 months	4,017	9,678	1,835	8,797
3 to 6 months	8,000	-	-	6,041
6 months to 1 year	-	-	-	-
1 to 5 years	-	1,844	-	-
Over 35 years	40,000	-	40,000	-
<b>Total</b>	<b>50,217</b>	<b>11,522</b>	<b>41,835</b>	<b>14,838</b>

All trade debtors and creditors 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 2018.

Rating Category	£'000
AAA or equivalent	3,001
AA or equivalent	2,000
A or equivalent	4,006
BBB or equivalent	(330)
Not rated	1,001
<b>Total</b>	<b>9,678</b>

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

The Council's maximum exposure to credit risk in relation to its £9.7 million investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence as at the 31 March 2018 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 (£456,288 as at 31 March 2018, £285,078 as at 31 March 2017). 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 2018	Bad Debt Provision		Amount Outstanding as at 31 March 2017	Bad Debt Provision	
	£'000	%	£'000	£'000	%	£'000
Less than 1 year old	2,180	5	117	2,176	2	47
1 and 2 years old	176	67	117	33	45	15
2 and 3 years old	26	84	22	53	64	34
More than 3 years old	210	95	200	199	95	189
<b>Total</b>	<b>2,592</b>		<b>456</b>	<b>2,461</b>		<b>285</b>

### Market Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on some of its borrowings and investments. Investments classed as loans and receivables and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. Changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as available-for-sale will be reflected in Other Comprehensive Income and Expenditure

### Price Risk

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments. As at 31 March 2018 the Council had £2m invested in the Local Authority Property Fund. A 5% fall in share price would result in a £100,000 charge to Other Comprehensive Income and Expenditure. This would have no impact on the Surplus or Deficit on the Provision of Services until the investment was sold.

## 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 was £287,244 at 31 March 2017. During 2017/18, the fund's income was £686 and the total balance in the fund of £287,930 was used towards the funding of the Westbury Manor Museum remodelling scheme from the Council's capital programme, as approved by the Executive on 6 June 2016. As at 31 March 2018 the fund balance was £0.

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 Charity Commission are shown in the table below. A significant proportion of the income is contributed by the Council.

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

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

## Note 31 Related Party Transactions

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

### Central Government

Central Government has effective control over the general operations of the Council as it is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are shown in note 10.

### Members

Members of the Council have direct control over the Council's financial and operating policies. During 2017/18, 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 2017/18 is shown in note 12.

### Chief Officers

Chief Officers have the ability to influence the Council. During 2017/18, 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 which manages the operations of Portchester Crematorium. The Joint Committee is represented equally by 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 £1,990,339 (2016/17 £1,960,408). In 2017/18, PCJC paid a contribution of £145,000 to the Council (£130,000 in 2016/17). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2018, £2,016,539 was invested with the Council (£1,541,000 at 31 March 2017).

### Building Control Partnership

The Building Control Partnership provides building control services to Fareham Borough Council, 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 2017/18, the Partnership charged Gosport Borough Council £100,498 (2016/17 £108,086) and Portsmouth City Council £100,985 (2016/17 £110,786) 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 2018, the balance of retained surpluses for future investment in the service was £162,202 for Fareham Borough Council, £97,244 for Gosport Borough Council and £60,015 for Portsmouth City Council.

### Fareham and Gosport Environmental Health Partnership

The Fareham and Gosport Environmental Health Partnership provides environmental health services to Fareham Borough Council and Gosport Borough Council. The Partnership came into operation in 2014/15. During 2017/18, the Partnership charged Gosport Borough Council £745,852 (2016/17 £677,837) 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

Contingent Liabilities are potential liabilities which are not currently legally enforceable but may become so on the happening of a future event.

Prior to 1992 the Council was insured by Municipal Mutual Insurance (MMI). MMI ceased accepting new business or to renew general insurance business in September 1992 following which a Scheme of Arrangement (SoA), under Section 425 of the Companies Act 1985, was enacted. The SoA, formally triggered by the Directors of MMI in November 2012, was established as a better alternative to an insolvent liquidation, in the event that MMI could not achieve a solvent run-off. From that date control of MMI passed to the scheme administrator, Ernst & Young LLP, who became responsible for the management of the company's business affairs and assets.

An initial levy of 15% of previously paid claims, less the first £50k, was collected by MMI from scheme members in February 2014. In April 2016, following a further review by the scheme administrator, the levy was increased by a further 10% to 25%. To date a total sum of £39,000 has been paid to MMI in respect of the levy payments made by Fareham Borough Council. The current value of outstanding claims is £157,000 with a contingent liability of £118,000. Under the terms of the SoA, the Council also has to meet 25% of any new insurance claim settlements made by MMI. An annual review of the levy rate is required under the terms of the SoA and this could lead to the rate being further amended in future.

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

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

2016/17 £'000	2017/18 £'000
433 Interest received	61
(1,405) Interest paid	(1,404)
<b>(972)</b>	<b>(1,343)</b>

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

2016/17 £'000	2017/18 £'000
3,929 Depreciation and impairment	5,186
(13,592) Downward valuations	3,433
23 Amortisation of intangible assets	7
1,517 Increase/decrease in creditors	5,407
161 Increase/decrease in interest debtors	-
(1,761) Increase/decrease in debtors	(980)
(49) Increase/decrease in inventories	37
1,731 Movement in pension liability	2,597
649 Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised	921
659 Other non-cash items charged to the net surplus/deficit on provision of services	(3,421)
<b>(6,733)</b>	<b>13,187</b>

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

2016/17 £'000		2017/18 £'000
(3,056)	Capital grants credited to surplus/deficit on the provision of services	(4,306)
21,000	Net adjustment from the sale of short and long term investments	-
(1,205)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(1,509)
<b>16,739</b>		<b>(5,815)</b>

## Note 36 Accounting Policies

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

### GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. 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 2017/18 and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS).

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

### ACCRUALS OF INCOME AND EXPENDITURE

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

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

### CASH AND CASH EQUIVALENTS

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

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

## EXCEPTIONAL ITEMS

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

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

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

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

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

## CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

## COUNCIL TAX AND NON-DOMESTIC RATES

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

### Accounting for Council Tax and NDR

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

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

## EMPLOYEE BENEFITS

### Benefits Payable during Employment

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

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

### Termination Benefits

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

### Post-Employment Benefits (Retirement Pensions)

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

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation. Full details of the valuation method are shown in note 16 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 into two types:

- Loans and receivables – Assets that have fixed or determinable payments but are not quoted in an active market; and
- Available-for-sale assets – Assets that have a quoted market price and/or do not have fixed or determinable payments.

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.

Available-for-sale assets are recognised in the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, 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 amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations (using multiple techniques, including market, income and cost approaches).

Changes in fair value are balanced by an entry in the Available-for-Sale Financial Instruments Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred. These are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Financial Instruments Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Financial Instruments Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

## GRANTS AND CONTRIBUTIONS

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

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

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

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

### Business Improvement District

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

### Community Infrastructure Levy

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

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

## HERITAGE ASSETS

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

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

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

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

## INTANGIBLE ASSETS

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in

Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## INVENTORIES AND LONG TERM CONTRACTS

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

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

## INVESTMENT PROPERTIES

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

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

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

## LEASES

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

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

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

### The Council as Lessee – Finance Leases

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

Lease payments are apportioned between:

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

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

### The Council as Lessee – Operating Leases

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

### The Council as Lessor – Finance Leases

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

### The Council as Lessor – Operating Leases

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

## OVERHEADS AND SUPPORT SERVICES

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

## PROPERTY, PLANT AND EQUIPMENT

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

### Recognition

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

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

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise

unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

### Impairment

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

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

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

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

### Depreciation

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

Depreciation is calculated on the following bases:

- council dwellings – calculated on a straight-line basis over the useful life of the major components of the property (excluding land value) as estimated by a suitable qualified officer
- 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.



# 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.

	2017/18 £'000	2016/17 £'000
<b>Income</b>		
Gross rent income		
- Dwellings	(10,989)	(11,233)
- Other	(329)	(318)
Charges for services and facilities	(1,084)	(964)
Contributions towards expenditure	(19)	(25)
<b>Total income from service</b>	<b>(12,421)</b>	<b>(12,540)</b>
<b>Expenditure</b>		
Repairs and maintenance	4,160	4,541
Supervision and management	2,756	2,645
Rents, rates, taxes and other charges	47	44
Depreciation and impairment of non-current assets (note 7)	3,447	(11,359)
Debt management expenses	36	27
Provision for doubtful debts	(13)	130
<b>Total expenditure on service</b>	<b>10,433</b>	<b>(3,972)</b>
Net Expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement	(1,988)	(16,512)
HRA service share of corporate and democratic core	261	147
<b>Net Expenditure for HRA Services</b>	<b>(1,727)</b>	<b>(16,365)</b>
Gain on sale of HRA non-current assets	(616)	(453)
Change in fair value of Investment Properties	-	(16)
Interest payable	1,795	1,795
Interest receivable	(53)	(110)
Pension interest cost	231	272
Capital grants and contributions receivable	-	(440)
<b>(Surplus) or Deficit for Year on HRA Services</b>	<b>(370)</b>	<b>(15,317)</b>

## Movement on the HRA Statement

	2017/18 £'000	2016/17 £'000
<b>Balance on the HRA at the end of previous year</b>	<b>(2,370)</b>	<b>(3,688)</b>
<b>(Surplus) or Deficit for year on HRA Income and Expenditure Statement</b>	<b>(370)</b>	<b>(15,317)</b>
Remove gain on sale of HRA non-current assets	616	453
Pension reserve contributions	(534)	(314)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	-	-
Capital expenditure charged to revenue	461	4,537
Transfers to/from Major Repairs Reserve	2,577	1,569
Transfers to/from Capital Adjustment Account	(3,447)	11,814
<b>Adjustments between accounting basis and funding basis under statute</b>	<b>(327)</b>	<b>18,059</b>
<b>Net (increase) or decrease before transfers to or from the reserves</b>	<b>(696)</b>	<b>2,742</b>
Transfer to/(from) reserves	1,243	(1,424)
<b>(Increase) or decrease in year on the HRA</b>	<b>546</b>	<b>1,318</b>
<b>Surplus Carried Forward</b>	<b>(1,824)</b>	<b>(2,370)</b>

The total surplus carried forward excludes balances of:

- Major Repairs Reserve
- Housing Repairs Account
- Leaseholder Repairs Reserve
- Capital Development Fund
- Debt Repayment 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 2018	31 March 2017
Houses	784.25	794.75
Flats	1,461.00	1,465.00
Bungalows	166.00	166.00
	<b>2,411.25</b>	<b>2,425.75</b>

During the year 16 homes were sold under the right to buy scheme and 2.5 shared-owner properties were fully acquired by their owners.

### 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 March 2018 and indexed to 31 March 2018 is £325 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 2017/18	Council Dwellings £'000	Other Land and Buildings £'000	Plant and Equipment £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation					
At 1 April 2017	121,604	4,657	87	-	126,348
Additions	1,859	400	-	-	2,259
Revaluation Increases/(decreases) to RR	-	299	-	-	299
Revaluation Increases/(decreases) to SDPS	(2,325)	-	-	-	(2,325)
Derecognition - Disposals	(899)	-	-	-	(899)
Other reclassifications	-	-	-	-	-
<b>At 31 March 2018</b>	<b>120,239</b>	<b>5,356</b>	<b>87</b>	<b>-</b>	<b>125,682</b>
Depreciation and Impairment					
At 1 April 2017	1,460	93	12	-	1,565
Depreciation Charge	2,477	93	8	-	2,578
Depreciation written out to RR	-	(93)	-	-	(93)
Depreciation written out to SDPS	(1,460)	-	-	-	(1,460)
Derecognition - Disposals	(18)	-	-	-	(18)
<b>At 31 March 2018</b>	<b>2,459</b>	<b>93</b>	<b>21</b>	<b>-</b>	<b>2,572</b>
Net Book Value					
<b>At 31 March 2018</b>	<b>117,780</b>	<b>5,263</b>	<b>66</b>	<b>-</b>	<b>123,110</b>
<b>At 31 March 2017</b>	<b>120,144</b>	<b>4,564</b>	<b>75</b>	<b>-</b>	<b>124,783</b>

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

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

## Note 3 Major Repairs Reserve

	2017/18 £'000	2016/17 £'000
Balance at 1 April	7	-
Receipts in year	2,577	1,592
Used in year	(1,600)	(1,585)
<b>Balance at 31 March</b>	<b>984</b>	<b>7</b>

## Note 4 Housing Repairs Account

	2017/18 £'000	2016/17 £'000
Balance at 1 April	1,500	1,500
Contribution from HRA	4,079	4,454
Other Income	81	87
Expenditure	(4,213)	(4,585)
Transfer to Reserve	53	44
<b>Balance at 31 March</b>	<b>1,500</b>	<b>1,500</b>

## Note 5 Capital Financing

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

	Houses and Flats £'000
Capital Receipts	198
Government Grants	-
Major Repairs Reserve	1,600
Revenue Contributions	461
<b>Expenditure in 2017/18</b>	<b>2,259</b>

## Note 6 Capital Receipts

Capital receipts from the sale of HRA property in 2017/18 were £1.497 million (£1.047 million in 2016/17).

## Note 7 Depreciation and Impairment

		2017/18 £'000	2016/17 £'000
Depreciation	Dwellings	2,477	1,468
	Garages	93	93
	Plant and Equipment	8	8
	<b>Total</b>	<b>2,578</b>	<b>1,569</b>
Amortisation	Intangible Asset	5	5
Revaluation (Gain)/Loss	Dwellings	864	(12,933)
<b>Total Charge</b>		<b>3,447</b>	<b>(11,359)</b>

For 2017/18 the adjustment factor applied to the market value of properties to derive the Existing Use-Social Housing Valuation has remained constant at 33%.

## Note 8 Arrears

At 31 March 2018, arrears were 4.39% of the gross income due in the year. 2017/18 and 2016/17 were both 52 week rent years. The arrears figures are as follows:

	2017/18 £'000	2016/17 £'000
Arrears as at 31 March	559	473
Gross Income	12,738	12,905
Provision for Uncollectable Rents	450	369
Arrears as a percentage of gross income	4.39%	3.66%

## Collection Fund

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

	<b>Council Tax £'000</b>	<b>Business Rates £'000</b>	<b>2017/18 Total £'000</b>	<b>2016/17 Total £'000</b>
<b>Income</b>				
Council Tax (notes 1 and 2)				
Billed to Taxpayers	64,213	-	64,213	61,064
Non-Domestic Rates - Due (note 3)	-	39,617	39,617	40,770
Transitional Protection Payments	-	(1,731)	(1,731)	(34)
<b>Total Income</b>	<b>64,213</b>	<b>37,886</b>	<b>102,099</b>	<b>101,800</b>
<b>Expenditure</b>				
Collection Fund Surplus/(Deficit) in Previous Year				
Central Government	-	(921)	(921)	(1,867)
Fareham Borough Council	90	(737)	(647)	(1,358)
Hampshire County Council	671	(166)	505	672
Police and Crime Commissioner for Hampshire	100	-	100	153
Hampshire Fire and Rescue	39	(18)	21	22
	<b>900</b>	<b>(1,842)</b>	<b>(942)</b>	<b>(2,378)</b>
Precepts, Demands and Shares				
Central Government	-	18,592	18,592	20,150
Fareham Borough Council	6,365	14,873	21,238	22,221
Hampshire County Council	48,011	3,346	51,357	48,963
Police and Crime Commissioner for Hampshire	7,011	-	7,011	6,740
Hampshire Fire and Rescue	2,705	372	3,077	3,032
	<b>64,092</b>	<b>37,183</b>	<b>101,275</b>	<b>101,106</b>
Charges to the Collection Fund				
Cost of Collection Allowance	-	138	138	142
Increase/(Decrease) in Appeals Provision	-	(2,745)	(2,745)	(2,627)
Increase/(Decrease) in Bad Debt Provision	59	735	794	261
	<b>59</b>	<b>(1,872)</b>	<b>(1,813)</b>	<b>(2,224)</b>
<b>Total Expenditure</b>	<b>65,051</b>	<b>33,469</b>	<b>98,520</b>	<b>96,504</b>
Fund balance brought forward at 1 April	(257)	(1,057)	(1,314)	(6,611)
Surplus/(Deficit) for the Year	(838)	4,417	3,579	5,296
<b>Fund balance carried forward at 31 March</b>	<b>(1,095)</b>	<b>3,360</b>	<b>2,265</b>	<b>(1,315)</b>

## NOTES TO THE COLLECTION FUND

### Note 1 Council Tax

Council Tax income derives from the charges raised according to the value of residential properties, classified into eight valuation bands estimating 1 April 1991 values for this purpose. Individual charges are calculated by estimating the amount of income required from the Collection Fund by Hampshire County Council, the Police and Crime Commissioner for Hampshire, Hampshire Fire and Rescue Authority and the Council for the forthcoming year and dividing this by the council tax base. The council tax base is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts 42,372 for 2017/18 (42,005 for 2016/17). 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:

	2017/18 £'000	2016/17 £'000
Fareham Borough Council	150.22	145.22
Police and Crime Commissioner for Hampshire	165.46	160.46
Hampshire Fire and Rescue	63.84	62.60
Hampshire County Council	1,133.10	1,079.28
<b>Total</b>	<b>1,512.62</b>	<b>1,447.56</b>

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

NDR is organised on a national basis. The Government specifies a rate in the £ (in 2017/18, 46.6p for small businesses and 47.9p for large; in 2016/17, 48.4p for small businesses and 49.7p 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 2018 was £101,931,713 (£100,614,701 as at 31 March 2017). This rateable value is based on the valuation list effective from 1 April 2017.

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 2017/18, the Business Rates Baseline was £15,831,543 (2016/17 £17,039,769) and the Baseline funding level was £1,801,068 (2016/17 £1,765,033).

### Note 3 Collection Fund Balance

The Collection Fund balance for 2017/18 was a surplus of £3.36 million (a deficit of £1.06 million in 2016/17) 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

## 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.



# 6

## INDEPENDENT AUDITOR'S REPORT



# 7

## CONTACTS

## HOW TO CONTACT US

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

For more information please contact us at:

Director of Finance and Resources

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Civic Offices  
Civic Way  
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Tel: 01329 236100  
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Friday - 8.45am to 4.45pm

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**FAREHAM**

**BOROUGH**

**COUNCIL**

**STATEMENTS OF**

**ACCOUNTS**

**2017/2018**



# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 23 July 2018  
**Report of:** Director of Finance and Resources  
**Subject:** EXTERNAL AUDIT - AUDIT RESULTS REPORT

#### SUMMARY

The Committee is asked to consider the External Auditor's Annual Results Report (Appendix A), summarising the findings from the 2017/18 audit which is now substantially complete.

Having considered the findings of the External Auditor and the Statement of Accounts, a "letter of representation" will be sent from the Council's Section 151 Officer (Director of Finance and Resources) to the External Auditor. This will enable the External Auditor to issue their audit report on the Council's financial statements. The Statement of Accounts can then be published by the statutory publication deadline, 31 July 2018.

#### RECOMMENDATION

It is recommended that: -

- (a) the Committee notes the contents of the Annual Results Report (Appendix A); and
- (b) the Director of Finance and Resources and the Chairman of the Audit and Governance Committee sign the Letter of Representation, subject to the external auditors completing their outstanding procedures and any further amendments to the accounts being agreed by the Director of Finance and Resources in consultation with the Chairman of the Audit and Governance Committee.

**Background Papers:** None

**Reference Papers:** None

#### Enquiries:

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



Fareham Borough  
Council  
Audit results report  
Year ended 31 March 2018

July 2018



12 July 2018

Dear Audit and Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Fareham Borough Council for 2017/18.

We are progressing our audit of Fareham Borough Council (the Authority) for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit and Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 23 July 2018.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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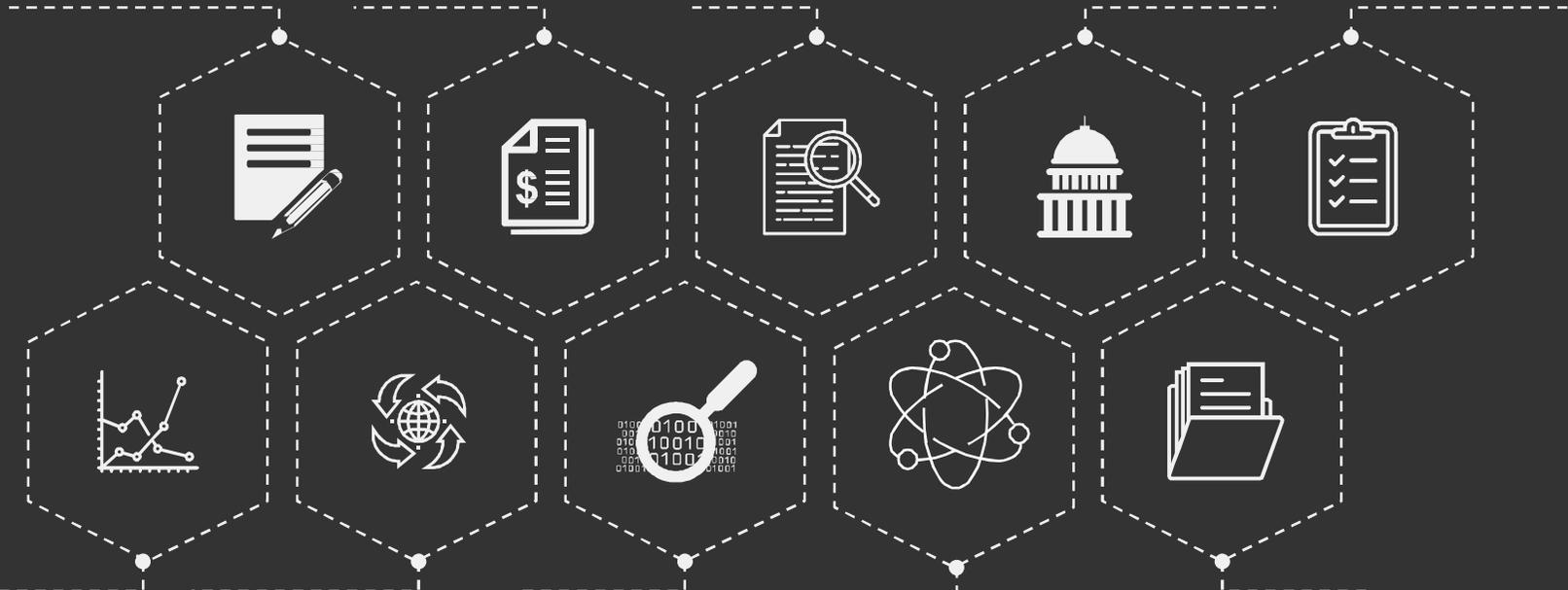
01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Value for Money



06 Other Reporting Issues

07 Assessment of Control Environment

08 Data Analytics

09 Independence

10 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit & Governance Committee and management of Fareham Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee, and management of Fareham Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of Fareham Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report presented at the 12 March 2018 Audit & Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- Changes in materiality: We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.332m (Audit Planning Report – £1.205m). This results in updated performance materiality, at 75% of overall materiality, of £0.999m, and an updated threshold for reporting misstatements of £0.066m.

## Status of the audit

We are progressing our audit of Fareham Borough Council's financial statements for the year ended 31 March 2018 and are performing the procedures outlined in our Audit planning report.

The shorter deadlines this year mean a condensed period to undertake our work, and necessarily we are working to the 31 July deadline. Having started our audit on 3 July 2018 we have made good initial progress, but your request to provide this report on 12 July means that we are only approximately 50% through the planned timetable. Therefore, progress should be read in that context. We will provide you with a verbal update on our progress at the 23 July Audit and Governance Committee.

Subject to satisfactory completion of our audit procedures we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3.

We expect to issue the audit certificate at the same time as the audit opinion.



# Executive Summary

## Audit differences

At the time of writing we have identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit and Governance Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £527k. We agree with management's assessment that the impact is not material.

Until our work is complete, further amendments may arise. We will update the Committee should any further adjustments arise from our remaining work.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Fareham Borough Council's financial statements. This report sets out our observations and conclusions, including our views, if any, on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We did not identify any new key areas of focus since the Audit Planning Report.

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

- there are no other considerations or matters that could have an impact on these issues,
- you agree with the resolution of the issue, and
- there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Governance Committee.

## Control observations

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



# Executive Summary

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we did not identify any significant risks in this regard.

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

## Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However as the Council is below the testing threshold set by the NAO we do not expect to have any issues to report.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence.



## 02 Areas of Audit Focus



# Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue and expenditure recognition

#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Having assessed the key income and expenditure streams of the Council, we judged that there was material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.

#### What judgements are we focused on?

We focused on:

- Understanding the controls put in place by management relevant to this significant risk
- Considering whether or not purchase invoices were being inappropriately classified as capital
- Whether management were inappropriately processing journals that transferred amounts from revenue to capital

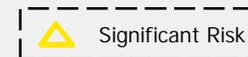
#### What did we do?

- Documented our understanding of the controls relevant to this significant risk and confirmed they have been appropriately designed.
- Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature.
- Amended our sample sizes when testing additions to reflect the existence of this risk. Agreed samples to source documentation to ensure the capital/revenue split was reasonable.
- Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.

#### What are our conclusions?

Our testing did not identify any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.





# Areas of Audit Focus

## Significant risk

### Misstatements due to fraud or error

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

#### What judgements are we focused on?

We focused on the following:

- Understanding the risks of fraud and the controls put in place to address those risks by management and how the Audit & Governance Committee oversees management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

#### What did we do?

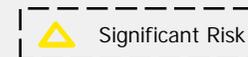
- Wrote to the s151 officer, Chair of the Audit & Governance Committee and Head of Internal Audit in this regard and reviewed their responses.
- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed.
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- Reviewed accounting estimates for evidence of management bias.
- Evaluated the business rationale for any significant unusual transactions.

#### What are our conclusions?

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

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

We have not identified any other transactions during our audit to date which appeared unusual or outside the Authority's normal course of business





# Areas of Audit Focus

## Other areas of audit focus

### Property, Plant and Equipment Valuation

#### What is the risk?

Material misstatement of the net assets of the Authority as a result of inappropriate judgemental inputs and/or estimation techniques to calculate the year-end balances recorded in the balance sheet.

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the value including their professional capabilities
- The reasonableness of the underlying assumptions used by the Authority's expert valuer

#### What did we do?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuers in performing their valuation.
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also considered if there were any specific changes to assets that had occurred and that these had been communicated to the valuer.
- Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.
- Considered changes to useful economic lives as a result of the most recent valuation.
- Tested accounting entries had been correctly processed in the financial statements.

#### What are our conclusions?

We have not been able to complete this complex area of work in the time available to draft out report for the Committee paper deadline.

Our work is well progressed and we will provide you a verbal update on the outcome of our procedures at the Audit and Governance Committee on 23 July 2018.



# Areas of Audit Focus

## Other areas of audit focus

### Pension Liability Valuation

#### What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Authority's expert - Aon Hewitt.
- Ensuring the information supplied to the actuary in relation to Fareham Borough Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Aon Hewitt.

#### What did we do?

- Liaised with the auditors of the administering authority (Hampshire County Council), to obtain assurances over the information supplied to the actuary in relation to Fareham Borough Council.
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed the actuarial estimates to any available outturn information;
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

#### What are our conclusions?

Our work in this area is substantially complete.

We have received the assurances from the Hampshire Pension Fund auditors, and are able to rely on the actuary.

We have one finding from our review of available outturn information. For timing reasons, the actuary estimates the value of the pension fund assets at 31 March. This varied by approximately £31m from the actual fund value as at 31 March. Fareham's estimated share of this variance is £527k, which is not material but above our threshold to report to you.

Management have decided not to adjust the accounts for this non-material variance, and we are seeking your approval for this and the explanation provided in their letter of representation.



# Areas of Audit Focus

## Other areas of audit focus

### NDR Appeals Valuation

#### What is the risk?

The Code of Practice on Local Authority Accounting requires the Council to account for NDR income (business rates) on an accruals basis. Therefore, the Council is required to consider a provision for the outcome of any appeals to business rates

The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements.

In previous years we have identified errors above our audit differences threshold.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What judgements are we focused on?

We focused on the following:

- The reasonableness of the assumptions to appeals made to the 2005 and 2010 ratings lists;
- The reasonableness of the assumptions made to any appeals lodged against the 2017 ratings list, and the Council's assumptions for appeals as yet unlogged.

#### What did we do?

- Review the calculation of the provision for accuracy.
- Considered the work performed by the Council expert, Analyse Local and the assumptions used in their calculation.
- Ensured calculation of the provision included consideration of unlogged appeals
- Perform post year-end review of appeals settled to determine whether the revised rateable value and effective date of the appeal are in line with the provision.
- Ensure the Council has amended the provision for significant business Rate reliefs awarded

#### What are our conclusions?

Our work in this area is well progressed.

We are able to rely on the work of Analyse Local.

To complete our work, we will require the assistance of the responsible officer who was on leave during week commencing 9 July, and so our procedures will be undertaken in week commencing 16 July.

We will provide you a verbal update on the outcome of our procedures at the Audit and Governance Committee on 23 July 2018.



# 03 Audit Report



# Audit Report

## Draft audit report

### Our proposed audit report

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

##### Opinion

We have audited the financial statements of Fareham Borough Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- related notes 1 to 36
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes 1 to 8, and
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Finance and Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



# Audit Report

## Our proposed audit report

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Fareham Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;  
we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;  
we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or  
we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Director of Finance and Resources

As explained more fully in the Statement of Responsibilities set out on page 23 the Director and Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director and Finance and Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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



# Audit Report

## Our proposed audit report

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether Fareham Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Fareham Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a

view on whether, in all significant respects, the Fareham Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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

### Certificate

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

### Use of our report

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



# 04 Audit Differences





## Audit Differences

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

### Summary of adjusted differences

We have no matters to bring to your attention.

We will also update the Committee if there are any further issues arising from our incomplete audit procedures.



# Audit Differences

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit and Governance Committee and provided within the Letter of Representation:

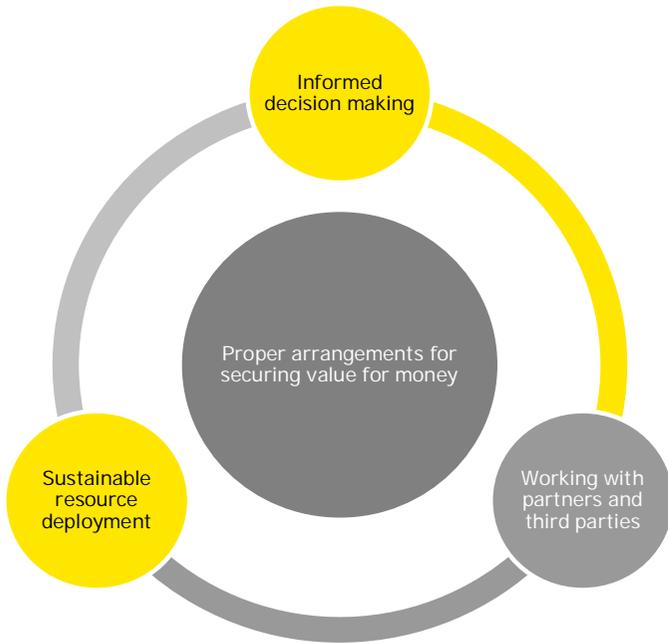
Uncorrected misstatements 31 March 2018 (£000)		 Effect on the current period:	 Balance Sheet (Decrease)/Increase			
			Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)
Errors						
Known differences. Details reported in Section 2:						
• Pension liability					£527,000	
• Pension reserve						(£527,000)
Balance sheet totals			0	0	£527,000	(£527,000)



05

# Value for Money Risks





## Background

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

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

- § Take informed decisions;
- § Deploy resources in a sustainable manner; and
- § Work with partners and other third parties.

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

## Overall conclusion

We did not identify any significant risks around these criteria. We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



# 06 Other reporting issues



## Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

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

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

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

### Whole of Government Accounts

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

We are yet to conclude our work in this area. However, as the Council is below the £500m threshold requiring detailed procedures on your consolidation pack, we expect to have no matters to report.

### Other powers and duties

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

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

# Other reporting issues



### Other matters

#### Assessment of new Accounting Standards

- IFRS 9 Financial Instruments: The 2018/19 Code introduces IFRS 9 on financial instruments. Your view is that the impact on the Authority's financial statements will be immaterial. The Council will need to keep this standard under continued focus during 2018/19, including the impact of any potential statutory overrides that may be introduced by Central Government
- IFRS 15 Revenue from Contracts with Customers: Similarly the 2018/19 Code of Practice on Local Authority Accounting for the United Kingdom determines how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies. In your view IFRS 15 will not have a material impact on this Council's financial statements as the vast majority of the Council's income streams are taxation or grant based.



07

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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



# 08 Data Analytics



# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

The graphic shows manual journals only.

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

# Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated February 2018.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Governance Committee on 23 July 2018.

We confirm we have not undertaken any non-audit work outside the PSAA Code requirements.

# Independence



## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

As at the date of this report, we have been retained to provide audit services for five years from 1 April 2018.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	TBC <sup>1</sup>	48,230	48,230	49,730
Total non-audit services – Housing Benefit Subsidy	TBC <sup>2</sup>	15,959	15,959	11,310

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<sup>1</sup> The final fee for our Code work will be confirmed upon completion by the 31<sup>st</sup> July deadline. We will report the final fee to the Audit and Governance Committee in our Annual Audit Letter.

<sup>2</sup> The final fee for the Housing Benefit Subsidy certification will be confirmed upon completion by the 30 November deadline. We will report the final fee in our annual grant certification report.



# 10 Appendices

## Appendix A

# Required communications with the Audit and Governance Committee

There are certain communications that we must provide to the FRAG Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit & Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	February 2018 -Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	February 2018 -Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	July 2018 - Audit results report

# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Fareham Borough Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	July 2018 - Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit &amp; Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	July 2018 - Audit results report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit &amp; Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit &amp; Governance Committee's responsibility.</li> </ul>	July 2018 - Audit results report  Enquiries were made during the audit, and there are no issues to report to you.

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	<p>July 2018 - Audit results report</p> <p>No issues to report</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>February 2018 - Audit planning report</p> <p>July 2018 - Audit results report</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	<p>We have received all requested confirmations</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Audit &amp; Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>We have made inquiries of management and those charged with governance.</p> <p>We have not identified any material instances or non-compliance with laws and regulations.</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	<p>We have not identified any significant deficiencies in internal controls.</p>

# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> <li>• An overview of the type of work to be performed on the financial information of the components</li> <li>• An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>• Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>• Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>• Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	February 2018 - Audit planning report July 2018 - Audit results report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>• Written representations we are requesting from management and/or those charged with governance</li> </ul>	July 2018 - Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	July 2018 - Audit results report  No issues to report.
Auditors report	<ul style="list-style-type: none"> <li>• Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	July 2018 - Audit results report  No circumstances.
Fee Reporting	<ul style="list-style-type: none"> <li>• Breakdown of fee information when the audit planning report is agreed</li> <li>• Breakdown of fee information at the completion of the audit</li> <li>• Any non-audit work</li> </ul>	February 2018 - Audit Planning Report July 2018 - Audit results report
Certification work	<ul style="list-style-type: none"> <li>• Summary of certification work</li> </ul>	Certification Report – expected December 2018 / January 2019

# Draft management representation letter

## Draft management Representation Letter

[To be prepared on the entity's letterhead]  
[Date]

Kevin Suter  
Associate Partner  
Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Fareham Borough Council ("the Council") for the year ended 31<sup>st</sup> March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Fareham Borough Council as of 31<sup>st</sup> March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [*specify reasons for not correcting misstatement*].

# Draft management representation letter

## Draft management Rep Letter

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
  3. We have made available to you all minutes of the meetings of the Council, Executive and Audit and Governance Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting prior to signing this letter.
  4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
  5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
  6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

# Draft management representation letter

## Draft management Rep Letter

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### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims (both actual and contingent) and all guarantees we have given to third parties in Note 24 Provisions and Note 32 Contingent Liabilities to the financial statements.
4. No other claims in connection with litigation have been or are expected to be received.

### E. Subsequent Events

1. Other than those matters described in Note 9 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises: the Narrative Report, the Explanation to Accounting Statements, the Statement of Responsibilities for the Statement of Accounts, the Glossary and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate: the valuation of Property, Plant and Equipment; the valuation of Investment Properties; the valuation of the NDR appeals provision and the

valuation of the defined benefit pension scheme liability. We have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### H. Estimate of Property, Plant and Equipment valuation, Investment Property valuation and NDR appeals provision.

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### I. Retirement benefits

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

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ED None

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# FAREHAM

## BOROUGH COUNCIL

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

**Date:** 23 July 2018

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

**Subject:** IPCO INSPECTION REPORT 2018

#### **SUMMARY**

The Council were inspected by the Investigatory Powers Commissioner's Office (IPCO) in February 2018 who reviewed our RIPA management arrangements and systems.

The report that we have now received following this inspection is very complementary and highlights that the Council have a good understanding and healthy approach to the use of covert surveillance powers.

#### **RECOMMENDATION**

It is recommended that the Committee notes: -

- (a) the content of the report; and
- (b) the action taken to provide up to date training to officers.

## INTRODUCTION

1. The Regulation of Investigatory Powers Act 2000 (RIPA) provides a framework under which investigation activity, which might otherwise be considered to infringe article 8 of the Human Rights Act 1998, may be authorised. The activities available to a Council under RIPA are:
  - (a) Directed covert surveillance of a member of the public;
  - (b) The use of a Covert Human Intelligence Source (CHIS) to gather information from a member of the public; and
  - (c) The acquisition and disclosure of data relating to communications.
2. The Audit and Governance Committee receive an update on the activities carried out by the Council under this act as part of the Annual Counter Fraud Report.
3. Activities are overseen by the newly amalgamated Investigatory Powers Commissioner's Office (IPCO) which carries out a formal inspection of the Council on its use of surveillance powers every 3 years. The latest inspection occurred in February 2018 and the report has now been received as attached as Appendix A.

## INSPECTOR'S CONCLUSION AND RECOMMENDATIONS

4. The conclusion of the Inspector was that FBC's RIPA *'standards and skills remain commendably high and that there can be confidence that any future use will be robust and compliant'* and the previous recommendation had been implemented adequately.
5. There were no new recommendations made although reference was made to delivering external refresher training to the officers who operate under the policy. This training was provided by Bond Solon in June 2018 and 16 officers attended a half-day session.
6. Some minor suggestions have been made to the content of the policy which will be addressed when the policy is next updated and presented to the Executive Committee for approval.
7. Member training on RIPA was last provided in June 2011 and covered:
  - What is RIPA and what is its purpose?
  - What investigatory procedures are governed by RIPA, and FBC use in recent years?
  - What is our Policy and what procedures do we follow?
  - What do authorisers need to consider?
  - The consequences of getting it wrong and Media interest.
  - Members' role in overseeing our use of these powers.
8. A refresher training session on RIPA, including the impact of the Protection of Freedoms Act 2012 and the Investigatory Powers Act 2018 can be provided to members of this committee if it was felt to be beneficial.

## **RISK ASSESSMENT**

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

## **CONCLUSION**

10. The Council's RIPA management arrangements and systems continue to be strong and in accordance with the UK Codes of Practice.

**Appendices – A:** [Investigatory Powers Commissioner's Inspection Report February 2018](#)

**Background Papers:** None

**Reference Papers:**

Office of Surveillance Commissioner's Procedures and Guidance – July 2016

Home Office Covert surveillance and covert human intelligence sources codes of practice - December 2014

**Enquiries:**

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



The Rt. Hon Lord Justice Fulford  
Investigatory Powers Commissioner,  
PO Box 29105  
London SW1V 1ZU

**INSPECTION REPORT  
REGULATION OF INVESTIGATORY POWERS ACT PART II  
FAREHAM BOROUGH COUNCIL**

Inspector: His Honour Brian Barker CBE, Q.C.  
Assistant Commissioner

Date of Inspection: February 27<sup>th</sup> 2018.

**Introduction:**

1. Fareham Borough Council serves the semi-urban area between the Cities and unitary authorities of Portsmouth and Southampton, having a population of about 115,500. Covering an area of about 28.6 square miles, Winchester lays to the north, Portsmouth is to the east, Gosport to the south and western boundary is the River Hamble. Borough status was gained in 1974 and unusually for an authority of this size, two Members of Parliament are sent to Westminster.
2. The Borough Council consists of thirty one councillors representing fifteen wards. The authority operates on a Leader and cabinet/executive basis and the annually elected Mayor, currently Councillor Geoff Fazackarley, carries out civic and ceremonial duties and chairs full council meetings. The office holder acts as ambassador to promote the Council's name at home and elsewhere
3. The Chief Executive is Peter Grimwood who has been in post for nearly ten years. He leads a Senior Management Team consisting of the Director of Planning and Regulation Richard Jolley, the Managing Director of Fareham Housing Paul Doran, the Director of Finance and Resources, and the Head of Street Scene Mark Bowler. The address for correspondence is Civic Offices, Civic Way, Fareham, Hampshire PO16 7AZ, and e-mail address is *pgrimwood@fareham.gov.uk*.
4. The annual budget is in the region of £9 million and in addition to significant recent reductions, the Borough Council is facing the task of having to find further savings of £1m over the next two years. Among the income generating measures instituted has been the letting of three and a half floors of the Civic Centre building to other agencies such as

Hampshire Probation Trust and Public Health England which additionally adds to the ease of interaction and co-operation.

5. The last inspection was conducted by Sir David Clarke, Assistant Surveillance Commissioner, on December 11<sup>th</sup> 2014. He noted that the Borough Council continued to be a high user of *RIPA* powers and that prior to his inspection there had been twenty-two authorizations of which twenty-one were benefit fraud investigations. Overall, he found '*RIPA* structure and management remain in excellent good health'.

#### **Past Recommendations:**

6. The single recommendation was that the discussion and definition of *CHIS* in the Corporate Policy and Procedures should include a fuller explanation of the risk that a member of the public covertly providing information to the Borough Council may in reality be a *CHIS*.
7. The recommendation was quickly taken up and presented to members with a report and admirable briefing paper in February 2015. The changes were then incorporated into a revised version of the Corporate Policy and Procedures document.

#### **Inspection:**

8. I was warmly welcomed by Elaine Hammell, Head of Finance and Audit and long time *RIPA* Co-ordinator, and we were joined by:

- Andrew Wannell, Director of Finance and Resources and Senior Responsible Officer
- Caroline Newman, Head of Housing, Revenue and Benefits and Authorising Officer, and
- Kevin Wright, Head of Parking and Enforcement with responsibility for the CCTV facility,

and together we were able to have a useful and wide ranging discussion.

- It quickly became apparent that the high standards of knowledge and efficiency noted by Sir David had been maintained, and that careful consideration had been given to his report and recommendations. The depth of knowledge was considerable and the co-operation and mutual support of all senior officers was clearly evident. This result was enhanced by regular meetings to share information and briefings.
- We covered the usefulness of the tool as an 'insurance policy' when finally presenting evidence in court and the changes in the last few years that have led to the increasing availability and use of effective overt methods of information gathering.

- A housing stock of about 2400 units, plus some housing association nominations, were retained; and although there had been some reduction in use since the last inspection, the procedure was still instigated when investigating suspected council tax and tenancy fraud, and the information could not be identified by other means.
- Other topics covered included the potential problems that could arise from marked increase in the habitual use of personal and social media sites and the ease with which they could be used to further investigations and follow up complaints. There is a work profile in existence for the use of Facebook, and the need for officers to be alert to the necessity of following *RIPA* procedures if coming near to crossing the line consciously or otherwise was fully understood.

### **Examination of Central Records and forms:**

10. The Central Records are kept in standardised spreadsheet form by Elaine Hammell with controlled access, and originals are filed securely. The council's policy and other guidance are easily accessible, as are the current forms.

### **RIPA Policy and Management Structure:**

11. The Borough Council's current *RIPA 'Corporate Policy and Procedures'* was revised in April 2016. It runs to eighteen pages plus four appendices, the last of which provides direct links to all necessary forms.
12. The *Corporate Policy* is of a high standard and gives a good overview in a readable format. Previous versions received deserved praise in earlier inspections. It includes information on data protection, and on the use and requirements of a *CHIS* (although there has never been any such use by the authority), and should a *CHIS* situation arise then assistance would be sought from the local Hampshire Police
13. The addition of several points may add value to the start of what is a well above average document. I suggest that on page 4 in 1.1 'Summary' after the second paragraph, a paragraph should be introduced setting out the higher (2012) threshold, and second it could be made clear at this stage that covert procedures would only be considered as a last resort. Further, in para 1.1, in addition to the reference to the Home Office Codes of Practice, officers should also be pointed to the useful Office of Surveillance Commissioners Procedures and Guidance 2016 (with added hyperlink).

14. To round off Part 1 'Introduction', a concluding 1.5 could be added directing that 'Any officer considering the use of RIPA should first consult the Head of Finance and Audit, Elaine Hammell.'
15. The Part 4 the topic of 'Identifying Directed Surveillance' (to be read with the flow chart at Appendix 2) is done well in a question and answer format, and sets the scene for the consideration of the more detailed requirements which are set out in subsequent sections. 'Internet/Social Media Site Monitoring' follows at Part 5 and deals with a topic that has been a particular concern to the Commissioner in recent years.
16. Reference to the scope and remit of Authorising Officers is to be found in 8.2 and reference made to the detail of the post holder at Appendix 1. This appendix not only sets out the posts and the office holders but also gives a clear and helpful outline of their roles and responsibilities.
17. The remaining point of consideration is to be found in part 8.5 dealing with the judicial approval mechanism introduced by the 2012 legislation. The procedure is clearly set out accompanied by the direction that it is for the case investigation officer to present the case. Although this course has the approval of the Home Office Guide, the preferred view is that it should be the Authorising Officer to present the application if possible on the basis that he/she will have brought an independent mind to the request and will be able to assist the Bench on reasoning for justification should that be necessary (see para 292 of the OSC Procedures and Guidance 2016.)

#### **RIPA Usage and Examination of Authorisations:**

18. Although usage has dropped a little, it is seen as a valid and useful tool to be used from time when necessary. The quality, and ease of use, of the provided forms received favorable comment in the last report; and upon the examination of the files the standard of information recorded in the initial applications and the scrutiny both before and during authorisation were uniformly good.
19. The Borough Council has an effective anti-fraud and corruption policy using a variety of techniques. *RIPA* investigations were deemed necessary in six cases in the reporting period April 2016 to March 2017. Four were for investigating undeclared living together and two were non residency. Five provided positive evidence for consideration for progressing matters. The most recent investigation, an allegation of claiming for a second

property while living with his wife, was successfully concluded in January 2018.

### **Training and Awareness:**

20. The two previous Inspectors commented on the high quality of training given, Mrs Ringshaw-Dowle in 2011 saying that 'she had rarely seen councils providing it so regularly'. This approach has continued with an email feedback on Sir David's report featuring the change in policy given to twelve recipients consisting of both investigative and authorizing officers.
21. There has been little turnover within the experienced team. Elaine Hammell has information and best practice input from the Hampshire Fraud Group which is shared, and there have been subsequent updates given both in the care needed with the use of social media as well as on the Investigatory Powers Act. A refresher course in the near future is proposed.

### **Councillors**

22. Communication with the elected members is particularly good. Mrs. Hammell provides the annual report to the Audit and Governance Committee covering all counter fraud progress, the last being presented on September 25<sup>th</sup> 2017. It is clear and comprehensive and also provides the Councillors with details of some of the more unusual cases. Tables show details of not only authorizations for *RIPA* use, but also of uses of Authorised Officer powers during investigations in order to obtain information from banks, utilities and employers.

### **CCTV**

23. I was able to attend the facility with Kevin Wright and met the manager Jill Patterson. The operation is shared with Gosport Borough Council and the management is subcontracted to Enigma Services. It is clearly efficient and well run. There is generally one operator in addition to the manager, with two on duty on Friday and Saturday evenings. All operators are SIA trained. The service provides considerable public assurance and they keep a proactive monitoring log which has resulted in a number of arrests.
24. There are the usual facilities for police observation and for evidence recording. The last police authorised *RIPA* request was in 2011. Required record keeping facilities are appropriate.

### **Conclusions:**

25. Although not a large authority, the determination of the Borough Council to use *RIPA* powers where necessary and to maintain excellent standards of operation, training and awareness is impressive.
26. Mrs. Hammell at the centre has considerable experience and expertise, and the team operate efficiently together, with effective supervision, checks and balances. I am pleased to be able, as have previous Inspectors, to report that standards and skills remain commendably high and that there can be confidence that any future use will be robust and compliant.
27. In the circumstances there is no necessity for any recommendations.
28. Finally I would like to thank Elaine Hammell for organizing my visit, and to thank both her and all the officers for their constructive assistance during my time with the Borough Council.

***Brian Barker,***  
***Assistant Surveillance Commissioner.***

***March 15<sup>th</sup> 2018.***

# FAREHAM

## BOROUGH COUNCIL

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

**Date:** 23 July 2018

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

**Subject:** ANNUAL COUNTER FRAUD REPORT

#### **SUMMARY**

This report updates the Committee on the counter fraud work carried out in the last 12 months including the numbers and outcomes of fraud cases.

#### **RECOMMENDATIONS**

That the content of the report be noted.

## INTRODUCTION

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

## ACTIVITY SINCE THE LAST REPORT

### Strategic Actions

2. **Raise a Concern Policy:** The employee ethics survey in 2016 appeared to indicate some limitations in the Council's Whistleblowing arrangements. A series of focus groups have therefore been held in the year to understand what could be done to strengthen our policy and processes.
3. A number of actions have been agreed as a result of this work, which included removing the negative connotations with the process by rebranding the policy as the "Raise a Concern Policy". The resulting new policy is attached as [Appendix D](#).
4. **Investigation qualification:** Two members of staff completed studying for the Accredited Counter Fraud Specialist qualification in September 2017, receiving their qualification certificates in January 2018. This qualification ensures that staff are suitably trained and qualified to carry out the full range of duties required in an investigation in a professional and legal manner. The previous qualification (PINS-Professionalism in Security) awarded by the Department for Work & Pensions (DWP) is no longer recognised as a suitable qualification for the types of fraud Local Authorities now investigate. This means that the Council now has 4 employees with counter fraud accreditation.

### Specific Areas of Fraud

5. **Council Tax Payments in Caravan Park:** A proactive exercise by the Investigations Officer was undertaken last year, identifying a number of caravans that are not registered for Council Tax; in most cases these caravans are the resident's main and principle home.
6. **National Non-Domestic Rates (NNDR):** The Council was part of a group submission to take part in a discretionary proactive exercise organised by the Cabinet Office who lead on the National Fraud Initiative. The Council would provide its database of NNDR accounts include any receiving discounts for charitable relief, small business relief and enterprise zone relief. The Cabinet Office would run this data against various information hubs it has access to e.g. The Charity Commission, Communication directories etc and supply the authority with any resulting match reports. The Council would then investigate to determine if the relief discounts are still valid and indeed if any charges need to be applied for inappropriate relief discounts taken.
7. Basingstoke and Deane Borough Council were coordinating this project as a Hampshire wide review, but we have recently been informed that the Hampshire group has not been successful. The group is therefore now considering whether a similar exercise can be done locally without the use of Cabinet Office facilities.

8. **Single Residents Discount (SRD) Review:** The Hampshire Chief Finance Officers are considering engaging a third-party company to undertake a review of all SRDs, led by Winchester City Council. The company will be given our SRD data and send out a letter for each one. They will then carry out a data matching exercise with all the returned letters. Fareham will decide what action to take with those accounts where letters have not been returned once numbers are known. The company will operate on no win no fee basis, and where an inappropriate discount is found the fee charged will be less than the amount of Council Tax recovered by the Council.

## **INVESTIGATION REFERRALS AND OUTCOMES**

9. The information provided in [Appendix C](#) shows the number of fraud and irregularity cases received and investigated in the last financial year, and the information required to be published on our website in accordance with the Transparency Code. There was a total of 694 cases investigated, leading to 172 cases of fraud or irregularity being found. These amounted to a total value of £297,122. The largest value of fraud found was for housing benefit payments (£240,416); the majority of this (£180,899) was found as a result of investigating council tax support cases.

### **Whistleblowing**

10. There were no cases of serious concern raised by an employee in the last 12 months and no employee has felt it necessary to raise concerns outside the organisation.

### **Sanctions**

11. There have been no criminal sanctions following any investigation where Fareham Borough Council was the lead investigating party. However, 59 civil penalties have been applied, totalling **£4,130**.
12. One Council property has been recovered because of a Tenancy fraud investigation concerning non-residency. Criminal charges were not brought against the tenant as the keys were handed back in within the notice to quit period. One homelessness application was also found to be fraudulent and so the letting of a Council property was prevented.

### **Interesting Cases**

13. **Multiple Fraud:** A single mother of four children claimed to have moved into the area and occupying a privately rented property since March 2017. A claim was set up for Housing Benefit, Council Tax Support and Council Tax Single Resident Discount.
14. The figures she gave to benefits staff regarding her expenses were suspicious and it was believed that she had either undeclared income or an undeclared partner and that she was possibly not even living at the address. A lengthy investigation followed, which included a period of surveillance.
15. The investigation showed that the claimant was actually living with her supposedly ex-partner, who is the father of two of her children, at a large house out of the area. No Council Tax was being paid for that property. The partner owned this house and also owned the one where the benefit claim had been set up in the Fareham area; the latter was a company asset owned by his building company. The Tenancy Agreement was

found to be a forgery created to assist the claim for benefits. Benefit rules do not allow Housing Benefit (HB) to be paid to someone whose landlord is the father of their children.

16. The claimant had also claimed help with childminding expenses which were being paid to her mother. Investigation showed that she was not a registered childminder. Investigation also identified an undeclared pet food business which had been operating for over a year.
17. The final HB overpayment has been calculated at over £10K, as summarised below, and the DWP will likely be prosecuting. The issue of a Civil Penalty has been recommended in accordance with Council Tax Reduction regulations.

Council Tax Support	£1,500
Housing Benefit	£10,000
Outstanding overpayment	£1,500
<b>Total Overpayments</b>	<b>£13,000</b>

18. **Right to Buy:** A recent investigation has identified a fraudulent Right to Buy application. The investigation began in September 2017 and involved a period of directed surveillance which confirmed that the suspect was not residing in a property owned by Fareham Borough Council and which had allegedly been occupied since May 2017. Instead the applicant was living with a partner elsewhere in the Fareham area and had been for a number of years.
19. We now hold evidence which shows that the applicant has also not occupied a previous property which indicates that this fraudulent activity may also extend to a third address, one owned by a Housing Association. Therefore, he has not occupied much needed social housing accommodation allocated to him after he claimed to be homeless, which should have been allocated to someone genuinely in need.
20. He then used his periods of falsely recorded tenancy to mutually exchange and obtain a secure tenancy with Fareham Borough Council and subsequently attempted to purchase the property under the Right to Buy Scheme.
21. It was also identified that the applicant had failed to declare a Trust Fund where money had been used to purchase a property in Gosport. This has adversely affected various means tested benefits and allowances claimed by the applicant for several years and overpayments have been identified totalling £13,916 of which £1,617 represents the overpayment of Council Tax Support. There are also overpayments of Council Tax Single Resident Discount at the claimant's 2 properties he was not living at; plus, his wife's overpayment as he was living with her. All three totalled £5,577.
22. The property the applicant intended to purchase through the Right to Buy scheme has now been recovered. The investigations Team are seeking to prosecute the suspect under Section 2 of The Fraud Act 2006 – Fraud by False Representation and also to prosecute the suspect's partner under Part 2 Sections 44 to 47 of The Serious Crimes Act 2007 – Encouraging or assisting an offence (Aiding and Abetting). The amount of

discount that the Council would have lost against the value of the property was £78,600.

Council Tax Support	£1,617
Housing Benefit	£12,299
Council Tax Single Resident Discount	£5,577
Right To Buy Fraud	£78,600
<b>Total Overpayments</b>	<b>£98,093</b>

23. **Undeclared Earnings:** During a recent match of NFI information against FBC Tax Licensing records, it was discovered that a claimant of Housing Benefit and Council Tax Support had not declared employment as a Taxi driver within the Borough. Investigation showed that he was working for a local company on a school mini-bus contract. He was self-employed and being paid cash in hand as a way of avoiding earnings showing on a bank statement which he regularly provides for benefit purposes.
24. The claimant also receives Pension Credit and evidence was shared with the DWP, which was accepted and a £1,500 overpayment of Pension Credit was created. This allowed a £107 Housing Benefit and £96 Council Tax Support overpayment to be created and the person was awarded a £70 Civil Penalty. The reason that these overpayments were so low was because the claimant was on a low level of benefit anyway as he received carers allowance for being his wife's carer and they both received income from Disability Living Allowance.

Council Tax Support	£96
Housing Benefit	£107
Pension Credit	£1,500
<b>Total Overpayments</b>	<b>£1,703</b>

25. **Undeclared relationship, property and income:** Recently an investigation was conducted regarding the true and declared financial situation of a claimant of Housing Benefits and Council Tax Support. A couple had split up, but investigation identified a second property owned by the partner whilst they were claiming as a couple. FBC had been told that the property was uninhabitable and ignored for benefit purposes in accordance with regulations. However, it was found that this property was being let providing an undeclared rental income of £1,600 per month. A £70 Civil Penalty was awarded.

Council Tax Support	£891
Housing Benefit	£13,131

<b>Total Overpayments</b>	<b>£14,022</b>
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## NATIONAL FRAUD INITIATIVE

26. The National Fraud Initiative (NFI) is a data matching exercise organised by the Cabinet Office. All data sets requested since the last report have been submitted on time. There have been 8 further releases of new matches since the last report which fall into the 2017/18 financial year.
27. The table below shows the progress made on clearing all matches since the last report. It should be noted that the matches prior to 2016/17 have been closed by the Cabinet Office and so are no longer showing in the tables. Any frauds that were being pursued by FBC will have been included in the overall statistics in [Appendix A](#).

### Progress Made on Clearance of NFI Matches

Date of Matches	Subject of match	Number of matches received to review	Number of matches still to clear - last report	Number of matches still to clear - current
Dec 2017	Council Tax	5,469	NEW	5,441
Dec 2016	Council Tax	669	43	1
2017/18 Extra matches received	Benefits	16	NEW	11
	Council Tax Reduction	6	NEW	5
	Housing Tenants	21	NEW	20
	<b>Total</b>	<b>43</b>		<b>36</b>
2016/17 2-yearly main exercise (Received Jan 2017)	Benefits	447	260	88
	Council Tax Reduction	487	354	303
	Housing Tenants	173	163	163
	Waiting List	110	110	110
	Right to Buy	4	2	2
	Payroll	13	0	0
	Creditors	339	286	247
	<b>Total</b>	<b>1573</b>	<b>1175</b>	<b>913</b>
Grand Total		<b>7,754</b>		<b>6,391</b>

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

### Fraud Cases Identified from NFI

Data Set	Nature of Fraud	Date of Committee Report					
		July 2018		Sept 2017		Jun 2016	
		Number	Value	Number	Value	Number	Value
<b>Housing Benefits and CTR</b>	Undeclared earnings of adult at the property.			1	£382	1	£1,445

Data Set	Nature of Fraud	Date of Committee Report					
		July 2018		Sept 2017		Jun 2016	
		Number	Value	Number	Value	Number	Value
Council Tax	Undeclared second adult living at property	16	£17,580	6	£2,192	5	£2,498
<b>TOTAL</b>		<b>16</b>	<b>£17,580</b>	<b>7</b>	<b>£2,574</b>	<b>6</b>	<b>£3,943</b>

## USE OF LEGAL POWERS

29. Key powers available to investigators for the detection and prevention of fraud are:
- Powers of Surveillance, using a Covert Human Intelligence Source, or obtaining Communications data designated by the Regulation of Investigatory Powers Act 2000 (RIPA) and the Investigatory Powers Act 2016.
  - Authorised Officer powers to obtain information from specified parties including employers, utilities companies and banks under the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 Regulations and the Prevention of Social Housing Fraud (Power to require Information) (England) regulations 2014
30. There are several safeguards in the Council processes to make sure that investigation powers are only used when legal, proportionate and necessary. These include:
- a) All RIPA applications are required to be authorised by a trained designated officer in the Council.
  - b) All RIPA authorisations are presented to a magistrate for approval.
  - c) All RIPA applications for communications data are also submitted to the National Anti-Fraud Network (NAFN) where they are reviewed and authorised by a NAFN officer before the request for information is issued.
  - d) All approved RIPA authorisations are logged on a central register which flags up when they expire. A formal cancellation form is completed for every application.
  - e) The Council is required to complete annual returns on the use of the RIPA powers and is subject to an inspection every 3 years from the Investigatory Powers Commissioner's Office (IPCO). The last inspection in 2018 concluded that 'our usage and standards are an example to all'.
  - f) The National Anti-Fraud Network (NAFN) is subject to an annual inspection of the Interception of Communications Commissioner's Office (IOCCO), which may cover applications made by Fareham Borough Council depending on the sample they select to test.
  - g) Most Authorised Officer powers are also executed via application to the National Anti-Fraud Network (NAFN). They are reviewed and authorised by a NAFN officer before the request for information is issued.
31. We also report every year to this committee how many times we use these powers, as follows and publish the frequency of our use of authorised officer powers as part of our Transparency data.

## Usage in 2017/18

32. There have been 4 authorisations granted under the Regulation of Investigatory Powers Act 2000 (RIPA) between 1 April 2017 and 31 March 2018 as summarised in [Appendix B](#).
33. There have been 154 uses of Authorised Officer powers during investigations in the last 12 months, as detailed in the table below.

Authorised Officer powers used 1 April 2017 and 31 March 2018	
Prevention of Social Housing Fraud Act	Council Tax Reduction Regulations & Data Protection Act exemption 29 (1)
28	126

## RISK ASSESSMENT

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

## Appendices

Appendix A – Cumulative Findings from National Fraud Initiative Exercises

Appendix B - Authorisations for use of RIPA

Appendix C - Annual Fraud Case Figures 2017/18

Appendix D – Raise a Concern Policy 2018 (separate attachment)

**Background Papers:** None

**Reference Papers:** None

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

## Cumulative Findings from National Fraud Initiative Exercises

Year of Exercise*	Type	No. of Matches	No. of Fraud Cases found	Value of Fraud cases	No. of Errors found	Value of Errors
2017/18	Council Tax	5469	0	0	0	0
2017/18	Extra Matches	43	0	0	0	0
2016/17	Council Tax	669	25	£23,509	32	£667
2016/17	Full Exercise	1573	1	£382	7	£2,605
<b>2015/16</b>	<b>Waiting List</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>£0</b>
<b>2014/15+2015/16</b>	<b>Full Exercise</b>	<b>994</b>	<b>13</b>	<b>£15,901</b>	<b>12</b>	<b>£0</b>
<b>2014/15+2015/16</b>	<b>Council Tax</b>	<b>1,054</b>	<b>6</b>	<b>£3,149</b>	<b>0</b>	<b>0</b>
<b>2014/15</b>	<b>Student Loans</b>	<b>19</b>	<b>1</b>	<b>£1,258</b>	<b>0</b>	<b>0</b>
<b>2013/14</b>	<b>Council Tax</b>	<b>553</b>	<b>34</b>	<b>£13,774</b>	<b>4</b>	<b>£1,334</b>
<b>2012/13</b>	<b>Full Exercise</b>	<b>1,333</b>	<b>13</b>	<b>£34,838</b>	<b>14</b>	<b>£14,724</b>
<b>2011/12</b>	<b>Council Tax</b>	<b>484</b>	<b>21</b>	<b>£12,264</b>	<b>2</b>	<b>£770</b>
<b>2010/11</b>	<b>Full Exercise</b>	<b>1,760</b>	<b>335<sup>#</sup></b>	<b>£26,356</b>	<b>13</b>	Not split out
<b>2009/10</b>	<b>Council Tax</b>	<b>1,424</b>	<b>43</b>	<b>£18,648</b>		
<b>2008/09</b>	<b>Full Exercise</b>	<b>1,779</b>	<b>212<sup>#</sup></b>	<b>£54,978</b>	<b>3</b>	Not split out
<b>2008/09</b>	<b>Council Tax</b>	<b>747</b>	<b>130</b>	<b>£87,920</b>	<b>3</b>	Not split out

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

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

## Authorisations for use of RIPA (April 17 to March 18)

Ref No	Date Authorised Internally	Authorising Officer	Suspected Offence	Investigation power used	Date Authorised by a Magistrate	Duration of authorisation (in days)	Outcome for the Investigation
1	27/07/17	Head of Housing, Revenues and Benefits	Housing Benefit Fraud Council Tax Support Fraud Council Tax Single Resident Discount Fraud  On the basis of non-residency at claimant property, landlord was related to the children in the property, and was an undeclared partner at the true residence.	Surveillance	01/08/17	42	Surveillance cancelled for operational reasons but did assist the investigation
2	24/10/17	Head of Housing, Revenues and Benefits	As above	Surveillance	25/10/17	55	Evidence obtained that crime or Disorder MAY BE occurring
3	14/11/17	Head of Housing, Revenues and Benefits	Right to Buy Fraud Housing Benefit Fraud Council Tax Support Fraud Council Tax Single Resident Discount Fraud  On the basis of non-residency at claimant property and undeclared partner at true residence, who in turn is claiming SRD.	Surveillance	14/11/17	62	Evidence obtained that crime or Disorder MAY BE occurring
4	15/01/18	Head of Housing, Revenues and Benefits	Tenancy Fraud Housing Benefit Fraud Council Tax Support Fraud Council Tax Single Resident Discount Fraud at neighbouring council.  On the basis of non-residency at claimant property, and undeclared partner at true residence, who in turn is claiming SRD.	Surveillance	16/01/17	90	Evidence obtained that crime or Disorder MAY BE occurring

## Annual Fraud Case Figures 2017/18

	2017/18		
	Number of Cases		
Type of Fraud	Investigated	Fraud Concluded	Value
Housing Benefit & Council Tax Benefit	341	67	£240,416
Council Tax Support	171	63	£36,273
Council Tax	86	21	£20,413
NNDR	-	-	-
Housing	32	3	-
Procurement	41	1	-
Permits and Passes	-	-	-
Other	5	3	-
<b>SUB-TOTAL</b>	<b>676</b>	<b>158</b>	<b>£297,102</b>
Other Irregularity	Investigated	Irreg Concluded	Value
Employee	12	11	-
Finance and Insurance	1	1	£20
Other e.g. abuse of position	5	2	-
<b>SUB-TOTAL</b>	<b>18</b>	<b>14</b>	<b>£20</b>
<b>TOTAL</b>	<b>694</b>	<b>172</b>	<b>£297,122</b>
Sanctions and Redress			
Administrative Penalties			£10,887
Council Tax Civil Penalties			£4,130
Housing benefit recovered			£42,906
Counterfeit note intercepted			£20
Compensation and Other awards			£4,500
POCA Confiscation			£1,411
<b>Total</b>			<b>£63,854</b>
<b>Housing Properties Recovered / Prevented</b>		<b>2</b>	
<b>Non FBC Fraud found</b>		<b>13</b>	<b>£118,451</b>

	2016/17		
	Number of Cases		
	Investigated	Fraud Concluded	Value
	352	53	£233,772
	274	59	£37,257
	1,118	31	£26,051
	-	-	-
	67	6	£69,613
	54	1	£117
	1	1	£166
	-	-	-
	<b>1,866</b>	<b>151</b>	<b>£366,976</b>
	Investigated	Irreg Concluded	Value
	19	5	£29
	2	2	£1,209
	2	1	-
	<b>23</b>	<b>8</b>	<b>£1,238</b>
	<b>1,889</b>	<b>159</b>	<b>£368,213</b>
			£11,934
			£3,920
			£60,428
			£20
			<b>£76,302</b>
		<b>1</b>	
		Not recorded	



## **Raise a Concern**

As an employee you will often be the first to notice that something might be wrong - if you are concerned please tell someone! You can be confident that if you raise a concern within the Council you can do so without fear of any comeback or reprisal.

Serious concerns could include:

- Conduct which could be dishonest, fraudulent or corrupt.
- Conduct which is illegal.
- Misuse of Council funds.
- Health and Safety risks to employees or members of the public.
- Potential damage to the environment.
- Harassment or bullying.

### **PROTECTION**

It can be a difficult decision to raise a concern, particularly if you are worried about the consequences of doing so. If your concern is genuine and not raised maliciously, the Council will take appropriate action to protect you. The Council will not tolerate any harassment, victimisation or informal pressure against you.

The Council will do its best to protect your identity when raising a concern, for example it may be possible to remove information from a witness statement, which might identify you.

You are encouraged to put your name to an allegation whenever possible because concerns expressed anonymously are much less powerful.

### **PROCEDURE**

As a first step, you should raise your concern with your immediate manager, you can speak to them or put it in writing. But if you believe that management or Councillors are involved, then you should approach one of the following first for advice and guidance:-

- Chief Executive Officer
- Any Director
- Head of HR and ICT
- Head of Finance and Audit

It is useful to provide as much information as possible such as times, dates, places, observations and witnesses. It is also helpful if the background of the concern can be set out, including any names of those involved and the reason why you are concerned.

You may wish to discuss your concern with a colleague who is feeling the same and then raise this together.

A "[Raise a Concern](#)" form is available and will be treated confidentially.

As soon as possible, initial enquiries will be made to decide whether an investigation is appropriate. The matter may be referred to external agencies where appropriate: e.g. the Police, external auditor or some other form of independent inquiry.

If you have put your name to a concern you may be contacted to chat it through and you can have a colleague or trade union representative with you. The amount of contact you would have with the officer considering the issue will depend on the nature of the matters raised.

If possible, subject to any legal constraints, you would be kept informed as to the process.

### **How the matter can be taken further**

If, you found you were not satisfied with the action taken and, as a last resort, you feel it is right to take the matter **outside** the Council, you can contact the following:

- The external auditor – Ernst & Young
- A trade union representative
- HM Revenue & Customs;
- the Financial Conduct Authority
- the Competition and Markets Authority;
- the Health and Safety Executive;
- the Environment Agency;
- the Independent Office for Police Conduct; and
- the Serious Fraud Office.

You may choose to raise the matter with an external body regardless of whether you have raised a concern within the Council. If you do take the matter outside the Council, take great care not to disclose confidential information.

Free independent advice is available from **Public Concern at Work**  
Telephone (0207 404 6609) e-mail [whistle@pcaw.otrg.uk](mailto:whistle@pcaw.otrg.uk) or at  
[www.pcaw.co.uk](http://www.pcaw.co.uk).

**JULY 2018**

# FAREHAM

## BOROUGH COUNCIL

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

**Date:** 23 July 2018

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

**Subject:** INTERNAL AUDIT PROGRESS 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 9 audits remaining from the previous Audit Plans is detailed in [Appendix One](#). Two reports have now been finalised and 2 more reports have moved to the draft report stage.

## DELIVERY OF 2017/18 AUDIT PLAN

3. Work is progressing on the delivery of the revised audit plan, as noted in Appendix Two, such that a further 10 audits have now been finalised.

## PROGRESS OF 2018/19 AUDIT PLAN

4. Work has started to deliver the 2018/19, as noted in Appendix Three, such that 1 audit has now reached the fieldwork stage.

## FINDINGS FROM COMPLETED AUDITS

5. The twelve 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
Housing Benefits 2017/18	Strong	-	-	-
Employer's Pension Responsibilities 2017/18	Strong	-	1	-
Accounts Receivable 2017/18	Strong	-	1	1
Income Management 2017/18	Reasonable	-	2	2
Income Collection and Banking 2014/15	Reasonable	-	3	1
Outdoor Recreation Follow Up 2017/18	Reasonable	-	3	3
Leisure Centre Contracts 2017/18	Reasonable	1	1	-
Contract Procedure Rules	N/A	-	-	-
Contract Deeds Management 2015/16	N/A	1	4	-
Employee Performance Management 2017/18	N/A	-	5	-
Effectiveness of Ethics Related Activities – Follow Up surveys 2017/18	N/A	-	9	-

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
Data Protection in Services 2017/18	N/A	3	3	-

6. Detail of the recommendations made and the actions to be taken is provided in [Appendix Four](#). The findings from the work on Contract Procedure Rules is the subject of a separate report on the agenda.

### **RISK ASSESSMENT**

7. A few areas where controls could be strengthened in relation to compliance with the General Data Protection Regulation have been identified. This is the subject of a corporate project being overseen by senior managers.

### **Appendices:**

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

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

**Appendix Three** - Audits in the 2018/19 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

Report by the Head of Finance and Audit to the Audit and Governance Committee on 18 March 2018 on the Internal Audit Plan 2018/19

### **Enquiries:**

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

## APPENDIX ONE

### Update on Outstanding Audits from Previous Plans

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

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

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

## APPENDIX TWO

### Audits in the 2017/18 Plan

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
<b>OPINION AUDITS</b>											
1	<b>Main Accounting System and Budgetary Control</b>	Fundamental System	11	<b>Stage 10</b>	Reasonable	-	1	2	-	-	-
2	<b>Accounts Receivable (NEW)</b>		15	<b>Stage 10</b>	Strong	-	1	2	1	-	1
3	<b>Income Management (NEW)</b>		12	<b>Stage 10</b>	Reasonable	-	2	1	3	-	2
4	<b>Housing Benefits (NEW)</b>		10	<b>Stage 10</b>	Strong	-	-	-	-	-	-
5	<b>Leisure Centre Contracts (NEW)</b>	Corporate /contract	10	<b>Stage 10</b>	Reasonable	1	1	2	-	-	-
6	<b>Ferneham Hall &amp; Databox</b>	Service and Systems – High Risk	20	<b>Stage 10</b>	Limited	2	10	3	-	-	2
7	Commercial Estates		15	Stage 9							
8	Property Maintenance & Inspections at Non-Housing Buildings		15	Stage 1							
9	Developers Contributions		15	Stage 6							
10	<b>Homelessness (V)</b>		15	<b>Stage 10</b>	Strong	-	1	-	-	-	1
11	<b>Dog Control</b>	Service and Systems - Other	6	<b>Stage 10</b>	Limited	-	7	1	-	-	-
12	<b>Pest Control</b>		6	<b>Stage 10</b>	Reasonable	-	3	2	1	1	2
13	<b>Street Furniture</b>		5	<b>Stage 10</b>	Strong	-	1	-	-	-	-
14	<b>Pensions (NEW)</b>		10	<b>Stage 10</b>	Strong	1	1	4	1	1	1
15	Chipside (Parking IT system)	Computer	12	Stage 4							
16	<b>Multiple Parking Permits at Single Person Discount Properties</b>		3	<b>Stage 10</b>	Not applicable	-	-	-	-	-	-
17	<b>Outdoor Recreation Follow Up (NEW)</b>	Follow Up	5	<b>Stage 10</b>	Reasonable	-	3	2	4	1	3
	Contingency / In-house support		45								

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
	Total Planned Time		230								
<b>WIDER WORK</b>											
18	IT Procurement	System review		Stage 9							
19	IT costs and budgets	Thematic Review		Stage 7							
20	<b>Employee Performance Management (NEW)</b>	Joint working project		Stage 10	Not applicable	-	5	-	-	-	-
21	<b>Data Protection in Services (NEW)</b>	Joint working project		Stage 10	Not applicable	3	3	1	-	-	-
22	<b>Contract Procedure Rules (NEW)</b>	Joint working project		Stage 10	Not applicable	-	-	-	-	-	-
23	Risk Inspections of Public Areas	Thematic Review		Stage 4							
24	<b>Ferneham Hall Drink and Food Wastage (extra)</b>	Assistance with action		Stage 10	Not applicable	12	23	3	-	-	-
25	<b>Effectiveness of Ethics Related Activities – follow up surveys (extra) (NEW)</b>	Assistance with action		Stage 10	Not applicable	-	9	-	-	-	-
26	<b>Tree Work Costs (extra)</b>	Assistance with action		Stage 10	Not applicable	-	10	-	-	-	-
27	Mobile Phone Billing (extra)	Thematic Review		Stage 4							

## APPENDIX THREE

### Audits in the 2018/19 Plan

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
<b>OPINION AUDITS</b>											
1	Council Tax and NNDR	Fundamental System	15	Stage 1							
2	Capital Expenditure and Accounting		10								
3	Accounts Payable		10								
4	Fixed Assets		10								
5	Cemeteries & Closed Churchyards	Service and Systems – High Risk	15	Stage 1							
6	Housing Grants and Home Improvements		10	Stage 4							
7	Parking Strategy and Income		15	Stage 1							
8	Vehicle Management		15	Stage 1							
9	Housing Communal Services		10								
10	Planning Applications		15								
11	Markets Contract	Service and Systems - Other	5								
12	Out of hours service		12								
13	Orchard (Housing Rents IT system)	Computer	15								
14	Software Control Follow up		8								
15	Ferneham Hall Follow up	Follow Up	10								
16	Dog Control Follow up		5	Stage 1							
	Contingency / In-house support		50								
	<b>Total Planned Time</b>		<b>230</b>								
<b>WIDER WORK</b>											
17	Insurance claimants who have been the subject of fraud investigations	Computer - data analytics		Stage 1							
18	Contract Management	Corporate /									



## APPENDIX FOUR

### Finding from the Latest Completed Audits

<b>Audit Title</b>	<b>Housing Benefits</b>	<b>Overview of Subject:</b> The Benefits section assess new benefit claims, including changes in circumstances and amendments for current claimants. Housing Benefit claims are paid fortnightly in arrears and Local Council Tax Reduction and Second Adult Rebate is applied to their Council Tax account. There are approximately 3,800 live Housing Benefit and 4,500 Council Tax reduction claims in payment with an annual value of over £20million. The service deals with approximately 80 new claims and 1,300 changes a month.
<b>Year of Audit</b>	<b>2017/18</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Strong</b>	
<b>Direction of Travel</b>	↔ 2014/15	

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Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation		
			Essential (🚨)	Important (▲)	Advisory (ℙ)	Implemented	Cancelled	Not Implemented
Policies and Procedures are in place			-	-	-	-	-	-
Appropriate controls are in place over the information held, including IT access security measures			-	-	-	-	-	-
Treatment of claims is compliant with processes introduced following the vanguard review			-	-	-	-	-	-
Accurate and prompt treatment of Discretionary Housing Payment claims			-	-	-	-	-	-
Monitoring of compliance with both local and national guidelines			-	-	-	-	-	-
Claims are not delayed unnecessarily or without good cause			-	-	-	-	-	-

There were no areas of significant weakness and therefore no recommendations were made relating to the management and treatment of Housing Benefit.

<b>Audit Title</b>	<b>Employer's Pension Responsibilities</b>	<p><b>Overview of Subject:</b> The Local Government Pension Scheme is offered by local government employers and by other organisations that have chosen to participate in it. Hampshire County Council is the administering authority for contributions made by Fareham Borough Council's pension scheme members.</p> <p>Payroll Services at the Council are responsible for ensuring that eligible employees are enrolled in the scheme, that the correct deductions are made from salaries and that they are transferred across to Hampshire County Council in a timely manner.</p>
<b>Year of Audit</b>	<b>2017/18</b>	
<b>Type of Work</b>	Opinion Audit	
<b>Assurance Opinion Given</b>	<b>Strong</b>	
<b>Direction of Travel</b>	No prev audit	

Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation		
			Essential (♦*)	Important (▲)	Advisory (F)	Implemented	Cancelled	Not Implemented
Management of employees in the pension scheme			-	1	2	-	-	-
Pension contributions made			-	-	-	-	-	-
Additional voluntary contributions			-	-	-	-	-	-
Redundancies and retirement			-	-	2	-	-	-
Unfunded pension arrangements			-	-	-	-	-	-
Accounting for pensions			-	-	-	-	-	-

<b>Weaknesses identified during the audit and the proposed action (Essential and Important only)</b>	
<b>Important</b>	<b>Number of Active Members-</b> A discrepancy was found between HCC records and FBC's in terms of active members as at 31/12/17. Confirmation was needed via the year end return that the starters in February and March accounted for the discrepancy. This confirmation has been received.

<b>Audit Title</b>	<b>Accounts Receivable</b>	<p><b>Overview of Subject:</b> This audit covers the procedures the Council uses when collecting income due to it by sending out debtor accounts. It excludes major income sources such as council tax and housing rents and covers a wide range of other income sources such as trade waste, property leases and Community Infrastructure Levy.</p> <p>Approximately 5500 accounts had been raised over 9 months in the year totalling £9.2m. These then need to be tracked and recovery processes instigated if they are not paid.</p>
<b>Year of Audit</b>	<b>2017/18</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Strong</b>	
<b>Direction of Travel</b>	↑2014/15	

Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation		
			Essential (🚨)	Important (▲)	Advisory (ℹ️)	Implemented	Cancelled	Not Implemented
Debt Recovery Policy			-	-	-	-	-	-
Collection of Debts			-	-	-	-	-	-
Write Offs & Tracing of High Value Write Offs			-	1	1	-	-	-
Invoice Creation & Request Forms			-	-	-	-	-	1
Credit Notes			-	-	-	-	-	-
System Access			-	-	-	-	-	-
Refunds			-	-	-	-	-	-
Reconciliations			-	-	-	-	-	-
All Pay Cards			-	-	-	-	-	-
Analytical Review of Debt			-	-	1	-	-	-
Instalment Arrangements			-	-	-	-	-	-
On Hold Accounts			-	-	-	1	-	-

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

<b>Important</b>	<b>Write Offs</b> – Testing found that there were a large number of invoices marked with the write off dispute code compared with the number of debts awaiting write off authorisation on the 2017/18 spreadsheet. The managers have confirmed that these debts should have been entered onto the spreadsheet and a number of actions will be taken to tighten up the process, including reintroducing quarterly reconciliations.
<b>Previous Important</b>	<b>Invoice Request Form</b> – A previous audit recommended 3 changes to the invoice creation form in order to improve guidance to staff with a view to ensuring the information contained within the form was complete. Testing confirmed two of the three changes had taken place. However, the form does not clearly state that the "Period of Charge" field is mandatory unless covered in the invoice narrative field. Changes are to be made to the form to address this.

<b>Audit Title</b>	<b>Income Collection and Banking</b>	<b>Overview of Subject:</b> There are a number of income collection channels used by the council which include postal income, payments at the cash office, automated telephone payments, assisted telephone payments (moto), internet payments and direct to bank payments. The income collection is recorded using the AXIS system which has an integrated set of modules, including AIM (Income Management) and ACR (Counter Receipting) and balanced to the accounting system by use of an intermediary Collection and Deposit (C&D) book.
<b>Year of Audit</b>	<b>2014/15</b>	
<b>Type of Work</b>	Opinion audit	
<b>Assurance Opinion Given</b>	<b>Reasonable</b>	
<b>Direction of Travel</b>	↓2013/14	

Areas of Scope	Adequacy and Effectiveness of Controls		New recommendations raised			Previous Rec Implementation (E and I only)		
			Essential (●)	Important (▲)	Advisory (□)	Implemented	Cancelled	Not Implemented
<b>Work for Assurance Opinion</b>								
Cash Office & Capita Collections			-	-	-	-	-	-
Cash Office Cash up and Security of Takings			-	-	-	-	-	-
Cash Office Transfer to Bank			-	-	-	-	-	-
Maintenance of the C & D Book			-	-	-	-	-	-
Bank and Giro Accounts Reconciliations			-	-	1	-	-	-
<b>Cyclical Coverage</b>								
Unidentified Cash Receipts			-	-	-	-	-	-
Collection from Vending & Phone Cash Boxes			-	2	-	-	-	-
<b>Specific Tests requested by In-house Team</b>								
Audit Trail from Till to Bank Statement			-	-	-	-	-	-
Building Control Duplicate Processing of Cheque Payments			-	1	-	-	-	-
Analysis of Negative Transactions on ACR			-	-	-	-	-	-
Follow up of Action – Payment Card Industry (PCI) Compliance			-	-	-	-	-	1

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

<b>Important</b>	<b>Building Control Income</b> - Issues had been reported of problems with the cheque payments being handled in the Building Control
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<b>Weaknesses identified during the audit and the proposed action (Essential and Important only)</b>	
	<p>service which were resulting in duplicate entries appearing in the records which had to be corrected in the AIM system. Testing of 6 bankings also found that the bankings for one day were not reconciled and did not agree to the building control records. This was found to relate to a problem using the EasyMobile system during the reconciliation period which had also led to the service not taking payments over the phone during the period.</p> <p>A working group was therefore set up in 2016 which considered the process and a number of changes were agreed which would help achieve a sound audit trail and reconciliation whilst maintaining the ability to take payments over the phone throughout the working day.</p>
<b>Important</b>	<p><b>Reception Payphone</b> – It was noted that the income collected from the Council's Payphone amounted to £38.80 since 2006 yet the line rental was £28.90 per month. It was therefore agreed that the Payphone should be removed and the line rental cancelled.</p>
<b>Important</b>	<p><b>Vending Machine Income</b> – It was noted that although cash taken from vending machines is being placed in a secure sealed bag before it is transferred to the cash office, only one person emptied the machines and there is no reconciliation to the number of vends for the period to highlight any missing income. This amounted to about £300-£400 every 6 weeks. Discussions were held as to the proportionality of carrying out reconciliations compared to the risk of cash going missing. It has therefore been agreed that a compensating control would be used involving the Finance Business Partner carrying out an annual reconciliation of whether the income collected is covering the cost of stocking the vending machines. Also since the audit was carried out a second person is now used to witness the income collection at the depot.</p>
<b>Previous Important</b>	<p><b>PCI Compliance</b> – Although work had been carried out to identify the key things that the Council needed to do to comply with the payment card industry data security standard, there was still a list of actions that needed implementing. This is being followed up in the 2017/18 audit.</p>

<b>Audit Title</b>	<b>Income Management</b>	<b>Overview of Subject:</b> There are a number of income collection channels used by the council which include postal income, payments at the cash office, automated telephone payments, assisted telephone payments (moto), internet payments and direct to bank payments. The income collection is recorded using the AXIS system which has an integrated set of modules, including AIM (Income Management) and ACR (Counter Receipting) and balanced to the accounting system by use of an intermediary Collection and Deposit (C&D) book.
<b>Year of Audit</b>	<b>2017/18</b>	
<b>Type of Work</b>	Opinion Audit	
<b>Assurance Opinion Given</b>	<b>Reasonable</b>	
<b>Direction of Travel</b>	↔ (2014/15)	

Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation		
			Essential (*)	Important (▲)	Advisory (P)	Implemented	Cancelled	Not Implemented
Income Collection			-	-	-	-	-	-
Building Control Income			-	1	-	-	-	-
Cash Up and Security of Takings			-	-	-	-	-	-
Cash Office Transfer to Bank			-	-	-	-	-	-
Cash Office Takings are Banked Intact			-	-	1	-	-	-
Maintenance of the C & D Book			-	-	-	-	-	-
Analytical Review of Payment Types			-	1	-	-	-	-
Aim Exceptions			-	-	-	-	-	-
Suspense Account Clearance			-	-	-	-	-	-
PCI Compliance (previous recommendation)			-	-	-	3	-	2

<b>Weaknesses identified during the audit and the proposed action (Essential and Important only)</b>	
<b>Important</b>	<b>Management Information on Payment Channels-</b> It was not possible to obtain a full picture of what methods of payments customers are choosing to use, which would be useful to chart the impact of any changes in the way that services are provided. The Operational Finance team will work with the systems team to develop information on the number and value of payments that customers are making by the various payment channels.
<b>Important</b>	<b>Evidence of Cash Office Receipt of BCP Income-</b> Generally the change of process used by the Building Control Partnership to collect income has been an improvement and all records were found to adequately reconcile. However, testing of 6 days takings noted one incident where the service had not obtained a stamp to confirm that the takings that day were transferred to the cash office. BCP Officers will be made aware that a copy of the cash office stamped reconciliation should be scanned into the BCP reconciliation evidence files.
<b>Previous Important (2)</b>	<b>PCI Compliance-</b> Good progress was found to have been made on addressing the main issues identified to improve our compliance with the Payment Card Industry Standards. Two issues are still outstanding: a) Looking for a cost-effective solution to encrypting information held on the Chip and Pin devices b) A business continuity plan is to be drawn up of actions to be taken if a compromise of card holder data is found or detected.

<b>Audit Title</b>	<b>Leisure Contracts</b>	<b>Overview of Subject:</b> Fareham Leisure Centre (FLC) has been operated by Everyone Active/Sports & Leisure Management (SLM) since 2005.  The original contract between SLM and the Authority was extended in 2013 and further varied in 2015 to include the new Holly Hill Leisure Centre (HHLC).  The Authority receives an operational management fee for each centre as detailed within the contract. The contract currently runs until 2020.
<b>Year of Audit</b>	<b>2017/18</b>	
<b>Type of Work</b>	Opinion Audit	
<b>Assurance Opinion Given</b>	<b>Reasonable</b>	
<b>Direction of Travel</b>	↔2013/14	

Areas of Scope	Adequacy and Effectiveness of controls		New Recommendations raised			Previous Rec Implementation		
			Essential (⚡)	Important (▲)	Advisory (P)	Implemented	Cancelled	Not Implemented
Signed Contract			-	-	-	-	-	-
Performance Monitoring			-	-	1	-	-	-
Contractor Meetings			-	1	-	-	-	-
Repairs and Maintenance			-	-	-	-	-	-
Budget Monitoring			-	-	-	-	-	-
Pricing			-	-	1	-	-	-
Management Resourcing			-	-	-	-	-	-
Holly Hill Defects			-	-	-	-	-	-
Management Fee			1	-	-	-	-	-
Payments to SLM			-	-	-	-	-	-
Repairs and Maintenance Costs			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
<b>Essential</b>	<b>Additional Operational Payment</b> – Testing found that the contract provided for additional operational payments to be made to the Council if profit levels reach certain thresholds; but there was no process in place to ascertain if these payments were due. Operational profit figures are currently being requested from SLM for the past 4 financial years.
<b>Important</b>	<b>Meeting Minutes-</b> Meetings are held with the contractor on a monthly basis, but minutes are not taken. Records of action points will now be introduced.

<b>Audit Title</b>	<b>Outdoor Recreation Follow Up</b>	<p><b>Overview of Subject:</b> This report covers the follow up of recommendations previously made in relation to Outdoor Sport and Recreation.</p> <p>The wider review was previously carried out in 2016/17 when the service was given an audit opinion of Limited Assurance in relation to the risk areas tested at that time, and 9 recommendations were made, for which 8 actions were agreed.</p> <p>It is the internal audit policy that all services given opinions of 'Limited' or 'None' are followed up in the next year.</p>
<b>Year of Audit</b>	<b>2017/18</b>	
<b>Type of Work</b>	Follow Up	
<b>Assurance Opinion Given</b>	<b>Reasonable</b>	
<b>Direction of Travel</b>	↑2016/17	

### Summary of Implementation of Previous Recommendations

Status	Essential (◆*)	Important (▲)	Unspecified	TOTAL
Fully Complete	1	3	-	4
No Longer Needed	-	-	-	-
Nearly Complete	-	-	-	-
In Progress	-	4	-	4
Not Started	-	-	-	-
Risk Accepted	-	-	-	-
Not Yet Due	-	-	-	-
No Longer Tracked / Not tested	-	-	-	-
<b>TOTAL</b>	<b>1</b>	<b>7</b>	<b>0</b>	<b>8</b>

Overall, we found that a number of improvements had been made and controls had been strengthened. However, issues were again found in testing such that at least £860 of income is believed to not have been collected and 2 new recommendations were made.

<b>Weaknesses identified during the audit and the proposed action (Essential and Important only)</b>	
<b>Important</b>	<b>Refund / Credit Note / Charity Matches Policies-</b> A credit note / refund policy needs to be drawn up and disseminated to the relevant staff and clubs. A policy on the payment for charity matches needs to be decided and published.

<b>Weaknesses identified during the audit and the proposed action (Essential and Important only)</b>	
<b>Important</b>	<b>Refund / Credit Note Authorisation-</b> A process should be in place for the independent authorisation of refunds and credit notes.
<b>Important</b>	<b>Updating Procedure Notes-</b> The following processes needed to be added to the procedure notes: The requirement for sending finance a list of clubs before the start of each season to conduct creditor checks. The requirement for an independent review of the invoices prior to the invoices being issued.
<b>Previous Important</b>	<b>Records of Verbal information relating to bookings and cancellations:</b> Evidence to support bookings and cancellations received by phone should be retained. In addition, evidence should be kept supporting the issuing of refunds / credit notes.
<b>Previous Important</b>	<b>Checking the Clarity and Accuracy of Invoices:</b> Testing found that only 4 out of 12 (33%) football and 2 out of 4 (50%) cricket invoices and credit notes raised were correct to the booking sheets and source information, which indicates that effective verification checks are not being carried out.
<b>Previous Important</b>	<b>Debtor Checks:</b> A list of clubs was not sent to finance officers to check for the clubs which owe money prior to the start of the season. Of the 14 clubs listed, 3 were found to have been allowed to book pitches, even though they owed the council income for previous bookings and for another club, no invoice had been raised even though pitches had been booked

<b>Audit Title</b>	<b>Employee Performance Management</b>	<p><b>Overview of Subject:</b> The effective management of employees forms part of the Council's Governance Framework under the role of the Head of Paid Service. In 2013/14 the Council changed its approach to Individual Performance Management (IPM) aiming to strengthen the way in which employees and supervisors give and receive honest feedback.</p> <p>In the Annual Governance Statement for 2014/15, an action was identified to <i>'review the progress and impact of the individual performance initiative'</i>. A joint review by Human Resources and Internal Audit has therefore been carried out as part of the 2017/18 audit plan.</p> <p>The review found the feedback was generally positive. The findings were discussed with the Head of Paid Service and some actions were agreed to strengthen the current process further.</p>
<b>Year of Audit</b>	<b>2017/18</b>	
<b>Type of Work</b>	Joint working project – Corporate system	
<b>Assurance Opinion Given</b>	N/A	
<b>Direction of Travel</b>	N/A	

**Proposed actions to further strengthen the current process.**

<b>Important</b>	<p><b>IPM Process</b> – To set some clear minimum standards and promote the process to all staff.</p> <p>The addition of minimum standards will help to promote consistency of application of the process and help to ensure all employees receive an IPM review. The corporate launching of the revised process will help to ensure everyone's understanding and expectations of the process.</p>
<b>Important</b>	<p><b>Training of Managers</b> - To undertake a training program to develop all managers' understanding of and the benefits of the IPM process, starting with the middle level managers (under Heads of Service).</p> <p>A developed management will help to promote an encouraged and developed work force that will maximise performance.</p>
<b>Important</b>	<p><b>Training of Employees</b> – To relaunch/promote the use of the Skillgate eLearning system.</p> <p>Some corporate or personal training needs may be able to be addressed using programs available on the free inhouse system.</p>
<b>Important</b>	<p><b>Training Budgets</b> – To explain the existence and use of the corporate training budget.</p> <p>Managers should be aware that if training needs cannot be met through the use of Skillgate there is a corporate training budget available which can be accessed through Human Resources</p>
<b>Important</b>	<p><b>E- Bulletin</b> - To promote the use and benefits of reading the E-bulletin to all employees.</p> <p>The E-bulletin is the Council's means of disseminating the corporate direction to all employees.</p>

<b>Audit Title</b>	<b>Data Protection in Services</b>	<b>Overview of Subject:</b> 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. This report is the second review of this series and covers the Council Tax service.
<b>Year of Audit</b>	<b>2017/18</b>	
<b>Type of Work</b>	Wider work	
<b>Assurance Opinion Given</b>	N/A	
<b>Direction of Travel</b>	N/A	

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

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (E*)	Important (I)	Advisory (A)	Implemented	Cancelled	Not Implemented
Team Awareness			-	-	-	-	-	-
Data Collection			-	-	-	-	-	-
Data Accuracy			-	-	-	-	-	-
Data Sharing			-	-	-	-	-	-
Data Security			3	1	-	-	-	-
Data Retention and Disposal			-	2	1	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
<b>Essential (3)</b>	<p><b>Sensitive documents left out at end of day:</b> An after-work scan of the service work area identified a number of sensitive documents which had not been locked away at the end of the day. Actions have therefore been taken by the service to now:</p> <ul style="list-style-type: none"> <li>Put Work flow trays in a cupboard and lock it at the end of each day.</li> <li>Require staff to place any papers in their desk drawers and lock them at the end of the evening and put the keys in a lockable key cabinet.</li> <li>Require staff to scan in sensitive documents themselves and ensure they are destroyed when done, rather than leaving them in a scanning</li> </ul>

<b>Weaknesses identified during the audit and the proposed action (Essential and Important only)</b>	
	tray.
<b>Important</b>	<b>Visibility of Reception Screens:</b> Currently data on the screens used in the ground floor reception area can be viewed by some customers and people stood outside the windows. The service is therefore looking to purchasing and fitting security screens to the computer screens used in the ground floor reception area.
<b>Important</b>	<b>Information in insecure area:</b> One officer's open T Drive folder was being used to store extracts and information for producing FOI responses. It is suggested that a purpose made folder on the HUB with limited access rights is created for this. There were also a large number of old files on the Corporate Filing System which need reviewing and deleting or moving.
<b>Important</b>	<b>Use of Shredders:</b> A cost benefit analysis is currently being undertaken comparing the current disposal methods of confidential waste bins against purchasing robust office shredders.

<b>Audit Title</b>	<b>Effectiveness of Ethics Related Activities – Follow Up surveys</b>	<p><b>Overview of Subject:</b> Ethics relate to values and behaviours such as selflessness, openness, honesty and accountability that are exhibited in the way that officers and members of the Council operate.</p> <p>An anonymous survey of employee’s perceptions of ethical behaviour was carried out in Spring 2016. This resulted in Managers asking for further work to be carried out to gain more understanding of what concerns lay behind some of the results. This further work was completed in 2017/18 and consisted of two areas of focus:</p> <p><u>Whistleblowing arrangements</u></p> <p>8 focus groups were held to explore employees’ thoughts on:</p> <ul style="list-style-type: none"> <li>• their awareness of our whistleblowing procedures</li> <li>• the level of confidence they had in raising concerns</li> <li>• ways to improve the arrangements.</li> </ul> <p><u>Employee Perception Survey</u></p> <p>170 randomly selected employees were invited to complete an anonymous survey; 100 responses were received. This covered questions relating to:</p> <ul style="list-style-type: none"> <li>• Honesty</li> <li>• Transparency and Openness</li> <li>• Financial Stewardship</li> </ul>
<b>Year of Audit</b>	<b>2017/18</b>	
<b>Type of Work</b>	Wider work – assisting with actions	
<b>Assurance Opinion Given</b>	N/A	
<b>Direction of Travel</b>	N/A	

**Corporate Actions agreed as a consequence of the Audit (Essential and Important only)**

<b>Important x2</b>	<b>Whistleblowing:</b> Whistleblowing policy to be rebranded as the “Raise a Concern” Policy and relaunched with feedback on the results of this work
<b>Important</b>	<b>Whistleblowing:</b> The on-line reporting form to be moved to an external host so that it is completely anonymous.
<b>Important</b>	<b>Whistleblowing:</b> Slides on whistleblowing to be included in the Skillgate induction module for new employees
<b>Important</b>	<b>Whistleblowing:</b> Managers training to include how to handle concerns brought to their attention and provide appropriate feedback on the action taken as a consequence.
<b>Important</b>	<b>Honesty:</b> A revised gifts/ hospitality /interests policy for employees to be launched once the new register process is in place.
<b>Important</b>	<b>Honesty:</b> Online training to be developed for employees to improve their understanding of what needs to be registered.

**Corporate Actions agreed as a consequence of the Audit (Essential and Important only)**

<b>Important</b>	<b>Financial Stewardship:</b> The results of the Financial Stewardship questions to be used to support the roll out of the new Procurement and Contract Procedure Rules.
<b>Important</b>	<b>Transparency and Openness:</b> Further focus groups to be organised to explore the themes of communicating change and information sharing between departments.

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<b>Audit Title</b>	<b>Contract Deeds Management</b>	<p><b>Overview of Subject:</b> The Authority's Contract Procedure Rules were last updated in October 2012 with limited roll out to services. The Rules included that a Contracts Register and storage of documents would be managed centrally and electronic copies would be managed within the service areas.</p> <p>Since that date key officers have left the council. A review was therefore planned as part of the 2015/16 Audit Plan (finished in 2017/18) to verify that the council still had adequate records of what contracts and agreements that it has entered into, that documents are held securely, and to establish that the original signed and electronic copy can be easily located when required.</p>
<b>Year of Audit</b>	<b>2015/16</b>	
<b>Type of Work</b>	Wider work – thematic review	
<b>Assurance Opinion Given</b>	N/A	
<b>Direction of Travel</b>	N/A	

**Proposed actions to strengthen the current process.**

<b>Essential</b>	<b>Corporate Direction –</b> As some areas of non-compliance with the current rules were found, corporate clarification was sought as to what the expectations was for managers in respect of their management of contract documents.
<b>Important</b>	<b>Ownership of the Central Register -</b> The Central Register for Deeds, contracts and agreements is currently maintained in the Estates Section and is held in spreadsheet form. It is considered that it would be more appropriate for the register to be managed by Legal Services as they have direct involvement with drawing up contracts. They are to redesign it to provide a clearer record including mapping documents to the relevant Service.
<b>Important</b>	<b>Heads of Service Briefings –</b> Meetings carried out during the audit with Heads of Services identified that clearer explanation regarding their responsibilities in respect of contracts and agreements managed by them was required. For example, during testing it was noted that 9/40 contracts/agreements were not recorded on the central register. Services also need to develop local electronic document libraries.
<b>Important</b>	<b>Agreements Exempt from Contract Procedure Rules -</b> Some services lead on specific agreements such as Tenancy agreements and Employee contracts which need to be referred to regularly so it is appropriate that are some exemptions in the Contract Procedure Rules
<b>Important</b>	<b>Location of Contracts:</b> There were a number of original contracts that could not be located during the audit. The Services have been requested to search for these documents and get them put into the Central Storage area.

**Reference Tables**

**1. Scale of Assurance Opinions**

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

**2. Scale of Recommendation Priorities**

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

**3. Stages of An Audit Assignment**

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



# FAREHAM

## BOROUGH COUNCIL

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

**Date**                    **23 July 2018**

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

**Subject:**              **HEAD OF AUDITS ANNUAL OPINION 2017/18**

#### **SUMMARY**

This report sets out the Internal Audit coverage, findings and performance for 2017/18 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 2017/18 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 revised audit plan for 2017/18 included 27 (21 last year) audit assignments of different types to give a good representation of the audit universe (which contains 162 audit titles). 17 of these assignments were designed to produce an audit opinion and 210 days, plus 30 days in-house support, have been used in this type of work.
4. At the time of giving this annual opinion, all but 2 of the 2017/18 assignments have been undertaken with sufficient coverage for conclusions to have been drawn and to be useable as a source of assurance. 19 (15 last year) have been fully completed and actions agreed with the Audit Sponsor.
5. Two pieces of work outstanding from previous plans have also now been fully completed, 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. [Appendices A and B](#) give 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:

Year	Strong	Reasonable	Limited	Minimal	Total
2017/18	5 (36%)	7	2	0	14
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

8. No opinions of 'Minimal Assurance' were issued again in the year. There were two 'Limited Assurance opinions' awarded. The first was for the Ferneham Hall audit. A number of weaknesses were found particularly in relation to the accounting for stock and equipment. Managers have been working with the audit team to implement a series of agreed actions.
9. The second was for the Dog Control audit where we were unable to give assurance that

all income due to the Council was collected, or that the correct amounts had been paid for kennelling. Managers have been reviewing responsibilities in the team to improve oversight of these processes.

- The audit of the service (Homelessness) in the year which had undergone a “Systems Thinking” intervention was given a *Strong* assurance opinion.

### Income or Expenditure Errors found

- Errors are defined as spending we incurred when we shouldn’t have, or uncollected income. More errors were found this year being recorded in 5 audits (1 last year). Where they could be quantified, income errors totalled £860 and expenditure errors totalled £866 were noted.

### Implementation of Recommendations

- During 2017/18, 6 of the audits included a review of the progress made with implementing previous recommendations. These covered 20 essential or important actions. Testing confirmed that **35%** 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
<b>2017/18</b>	6	20	35% + 24% in progress
<b>2016/17</b>	4	8	50%
<b>2015/16</b>	8	23	57% + 17% in progress
<b>2014/15</b>	13	69	57% + 14% in progress
<b>2013/14</b>	17	68	66%

- No other follow up work has been completed in 2017/18. The new action database is now used daily by the team and is being kept up to date. However, we have yet to roll the system out to services and update the assurance available on recommendation implementation. This has now been added as a piece of work in its own right in the 2018/19 plan.

### Other Sources of Assurance in the Year

- [Appendix C](#) lists other sources of assurance that have been available this year to support the Annual Audit Opinion. Any major unplanned pieces of work were added to the revised audit plan in March 2018.

### Governance, Ethics and IT

#### Governance

- A specific piece of governance work was carried out jointly with Human Resources as part of the 2017/18 audit plan. This covered Employee Performance Management and consisted of a series of structured interviews with managers and staff.

16. A number of actions have arisen as a result of this work including:
- a) Clarifying the minimum standards expected in relation to reviewing employee performance.
  - b) Providing targeted training for middle managers.

### Ethics

17. 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.
18. This year's work involved carrying out Focus Group to review the Council's Whistleblowing arrangements, and to carry out a second employee survey concentrating on the values of 'Financial Stewardship and accountability, Honesty, Transparency and Openness.
19. A number of actions have arisen as a result of this work including:
- a) Rebranding the Whistleblowing Policy as the 'Raise a Concern' Policy to remove the negative connotations of "snitching".
  - b) Provide refresher training of managers on how to manage concerns brought to their attention and provide appropriate feedback.
  - c) Finalise and roll out briefings on the revised Employee Interests, Gifts and Hospitality Policy, and the new ways of registering these.

### Information Technology Governance

20. 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'*.
21. The conclusion arising from this work for 2017/18 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 Chipside audit (Parking IT system), IT procurement audit and the wider work analysing the ICT costs and budgets in line with the current IT strategy and the work the organisation has carried out to continue to meet the Public Services Network (PSN) requirements. The work being carried out by the ICT Security Officer, who was made permanent 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**

22. The new risk management process was implemented in the year. A work shop was held with all Heads of Services, and briefings were held with all Finance Business Partners and the lead risk co-ordinators. All services were examined in the year and evidence of effective risk management compiled into 2x 6 monthly reports to the

Committee.

23. There is still some work to do finalising the project in the audit plan looking specifically at the strength of the Council's inspection regimes to identify risks and hazards on council land and property.

### **HEAD OF AUDIT OPINION**

24. I am satisfied that sufficient internal work has been undertaken to allow an opinion to be given on the adequacy and effectiveness of governance, risk management and control. However, it should be noted that as audit cannot review every decision and transaction of the council the opinion cannot provide absolute assurance.

25. Using the information outlined in this report, in the opinion of the Head of Finance and Audit, the Council had a framework of governance, risk management and control for the year 2017/18 which was generally working effectively, although some opportunities to strengthen arrangements were found in the year. 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.

26. The opinion is based on the following evidence:

- no "minimal" audit assurance opinions were again given this year;
- income or expenditure errors were recorded in three audits in the year, totalling over £1,700;
- the service audited which have undergone a Systems Thinking intervention (Homelessness) this year have been given a 'strong' audit assurance opinion;
- new essential recommendations (20) were found in five areas of audit but managers have taken prompt action to address the issues found;
- collaborative working on 6 system areas in the year have led to improved control and efficiency.

27. Significant areas noted where further action will enhance the adequacy and effectiveness of governance, risk management and control include:

- a) Carrying out manager briefings on the rules in the new Procurement and Contract Rules, and carrying out collaborative work on effective contract management\*.
- b) Implementing service action plans arising from the reviews of compliance with the General Data Protection Regulation.
- c) Improving management control and the equipment and stock controls in Ferneham Hall.
- d) Carrying out proactive counter fraud campaigns.
- e) Carrying out stock condition surveys and implementing asset management plans.

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

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

- f) finalise the framework agreements for spend with contractors and suppliers used by Housing, Property and Building Services, which is in breach of FBC Contract Procedure Rules;
  - g) fully embed the new system for managing costs associated with housing repairs;
  - h) 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 \*;
  - i) clarify the ICT security policies for the Council.
29. The 2 issues above marked with an asterisk have been included in this year's Annual Governance Statement.

### **AUDIT SERVICE QUALITY ASSURANCE**

30. 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.
31. 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.*
32. 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**

33. In conformance with PSIAs 1110, it is confirmed that that the internal audit activity was organisationally independent.
34. 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.
35. 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;
  - the Head of Finance and Audit assumes the auditee role in audits of specific finance and local taxation systems;
  - as the teams do liaise on the scope of the audit and the content of the final audit report, we send the partner 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 partner authority.

## Self-Assessment against the Standards

36. A revised set of standards came into practice this year and our self-assessment this year concentrated on reviewing conformance with the changes.
37. Our self-assessment for 2017/18 concluded 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.
38. Improvements made since the last report involved:
- ✓ The audit partners carried out the required 5-yearly external assessment of their compliance with the standards.
  - ✓ We finalised the agreement with the audit partners including the required standards to be adhered to.
39. 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. Due to the compensating controls documented, none of the areas are considered significant enough for reporting in the Annual Governance Statement.

## Local Performance Measures

40. Three local performance measures were used for the service in 2017/18, as discussed below.

### Completion of Plan

41. 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 again this year, as summarised in the table below.

<b>Table 3 – Completion of Plan</b>	<b>2017/18</b>	<b>2016/17</b>	<b>2015/16</b>	<b>2014/15</b>	<b>2013/14</b>
% of reports finalised by time of Head of Audits Report	70% (19/27)	68% (15/21)	59% (13/22)	29% (6/21)	67% (22/33)

### Time Taken to Deliver Assignments

42. 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.

<b>Time Taken</b>	<b>2017/18</b>	<b>2016/17</b>	<b>2015/16</b>
Average number of calendar months between start and finish of audits finalised since the last annual report. (Number of audits in the measure)	6.3 (14)	6.7 (21)	7.2 (11)

### Customer Feedback

43. 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. 13 interviews have been completed since the last report (9 relating to the 2017/18 plan) and a score applied as shown in the table below.

Level of Customer Satisfaction	2017/18	2016/17	2015/16
Audit was above expectations	8 % (1)		22% (2)
Happy with the audit	76% (10)	66% (10)	33% (3)
Minor problems with the audit	8 % (1)	27% (4)	45% (4)
Significant problems with the audit	8 % (1)	7% (1)	0

44. Generally, feedback has been positive in relation to the revised audit approach to assignments and there was one expression of gratitude for the help given by the service in addressing weaknesses found. The main themes with services expressing problems with the audit was a) disputed findings could have been resolved earlier and b) report did not adequately reflect the current position of actions being taken by the service to improve controls. This feedback is discussed with the provider for each audit so that any lessons can be learnt.

### **RISK ASSESSMENT**

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

### **CONCLUSION**

46. 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 2017/18
- 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 16/03/16 on the Internal Audit Strategy

Report to Audit and Governance Committee on 17/07/17 on Head of Audit's Annual Opinion 2016/17

Quarterly audit reports to the Audit and Governance Committee during 2017/18

Public Sector Internal Audit Standards 2017 [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 2017/18

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 Implemented
<b>FUNDAMENTAL SYSTEM AUDITS</b>											
Main Accounting and Budgetary Control	10	11	Reasonable	↓ 2013/14	0	1	2	-	-	-	-
Housing Benefits	10	10	Strong	↔ 2014/15	-	-	-	-	-	-	-
Accounts Receivable	10	15	Strong	↑ 2014/15	0	1	2	1	0	0	1
Income Management	10	15	Reasonable	↔ 2014/15	0	2	3	0	1	1	0
<b>CORPORATE, SPECIALIST, GOVERNANCE, RISK AUDITS</b>											
Leisure Centre Contracts	10	10	Reasonable	↔ 2013/14	1	1	2	-	-	-	-
<b>SERVICES &amp; SYSTEMS – HIGH RISK</b>											
Ferneham Hall inc. Databox	10	20	Limited	↓ 2013/14	2	10	3	0	0	0	2
Commercial Estates	9	15	Reasonable	↓ 2012/13	0	5	0	-	-	-	-
Homelessness (V)	10	15	Strong	↑ 2013/14	0	1	0	0	0	0	1
Property Maintenance and Inspections-Council Buildings (non-housing)	1	15									
Developers Contributions	6	15									
<b>SERVICES &amp; SYSTEMS – Other</b>											
Pensions	10	12	Strong	No Previous Audit	0	1	4	-	-	-	-
Street Furniture	10	5	Strong	No Previous Audit	0	1	0	-	-	-	-
Pest Control	10	6	Reasonable	↔ 2012/13	0	3	2	1	1	0	3
Dog Control	10	6	Limited	No Previous	0	7	1	-	-	-	-

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 Implemented
				Opinion							
<b>COMPUTER AUDITS</b>											
Multiple Parking Permits at Single Person Discount Properties	10	3	N/A		0	0	1	-	-	-	-
Chipside	5	12									
<b>WIDER WORK</b>											
Tree work costs	10		N/A	N/A	0	10	0	-	-	-	-
Ferneham Hall (Drink and Food Wastage)	10		N/A	N/A	12	23	0	-	-	-	-
Mobile Phones	4				1						
Ethics	10		N/A	N/A	0	9	0	-	-	-	-
Employee Performance Management	10		N/A	N/A	0	5	0	-	-	-	-
Risk Inspection of Public Areas	4										
IT Procurement	9	11	Reasonable	No Previous Opinion	0	2	1	-	-	-	-
IT Costs and Budgets	5		N/A	N/A				-	-	-	-
Data Protection in Services	10		N/A	N/A	3	3	0	-	-	-	-
Contract Procedure Rules	10		N/A	N/A	-	-	-	-	-	-	-
<b>FOLLOW UP</b>											
Outdoor Recreation	10		Reasonable	↑ 2016/17	0	3	2	4	1	3	0
Totals					19	93	23	6	3	4	7

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

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 Implemented
SERVICE AND SYSTEM AUDITS – High Risk											
Daedalus Operating Contracts 2016/17	8	12	<i>Reasonable</i>	No Previous Audit	0	2	1	-	-	-	-
WIDER WORK											
Contract Deeds Management 2015/16	10		N/A	N/A	1	4	0	-	-	-	-

## ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

<b>Reactive work undertaken by the Team</b>	Assistance with data review following elector fraud reports.
<b>Other work undertaken by the team</b>	<p>Fraud risk assessment of National Non-Domestic Rates (part done)</p> <p>Leading on GDPR assessments for finance and audit teams</p> <p>Participation on working group applying system thinking to Street Scene financial processes</p>
<b>Other sources</b>	<p>IPCO Inspection of RIPA arrangements</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>6 monthly risk management reports</p>

### Areas of Non Conformance with the Public Sector Internal Audit Standards

<i>Standard</i>	<i>Area of Non Conformance</i>	<i>Comments</i>
1000 Purpose, Authority and Responsibility (part)	The Internal Audit Charter is not presented to senior managers in addition to the board.	<b>No further action proposed</b> 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.	<b>No further action proposed</b> 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.	<b>No further action proposed</b> 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. However, our audit partners have completed an external assessment this year which provides us with assurance on their processes. The in-house team do 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.	<b>No further action proposed</b> 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:** 23 July 2018

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

**Subject:** ANNUAL GOVERNANCE STATEMENT 2017/18

#### **SUMMARY**

This report brings the 2017/18 Annual Governance Statement for member approval before publishing with the Statement of Accounts.

#### **RECOMMENDATION**

It is recommended that the Committee:

- a) approve the Annual Governance Statement for 2017/18, as attached in Appendix C of the report; and
- b) identify any 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 last revised in April 2016.
3. This report therefore informs members of the processes that have been used to prepare the Annual Governance Statement for 2017/18 as attached as Appendix C, and seeks approval for this to accompany the audited Statement of Accounts for 2017/18 due to be published at the end of July 2018.

## CHANGES TO THE 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](#) which is consistent with the 2016 guidance.
6. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a document in January 2018 reviewing how well Councils complied with the 2016 guidance. This publication was reviewed to identify if there were any areas for strengthening in our process. Two actions were taken as a consequence:
  - a) Making the AGS easier to find on our website
  - b) Introducing table formats for the new action plan and the progress on previous actions.

## **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 2017/18.
  - 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 22-23 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 2017/18.

**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 2017/18 ([attachment](#)).

**Background Papers:** None

**Reference Papers:**

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

CIPFA - Review of Annual Governance Statements 2016/17 - January 2018

**Enquiries:**

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

Components of the Fareham BC Governance Framework

1		<p><b>Openness</b> Documenting a commitment to openness and acting in the public interest</p>
2		<p><b>Communication</b> Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.</p>
3		<p><b>Vision and Outcomes</b> Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.</p>
4		<p><b>Vision and Actions</b> Translating the vision into courses of action for the authority, its partnerships and collaborations.</p>
5		<p><b>Service Quality and Value for Money</b> 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>
6		<p><b>Constitution</b> 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>
7		<p><b>Monitoring Officer</b> Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function.</p>
8		<p><b>Decision Making</b> 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>
9		<p><b>Scrutiny</b> Ensuring an effective scrutiny function is in place.</p>
10		<p><b>Codes of Conduct</b> Developing codes of conduct which define standards of behaviour for members and staff and that these codes and policies are communicated effectively.</p>

11		<p><b>Whistleblowing and Conflicts of Interest</b></p> <p>Developing policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively</p>
12		<p><b>Training and Development</b></p> <p>Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.</p>
13		<p><b>Head of Paid Service</b></p> <p>Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function.</p>
14		<p><b>Laws and Policies</b></p> <p>Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful.</p>
15		<p><b>Financial Management</b></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>
16		<p><b>Risk Management</b></p> <p>Reviewing the effectiveness of the framework for identifying and managing risks and for performance demonstrating clear accountability.</p>
17		<p><b>Counter Fraud</b></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>
18		<p><b>Partnerships and Governance</b></p> <p>Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements.</p>
19		<p><b>Internal Audit</b></p> <p>Ensuring the authority's assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact.</p>
20		<p><b>Audit Committee</b></p> <p>Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities (2013).</p>
21		<p><b>External Audit</b></p> <p>Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.</p>

22		<p><b>Emergency Planning</b></p> <p>Ensuring we can respond effectively to an emergency within the borough.</p>
23		<p><b>Business Continuity Management</b></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
<b>External Audit</b>	Annual Audit Letter 2016/17 (October 2017)
	Audit Results Report 2016/17 (September 2017)
	Annual Certification Report 2016/17 (December 2017)
<b>Government Department or Agency</b>	Local Government Ombudsmen Report 2016/1 (July 2017)
	Compliance Directive issued by the Department of the Environment, Food and Rural Affairs (DEFRA) in relation to Air Quality (July 2017)
	Health and Safety Executive (HSE) inspection notice (January 2018)
	Inspection report from the Investigatory Powers Commissioner's Office (IPCO) (March 2018)
	Public Service Network Compliance (2017/18)
	Driver and Vehicle Licensing Agency (DVLA) data assurance audit of our use of Web Enabled Enquiry Facilities (August 2017)
	Driver and Vehicle Licensing Agency (DVLA) data assurance audit of our use of Keeper at Date of Event Enquiries (October 2017)
	Driver and Vehicle Standards Agency (DVSA) Vehicle Operators Compliance Risk Score (April 2018) and Vehicle Test History (April 2017)
<b>Other</b>	Hampshire Safeguarding Children Board (HSCB) S11 Evaluation Letter (November 2017)
	Partnership Coverage by other Audit Teams (PUSH, Project Integra, Portchester Crematorium)
	Hampshire County Council Property Services Annual Review of the Building Control Partnership (May 2017)

**FAREHAM**  
BOROUGH COUNCIL

# **Annual Governance Statement 2017/18**

# 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.

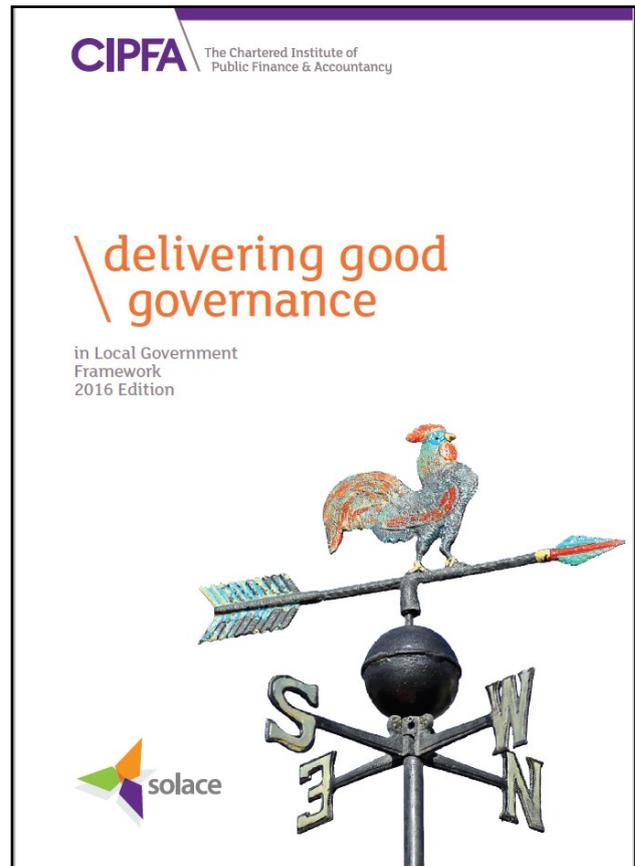
In discharging this overall responsibility, Fareham Borough Council is responsible for putting arrangements in place for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

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](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 2018 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.

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

We have developed a Freedom of Information Publication Scheme which is published on our 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](http://www.fareham.gov.uk/about_the_council/financial_information/intro.aspx)

We have reviewed compliance with the latest requirements of the Transparency Code and will now carry out a regular review of any further changes needed. We have also started to publish the new gender pay gap information as required by the end of March 2018.

In 2017/18 we have been 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.

[http://www.fareham.gov.uk/have\\_your\\_say/](http://www.fareham.gov.uk/have_your_say/)

3

# Community Communication

The Council's approach to communication is set out in the Communications and Engagement Strategy which is monitored and updated periodically. The next periodic review is due in 2018/19.



We have moved the Council magazine "Fareham Today" to be a primarily on-line publication which is produced more frequently. However, households still have an option of requesting printed copies or receiving email alerts when an edition is published.

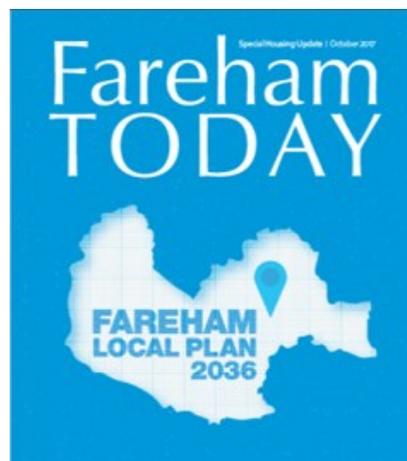
We continue to see a consistent growth in followers on social media channels like Facebook and Twitter which give us ways to have informal two-way conversations with a wider range of people. We use the Council Connect stand in the Town Centre to display a range of material on targeted themes throughout 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. In 2018/19 we will be carrying out a refresh of the e-panel to make the content more engaging and to ensure we are fully compliant with the requirements of the General Data Protection Regulation. 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.

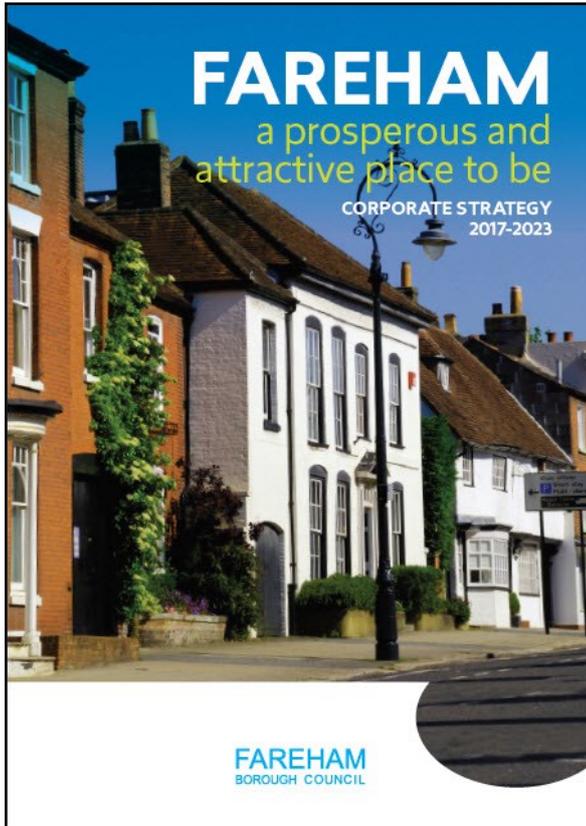
The team encourages all departments to seek advice on the best communication methods to be used for events, information, and when our equality objectives need to be considered, to ensure our approach is consistent.

Meetings are held in the community when there is a need to focus on hot topics of interest to that neighbourhood such as key planning applications. Key consultations this year have been on the Corporate Strategy, the draft Local Plan up to 2036 and the works on the Hill Head Promenade.



# Council's Visions and Outcomes

The Council's governance arrangements support the realisation of the Council's mission and objectives.



Our Corporate Strategy 2017-2023 describes an overall vision for the Borough - **Fareham: a prosperous and attractive place to be**. It 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](http://www.fareham.gov.uk/about_the_council/strategies/keystrategies.aspx).

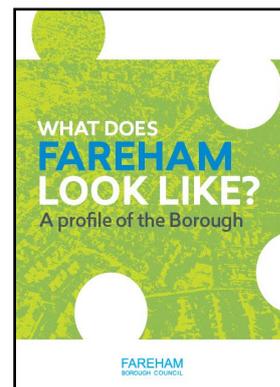
During 2017/18 we consulted on the updated strategy in a number of ways such as face to face events, online displays and discussions at Community Action Team meetings. We had good support from residents for the vision laid out in the Strategy which was then reviewed by the

Scrutiny Board and Executive and adopted by the Council in December. A project plan has been drawn up to deliver the priorities in the Strategy. Further work will be carried out in 2018/19 to develop the financing plan which will support the proposed timescales for the projects.

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.

We monitor any changes in demographics in the Borough which may influence what our priorities should be.

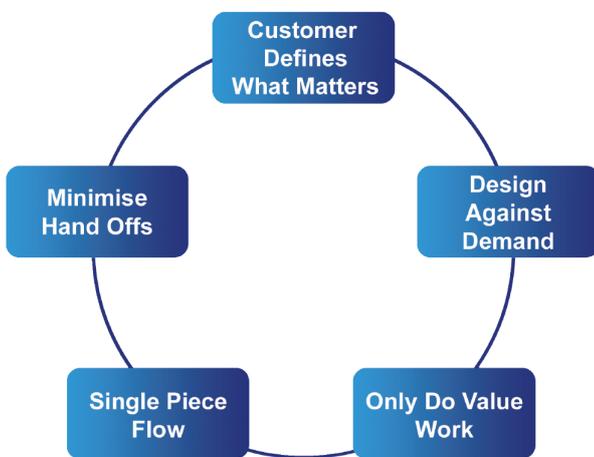


The Leader of the Council chairs discussions at the summer Community Action Team meetings around the Borough, each year on the Council's vision, objectives, achievements and priorities.

# 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 reviewing our services using 'Systems Thinking' which redefines the purpose from the customer's point of view and puts them at the heart of the processes we use to deliver them. Reviews result in improved customer experiences and faster service delivery



In 2017/18, reviews have progressed in other areas of Street Scene (refuse and recycling, street cleansing, public open spaces, grounds maintenance and cemeteries), as well as further intervention work in Information and Communication Technology (ICT). The method has also been introduced to other services and departments, including Council Tax, Finance and Democratic Services. In 2018/19 further reviews are planned in Building Control, Street Scene and Tree Management .

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. During 2017/18 the LSAs have been updated to reflect the new Corporate Strategy. The LSAs include a list of key performance measures which are monitored during the year and over years included 10/10 survey results. These indicators are being continually revised as we determine what measures truly match the purpose of the service.

In 2018 the Council was awarded a gold PRide award by the Chartered Institute of Public Relations for a special edition of Fareham

Today covering *Where Next for Housing in Fareham.*



The Council has a corporate efficiency plan which identifies cost saving actions to offset funding reductions. In 2017/18 we made £817,000 of savings. In 2018/19 we are carrying out a series of discussions with Heads of Service to identify further opportunities for income generation and cost reduction which can feed into the next Financial Strategy.

The Council continues 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 by the Democratic Services team to keep it as a single reference source that meets the needs of its users.

In 2017/18 a complete review of the constitution was completed, including

finalising the Schemes of Delegation to Officers and Individual Executive members. A log of changes being made was also introduced.

A refreshed website and paper versions of the revised constitution will be published early in 2018/19. An annual report to the Audit and Governance committee is also being introduced to advise members on updates made during the year. This will be supplemented by separate reports to members where approval is needed for changes.

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

## Decision Making

The Constitution, including the Schemes of Delegation, set 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.

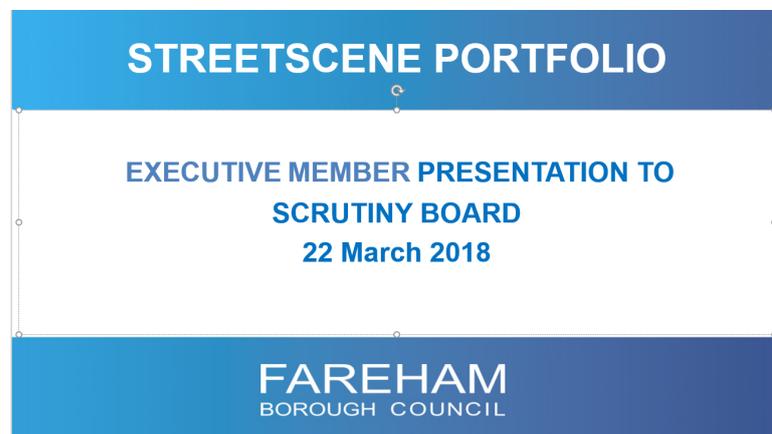
Where partnerships have been developed with other agencies, decision making powers and delegated powers are documented and presented to members.

# Scrutiny

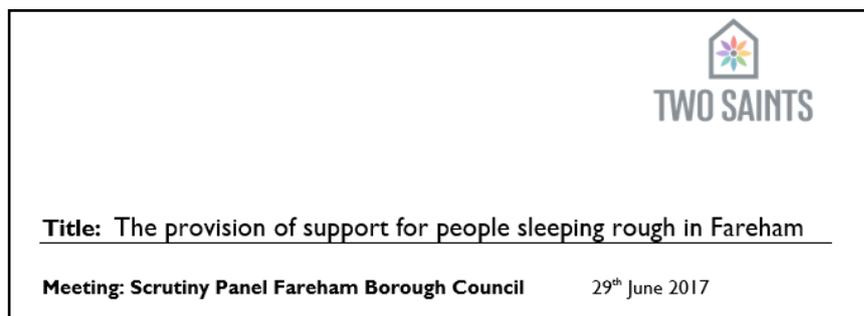
Our committee structure follows the Executive Leader and cabinet model, which requires us to have a Scrutiny function. This is carried out by the Scrutiny Board which meets every two months. The board is made up of nine councillors and reflects the political balance of the elected members.

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. In 2017/18 there were two decisions called in which related to the introduction of charges in pest control and the draft local plan.

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 2018/19.



The Board also scrutinises the activities of external agencies whose operations have an impact on the Borough. In 2017/18 two presentations were received from the police and 2 saints housing and a further presentation from Hampshire Fire and Rescue is planned for 2018/19.



The work of the Scrutiny Board is supplemented by five Policy Development and Review panels. The chairmen of the panels make up the Scrutiny Board. A review of the effectiveness of these scrutiny arrangements is planned for 2018/19.

# 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 and the trends. A standards sub-committee is set up when a significant breach by a member requires investigation and the conclusion is reported at the next meeting of the Audit and Governance Committee and Full Council. The standards sub-committee was not convened in 2017/18.

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 2018/19. All new employees have access to a copy of the code. Other arrangements, such as the register for 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 2018/19. A new platform for the Register of interests will also be developed in 2018/19.

An audit of "ethics" was carried out in 2015/16 which gave positive assurance that appropriate arrangements are in place to manage behaviours. Follow up work to the audit has commenced in April 2018.

## Whistleblowing

The Council's Whistleblowing Policy is reviewed by the Audit and Governance Committee as required. The Policy is available to all employees via the intranet where periodic updates are also displayed.

Focus groups were used in 2017/18 to challenge the effectiveness of the policy and a number of actions have been identified for 2018/19 including a) carrying out rebranding, b) implementing a relaunch of the new policy and c) roll out further training

for managers and employees.

Designated channels including electronic reporting methods are available for employees and members of the public.

Records are kept of incidents of whistleblowing and the results of investigations arising. Statistics are reported to the Audit and Governance Committee annually.

# 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 are reviewed individually with new members appointed in the year 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 2017/18, including sessions on the draft local plan and member safety.

Officer training and development is based around a simplified individual performance management process. A review of this process was undertaken using structured

Individual Performance Management
Manager's Review Template
STOP: (is there <u>any thing</u> that the employee might do in their role that you want them to stop)
START: (what is the employee not doing in their role that you want them to do)
CONTINUE: (what aspects of the employee's role work well that they should continue to do)
CHANGE: (what aspects of the employee's role should they change – maybe things that are working well but might benefit from a change)
General Comments

interviews in 2017/18. A number of actions have been agreed for implementation in 2018/19 including rolling out training and support for managers to assist them with delivering the Council's vision for individual performance management.

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. 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 2017/18 face to face training included a series of toolbox talks and awareness training and assessments on Hand Arm Vibration risks at the depot. In 2018/19 we will be using an external trainer to carry out corporate refresher training on the Regulation of Investigatory Powers Act and will be developing fire risk assessment training for officers visiting properties.



In 2017/18 we adopted a new approach to recruiting, developing and employing apprentices in line with the government apprenticeship levy. The new framework enables us to offer training opportunities on a wider basis than the previous traditional apprenticeship route. As at the end of 2017/18 we have 7 employees in the apprenticeship scheme.

# 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. In 2017/18 the legal partnership was named project team of the year at the Local Government Legal Awards 2017.



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 2017/18 we introduced a monthly verbal update to CXMT updating them on work

being carried out to prepare for the General Data Protection Regulation. Approximately 120 officers have attended workshops on the subject in the year.



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.

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.

During 2017/18 we defined a set of new Buying principles, following the Systems Thinking review of procurement which challenged how officers approach buying decisions. These were approved by the Audit and Governance Committee and are being used to direct the review of our Contract Procedure Rules. A new set of Rules will be presented to members for approval in 2018/19.

# 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 to be considered and reflected promptly in the Council's financial plans. 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. Accountants are established as finance business partners to the services they support and contribute to the development of their services.

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](http://www.fareham.gov.uk/pdf/about_the_council/councilport.pdf).

Twice yearly 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 managers to review the budgetary position and forthcoming pressures and opportunities to allow a forecast position to be established.

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.

In 2018/19 we will be developing a new high-level Capital Strategy report for Full Council to meet the requirements of the new Prudential Code.

# 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 puts the focus on managing risks as an everyday normal Council activity rather than using resources to maintain corporate risk registers. This policy consists of seven principles and

includes arrangements for monitoring the effectiveness of the policy.

The New Approach to Risk Management



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

Specific work is planned in 2018/19 to look at the ownership of risk inspections in public areas.

## Emergency Planning and Business Continuity

In accordance with the Civil Contingencies Act 2004, the Council worked in partnership with the Emergency Planning & Resilience Unit at Hampshire County Council during 2017/18 to maintain its readiness to respond to emergencies in the Borough.

Bi-monthly meetings identified 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 2017/18 the focus of specific training was on the housing role in an incident and the preparedness of rest centres in the evacuation phase of an emergency. We carried out a prepared rest centre exercise to test the preparedness of our rest centres to cope with an emergency. We also invoked the emergency plan in response to a pipe bomb being found on council land during construction work.

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 March 2018 as part of an unscheduled evaluation of the civic offices due to a gas leak.

From 1 April 2018 a new partnership will commence with the Portsmouth and Southampton City Councils' Emergency Planning Response and Resilience Team. This partnership will be driving through initiatives in the Councils emergency response processes and will also further develop recovery and business continuity processes. This new partnership will provide an expert resource for the council.

The focus for 2018/19 will be to embed the new arrangements with Portsmouth and Southampton City Council and identify any improvements that can be made to the workings and administration of the emergency control centre. We will also be reviewing and updating the corporate and individual continuity plans and re-evaluating the critical services.

# 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 completed 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. This has led to the identification of a significant multiple fraud in 2017/18 which we are preparing for prosecution in 2018/19.

Our focus in 2018/19 will be on

understanding our risk of Business Rates fraud and we will be undertaking a number of proactive campaigns; including the cross Hampshire pilot being organised by the Cabinet Office as part of the National Fraud Initiative.



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.

In 2017/18 we investigated 694 cases leading to 172 individual frauds or irregularities being found. These amounted to a total value of £284,821. The largest value of fraud found was for housing benefit payments (£227,512); the majority of this (£180,899) was found as a result of investigating council tax support cases.

Further statistics can be found on our Transparency webpage:

[http://www.fareham.gov.uk/about\\_the\\_council/financial\\_information/intro.aspx#fraud](http://www.fareham.gov.uk/about_the_council/financial_information/intro.aspx#fraud)

# 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. The Council maintains a Corporate List of its significant partnerships. This was last reviewed by the Chief Executive's Management Team in March 2018 to confirm the significance of the partnership, review any potential governance issues and review how each is performing.

The Council recognised seventeen partnerships of which ten were deemed significant to the Council in 2017/18.

Two new partnerships were introduced in 2017/18: Westbury Manor Museum partnership with the Hampshire Cultural Trust and the Internal Audit Partnership with Portsmouth City Council.

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, if there is one, and take an active part in discussions and decision making.



**GOSPORT**  
Borough Council



**Portsmouth**  
CITY COUNCIL



Fareham's Community  
Safety Partnership



portchester  
crematorium



push  
Partnership for  
Urban South  
Hampshire



BUILDING CONTROL  
PARTNERSHIP



PROJECT  
INTEGRA



EASTERN SOLENT  
COASTAL  
PARTNERSHIP



HAMPSHIRE  
CULTURAL  
TRUST

# Internal Audit and Audit and Governance Committee

The Council has an internal audit service which delivers a risk based plan of work approved by the Audit and Governance Committee. We have applied “Systems Thinking” to the provision of the service to focus on what matters to the organisation, We therefore carry out 3 strands of work with the opinion work only making up part of the plan.

system was brought up to date in 2016/17 and will be rolled out to users in 2018/19.

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

The service operates to the Public Sector Internal Audit Standards which were updated in March 2017.



In 2017/18 the service was jointly delivered in partnership with Portsmouth City Council. This helps the delivery of the whole scope of audit work and maintain independence. An exercise has also been carried out with other audits teams in Hampshire to document where assurances can 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

Our annual review concluded that in 2017/18 we fully conformed with 48 of the 52 Audit Standards and partially conformed with the other four. Compensating activities are in place which included an external assessment undertaken by our audit partners.

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

# 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 2018. The opinion given was that:

*The Council had a framework of governance, risk management and control for the year 2017/18 which was generally working effectively, although some opportunities to strengthen arrangements were found in the year. 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 based on the following evidence:*

- ⇒ *no "minimal" audit assurance opinions were again given this year;*
- ⇒ *income or expenditure errors were recorded in three audits in the year, totalling over £1,700;*
- ⇒ *the service audited which have undergone a Systems Thinking intervention (Homelessness) this year have been given a 'strong' audit assurance opinion;*
- ⇒ *new essential recommendations (20) were found in five areas of audit but managers have taken prompt action to address the issues found;*
- ⇒ *collaborative working on 6 system areas in the year have led to improved control and efficiency.*

*Significant areas noted where further action will enhance the adequacy and effectiveness of governance, risk management and control include:*

- ◇ *Carrying out manager briefings on the rules in the new Procurement and Contract Rules, and carrying out collaborative work on effective contract management.*

- ◇ *Implementing service action plans arising from the reviews of compliance with the General Data Protection Regulation.*
- ◇ *Improving management control and the equipment and stock controls in Ferneham Hall.*
- ◇ *Carrying out proactive counter fraud campaigns.*
- ◇ *Carrying out stock condition surveys and implementing asset management plans.*

*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:*

- ◇ *finalise the framework agreements for spend with contractors and suppliers used by Housing, Property and Building Services, which is in breach of FBC Contract Procedure Rules;*
- ◇ *fully embed the new system for managing costs associated with housing repairs;*
- ◇ *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;*
- ◇ *clarify the ICT security policies for the Council.*

# 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 2017 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 opted in to using the Appointed Person (Public Sector Audit Appointments) to lead on the appointment of our external auditors from 2018/19. This was won by Ernst and Young.

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

- Annual certification report from the External auditors 2016/17;
- Report of the Local Government Ombudsman 2016/17;

- Compliance Directive issued by the Department of the Environment, Food and Rural Affairs in relation to Air Quality (July 2017)
- DVLA assessment of our use of Web Enabled Enquiry facilities (August 2017) and Keeper at Date of Event enquiries (October 2017)
- Vehicle Operators Compliance Risk Score (April 2018) and Vehicle Test History (April 2017) assessed by the Driver and Vehicle Standards Agency;
- Health and Safety Executive inspection notice (January 2018)
- Inspection report from the Investigatory Powers Commissioner's Office (March 2018)
- Hampshire County Council review of our safeguarding arrangements (April 2018) and Building Control Partnership (May 2017)
- Compliance work undertaken to meet the requirements of the Public Service Network;
- Partnership coverage by other internal audit teams.



# Review of Effectiveness Conclusion

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;
- Highlights from Head of Audit's Annual Report 2017/18;
- summary of 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.

<b>Chief Executive's Assurance Group (CXAG)</b>			
<b>Review of Effectiveness of the Governance Framework 2017/18</b>			
<b>Conclusion options</b>	<b>Meaning</b>		
<b>Status known and OK</b>	The preliminary review concludes that CXAG do not need any further assurance on this area this year and no improvement action is needed. These are likely to have been the subject of specific assurance mechanisms through CXMT.		
<b>Status known with action</b>	The preliminary review concludes that CXAG do not need any further assurance on this area this year but assurance mechanisms during the year suggest we may want to include an improvement action.		
<b>Further Info needed</b>	CXAG would like further assurance coming back to another meeting.		
<b>Elements making up the Governance Framework</b>			
<b>Element</b>	<b>CXAG Conclusion</b>	<b>Areas already addressed 2017/18</b>	<b>Possible Actions for further improvement 2018/19</b>
<b>Essential Elements in the Guidance</b>			

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 2017/18 Annual Governance Statement

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

	Issue 2016/17	Status	Update 2017/18
1	Continue with the next phase of Systems thinking reviews of Council services.	Complete	Interventions have progressed in other areas of Street Scene (refuse and recycling, street cleansing, public open spaces, grounds maintenance and cemeteries, as well as expansion of the intervention in Information and Communication Technology (ICT).  The Vanguard method introduced to other services and departments, including Council Tax, Finance and Democratic Services.
2	Finalise the next 5-year corporate strategy, including an update of the Council's major projects.	Complete	The Corporate Strategy 2017-2023 has been finalised and published on our website:  <a href="http://www.fareham.gov.uk/about_the_council/strategies/keystrategies.aspx">http://www.fareham.gov.uk/about_the_council/strategies/keystrategies.aspx</a> .  It contains an updated list of projects and priorities.
3	Publish the new equal pay information required.	Complete	The required Gender Pay Gap information has been published on our website:  <a href="http://www.fareham.gov.uk/about_the_council/financial_information/intro.aspx">http://www.fareham.gov.uk/about_the_council/financial_information/intro.aspx</a>
4	Review our Freedom of Information request processes and publication scheme to allow us to meet the new Information Commissioners response targets.	In Progress	The review of the Freedom of Information process has identified the need to apply systems thinking to redesign the support process with a view to achieving efficiencies in resourcing.  The review of the Publication Scheme is in progress.
5	Review the implications of the General Data Protection Regulation and develop an action plan and training to meet the requirements.	Complete	The action plan has been completed and is being implemented via on-going tasks. Key tasks completed include a) delivery of workshops to all services, b) communication campaign including new intranet pages, c) development of a retention schedule.
6	Reconvene the member/officer working group to continue updating the constitution	Superseded	A decision was made to no longer use this mechanism. Instead Democratic Services lead on the review of the constitution and logging updates. Separate reports on changes are brought to members for approval.

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# Actions taken to address the issues raised in the 2017/18 Annual Governance Statement

	Issue 2016/17	Status	Update 2017/18
7	Review the progress and impact of the new individual performance management initiative.	Complete	Interviews held with 26 employees and managers across the organisation to understand how the changes that were made to the way we manage performance at Fareham have been adopted and identify if there are still things that could be done better and more effectively.
8	Finalise the review the Disciplinary Code of Conduct and Disciplinary Rules 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 2018/19.
9	Finalise and launch the revised employee gifts and hospitality and interests policy.	No progress to date	This will now be completed in 2018/19 when the new platform for registering interests is launched.
10	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.
11	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. During 2017/18 it was kept up to date and a briefing held with one service on its future use. Use of the system by all other services will be rolled out in 2018/19.
12	Two further employees to complete fraud accreditation training.	Complete	Two employees achieved accreditation under the Accredited Counter Fraud Specialist (ACFS) qualification in January 2018.
13	Roll out the new risk management approach covering what is expected from managers and employees.	Complete	Managers workshop held in July 2017 covering the new policy and how to embed it in the organisation. Full set of risk discussions now held and reports presented to Audit and Governance Committee.
14	Carry out emergency planning briefings and testing in relation to national incidents that occurred earlier in 2017.	Complete	In 2017/18 the focus of specific training was on the housing role in an incident and the preparedness of rest centres in the evacuation phase of an emergency. We carried out a prepared rest centre exercise to test the preparedness of our rest centres to cope with an emergency. Any actions arising, not already implemented, will be worked on during 2018/19.

# Planned Governance Improvements 2018/19

Whilst there have been a number of improvements made through the year, the Council strives for continuous improvement. Therefore, following the review of effectiveness, we have selected the following improvement opportunities, for priority action in the next year. Some of these relate to actions not yet fully complete from previous years:

Ref	Part of Framework	Planned Improvement	Lead officer
1	Community Communication	Refresh the e-panel to make the content more engaging and to ensure we are fully compliant with GDPR.	Head of Leisure and Corporate Services
2	Council's Vision and Outcomes	Develop a long-term plan for financing and prioritising the corporate projects	Head of Finance and Audit
3	Service Quality and Value for Money	Continue with the next phase of Systems Thinking reviews of Council services including Building Control, Tree Management and Street Scene.	Head of Leisure and Corporate Services
4	Service Quality and Value for Money	Carry out Finance Strategy reviews with Heads of Service and produce an action plan to bridge the future funding gap.	Head of Finance and Audit
5	Member and Officer Roles & Responsibilities	Introduce an annual report to the Audit and Governance Committee on updates made to the constitution.	Head of Democratic Services
6	Scrutiny	Complete the full review of the effectiveness of the Scrutiny Board and the Policy Development and Review Panels and implement any recommendations arising.	Head of Democratic Services
7	Codes of Conduct	Finalise the review of the Disciplinary Code of Conduct and Disciplinary Rules to update it and make it simpler for users. (B/Fwd)	Head of HR and ICT
8	Codes of Conduct	Finalise and launch the revised employee gifts and hospitality and interests policy. (B/Fwd)	Head of Finance and Audit
9	Training and Development	Develop fire risk assessment training for officers visiting properties.	Director of Fareham Housing
10	Training and Development	Develop a programme of training and support for managers of all levels to assist them with delivering the Council's vision for individual performance management.	Head of HR and ICT

# Planned Governance Improvements 2018/19

Ref	Part of Framework	Planned Improvement	Lead officer
11	Financial Management	Develop a new High-level Capital Strategy report for Full Council to meet the requirements of the new Prudential Code.	Finance Strategy and Development Manager
12	Internal Audit	Roll out the new action management system to service managers and improve information available on the level of action implementation. (B/Fwd)	Head of Finance and Audit
13	Compliance with relevant law and policies	Complete the review of the Contract Procedure Rules and Financial Regulation 15 (Procurement) and roll out the new policy to managers.	Head of Democratic Services and Head of Finance and Audit
14	Emergency Planning and Business Continuity	Review the approach to Emergency Planning and Business Continuity following the new Emergency Planning agreement with Portsmouth and Southampton City Council.	Head of Building Repairs and Maintenance Service

# 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:** 23 July 2018  
**Report of:** Director of Finance and Resources  
**Subject:** REVIEW OF WORK PROGRAMME

### **SUMMARY**

This report reviews the current work programme for the Committee.

### **RECOMMENDATION**

It is recommended that the Committee approve the work programme for the rest of the municipal year, as shown in Appendix A.

## **INTRODUCTION**

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

## **WORK PROGRAMME 2018/19**

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) The review of the Contract Procedure Rules and Financial Regulation 15 – Procurement has been completed early and will be presented at the July 2018 meeting.
  - (b) An update on the appointment of the external auditors for the certification work has been included in the July 2018 meeting's agenda.

## **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 2018/19 as at July 2018.

**Background Papers:** None

**Reference Papers:** Report to the Audit and Governance Committee – 12 March 2018 - 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 2018/19

Committee Function and Report Subject		Frequency	Last Covered	July 2018	September 2018	November 2018	March 2019
<b>COMMITTEE WORKING ARRANGEMENTS</b>							
Review of Work Programme and training plan		Quarterly	2018-19	Completed	YES	YES	YES and Annual Report
Review of the Functions of the Committee		3 yearly	2016-17				
Review of the Constitution		As needed	2017-18				
<b>ETHICAL FRAMEWORK AND STANDARDS</b>							
Standards of Conduct	Review of Code of Conduct for Members	As needed	2015-16				
	Review of member / officer protocol	As needed	2008-09				
	<b>Overview of Complaints against the Council</b>	Annual	2017-18		YES		
Member Training and Development	Review of Members Training and Development Programme	As needed	2015-16				
<b>GOVERNANCE FRAMEWORK</b>							
Framework	Local Code of Corporate Governance	As needed	2016-17				
	<b>Annual Governance Statement</b>	Annual	2018-19	Completed			
Key Policy	<b>Review of Financial Regulations</b>	3 yearly	2017-18	Completed early			
	<b>Review of Contract Procedure Rules</b>	3 yearly	2017-18				
	<b>Treasury Management Policy and Strategy</b>	Annual	2017-18			YES	YES - Policy and indicators
Risk Management	Policy	As needed	2016-17				
	<b>Risk Management Monitoring Reports</b>	6 monthly	2017-18		YES		YES
	<b>Business Continuity</b>	3 yearly	2014-15			YES	
	Specific Risk Management topics	As needed	None				
Counter Fraud	Counter Fraud Policy and Strategy	3 yearly	2016-17				
	Anti-Bribery Policy	As needed	2011-12				
	Sanctions and Redress Policy	As needed	2016-17				
	<b>Counter Fraud Annual Report</b>	Annually	2018-19	Completed			
<b>INTERNAL AUDIT ASSURANCE</b>							

<b>Committee Function and Report Subject</b>	<b>Frequency</b>	<b>Last Covered</b>	<b>July 2018</b>	<b>September 2018</b>	<b>November 2018</b>	<b>March 2019</b>
<b>Internal Audit Strategy</b>	3 yearly	2014-15				<b>YES</b>
<b>Internal Audit Annual Plan</b>	Annual	2017-18				<b>YES</b>
<b>Quarterly Audit Reports</b>	Quarterly	2018-19	<b>Completed</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>
<b>Head of Audit's Annual Opinion</b>	Annual	2018-19	<b>Completed</b>			
<b>EXTERNAL ASSURANCE</b>						
Update on Arrangements for Appointment of External Auditors	As needed	2017-18	<b>Extra Completed</b>			
<b>Annual Plan and Fee</b>	Annual	2017-18				<b>YES</b>
<b>Annual Audit Letter</b>	Annual	2017-18			<b>YES</b>	
<b>Annual Certification Report</b>	Annual	2017-18				<b>YES</b>
Specific reports from inspection agencies	As needed	2018-19 (RIPA)	<b>Completed (RIPA)</b>			
<b>STATEMENT OF ACCOUNTS</b>						
<b>Statement of Accounts</b>	Annual	2018-19	<b>Completed</b>			
<b>External Audit – Audit Results Report</b>	Annual	2018-19	<b>Completed</b>			
<b>OTHER</b>						
Updates on legal issues	As needed	2017-18				
Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
Number of Items			10	4	5	8

# FAREHAM

## BOROUGH COUNCIL

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

**Date:** 23 July 2018

**Report of:** Head of Democratic Services and Head of Finance & Audit

**Subject:** PROCUREMENT AND CONTRACT PROCEDURE RULES

#### **SUMMARY**

This report provides the details of the Vanguard Intervention review of Procurement, focussing on buying activities in excess of £20,000, and the subsequent review of Contract Procedure Rules (CPRs) and Financial Regulation 15 – Contracts and Procurement Procedures (FR15).

The Audit and Governance Committee is being consulted on the proposal to create a new Procurement and Contract Procedure Rules policy document which combines the previous CPRs and FR15 and incorporates the Procurement Guiding Principles.

#### **RECOMMENDATION**

It is recommended that the Audit and Governance Committee:

- (a) reviews the Procurement and Contract Procedure Rules policy document, as attached at Appendix B, and recommends the adoption of the policy to Council for approval; and
- (b) recommends to Council that the budget expenditure authorisation limits in Financial Regulation 4 are changed to match the limits for awarding and signing contracts in the new Procurement and Contract Procedure Rules, as outlined in Appendix A.

## **INTRODUCTION**

1. The Head of Democratic Services and the Procurement Manager gave a detailed presentation to the Audit and Governance Committee on 27 November 2017 about the work being carried out to improve the Council's procurement process using the Vanguard method. Draft buying principles were presented for comment and the Committee was advised that this review would inform work to revise the Council's Contract Procedure Rules, and Financial Regulation 15.
2. A further update report was presented to the Committee on 12 March 2018 at which the agreement was given on the approach to the review of the governing procurement rules.
3. This report provides an update on the conclusion of the Vanguard review and recommends the adoption of the new policy that had been drafted to meet the Buying Principles.

## **PROCUREMENT PRINCIPLES**

4. An outcome of the Vanguard review was to create a set of Buying Principles which would provide clear thinking for officers to check their reasons before beginning a purchasing process.
5. In designing the perfect system flow, it was identified that the key elements to take into account should be that it:
  - makes it easy for teams to access the supplies/goods/services they need to serve their customers, and does not create undue delays or waste work; and
  - demonstrates that we have achieved the best value for money out of taxpayers funds, in the buying decisions we've made; and
  - encourages (and certainly does not detract from), small businesses being part of the Council's supply chain.
6. The aim is to avoid the focus being purely on cost which can often drive the procurement process, cause unnecessary delays and restrict the route to market and instead move towards a focus on supporting customer satisfaction and achieving the best value for money (not necessarily the cheapest).
7. The following Procurement Principles were agreed by the Audit and Governance Committee at its meeting on 27 November:

- |  |
|--|
| <ol style="list-style-type: none"><li>1. Be clear about what you want and why you need it</li><li>2. Be able to justify your thinking to the person on the street who pays council tax</li><li>3. Pull in the Experts early</li><li>4. Anything over OJEU limit = must go out tender (non-negotiable)</li><li>5. Get the best deal for the Council you can</li><li>6. Engage with local SMEs (principles of FSB Engagement Accord)</li><li>7. Buyer beware</li></ol> |
|--|

## **REVIEW OF EXISTING RULES**

8. Having agreed the thinking methodology via the Procurement Principles, the focus of the review work shifted towards the review of the Contract Procedure Rules (CPRs), Financial Regulation 15: Contract and Procurement Procedures and the Procurement Sourcing and Threshold Table.
9. The existing policies were reviewed and for each rule the new buying principles were used as a guide to determine whether to keep, change or delete the rule along with considering if a new rule needed to be created.
10. The Audit and Governance Committee endorsed this approach at its meeting on 12 March 2018 and work began to create a single document which would merge CPRs, Financial Regulation 15 and the Procurement Threshold Table.

## **PROCUREMENT AND CONTRACT PROCEDURE RULES (PCPR)**

11. The Procurement and Contract Procedure Rules policy document, as attached at Appendix B, is presented to the Audit and Governance Committee for comment before being submitted to Council for approval in October.
12. The objective of the new policy is to bring about the following key changes:
  - to encourage positive behaviour when purchasing;
  - to have fewer thresholds and prescribed actions;
  - to introduce added safeguards; and
  - to reduce the need for waivers to be requested.
13. The single document is intended to provide guidance and options to officers undertaking buying activities whilst ensuring compliance where necessary.

## **FINANCIAL REGULATION 4 – AUTHORISATION LIMITS**

14. One of the aims of our review of Council policies is to keep any limits consistent and easy to remember, and therefore less likely to be breached in error. It is therefore recommended that the Council limits for authorising expenditure is changed to match the limits for awarding and signing contracts proposed in the new Procurement and Contract Procedure Rules.
15. The changes that would be needed in Financial Regulation 4 are summarised in Appendix A.

## **RISK ASSESSMENT**

16. The new Rules are moving towards encouraging positive behaviours rather than being prescriptive in what buyers do for their level of spend. This does give employees more flexibility in their procurement decisions but the Rules are underpinned with the requirement that employees must be able to justify all spend in terms of achieving a good deal for the customer and the Council. There are also added safeguards added to the policy to increase transparency of the spending decisions that are being made.

## **CONCLUSION**

17. The Audit and Governance Committee is now being consulted on the proposal to create a new Procurement and Contract Procedure Rules policy document which combines the previous CPRs and FR15 and incorporates the Procurement Guiding Principles.
18. The Committee is asked to:
  - (a) review the Procurement and Contract Procedure Rules policy document, as attached at Appendix B, and to recommend the adoption of the policy to Council for approval; and
  - (b) recommend to Council that the budget expenditure authorisation limits in Financial Regulation 4 are changed to match the limits for awarding and signing contracts in the new Procurement and Contract Procedure Rules, as outlined in Appendix A.

### **Background Papers:**

Draft versions of Procurement and Contract Procedure Rules policy document

Vanguard Review file

### **Reference Papers:**

Fareham Borough Council Constitution and Current Contract Procedure Rules (2013)

### **Enquiries:**

For further information on this report please contact Elaine Hammell (Ext 4344) or Leigh Usher (Ext 4553)

## Proposed Changes to Financial Regulation 4 – Authorisation Limits

	What can be authorised	Additional Rules	Level 1 Chief Executive Officer or Director	Level 2 Head of Service	Level 3 Other staff nominated by their Head of Service or Director
Current Limits	<p><b>Budget Expenditure</b></p> <p>Electronic authorisation of orders / instructions on efinancials, Orchard or Technology Forge</p>	<p>Any cheque over £50,000 must be countersigned by an officer with Financial Management authorisation.</p> <p>Any non-cheque payment over £50,000 must be additionally approved by an officer with Financial Management authorisation, who is different from the first authoriser.</p> <p>Any payment over £1,000,000 must have been approved by the Statutory Chief Finance Officer.</p>	<b>£1,500,000</b>	<b>£75,000</b>	<b>£10,000</b>
Proposed Limits	Manual authorisation of order forms, invoices or payment vouchers/certificate	<p>Any payment over £50,000 must be additionally approved by an officer with Financial Management authorisation, who is different from the first authoriser.</p> <p>Any payment over £1,000,000 must have been approved by the Statutory Chief Finance Officer</p>	No limit	<b>£100,000</b>	<b>£10,000</b>



# Procurement and Contract Procedure Rules



**Version 1 – July 2018 (draft)**

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## Appendices

A – Glossary

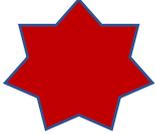
B – Procurement Guiding Principles

C – Route to Market Options

D – Guide to determine the appropriate type of legal agreement

E – EU Procurement Thresholds

## 1. Introduction

- 1.1 These Rules set out the approach that the Council uses for procurement and entering into legal agreements. They are the Rules that the Council will follow to adhere to its Procurement Guiding Principles as set out in [Appendix B](#).
- 1.2 These Rules apply to the buying of goods, works and services, entering into contracts and agreements and entering into income generating arrangements. However, the generic term *purchase* will be used and should be interpreted as meaning any of these things. 
- 1.3 These Rules apply to all procurement decisions, regardless of the source of funding.
- 1.4 A glossary of terms used in this document is attached as [Appendix A](#). All monetary values referred to in these Rules are the total purchase value with a supplier not annual values, and exclude VAT unless otherwise stated.

## 2. Compliance

- 2.1 Every Member, employee of the Council and anyone acting on the Council's behalf must comply with these Rules.
- 2.2 Where work is carried out in partnership or collaboration then the Rules of the 'lead' authority should be followed, unless it is agreed by all parties that the Rules of one of the partners prevails.
- 2.3 Failure to comply with these Rules is a breach of the Council's Disciplinary Code of Practice and will generally result in the application of the Council's disciplinary procedures.
- 2.4 These Rules can only be waived in exceptional circumstances and must be agreed by the Statutory Chief Finance Officer in consultation with the Monitoring Officer.
- 2.5 Approval is needed from only one of the Statutory Officers if the waiver would protect the Council's interests in an emergency, as defined in the glossary.
- 2.6 Any waiver approved should be included in the monthly newsletter to members.

### 3. Overriding Principle

The overriding procurement principle in these Rules is to think:



### 4. General Rules

- 4.1 **Comply with Legislation:** Every purchase must be made in compliance with all applicable legal requirements. *Examples are:*
- [Public Contract Regulations 2015 \(for OJEU requirements only\)](#)
  - [Construction \(Design and Management\) Regulations 2015](#)
  - [The Concession Contracts Regulations 2016](#)
  - [Anti-Bribery Act 2010](#)
  - [Public Services \(Social Value\) Act 2012](#)
- 4.2 Where there is a conflict between legislation and these Rules the legislation will prevail.
- 4.3 Where the estimated purchase value exceeds the relevant EU public procurement threshold, as set out in [Appendix E](#), the procurement must be compliant with the relevant legal requirements, as well as these Rules.
- 4.4 **Avoid Bias:** Employees must avoid any bias or perception of bias in their buying decisions. In particular:
- No purchase can be wholly awarded or managed by an employee or member who has other interests in the supplier. Any interests must be declared to the appropriate manager (employees) and Monitoring Officer (members) who should act to avoid any conflicts of interest.
  - No gifts or hospitality, other than simple refreshments, can be accepted by employees or members from any bidders to any contract being let by the Council.

- 4.5 **Know your Spend:** Heads of Service must be aware of what suppliers their service uses, the purpose of the purchase and the level of spend with them. This information should be shared with the relevant buyers in the service to ensure these Rules are being complied with.
- 4.6 **Justify Your Spend:** Buyers must act in the best interest of the tax payer and the Council at all times when making purchases. They should therefore be able to justify that:
- a) There is a valid reason for making the purchase.
  - b) The purchase meets the needs of the customer/service and is fit for purpose.
  - c) The purchase is affordable and use of a budget for this purpose will be approved.
  - d) The purchase meets the due diligence requirements of the Council. ([see below](#))
  - e) Value for money is achieved at the point of purchase.
  - f) There has been no artificial splitting of the purchase to avoid these Rules or reduce the potential for fair and open competition.
  - g) Consideration is given to the whole life costs of the purchase.
- 4.7 **Due Diligence:** The due diligence requirements of the Council are that the appropriate risks and mitigations have been considered, where applicable to the purchase; such as:
- a) Health and Safety arrangements
  - b) Right to work in the UK
  - c) Insurance cover (as stipulated in Financial Regulation 10)
  - d) Professional Accreditation
  - e) General Data Protection Regulation (GDPR) compliance
  - f) Safeguarding arrangements
  - g) Financial stability
  - h) Discretionary or mandatory exclusions (e.g. criminal records)

## 5. Significant Purchases

5.1 Early conversations must be held with the Council's advisors when planning a 'Significant Purchase'. These are purchases which:

- a) are a new and complex purchase for the service;
- b) or, are organisationally sensitive;
- c) or, are over the "**Significant Value Threshold**" which is defined as:
  - any single purchase greater than or equal to **£100k**;
  - or any continuous spend with a supplier expected to be greater than or equal to **£25k** each year;
  - the spend with the supplier all falls under one Head of Service.

The 'Significant Purchase' process can also be followed for any purchase where additional support is needed.

5.2 The conversations should involve the buyer, a member of the Procurement Team, the relevant finance business partner, and other relevant experts.

5.3 The outcomes of the conversations are to agree and record:

- a) the justification of the purchase;
- b) the sources to be used to fund the purchase and any approvals needed to agree the use of funds for that purpose;
- c) the appropriate route to market; ([See Section 7](#))
- d) due diligence requirements; ([See Section 4.7](#))
- e) the best form of tender documentation to be used, if relevant, to maximise engagement with the market;
- f) who will approve the award of the contract to a supplier and any key decision notifications needed; ([See Section 12](#))
- g) the type of legal agreement needed, if any. ([See Section 13](#))

5.4 **Escalation:** Where agreement cannot be reached the proposal should be escalated and where necessary an officer panel will be convened, consisting of 2 of the following: Head of Paid Service, Section 151 Officer, Monitoring Officer, Solicitor to the Council, Head of Finance and Audit, and Head of Democratic Services.

## 6. Understanding the Market and Possible Solutions

- 6.1 Research should be carried out before making a purchase to ascertain:
- a) The availability of what is required and/or other solutions available in the market to achieve the required outcome.
  - b) Suppliers in the market place who can provide what is required.

The level of research carried out should be proportionate to the risks associated with the purchase, such as the value, types of good and service, and sensitivity.

- 6.2 **Local Businesses and SMEs:** The Council's policy is to support local businesses, where there is no detriment to the provision of Council services, as a way of assisting the local economy recognised by the Public Services (Social Value) Act 2012.
- 6.3 We also aim to support local Small and Medium-sized Enterprises where possible and are signed up to the Federation of Small Businesses '[Small Business Engagement Accord](#)'. The accord is a voluntary code of practice for local authorities in the South East which seeks to encourage a more proactive approach to engaging with local businesses.
- 6.4 We should therefore aim to invite at least one local SME to compete for a purchase, where possible. See [Appendix A](#) for definitions of local and SME.

## 7. Routes to Market

- 7.1 The appropriate route to market to be used should be considered on a case by case basis. Examples of different routes that could be considered are summarised in [Appendix C](#). This list is not exhaustive and alternatives may be used where it is in the interests of the Council.
- 7.2 **Negotiations:** Negotiation with preferred suppliers is permitted as a route to market and during the procurement process to get the best deal for the Council, where relevant and when legally permissible (e.g. not allowed if OJEU restricted or open procedure route being used).
- 7.3 **Tendering:** The route to market chosen should be one of the tender options if any of the following apply:
- a) we are seeking better knowledge of what is available in the market;
  - b) there are likely to be a few suppliers interested;

- c) we have clearly specified what we are wishing to purchase;
- d) we are looking for innovative solutions;
- e) the purchase is organisationally sensitive or deemed high risk;
- f) it is believed that better value may be achieved through competition.

7.4 Assistance from the Procurement Team must be sought if using a tender route.

## **8. Preparation of Tender Documentation**

- 8.1 Templates of appropriate documentation for use during tenders should be maintained by the Procurement Team and adapted to maximise engagement with the market.
- 8.2 The use of alternative tender documentation should be approved by the Procurement Team.

## **9. Advertising Opportunities**

- 9.1 Where the Council decides that the route to market needs to be advertised, the opportunities should be advertised on the Council's Business Portal (the South - East Business Portal) to seek expressions of interest from suitably qualified suppliers.
- 9.2 Any opportunity which is advertised, where the purchase value is expected to be **£25,000 or more**, must also be advertised on the Government's Contract Finder site.

## **10. Submission and Opening of Tenders**

- 10.1 All invitations to tender must specify requirements for their submission. Such requirements should include a time by which tenders must be received by the Council. Any decisions to change the tender deadline must be agreed by the Procurement Team and lead buyer and recorded and publicised.
- 10.2 All tenders should be managed through the South-East Business Portal (SEBP). Support from the Procurement Team should be provided to assist suppliers requesting help with electronic tendering.
- 10.3 All procurement submissions that have used the tender route should be electronically unsealed by a member of Procurement Team after the tender

deadline date. The functionality of the South-East Business Portal will be used to maintain the audit trail of the tender submissions and opening.

## 11. Tender Evaluation and Selection

11.1 An evaluation matrix should be prepared by the Procurement Team (including the appropriate weightings against the Cost/Service/Quality elements) as part of the initial tender documentation.

11.2 A completed evaluation/scoring matrix must be produced to support the selection decision in a level of detail that will allow meaningful feedback to bidders.

## 12. Approval and Award of Contract

12.1 Approval must be sought from the appropriate authoriser to award the contract to the highest scoring tenderer, in accordance with the following table below:

Total Purchase Value	Authoriser
Up to £100,000	Head of Service
£100,001 to £250,000	Director or Chief Executive Officer
£250,001 to £500,000	Individual Executive Member
Over £500,000 within Council budget and policy framework	Executive Committee or Full Council
Over £500,000	Full Council

12.2 **Other Member Consultation:** If spend involves one of the following, purchasers should consult with the relevant Executive Portfolio holder before awarding the contract:

- Significant assistance to deliver a corporate priority.
- Purchase relates to a regulatory responsibility e.g. gas servicing.
- Organisationally or politically sensitive.
- There are any potential officer conflicts of interest.
- A possible adverse reaction in the market place leading to challenge.

12.3 All awards made over **£250,000** constitute a key decision and should be formally recorded and reported to the next meeting of the Executive or Full Council.

12.4 **Feedback to Tenderers:** There should be communications with the unsuccessful tenderers to explain why they were unsuccessful in a tender exercise.



## 13. Type and Content of Legal Agreement

13.1 The type of legal agreement to be used for a purchase must be decided before engaging with the market. This should include consideration of the following:

- **Document Type:** What is the appropriate type of document to use for that contract? (e.g. Purchase Order, JCT, call-off agreement, services agreement)
- **Contract versus Deed:** Are the value or risks of the contract such that we want the added protection of a deed?

13.2 The guide in [Appendix D](#) should be used to aid this consideration.

## 14. Signing and/or Sealing Contracts and Agreements

14.1 **Signing an Agreement or Contract:** Only Heads of Service and above can sign a contract or agreement on behalf of the Council in accordance with the following table:

Total Agreement Value	Signatory
Up to £100,000	Head of Service
£100,001 or more	Director or Chief Executive Officer

14.2 This Rule includes:

- agreements which tie the Council into expenditure (e.g. maintenance);
- agreements which tie the Council into a set of terms and conditions (e.g. grant award);
- contracts awarded through a tender process.

Purchase orders are excluded and can be authorised in accordance with Financial Regulation 4.

14.3 **Sealing a Deed:** Any contract to be entered into as a deed should be sealed. The officers authorised to sign the seal are identified in part 1 Chapter 13 of the Constitution.

14.4 In exceptional circumstances where the seal is not available the deed can be signed by 2 officers who are authorised to sign the seal.

## 15. Contract Records

- 15.1 **Central Register:** The Council must maintain a Central Register of all contracts that it has entered into. The following types of contract are exempt from this requirement and will be managed by lead services: Purchase Orders, Employee Contracts, Tenancy Agreements and Tree Preservation Orders.
- 15.2 All original and signed copies of a contract, must be held in a secure location for the term of the contract (including any agreed extension periods), plus the statutory limitation period (6 years for contracts under hand, 12 years for deeds) plus two years. They must be marked in a way that they can be cross-referenced back to the entry record on the Central Register.
- 15.3 **Service Contract Records:** Heads of Service must be aware of what contracts their service has in place and where the documentation is held.
- 15.4 Heads of Service are responsible for ensuring that:
- ✓ summary details of any contract that has been entered into, that binds the Council to the terms and conditions of the contract, have been entered on the Central Register;
  - ✓ the original signed/sealed contract and any subsequent signed/sealed variations, have been stored in a secure location, and can be referenced back to the Central Register;
  - ✓ an electronic copy of the contract and any subsequent variations to the contract that are entered into during its term are stored in their service's filing areas.
- 15.5 **Right of Access to Documents:** At any stage of a contract the Statutory Chief Finance Officer or their representatives have the right to examine contract records and be entitled to make all enquiries and receive such information and explanation as they may require to confirm the accuracy of the records.
- 15.6 Non-employees employed to supervise and manage contracts on the Council's behalf should be required to provide documents relating to the contract for inspection by the Council, when required. On completion of the contract all such records should be transferred to an appropriate Council manager.
- 15.7 **Document Retention:** All tender and contract documentation should be retained in accordance with the Council's [retention policy](#).

## 16. Contract Management

16.1 **Contract Payments:** The Council has signed up to the [Prompt Payment Code](#). The Prompt Payment Code signatories undertake to:

- ✓ Pay suppliers on time within the terms agreed at the outset of the contract and without changing payment terms retrospectively and without changing the length of payment for smaller companies on unreasonable grounds.
- ✓ Give clear guidance to suppliers by providing clear and easily accessible guidance on payment procedures ensuring there is a system for dealing with complaints and disputes and advising them promptly if there is any reason why an invoice will not be paid to the agreed terms.
- ✓ Encourage good practice by requesting lead suppliers to adopt the code throughout their own supply chains.

16.2 **Payment in Instalments and Retentions:** Payments for works made in instalments can only be made on an official certificate, the format of which has been approved by the Statutory Chief Finance Officer. These should be issued by the officer(s) named in the contract.

16.3 The certificate should clearly show the total contract sum, any variations, cumulative total and payments and VAT paid to date, any retention sums kept and amount due for payment on that instalment.

16.4 **Variation Orders:** Each variation to the original contract should be priced or have an estimated price and a record kept. They should be confirmed and authorised in writing by the contract manager or their deputy.

16.5 Where one or more variation orders cause the contract sum to increase by the greater of 10% or **£50,000** or more, they should be reported in the next report to the Executive.

16.6 **Contractor Claims:** Financial claims from contractors in respect of matters not clearly within the terms of an existing contract should be referred to Legal Services for consideration of the Council's legal liability and to Financial Services to assess the extent of any financial liability.

16.7 **Extending Contracts:** Contracts can only be extended in accordance with the terms of the original contract, and generally should not be extended for more than 2 consecutive occasions without reconsidering the market and assessing the associated risks.

16.8 **Extension to a Call-off Agreement:** This is only possible when the terms and conditions of the call-off provides for such an extension.

## 17. Oversight of these Rules

17.1 **General:** The Procurement Team and Finance Business Partners will provide general oversight of adherence to these Rules and should log all Significant Purchase opportunities that they have been notified of.

17.2 **Transparency to Members:** Any 'Significant Purchase' award that has been made by officers should be published within a month to members.

17.3 **Audits:** In addition, testing by the internal audit team of a sample of suppliers above and below the **Significant Value Threshold** will be carried out each year.

17.4 **Annual Report:** An annual report should be presented to the Chief Executive's Management Team providing information on how these Rules have been implemented in the preceding year.

17.5 This should include a summary of the different routes to market used for significant purchases and the results of the audit testing.

17.6 This report will also serve as a source of assurance to the Chief Executive's Assurance Group and the Annual Governance Statement presented to the Audit and Governance Committee.

## GLOSSARY

### BAFO

Best and Final Offer applies to the final of a multi stage (negotiated) procurement process whereby the contracting authority is seeking each bidder's best and final offer on which the contract will be ultimately awarded.

### Call-Off Agreements

A call-off agreement can be let from a framework either by direct award or through a mini-competition process. It is an individual contract under a framework agreement which benefits from being treated as if the full procedural steps prescribed by public procurement law have already been fulfilled. The call-off contract may technically be longer than four years and may extend beyond the expiry date of the framework itself albeit that there would need to be clear justification for that.

### Concession

See income generating arrangements.

### Contracts

A contract relates to an agreement between at least two parties and consists of an offer, acceptance and consideration creating reciprocal rights and obligations between those parties. A purchase order is included in the definition of a contract.

### Emergency



Major threat to life, property, security or the environment, or significant damage to the running of any of the Authority's functions or services.

### Framework Agreement

A Framework Agreement is an agreement between one or more contracting authorities and one or more potential suppliers for the supply of goods, services or works which forms a pre-procured arrangement from which the contracting authority can purchase those goods, services or works, either directly from a framework supplier or following a mini-competition between the framework suppliers. The maximum duration for a Framework Agreement is 4 years (except in certain specified circumstances). Framework Agreements may be structured as single supplier or multi-supplier agreements.

A Framework Agreement does not guarantee that contracting authorities will place any specific £value or volume of business with the awarded framework suppliers. However, where operational demand exists you are encouraged to use available framework suppliers.

Framework Agreements are commonly used in the case of repetitive purchases where the contracting authority knows it will have a requirement but does not know the precise quantity or quantities which it will require. It therefore establishes a pre-existing procured arrangement under which suppliers will, when the time comes, be able to meet the Council's needs.

Framework Agreements may be set up by Central Purchasing Bodies (e.g. Government Procurement Service (GPS), Pro5 procurement organisations, regional buying consortiums) to allow other contracting authorities to benefit from using them.

## Goods / Supplies



These contracts relate to the purchase, hire, siting or installation of goods, but not their maintenance.

**For example: equipment, clothing, vehicles & spare parts, office stationery, consumables, gas.**

## Income Generating Arrangements



There are a number of different types of contract relating to arrangements where the contractor bears a significant part of the risk of being rewarded for the works, goods and services which it provides rather than involving an obligation on the Council to pay the contractor for them. It could involve a right for the Council to receive income in relation to or generated by the provision of the works, goods and services provided by the contractor. Examples include:

- **Concession** – Operator for Leisure Centre (management fees are received on a regular basis to the Council from the operator having gone through a formal procurement process)
- **Licence/Consent** – Agreement to allow car washing franchises to operate from our car parks. Whilst there is no obligation to perform the services the way that operators are selected does fall within the procurement regime.

## Local Businesses

Local Businesses are for the purpose of these Rules regarded as suppliers which are geographically situated within the Solent Local Enterprise Partnership (LEP) economic area comprising of the Isle of Wight, the two cities of Portsmouth and Southampton, the M27 corridor and the Solent waterway.

## Off-The-Shelf

Something readily available from a range of suppliers which is not designed or built specifically for that purchaser's own needs.

## Public Contracts Regulations 2015



The Public Contracts Regulations 2015 (“PCR 2015”) implement in England and Wales the latest EU Directive 2014/24/EU on public sector procurement and set out the current rules governing public procurement activity. They came into force on 26 February 2015.

## Purchase

Includes all the following:

- ✓ buying goods, works and services;
- ✓ entering into contracts and agreements
- ✓ entering into income generating arrangements.



## Services



These contracts relate to the provision by a person or other entity to provide services.

**For example: consultancy agreements, provision of maintenance services, provision of professional services, cleaning services.**

## Significant Purchase

These are purchases which:

- are a new and complex purchase for the service;
- or, are organisationally sensitive;
- or, are over the “Significant Value Threshold”:

## Significant Value Threshold (SVT)

- any single purchase greater than or equal to **£100k**
- or any continuous spend with a supplier expected to be greater than or equal to **£25k** each year
- the spend with the supplier all falls under one Head of Service.

## SMEs

All the following are defined as Small and Medium-Sized Enterprises.

- Micro Business = less than 9 employees & annual turnover under £1.6m
- Small Business = less than 49 employees & annual turnover under £8.3m
- Medium Business = less than 249 employees & annual turnover under £41m



**If both parts cannot be satisfied, the turnover value will prescribe if the supplier is a micro, small or medium sized business**

## South East Business Portal (SEBP)

A joint procurement portal used by many Local Authorities in the south-east region to advertise forthcoming contract opportunities and as a register of awarded contracts. The portal is used to bring buyers and suppliers together electronically making it easier to communicate opportunities for the local economies. <https://sebp.due-north.com/>

### Statutory Officer

Officers of the Council who are assigned in the Council's Constitution to perform these 3 statutory roles:

- Section 151 Officer (Finance)
- Monitoring Officer
- Head of Paid Service (usually the Chief Executive Officer)

### Tender

See table of options in Appendix C that fall under this definition in these Rules.

### Total purchase value with a supplier



The total purchase value with a supplier would typically cover **4 years spend** with that supplier, excluding VAT.

### Works



These contracts relate to construction, demolition, building and civil engineering work and completion work such as joinery, plastering and decoration. It includes major repairs or complete refurbishment.

**For example: building a sports pavilion, resurfacing a road, repairing a roof, installing a heating system.**

**PROCUREMENT GUIDING PRINCIPLES**

**1. Be clear about what you want and why you need it**

- How will the purchase benefit your customers?
- Do you know what you want?
- Do you know the market?
- Is this the best deal for the Council?
- Can you afford it within your budget?
- Is this the best solution or is there another way to achieve the desired outcome?

**2. Be able to justify your thinking to the person on the street who pays council tax**

- Treat the spend as if it is your own money
- Be ready to assist in evidencing the thinking/rationale for your approach
- Comply with the Council's Anti-Bribery Policy - and know that you can rely upon it

**3. Pull in the Experts early**

- Have conversations with the Procurement Team and your Finance Business Partner to help agree the right approach.
- Ask for and accept critical friend challenge
  - Be ready to answer - do you know your market, do you have the money, how does this spend help your customer or internal stakeholder, is this spend the most economical way to achieve that outcome

**4. Anything over OJEU limit = must go out tender (non-negotiable)**

- Heads of Service to authorise orders and invoices over this value
- Need mechanism to tell people what the limit is when it changes - HoS and FBPs told - also SID page with thresholds.
- Advertise on Contracts Finder and other means

**5. Get the best deal for the Council you can**

- Not always the cheapest
- What does good look like when you're buying something?
- Consider service implications and quality
- Take into consideration whole life costs
- This Council encourages negotiation with preferred suppliers, where relevant and when permissible (not if OJEU restricted or open procedure routes)

**6. Engage with local SMEs (principles of FSB Engagement Accord)**

- Don't close the door on SME businesses – help them to work with us
- Meet the buyer events

**7. Buyer beware**

- Remember the risk is on the buyer
- Checks on the supplier need to be carried out – supply vetting

## Route to Market Options

This list is not exhaustive and alternatives may be used where it is in the interests of the Council

ROUTE	Examples of Use
<b>Non-Tender Routes</b>	
<b>Electronic Catalogues</b>	Use of pre-agreed arrangements the Council has with a supplier. Examples include stationery & protective clothing online catalogues for purchasing goods via virtual credit card arrangements.
<b>In-house provision</b>	Use of other parts of the Council able to provide the service.
<b>Corporate Contracts</b>	Purchasing from a contract the Council already has in place which can accommodate that additional need. e.g. Tree maintenance services, cleaning contract, legal partnership
<b>Direct approach</b>	Direct engagement of a known supplier who is capable of meeting the Council's needs and provides value for money for the tax payer. This route must NOT be used where a conflict of interests exists with the supplier or where a competitive process is required.
<b>Contracts with controlled entities</b>	Under PCR 2015 a contracting authority (such as a council) can directly award a contract to another body (such as a local authority company) if all the following conditions are met: <ul style="list-style-type: none"> <li>✓ The contracting authority exercises control over that body which is similar to the control it exercises over its own departments.</li> <li>✓ More than 80% of the activities of the controlled body are carried out performing tasks entrusted to it by the controlling contracting authority</li> <li>✓ There is no direct private capital participation in the controlled body</li> </ul>
<b>Shared Service with another public authority</b>	Under PCR 2015 Regulation 12(7) two or more contracting authorities can enter into a shared service agreement if the following conditions are met: <ul style="list-style-type: none"> <li>✓ the contract establishes or implements a co-operation between the participating contracting authorities with the aim of ensuring that public services they have to perform are provided with a view to achieving objectives they have in common;</li> <li>✓ the implementation of that co-operation must also be governed solely by considerations relating to the public interest (which includes meaning that it should not be a means to generate profits);</li> <li>✓ and the participating contracting authorities perform on the open market less than 20% of the activities concerned by the co-operation.</li> </ul>
<b>Soft market testing</b>	Pre-tender research into suppliers and their prices. E.g. web searches, phoning suppliers, peer recommendations. It includes testing commercial market capabilities of meeting a set of requirements such as identifying whether there are enough interested suppliers to maintain competitive pressures.
<b>Obtaining 3 Quotes</b>	May be used following soft market testing exercise whereby suitably qualified and capable suppliers may provide a quotation direct to the service.
<b>Auctions</b>	Procurement through auctions is only permissible in exceptional circumstances. In these cases, the Council's policy and procedures for auctions as set out in Financial Regulations Support Document 5 must be followed.

<b>Tender Options – Non-OJEU only</b>	
<b>Framework Agreement – direct call off from existing</b>	Direct award from a pre-existing framework in accordance with the process for doing so set out in that framework. The framework's terms and conditions will apply to each such call-off.
<b>Framework Agreement – mini competition</b>	A closed competition between the suppliers on a framework conducted in accordance with the process outlined in that framework.
<b>eRequest for Quote</b>	Opportunity advertised on the South-East Business Portal and managed independently by the Procurement Team. Lightweight tender and usually of a lower contract value.
<b>Closed Tender</b>	This is the process when selected organisations are invited to submit a tender following soft market testing, or using the knowledge of the sourcing officer of the suppliers available in the market. This route to market must be approved by the Procurement Team and is not available for procurements under PCR 2015.
<b>Tender Options – Any</b>	
<b>Occasional Joint Procurement</b>	For example, HIOWPP (Hampshire & Isle of Wight Purchasing Partnership) frameworks available to all members.
<b>Open Procedure Tender</b>	One stage regime. Generally used if the purchase is for something which is readily available from a range of suppliers and whose characteristics are simple to evaluate or where there is a very limited number of potential suppliers.
<b>Competitive procedure with Negotiation</b>	A multi-stage procurement procedure for more complicated needs involving a gradual reduction of participating bidders and interactive sessions with participating bidders to help shape their final proposals.
<b>Competitive Dialogue</b>	A procedure which is very similar to the Competitive Procedure with Negotiation but without flexibility to potentially accept an initial bid submission.
<b>Innovation Partnership</b>	A relatively new type of procurement procedure involving multiple stages and geared towards developing an ongoing relationship to develop innovative solutions.
<b>Dynamic Purchasing System (DPS)</b>	For commonly used purchases and open to any economic operator who satisfies the selection criteria to join at any time. Involves a lot of supplier management as each advertised need requires a full submission which needs evaluation.
<b>Tender Options (OJEU Only)</b>	
<b>Restricted Tender – Goods and Services</b>	Two stage pre-qualification and tender regime. The restricted process for Goods and Services must only be used for over OJEU threshold tenders.
<b>Restricted Tender - Works</b>	Two stage pre-qualification and tender regime. For <b>works contracts above the services and goods threshold</b> , you can use a pre-qualification stage. Otherwise the restricted process for Works must only be used for over OJEU thresholds.

## Guide to Determine the Appropriate Type of Legal Agreement

### Decision 1 - Document Type

Nature of the Purchase	Examples of Options
<p><b>Goods</b> not using a framework agreement</p>	<ul style="list-style-type: none"> <li>• <b>Purchase Order</b> standard terms &amp; conditions – typically used for lower value arrangements</li> <li>• <b>Supply of Goods Agreement</b> (valued below £100,000)</li> <li>• <b>Standard Supply of Goods Agreement</b> (valued above £100,000)</li> </ul>
<p><b>Services</b> not using a framework agreement</p>	<ul style="list-style-type: none"> <li>• <b>Purchase Order</b> standard terms &amp; conditions – typically used for lower value arrangements</li> <li>• <b>Services Agreement</b> (valued below £100,000)</li> <li>• <b>Standard Services Agreement</b> (valued above £100,000)</li> </ul>
<p><b>Works</b> not using a framework agreement</p>	<ul style="list-style-type: none"> <li>• <b>Purchase Order</b> standard terms &amp; conditions typically used for lower value arrangements</li> <li>• <b>JCT Minor Works</b> with associated Standard schedule of amendments where the works are technically straightforward and there is no design input from the contractor (valued below £50,000)</li> <li>• <b>JCT Minor Works with Design</b> with associated standard schedule of amendments where the works are technically straightforward and there is some design input from the contractor (valued below £50,000)</li> <li>• <b>JCT Design and Build</b> with associated standard schedule of amendments where the works are designed by the contractor based upon outline requirements provided by the Council</li> <li>• <b>JCT Measured Term</b> with associated standard schedule of amendments where there is a regular flow of maintenance and minor works (including improvements) to be carried out by a single</li> </ul>

Nature of the Purchase	Examples of Options
	<p>contractor over a specified period of time under a single contract where the work is to be instructed from time to time (each instruction being an order) and measured and valued on the basis of an agreed schedule of rates.</p> <p>Note: Where the nature of the works is more complicated and /or of high value then more detailed JCT contract forms should be used for example, JCT Intermediate Building Contract or JCT Standard Building Contract (either with or without some contractor design as appropriate).</p> <p>Where the works involve the installation of a system then the NEC3/NEC4 Engineering and Construction Contract or the MF/1 General Conditions of Contract should be used.</p>
<p><b>Setting up your own framework</b></p>	<ul style="list-style-type: none"> <li>• <b>Standard Framework Agreement</b> – contains a pro forma call-off agreement. This is a services-based template being the most likely need.</li> </ul>
<p><b>Calling off from a third party pre-existing framework</b></p>	<ul style="list-style-type: none"> <li>• Utilise the <b>form of the call-off</b> contained in the framework</li> <li>• Where the framework does not contain a form of call-off use the <b>Standard Call-Off</b> (tailored as necessary)</li> </ul>

## Decision 2 - Contract or Deed

<p><b>When to use a Deed</b></p>	<p>When there is a risk that there might be no consideration (i.e. a unilateral promise without giving something in return)</p> <p>AND / OR</p> <p>When you want the period of potential liability (applying to both parties) for breach of contract to last for 12 years rather than 6 years.</p> <p><b>Works contracts</b> should ordinarily be made by deed.</p>
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## EU Public Procurement Thresholds

Start date of Thresholds = 1 January 2018 (subject to revision on 1 January 2020)

Goods / Services	<b>Greater than £181,302</b>
Goods / Services – Social and Other Specific Services subject to the <b>Light Touch Regime.</b>	<b>Greater than £615,278</b>
Works	<b>Greater than £4,551,413</b>
Concessions	<b>Greater than £4,551,413</b>



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

