

FAREHAM

BOROUGH COUNCIL

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

Date: Monday, 22 July 2019

Venue: Collingwood Room - Civic Offices

PRESENT:

Councillor J E Butts (Chairman)

Councillor S D Martin (Vice-Chairman)

Councillors: P J Davies, T Davies, Mrs C Heneghan, J G Kelly and
I Bastable (deputising for Mrs T L Ellis)

**Also
Present:**



1. APOLOGIES

An apology of absence was received from Councillor T L Ellis.

2. MINUTES

RESOLVED that the minutes of the Audit and Governance Committee meeting held on the 11 March 2019 be confirmed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

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

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

Councillor P J Davies declared a Pecuniary Interest in relation to item 7 – Statement of Accounts, in that he receives a pension through the Hampshire Pension Fund. He remained in the room for the duration of the item and took part in the debate.

5. DEPUTATIONS

There were no deputations made at this meeting.

6. EXTERNAL AUDIT - AUDIT RESULTS REPORT

At the agreement of the Chairman this item was brought forward on the agenda to allow the Committee to consider this item prior to approving the Statement of Accounts.

At the agreement of the Chairman the recommendation was altered from the original report, to illustrate that the letter of representation was not signed until the Committee had considered item 7 – Statement of Accounts.

The Committee considered a report by the Deputy Chief Executive Officer on the External Auditors' (Ernst & Young LLP) annual results summarising findings from their audit of the 2018/19 Statement of Accounts.

RESOLVED that the Audit and Governance Committee noted the contents of the Annual Results Report (Appendix A).

7. STATEMENT OF ACCOUNTS

The Committee considered a report by the Deputy Chief Executive Officer on the Statement of Accounts for 2018/19.

Councillor P J Davies declared a Pecuniary Interest in this item as he receives a pension through the Hampshire Pension Fund. He remained in the room for the duration of the item and took part in the debate.

An updated version of Appendix A – Statement of Accounts was tabled at the meeting and is attached to these minutes. The changes are highlighted throughout the document and relate to the required changes to the provisions for the Local Government Pension Scheme following the McCloud judgement.

The Finance Manager addressed the Committee to run through the key issues and matters of interest set out in the covering report. The highlighted updates in the tabled – Statement of Accounts at Appendix A were explained in more details to the Committee and noted.

The Finance Manager addressed the Committee to run through the key issues and matters of interest. The updates to the Statement of Accounts were explained in more detail and the Committee were asked to note some of the figures in the main report would now be incorrect due to the last-minute updates highlighted in Appendix A.

RESOLVED that: -

- (a) the Committee approved the audited Statement of Accounts for 2018/19, as attached in Appendix A to the report, for publication by the 31 July 2019, subject to the external auditors completing their outstanding procedures and any further amendments being agreed by the Deputy Chief Executive Officer in consultation with the Chairman of the Audit and Governance Committee; and
- (b) the Deputy Chief Executive Officer and the Chairman of the Audit and Governance Committee sign the Letter of Representation at minute Item 6 – Appendix B, subject to the external auditors completing their outstanding procedures and any further amendments to the accounts being agreed by the Deputy Chief Executive Officer in consultation with the Chairman of the Audit and Governance Committee.

8. ANNUAL COUNTER FRAUD REPORT

The Committee considered the Annual Counter Fraud report by the Head of Finance and Audit.

RESOLVED that the Committee noted the contents of the report.

9. INTERNAL AUDIT PROGRESS REPORT

The Committee considered the latest Internal Audit Progress report by the Head of Finance and Audit.

RESOLVED that the Committee noted the progress and findings arising from the Internal Audit work.

10. HEAD OF AUDITS ANNUAL OPINION

The Committee considered a report by the Head of Finance and Audit on the Head of Audits Annual Opinion.

Members discussed the Dog Control audit regarding when it would no longer get a limited assurance opinion. The Head of Finance and Audit reassured the Committee that work is being carried out by the service, using a Vanguard approach, which it is hoped would allow the opinion to improve. It was agreed through the Chairman that if this audit was to remain limited after the changes to the service had been implemented, this matter would then be referred to the relevant Scrutiny Panel to investigate further.

Members agreed that further details on the actions taken to address Cyber security risks should be brought to the Committee to allow the Committee to perform its role in relation to information technology governance. It was agreed that this would be discussed at item 12 - Work Programme.

RESOLVED that the Committee noted the contents of the report as a source of evidence for the 2018/19 Annual Governance Statement.

11. ANNUAL GOVERNANCE STATEMENT

The Committee considered a report by the Head of Finance and Audit on the 2018/19 Annual Governance Statement.

Members discussed the wording in the last paragraph on page 226 relating to the Solent Airport (Daedalus). The Deputy Chief Executive Officer addressed the Committee to advise that the D-Day 75 Celebrations table top exercise and reference to the live exercise should in fact be separate points within the Annual Governance Statement and should be amended accordingly.

RESOLVED that the Committee: -

- (a) identified that a change in the last paragraph on page 226 relating to the Solent Airport (Daedalus) is required to separate the reference to the D-Day 75 table top exercise and the live exercise; and
- (b) following the above amendment being made, approved the Annual Governance Statement for 2018/19, as attached in Appendix C of the report.

12. REVIEW OF COMMITTEE WORK PROGRAMME

The Committee considered a report by the Head of Finance and Audit reviewing the Committee's Work Programme and Training Plan.

As agreed at item 10 – Head of Audits Annual opinion - Members agreed that a session on cyber risks and IT security should be provided within the work programme to allow the Committee to perform its role in relation to information technology governance. It was suggested that this would need to be a closed session but open to all members at the Chairman's invitation.

It was agreed that the item refreshing the Counter Fraud Policy and Strategy would be deferred to next year to make room for this session.

RESOLVED that the Committee, with the addition of an item on Cyber Security being added to the work programme, approved the work programme for the rest of the municipal year, as shown at Appendix A to the report.

(The meeting started at 6.00 pm
and ended at 7.57 pm).

FAREHAM BOROUGH COUNCIL STATEMENT OF ACCOUNTS 2018/2019

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

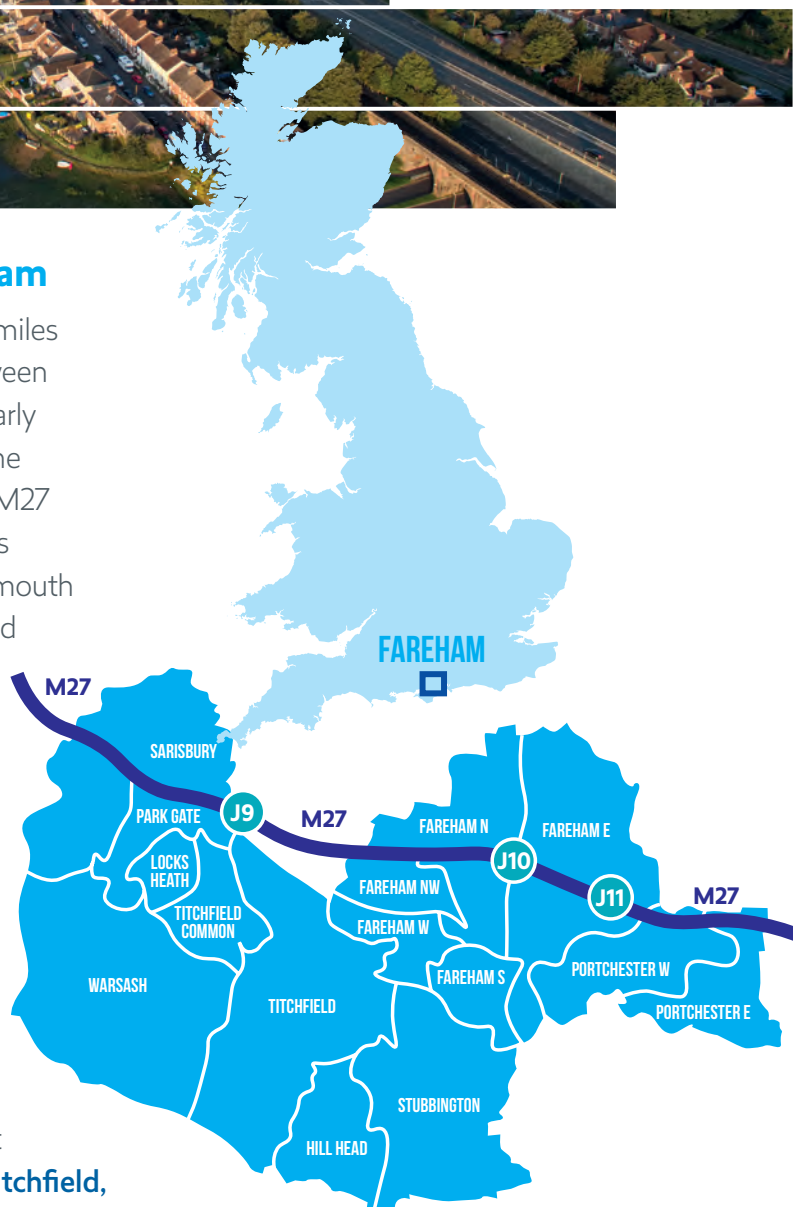


Introducing the Borough of Fareham

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 easier for our customers to do business with us and easier 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 delivered

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. In 2018/19 this was 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 433 employees (344 full time & 89 part time)
10 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
Portchester Crematorium

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.

Last year improvements were made to the way decisions made by the Executive are scrutinised. Scrutiny Panels were set up for each of the six Executive Portfolios, replacing five Policy Development Review (PDR) panels and one overarching Scrutiny Board, removing unnecessary duplication in some areas, and ensuring any recommendations can be passed on quickly and easily. The new committees will meet four times each year and will lead on the delivery of the Corporate Priorities.

Following Council approval, changes have also been made to the senior management structure to take account of the retirement of the Managing Director of Fareham Housing who has not been directly replaced. The new structure now comprises four directors rather than three directors and two heads of service, resulting in a cost saving to the Council.

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, or by outsourcing to private contractors. 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.

Highlights for partnerships, shared services and outsourced services in 2018/19 include:

- **termination by FBC of a partnership agreement to provide debt counselling advice and replacement with a new full-time post;**
- **termination by HCC of the agency agreement to provide monitoring of cameras and barriers on the Bus Rapid Transport Route for Hampshire County Council, resulting in a reduction in funding of £25,800;**
- **renewal of contract to provide Building Regulations services to Hampshire County Council which generates approximately £175,000 a year to the partnership;**
- **four additional companies signed up as partners for building control consultancy which should generate extra income from 2019/20;**
- **the Head of Planning Strategy and Regeneration has been seconded to the Partnership for Urban South Hampshire for one day a week, generating £6,000 to the council in 2018/19;**
- **an agreement has been entered into with a private provider to provide printing and postage services. This was first used for the 2018/19 annual Council Tax and Business Rates bills;**
- **the Southampton and Fareham Legal service partnership was awarded the Local Government legal team of the year, and the East Solent Coastal Partnership was shortlisted in the Partnership Category of the LGC Awards 2019.**

These changes have resulted in the creation of one additional post in the Fareham Housing department and the reduction in the use of casual staff to hand deliver bills.



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

2018/19 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 2018/19 including:

Implementing the next developments at the Solent Airport including the phase 2 extension to the innovation centre and occupation of the hangars

Driving forward the Welborne Plan to deliver more housing in the Borough

Development of a new vision for Ferneham Hall

Establishment of Fareham Street Aid as a multi-agency platform to work together to help vulnerable people off the streets

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 position¹ on the General Fund for the year compared to last year. There has been an increase in net spend which has been offset by an increase in business rates and council tax collections, resulting in an underspend of £349,000 for the year.

The following risks and pressures were recognised when setting the original and revised 2018/19 budgets and Council Tax:

Reduction in non-specific Government Funding of £978,000 (50%)

Increase in payments to and on behalf of employees of £366,000

Introduction of the Apprenticeship levy of £45,000

Increases in insurance premiums for catastrophic injury settlements of £40,000

Contributions to be put aside from revenue to capital reserves of £625,000

£500,000 to be put aside in reserves for maintenance of assets

Projected reductions of income generated from car parks of £100,000

Increase of £285,000 in the Minimum Revenue Provisions (MRP) to cover the borrowing costs of recent purchases of investment properties and construction at the Solent Airport

	2017/18 Actual	2018/19 Budget	2018/19 Actual
Gross Cost of Services	£47,910,000	£46,283,000	£56,159,000
Net Cost of Services	£11,481,000	£13,046,000	£20,765,500
Other Provisions	-£1,234,000	-£730,500	-£9,336,500
Non-Service Specific Income	-£2,142,000	-£3,875,000	-£2,467,000
Net Underspend on Services	£512,000	-	£349,000
Net Budget	£8,617,000	£8,440,500	£9,311,000
Core Funding Sources			
Revenue Support Grant	£288,000	£0	£0
Business Rates	£1,800,000	£1,853,000	£2,664,500
Council Tax	£6,365,000	£6,613,000	£6,672,000
Other Funding Sources	£164,000	-£25,500	-£25,500
	£8,617,000	£8,440,500	£9,311,000

¹These 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.

The 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 £1,803,000

Building in efficiency savings of £986,000 identified from work carried out in 2016/17

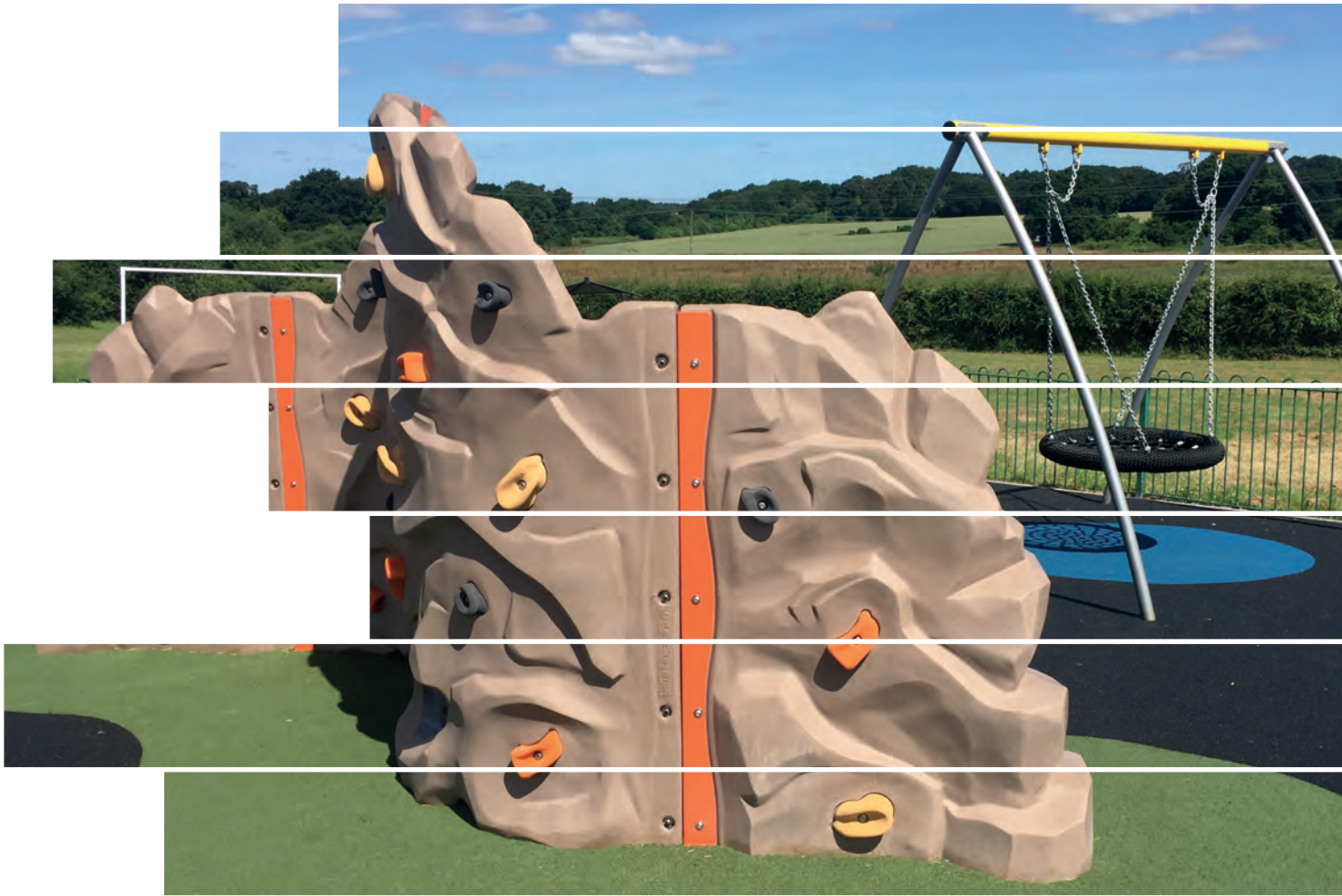
Increasing fees and charges and introducing new charges where it was felt that the market was robust enough to not cause a detrimental effect

Increasing Council Tax for the third year running by the maximum £5; this represented 14% 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 £665,000 to fund capital works





The General Fund Reserve has increased in the year by £187,000 partly due to the increase in grants and income in respect of business rates which has offset the increase in revenue expenditure. Total ‘useable’ reserves have increased by **£8 million** to a total of **£42 million**. This includes a provision of **£2.4 million** put aside in the 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 2018/19 (£1.5 million in 2017/18). This has been transferred to the Council’s capital reserves. A total of **£83,000** CIL reserves were used in the year including £47,000 to complete the work on the improved sea defences at Hill Head, £12,000 to fund the bus shelter improvement programme and £24,000 on the extension to the Holly Hill cemetery. £77,000 of section 106 development contributions have also been used on play area upgrades at Warsash and Funtley.

Unexpected pressures arising in the year included severance costs of £269,000 to bring some contracts to an end which have been funded through vacancy savings and the Spending Reserve.

However, the overall value of Council assets has decreased in value by **£10.1 million**.

We are aware that further challenges lie ahead including the continued reduction in Government funding.

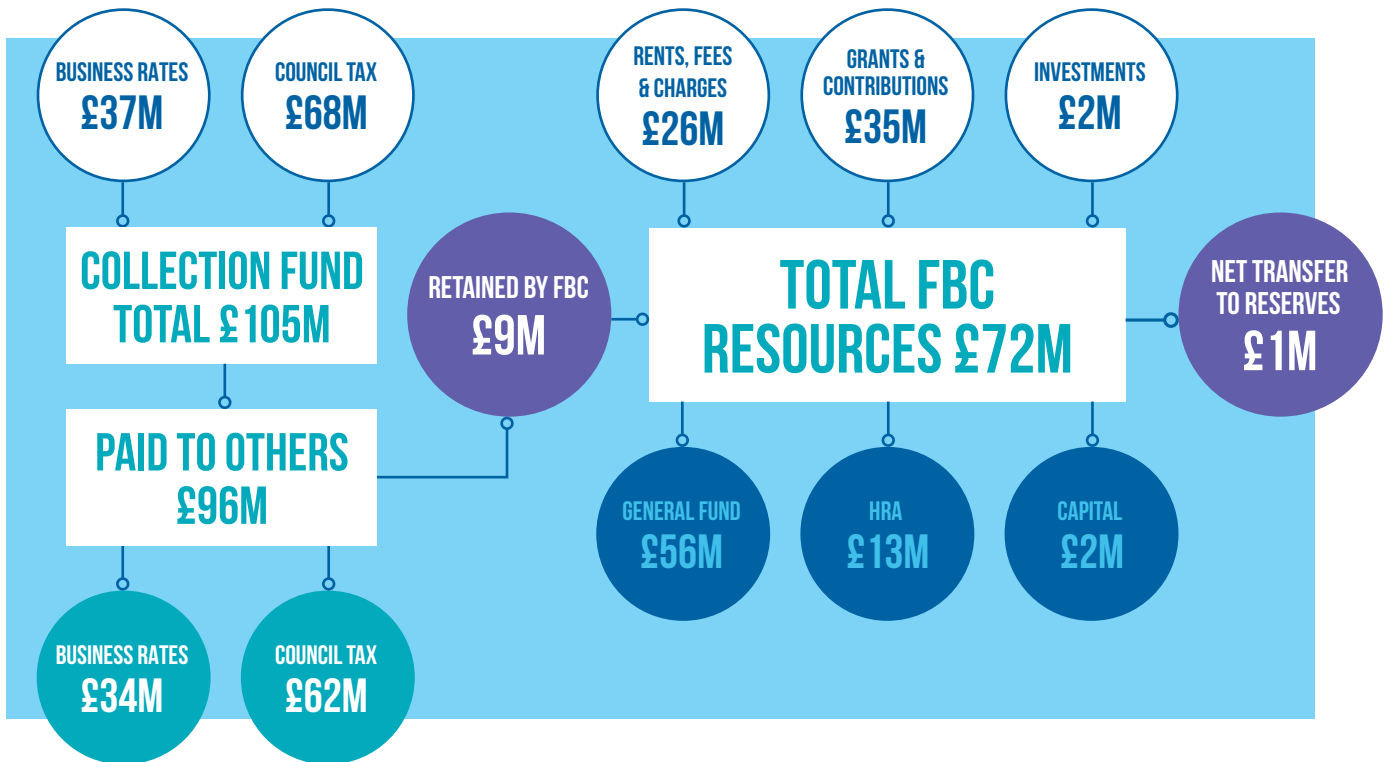
The new department of Fareham Housing has started to make changes to maintain the robustness of the Housing Revenue Account. Although the value of the Housing Revenue Account Reserve has again decreased, the total of all the Housing Reserves has increased by **£1.84 million**.

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

Sources of Revenue Funding in 2018/19

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

2018/19 was Year 3 of the Government's finance settlement. This meant the Council did not receive Revenue Grant Support as the final payment of £288,000 was received in 2017/18. The final 'Transitional Grant' was also received in 2017/18 whilst the level of New Homes Bonus received was reduced by £612,000 under the revised 2017 scheme. This amount was based on four years of home growth in 2018/19 compared to five years in 2017/18 and six years in 2016/17.

The total of non-specific Grant funding from the Ministry for Housing, Communities and Local Government for the year amounted to £962,000, a reduction of £978,000 (50%) compared to 2017/18.

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 of £546,000 towards the Air Quality improvement Plan for the A27 in the town centre.

Funding to fully cover the cost of Disabled Facilities Grants awarded in the year of £683,000

Funding towards homelessness initiatives of £304,000

Section 31 Grant Funding of £20,000 for High Street Community Clean-Up initiatives

Income from Services

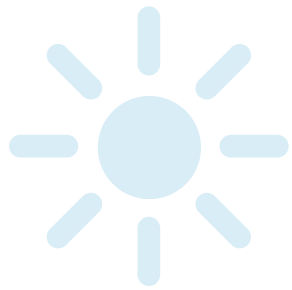
Discretionary fees and charges were generally increased in 2018/19 where it was deemed feasible to do so. These changes, together with the targeted income streams shown, lead to a total income of **£7.7 million** in the year which is a 9% increase on 2017/18.

Consolidating our investment portfolio generating **£1,803,000** in the year for the Council

Rental income from industrial and commercial properties increased by **£50,000**

The first full year's operation of Holly Hill Leisure Centre contributed **£296,000** in 2018/19 (a 50% increase on 2017/18)

The Council had an increased number of planning applications in the year which, together with the Government increase in charges from January 2018, has resulted in an additional **£50,000**



Council Tax and Business Rates

The Council increased the rate of Council Tax by £5 for the third time since 2016/17. The increase was kept within Government referendum limits. The overall level for Council Tax for a band D property in the Borough was £1,599.38 of which £155.22 related to Fareham Borough Council funding. This compared to £1,512.62 and £150.22 in 2017/18 at

which point we were the 5th lowest council tax for a district council when parish precepts are taken into account.

As at the end of March 2019 we had collected 99.44% of Council Tax due and 99.21% of Business Rates due.

Trends in sources of funding

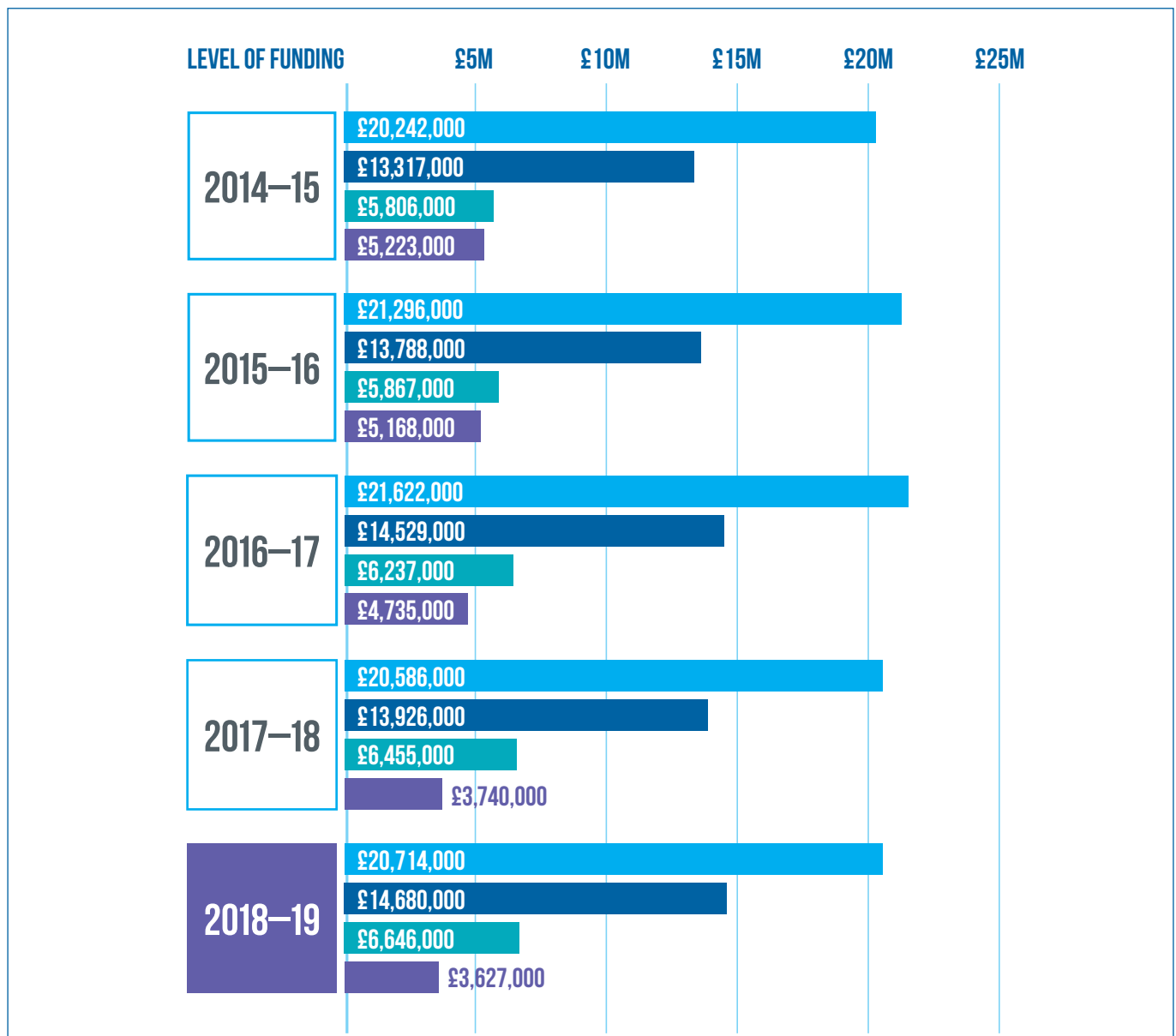
The diagram below summarises the reduction in funding from the Government and the greater reliance now placed on local sources of income.

SPECIFIC GOVERNMENT GRANTS TO SERVICES

INCOME FROM SERVICES

COUNCIL TAX PAYERS

CORE GOVERNMENT FUNDING



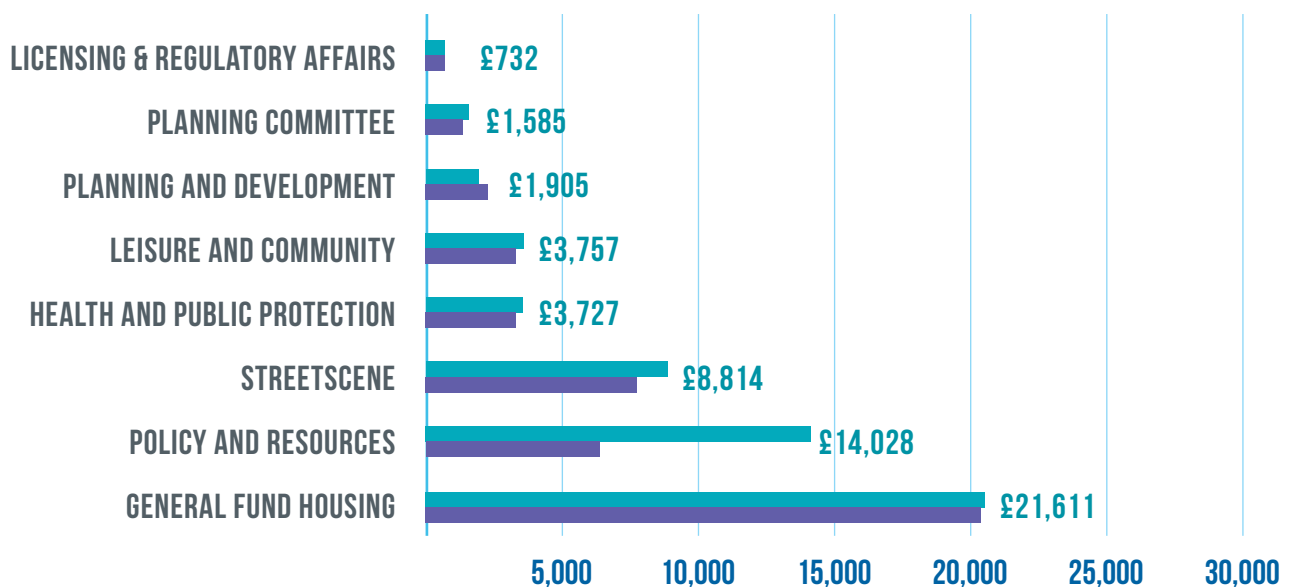


Revenue Spending on Services in 2018/19

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

Spend on employees was **25%** of the total spend compared to **24%** last year.

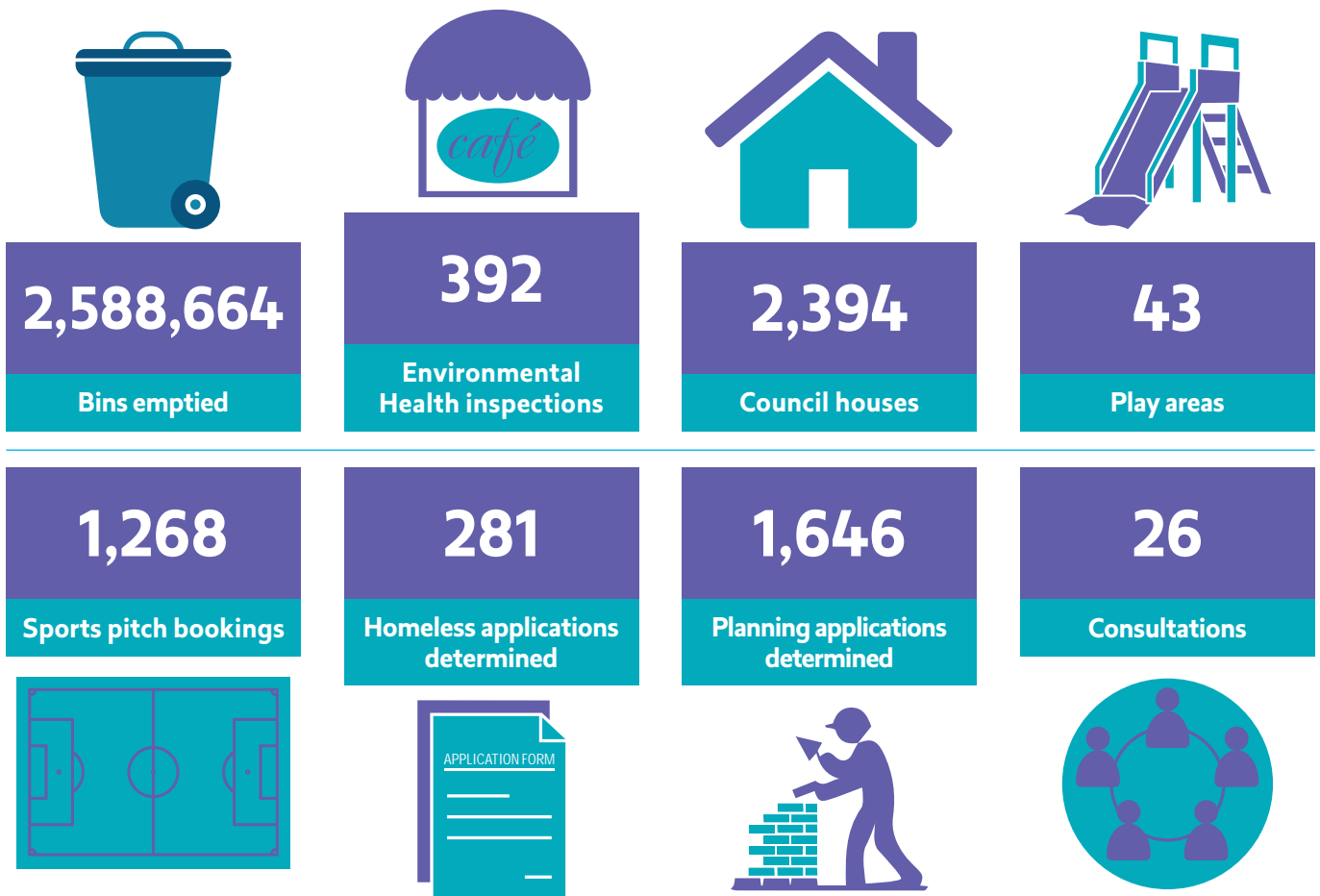
REVENUE EXPENDITURE BY SERVICE PORTFOLIO



2018-2019 ACTUAL £'000

2018-2019 GROSS EXPENDITURE BUDGET £'000

Snapshot of services provided in 2018/19



Service changes, challenges and successes

It was the first full year for the new Department of Fareham Housing during which a restructure was completed and the recruitment to new posts was successful. This has led to the first draft of an Affordable Housing Strategy which will be launched in 2019/20. The department also led the launch of the Fareham StreetAid multi-agency website and hosted the first rough sleeping conference.

Other financial and non-financial service changes, challenges and successes included:

- **The Environmental Health service continued to carry out surveys and modelling which have helped develop a plan of measures to improve Air Quality in the town centre. They then instigated a “Lets clear the Air together” publicity campaign which has resulted in four priority measures which have been approved by government**

for implementation. These include an old taxi replacement incentive scheme and introducing intelligent traffic lights.

- **The Council has engaged the services of a user agent to drive forward a new vision for Ferneham Hall arts and entertainment centre which will include a new design for the centre that meets modern needs and the appointment of an operator to run the hall with the aim of reducing the level of subsidy currently required.**
- **The Council held a Business Breakfast in the year aimed at helping support high street traders as part of the on-going town centre regeneration vision for the civic quarter. The Council has also carried out a fundamental review of its Procurement and Contract Procedure Rules which seeks to increase engagement with small and medium sized enterprises in the borough. A presentation on the policy was given to the Chamber of**

Commerce to help spread the message to its members and a large number of small building companies attended a pizza and beer event to encourage them to tender for council contracts.

- The Council launched a campaign to reduce the use of Single Use Plastic in the Council and across the Borough.
- It was another successful year for the Portchester Crematorium which generated a surplus leading to a £150,000 contribution to the Council.
- During the year, 13 council homes and one shared ownership property were sold under the Right to Buy scheme (16 in 2017/18). Eight other properties and three shared ownership properties were bought back.

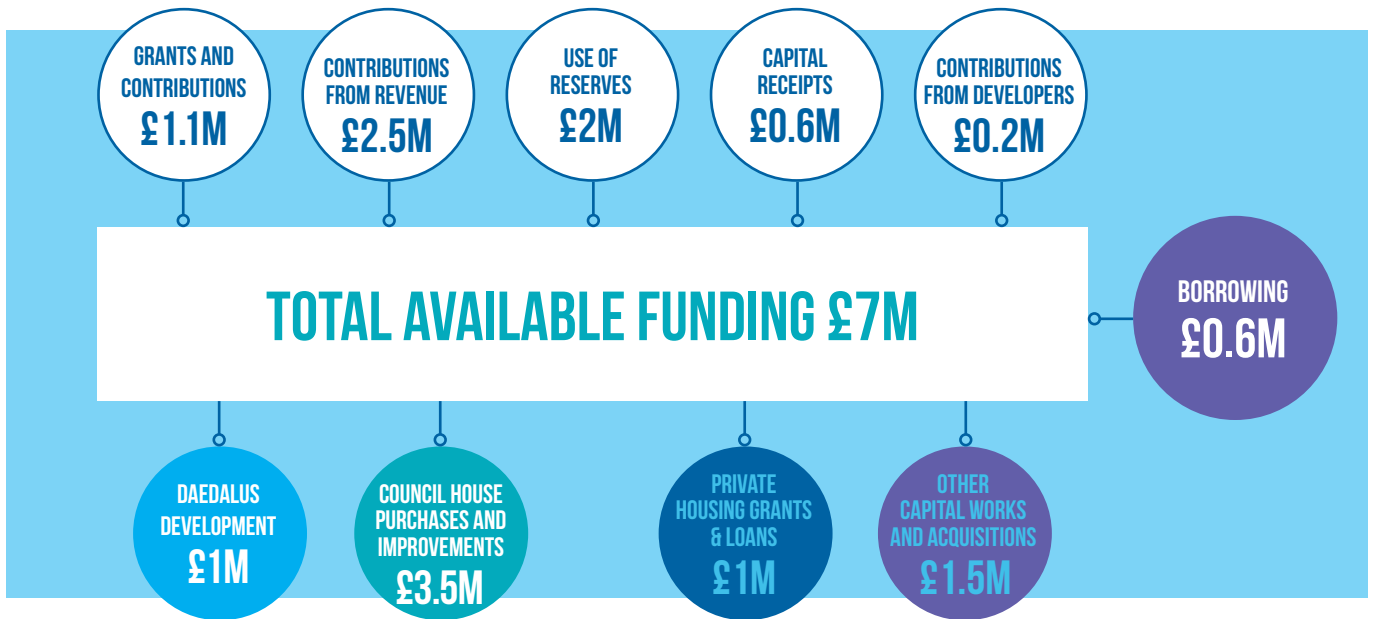
- Phase five of the programme of 'Systems Thinking' interventions has continued with reviews commencing in Tenancy Services and the Building Control Partnership, an expansion of the Streetscene intervention and a continuation of work in Democratic Services.
- There were high levels of public engagement throughout the year. Almost 9,000 people responded to 26 consultations and events.

FAREHAM
STREET AID
Helping people off our streets



Capital finances 2018/19

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

The development of the new community of Welborne has been given 'Garden Village' status by the Government. As part of this initiative there have been specific funding opportunities including:

- **£1,024,000 Capacity Funding and Garden Towns and Village funding received (includes £300,000 for 2018/19)**
- **£9,977,000 funding towards the motorway junction works.**

In 2018/19 the Council has resourced activities to support the development of the site north of the Borough to deliver up to 6,000 more homes. A revised planning application has been submitted by the master developer which has been subject to full public and agency consultation and regular consultation with the planning team to get it ready for planning determination in 2019/20. £150,000 of grant funding has been used to assist with developing and refreshing accompanying strategies for the community development, placemaking and housing mix for the new community.

WELBORNE
A GARDEN VILLAGE





SOLENT AIRPORT/DAEDALUS

Further progress has been made in 2018/19, with the development starting to reach the break-even point. Achievements included:

- Opening of the £7 million extension to the Fareham Innovation Centre to provide move-on space for current Centre tenants together with more diverse facilities for new tenants; this has already achieved 100% occupancy.
- A further £335,000 was spent to complete the £500,000 refurbishment of the Air Traffic control tower, bringing back parts of the building for public and business use, including an indoor café, and outdoor and indoor viewing areas.
- Business hangars were completed in 2018/19; rental income for these and general aviation hangars, was approximately £100,000 and forecast to be over £300,000 in 2019/20.
- Construction of the IFA2 electricity converter station commenced on the site under an agreement with the National Grid

to increase clean energy security for the UK by 2020/21. In exchange they are making a significant contribution to the provision of Daedalus Common.

- The vision for Daedalus has been renewed to set out the investment plan for the next five years; this was adopted by the Executive in February 2019.

Developments at Daedalus won two South Coast Property Awards in the year – Development of the Year and Business Park Innovation of the Year.



Contributions to the running costs of the airfield in 2018/19 included:

- **Property rents and services charges (£759,000).**
- **Fareham Innovation Centre (£732,000).**
- **Fuel sales (£248,000).**

OTHER SIGNIFICANT CAPITAL PROJECTS

- **Works to improve/update fire precautions in our housing properties, including a fire door replacement programme, have continued to be carried out which were met from on-going works budgets.**
- **A five-year play area refurbishment programme has been approved, on top of works to the value of £77,000 have been carried out across two major play areas in Fareham and Warsash. A further £75,000 has been spent on a Play Area Safety surface replacement programme.**
- **The extension to Holly Hill cemetery has been progressed at a cost of £24,000 in 2018/19. This will provide an extra 350 burial spaces.**
- **The Council's newest park at Titchfield is being prepared for an opening in summer 2019. The name chosen by residents for the park is Abbey Meadows.**

Outlook for the Future: risks and pressures

The Medium-Term Finance Strategy for 2019/20 recognises that the Council will continue to face financial pressures. Currently we are forecasting a £175,000 deficit by 2020/21 even if council tax continued to rise by £5 a year.

Particular risks and pressures include:

- **There will be no Revenue Support Grant in the fourth year of the financial settlement and a potentially negative settlement as part of the Fair Funding Review due to be completed in 2019/20.**
- **The continued impact of the Government's decision to reduce the number of years that**



New Homes Bonus grant is payable from six to four years resulting in a possible additional loss of £400,000.

- **Continued increase in Pension Fund liabilities.**
- **The funding needs of the Council's corporate priorities have not been fully costed and built into the budgets.**
- **The biggest service pressure for the Council is to meet the changing Government targets for the delivery of housing. The method of calculating each authority's Local Housing Need target is being revised and is likely to result in a higher target for Fareham. This will increase costs in supporting housing delivery in the Borough and contesting appeals from planning applications on sites outside of the Local Plan.**

- The need to carry out stock condition surveys of the Councils 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.
- Future loss of land charges income (£123,000) when the service migrates to the national Local Land Charges (LLC) Service.
- Unknown impact of decisions being taken by Hampshire County Council to reduce their costs which may increase the costs for district councils. One known is the decision for parking enforcement to be returned to HCC with a financial impact for the council.
- Unknown impact of any future economic uncertainty on income streams such as our investment properties and Building Control applications.
- Financial impact of full implementation of Universal Credit.

To mitigate these, the Council has completed a series of finance strategy reviews across all Council services. This has resulted in the production of an Opportunities Plan of priority projects aimed at reducing costs or increasing income streams.

Examples are maximising contributions from Solent Airport and reviewing the costs and benefits of our CCTV provision. It is estimated that collectively these projects will both close the calculated funding gap and create an additional buffer to protect the Council from other uncertainties. The first phase of the Opportunities plan has been implemented, which has allowed £568,700 of savings to be built into the budgets for 2019/20.

The Council will then adopt an ‘invest to save’ approach to deliver further phases of the plan and a projects team is being established to drive the projects forward over the next two years. This team is being funded from reserves.

We will also continue our philosophy of using ‘systems thinking’ to improve service efficiency and effectiveness.

Additional borrowing in 2019/20 will fund further development and investment in the Borough and support delivery of the Corporate Strategy. This will include the implementation of the Affordable Housing Strategy, our vision for Ferneham Hall and our visions for the regeneration of Fareham and Portchester town centres.



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 2019. 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 2018/19, which in turn is underpinned by International Financial Reporting Standards.

The Core Financial Statements are:

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

BALANCE SHEET

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

MOVEMENT IN RESERVES STATEMENT

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

CASH FLOW STATEMENT

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

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

The Supplementary Financial Statements are:

HOUSING REVENUE ACCOUNT

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

COLLECTION FUND

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

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

Statement of 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 Deputy Chief Executive Officer;
- 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 Deputy Chief Executive Officer's responsibilities

The Deputy Chief Executive Officer 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 Deputy Chief Executive Officer 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 Deputy Chief Executive Officer 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
Deputy Chief Executive Officer

Date: 31 July 2019.

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 2019.



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.

2017/18 (Restated)			Note	2018/19		
Gross Exp £'000	Gross Income £'000	Net Exp £'000		Gross Exp £'000	Gross Income £'000	Net Exp £'000
847	(451)	396		732	(246)	486
1,399	(662)	737		1,585	(612)	973
21,649	(20,735)	914		21,493	(20,453)	1,040
10,433	(12,421)	(1,988)		4,325	(12,562)	(8,237)
4,542	(1,483)	3,059		3,654	(1,660)	1,994
2,064	(2,458)	(394)		1,905	(2,440)	(535)
8,347	(2,493)	5,854		13,265	(4,710)	8,555
2,885	(575)	2,310		3,728	(926)	2,802
8,020	(2,087)	5,933		8,814	(2,487)	6,327
60,187	(43,365)	16,822		59,501	(46,096)	13,405
Other Operating Expenditure						
	(596)					(1,434)
	214					196
Financing and Investment Income and Expenditure						
	1,404					1,447
	(79)					(206)
	-					(29)
	1,420		16			1,540
	(2,287)		18			2,346
	(3,279)		18			(3,394)
Taxation and Non-Specific Grant Income						
	(6,373)					(6,646)
	(2,586)					(2,665)
	(7,239)		10			(3,009)
(2,579)						1,551
(Surplus)/Deficit on Provision of Services						
	(606)					4,995
	299		16			(5,946)
	156					-
	-					7
(151)						(944)
Other Comprehensive Income and Expenditure						
(2,730)						607
Total Comprehensive Income and Expenditure						

The 2017/18 net cost of services figures have been restated to reflect changes in portfolio services. The biggest change relates to the Housing Benefits service which was previously shown within the Policy and Resources Portfolio and is now reported within the Housing Portfolio.

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 2018 £'000		Note	31 March 2019 £'000
	Property, Plant and Equipment	17	
117,780	- Council dwellings		121,645
92,915	- Other land and buildings		84,732
3,441	- Vehicles, plant and equipment		3,606
1,168	- Infrastructure		1,169
343	- Community assets		340
3,944	- Assets under construction		366
58,973	Investment properties	18	56,662
189	Heritage assets		181
27	Intangible assets		19
1,844	Long term investments	27	1,873
133	Long term debtors		117
280,757	Total long term assets		270,710
7,007	Short term investments	27	9,043
-	Assets held for sale	-	262
87	Inventories		111
8,474	Short term debtors	20	8,080
230	Payments in advance		286
3,005	Cash and cash equivalents	27	2,106
18,803	Current assets		19,888
(334)	Bank overdraft	27	(462)
(12,017)	Short term borrowing	27	(5,511)
(12,158)	Short term creditors	21	(12,423)
(45)	Depositors		(97)
(1,874)	Provisions	22	(2,711)
(26,428)	Current liabilities		(21,204)
(4,468)	Receipts in advance - capital grants	23	(4,061)
(2,210)	Receipts in advance - revenue grants	23	(1,772)
(40,000)	Long term borrowing	27	(40,000)
(3,735)	Long term creditors		(3,390)
(61,165)	Pension scheme liability	16	(59,224)
(111,578)	Long term liabilities		(108,447)
161,554	Net assets		160,947
33,924	Usable reserves		41,963
127,630	Unusable reserves	26	118,984
161,554	Total Reserves		160,947

Movement in Reserves Statement

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

	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2018	8,664	13,581	1,824	984	4,619	4,252	33,924	127,630	161,554
Movement in reserves in year									
Total Comprehensive Income and Expenditure	(8,804)	-	7,247	-	-	-	(1,557)	950	(607)
Adjustments between accounting basis and funding basis under regulations	10,939	-	(6,512)	854	2,888	1,427	9,596	(9,596)	-
Transfers to/(from) earmarked reserves	(1,946)	2,986	(1,029)	-	-	(11)	-	-	-
Increase/(decrease) in year	189	2,986	(294)	854	2,888	1,416	8,039	(8,646)	(607)
Balance at 31 March 2019	8,853	16,567	1,530	1,838	7,507	5,668	41,963	118,984	160,947

	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2017	6,950	15,335	2,370	7	3,677	3,514	31,853	126,971	158,824
Movement in reserves in year									
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)	-	-	-
Increase/(decrease) in year	1,714	(1,754)	(546)	977	942	738	2,071	659	2,730
Balance at 31 March 2018	8,664	13,581	1,824	984	4,619	4,252	33,924	127,630	161,554

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).

2017/18 £'000		Note	2018/19 £'000
2,579	Net surplus/(deficit) on the provision of services		79
13,187	Adjustments to surplus/(deficit) on the provision of services for non-cash movements	32	12,840
(5,815)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	33	(4,926)
9,951	Net Cash Flows from Operating Activities		7,993
	Investing Activities		
(25,103)	Purchase of property, plant and equipment, investment property and intangible assets		(5,734)
-	- Purchase of short and long term investments		(2,000)
1,509	Proceeds from property, plant and equipment, investment property and intangible assets		3,720
-	- Proceeds from short and long term investments		-
850	Other receipts from investing activities		824
(22,744)	Net Cash Flows from Investing Activities		(3,190)
	Financing Activities		
15,478	Cash receipts of short and long term borrowing		7,493
(490)	Other receipts from financing activities		677
(5,295)	Repayments of short and long term borrowing		(14,000)
9,693	Net Cash Flows from Financing Activities		(5,830)
(3,100)	Net increase/(decrease) in cash and cash equivalents		(1,027)
5,771	Cash and cash equivalents at the beginning of the reporting period		2,671
2,671	Cash and cash equivalents at the end of the reporting period		1,644



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.

Net Expenditure Chargeable to the General Fund and HRA Balances £'000	2017/18 (Restated)	Net Expenditure in the Compre- hensive Income and Expenditure Statement £'000		Net Expenditure Chargeable to the General Fund and HRA Balances £'000	2018/19	Net Expenditure in the Compre- hensive Income and Expenditure Statement £'000
	Adjustments between the Funding and Accounting Basis £'000				Adjustments between the Funding and Accounting Basis £'000	
379	17	396	Licensing and Regulatory Affairs Committee	469	17	486
653	84	737	Planning Committee	890	83	973
251	663	914	Housing Portfolio	3	1,037	1,040
(3,274)	1,286	(1,988)	Housing Revenue Account	(736)	(7,501)	(8,237)
1,382	1,677	3,059	Leisure and Community Portfolio	603	1,391	1,994
(446)	52	(394)	Planning and Development Portfolio	(719)	184	(535)
45	5,809	5,854	Policy and Resources Portfolio	(1,065)	9,620	8,555
1,964	346	2,310	Health and Public Protection Portfolio	2,081	721	2,802
4,173	1,761	5,934	Streetscene Portfolio	5,156	1,171	6,327
5,127	11,695	16,822	Cost of Services	6,682	6,723	13,405
(4,543)	(14,858)	(19,401)	Other Income and Expenditure	(9,564)	(2,290)	(11,854)
584	(3,163)	(2,579)	(Surplus)/Deficit	(2,882)	(4,433)	1,551
(24,653)			Opening General Fund and HRA Balance at 1 April	(24,069)		
(1,170)			Less Surplus/(Deficit) on General Fund and HRA Balance in Year	104		
1,754			Less Transfers (to)/from Earmarked Reserves	(2,986)		
(24,069)			Closing General Fund and HRA Balance at 31 March	(26,951)		

The 2017/18 net cost of services figures have been restated to reflect changes in portfolio services. The biggest change relates to the Housing Benefits service which was previously shown within the Policy and Resources Portfolio and is now reported within the Housing Portfolio.

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.

2018/19				
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (1) £'000	Net Changes for the Pension Adjustments (2) £'000	Other Differences (3) £'000	Total Adjustments £'000
Licensing and Regulatory Affairs Committee	-	17	-	17
Planning Committee	-	83	-	83
Housing Portfolio	911	126	-	1,037
Housing Revenue Account	(5,689)	(357)	(1,455)	(7,501)
Leisure and Community Portfolio	1,426	67	(102)	1,391
Planning and Development Portfolio	84	100	-	184
Policy and Resources Portfolio	7,389	2,075	156	9,620
Health and Public Protection Portfolio	662	59	-	721
Streetscene Portfolio	1,165	266	(260)	1,171
Net Cost of Services	5,948	2,436	(1,661)	6,723
Other income and expenditure from the Expenditure and Funding Analysis	(1,238)	1,540	(2,592)	(2,276)
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	4,710	3,976	(4,253)	4,447
2017/18 (Restated)				
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (1) £'000	Net Changes for the Pension Adjustments (2) £'000	Other Differences (3) £'000	Total Adjustments £'000
Licensing and Regulatory Affairs Committee	-	17	-	17
Planning Committee	-	85	(1)	84
Housing Portfolio	564	119	(20)	663
Housing Revenue Account	3,447	303	(2,464)	1,286
Leisure and Community Portfolio	2,546	65	(934)	1,677
Planning and Development Portfolio	91	94	(133)	52
Policy and Resources Portfolio	(519)	257	6,071	5,809
Health and Public Protection Portfolio	131	81	134	346
Streetscene Portfolio	942	273	546	1,761
Net Cost of Services	7,202	1,294	3,199	11,695
Other income and expenditure from the Expenditure and Funding Analysis	(2,960)	1,420	(13,318)	(14,858)
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	4,242	2,714	(10,119)	(3,163)

The 2017/18 net cost of services figures have been restated to reflect changes in portfolio services. The biggest change relates to the Housing Benefits service which was previously shown within the Policy and Resources Portfolio and is now reported within the Housing Portfolio.

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	2018/19 £'000	2017/18 £'000
Expenditure		
Employee benefits expenses	15,630	14,517
Other services expenses	50,642	44,578
Support service recharges	(879)	(582)
Interest payments	1,795	1,795
Depreciation, amortisation and impairment	(2,116)	1,001
Gain/loss on financial assets	(29)	-
Payments to housing receipts pool	196	214
Gain/loss on the disposal of assets	(2,873)	(596)
Total Expenditure	62,366	60,927
Income		
Fees, charges and other service income	(28,855)	(26,302)
Interest and investment income	(555)	(419)
Income from council tax and non-domestic rates	(9,311)	(8,959)
Government grants and contributions	(23,724)	(27,826)
Total Income	(62,445)	(63,506)
(Surplus)/Deficit on Provision of Services	(79)	(2,579)

Note 4 Segmental Income

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

Services	2018/19 £'000	2017/18 (Restated) £'000
Licensing and Regulatory Affairs Committee	246	451
Planning Committee	612	662
Housing Portfolio	868	921
Housing Revenue Account	12,575	12,279
Leisure and Community Portfolio	1,660	1,483
Planning and Development Portfolio	2,101	2,319
Policy and Resources Portfolio	4,222	5,779
Health and Public Protection Portfolio	926	575
Streetscene Portfolio	2,487	2,087
Total Income Analysed on a Segmental Basis	25,697	26,556

The 2017/18 figures have been restated to reflect changes in portfolio services. The biggest change relates to the Housing Benefits service which was previously shown within the Policy and Resources Portfolio and is now reported within the Housing Portfolio.

Note 5 New Accounting Standards yet to be adopted

At the Balance Sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their Balance Sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.
- IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any transactions within the scope of the amendment.
- IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the financial statements.
- IFRS 9 Financial instruments: prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to whom this will apply.

Note 6 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 34, 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 **recognise in its group financial statements its share of PCJC's net assets**. Group Accounts have not been produced as the differences between the Council's group and single entity accounts would be very minor.

Pensions - The Council has made a judgement about the pension liabilities in respect of the **'McCloud/Sargeant' judgement**. An additional liability is shown as a Past Service Cost over the accounting period.

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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the service being delivered by the asset and the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases resulting in a fall in the carrying value of assets. It is estimated that the annual depreciation charge for all assets would increase by £387,700 (2017/18 £287,200) for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. Note 16 provides details of the impact of changes to the key assumptions.
Financial Assets and Liabilities	Estimation of fair values for financial assets and liabilities are based on current lending rates for equivalent loans and investments. These are provided by the Council's treasury advisors.	Fair value estimates do not apply to instruments which mature within the next 12 months. The values are disclosed as a note to the accounts and do not impact on the primary statements.
Bad Debt Provision	The Council has made allowances for doubtful debts of £1.58 million in 2018/19 (2017/18 £1.87 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 £79,000 (2017/18 £93,500).
Provisions	The Council has made provisions for outstanding insurance claims, accumulated absences and land charges. The calculation for accumulated absences is based on an average of annual leave accrued over 4 years and the total of flexi leave at year end.	A 10% increase or decrease in provisions would require an adjustment of £26,300 (2017/18 £26,000).
Business Rates Appeals Provision	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 £6.1 million (2017/18 £4.0 million) for these refunds within the Collection Fund. The Council's share of the provision is £2.4 million (2017/18 £1.6 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 £244,800 (2017/18 £161,000).

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.

2018/19	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
Capital Adjustment Account							
Depreciation and impairment of non-current assets	3,269	-	2,543	-	-	-	(5,812)
Revaluation losses on property, plant and equipment	5,110	-	(4,456)	-	-	-	(654)
Revaluation of investment properties	2,361	-	(15)	-	-	-	(2,346)
Amortisation of intangible assets	2	-	5	-	-	-	(7)
Capital grants and contributions applied	(1,206)	-	-	-	-	(71)	1,277
Revenue Expenditure funded from capital under statute	855	-	-	-	-	-	(855)
Property written out on disposal	337	-	1,415	-	-	-	(1,752)
Statutory provision for the financing of capital investment	(698)	-	-	-	-	-	698
Capital expenditure charged to the General Fund and HRA Balances	(1,109)	-	(1,228)	-	-	-	2,337
Capital Grants Unapplied Account							
Capital grants and contributions unapplied	(1,498)	-	-	-	-	1,498	-
Capital Receipts Reserve							
Proceeds from disposal of property	(331)	-	(2,854)	-	3,186	-	-
Capital receipts applied	-	-	-	-	(655)	-	655
Housing and other capital receipts	(518)	-	(18)	-	552	-	(16)
Payments to the Government housing capital receipts pool	195	-	-	-	(195)	-	-
Major Repairs Reserve							
Depreciation re-credited to HRA	-	-	(2,544)	2,544	-	-	-
Major Repairs Reserve to finance new capital expenditure	-	-	-	(1,690)	-	-	1,690
Pension Reserve							
Net charges for retirement benefits	4,539	-	951	-	-	-	(7,120)
Employer's contribution to Pension Fund/ to pensioners	(2,521)	-	(594)	-	-	-	3,115
Collection Fund Adjustment Account							
Collection Fund adjustment	814	-	-	-	-	-	(814)
Accumulated Absences Account							
Accumulated Absences	19	-	1	-	-	-	(20)
Pooled Fund Adjustment Account							
Financial Assets	(29)	-	-	-	-	-	29
Total Adjustments	9,591	-	(6,794)	854	2,888	1,427	(9,595)

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
Capital Adjustment Account							
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	(1,722)	-	(461)	-	-	-	2,183
Balances							
Capital Grants Unapplied Account							
Capital grants and contributions unapplied	(1,511)	-	-	-	-	1,511	-
Capital Receipts Reserve							
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)	-	-
Major Repairs Reserve							
Depreciation re-credited to HRA	-	-	(2,577)	2,577	-	-	-
Major Repairs Reserve to finance new capital expenditure	-	-	-	(1,600)	-	-	1,600
Pension Reserve							
Net charges for retirement benefits	4,153	-	807	-	-	-	(4,960)
Employer's contribution to Pension Fund/to pensioners	(2,092)	-	(273)	-	-	-	2,365
Collection Fund Adjustment Account							
Collection Fund adjustment	(1,286)	-	-	-	-	-	1,286
Total Adjustments	(3,505)	-	327	977	942	751	508

Note 9 Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Deputy Chief Executive Officer (Section 151 Officer) on 31 July 2019. 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 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Since the draft Statement of Accounts were issued on 31st May 2019, the Pensions Past Service Cost has increased by £1.63 million to reflect the outcome of the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. More information can be found in Note 16.

Note 10 Grant Income

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

Service Specific Revenue Grants and Contributions (included in Cost of Services)	2018/19 £'000	2017/18 £'000
Department for Works and Pensions		
Rent Allowances Subsidy	11,864	12,146
Rent Rebates	6,442	6,638
Housing and Council Tax Benefit Administration	194	206
Discretionary Housing Payments	119	154
New Burdens Grants	27	80
Ministry for Housing, Communities and Local Government		
Disabled Facilities Grant	683	506
Preventing Homelessness Grants	304	237
NNDR Collection Allowance	138	138
Council Tax Support Administration	73	77
Local Plan Grants	30	50
Homes England		
Welborne Capacity Funding	300	-
Daedalus Development	-	265
Department for Environment, Food and Rural Affairs		
Air Quality Feasibility Study Grant	546	100
Environment Agency		
Coast Monitoring Grant	-	100
Other		
Portchester Crematorium	150	145
S106 Developer Contributions	54	116
Hampshire County Council One Public Estate Grant	-	50
Total	20,924	21,008
Credited to Taxation and Non-Specific Grant Income	2018/19 £'000	2017/18 £'000
Ministry for Housing, Communities and Local Government		
New Homes Bonus	962	1,578
Revenue Support Grant	-	288
New Burdens Grants	26	74
Homes England		
Daedalus Development	427	1,262
Other		
Solent Local Enterprise Partnership	-	1,790
Community Infrastructure Levy	1,498	1,511
Developer Contributions	96	448
Winifred Cocks Bequest	-	288
Total	3,009	7,239

Note 11 Audit Fees Payable

The Council has incurred the following costs in relation to the audit of the Statement of Accounts provided by the external auditor Ernst & Young LLP and the certification of the housing benefit subsidy claim provided by Ernst & Young LLP in 2017/18 and KPMG LLP in 2018/19.

	2018/19 £'000	2017/18 £'000
External audit services	37	50
Certification of grant claims and returns	10	16
Total	47	66

Note 12 Members' Allowances

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

	2018/19 £'000	2017/18 £'000
Basic Allowances	216	211
Special Responsibility Allowances	159	159
Superannuation and National Insurance	18	18
Travelling and Subsistence Allowances	4	5
Conference Expenses	1	1
Internet Rental Allowance	1	2
Total	399	396

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	2018/19 Number of Employees	2017/18 Number of Employees
£50,000 - £54,999	3	3
£55,000 - £59,999	-	2
£60,000 - £64,999	4	2
£65,000 - £69,999	3	5
£70,000 - £74,999	6	2
£75,000 - £79,999	2	3
£80,000 - £84,999	1	1
£85,000 - £89,999	-	-
£90,000 - £94,999	1	2
£95,000 - £99,999	2	2
£135,000 - £139,999	1	-
£140,000 - £144,999	-	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 £
2018/19						
Chief Executive Officer (1)	138,266	527	-	138,793	19,640	158,433
Director of Planning and Regulation	91,580	430	-	92,010	13,829	105,839
Director of Finance and Resources	98,469	725	-	99,194	14,850	114,044
Managing Director of Fareham Housing (2)	98,345	405	-	98,750	14,850	113,600
	426,660	2,087	-	428,747	63,169	491,916
2017/18						
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
	423,604	895	-	424,499	58,429	482,928

Notes:

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

- (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 2018/19, incurring liabilities of £283,075 (£593,040 in 2017/18). 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	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
£0 - £20,000	2	-	7	14	9	14	£51,617	£76,810
£20,001 - £40,000	3	1	1	2	4	3	£131,484	£84,503
£40,001 - £60,000	1	1	1	-	2	1	£99,974	£53,414
£60,001 - £80,000	-	1	-	-	-	1	-	£60,460
£140,001 - £160,000	-	1	-	-	-	1	-	£154,105
£160,001 - £180,000	-	1	-	-	-	1	-	£163,748
Total	6	5	9	16	15	21	£283,075	£593,040

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 2020

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2020 are estimated to be £2.91 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 2020, the Employer expects to pay £0.20 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 2018/19 £'000	2017/18 £'000	Unfunded Benefits 2018/19 £'000	2017/18 £'000
Comprehensive Income and Expenditure Statement:				
Cost of Services				
- Current service cost	3,690	3,480	-	-
- Past service cost	1,890	60	-	-
Financing and Investment Income and Expenditure				
- Interest net defined benefit liability	1,470	1,350	70	70
(Surplus)/deficit on the provision of services	7,050	4,890	70	70
Other Charges to the Comprehensive Income and Expenditure Statement:				
Remeasurement of the net defined benefit liability comprising				
- Return on plan assets (in excess of)/below that recognised in net interest	(8,239)	(560)	-	-
Actuarial (gains)/losses due to:				
- Changes in financial assumptions	8,960	(160)	-	-
- Changes in demographic assumptions	(7,200)	-	-	-
- Liability experience	310	990	(45)	29
Total amount recognised in Other Comprehensive Income and Expenditure	(6,169)	270	(45)	29
Total Amount Recognised	881	5,160	25	99
Movement in Reserves Statement:				
Reversal of net charges made to the surplus/(deficit) in accordance with the Code	(7,050)	(4,890)	(70)	(70)
Actual amount charged against the General Fund				
Balance for pensions in year:				
Employers' contribution payable to scheme	(2,640)	(2,160)	-	-
Retirement benefits payable to pensioners	-	-	(206)	(205)

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 2018/19 £'000	2017/18 £'000	Unfunded Benefits 2018/19 £'000	2017/18 £'000
Fair value of assets	120,690	110,941	-	-
Present value of defined benefit obligation	177,140	169,150	2,774	2,955
Funded status	(56,450)	(58,209)	-	-
Liability recognised on the Balance Sheet	(56,450)	(58,209)	(2,774)	(2,955)

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	
	2018/19	2017/18	2018/19	2017/18
	£'000	£'000	£'000	£'000
Opening balance at 1 April	110,941	109,690	-	-
Interest income	2,880	2,720	-	-
Remeasurement gains and (losses)				
- Return on plan assets, excluding amount included in net interest expense	8,239	560	-	-
Contributions by the employer	2,640	2,161	206	205
Contributions by participants	750	740	-	-
Benefits paid	(4,760)	(4,930)	(206)	(205)
Closing balance at 31 March	120,690	110,941	-	-

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

	Funded Benefits		Unfunded Benefits	
	2018/19	2017/18	2018/19	2017/18
	£'000	£'000	£'000	£'000
Opening balance at 1 April	169,150	164,900	2,955	3,061
Current service cost	3,690	3,480	-	-
Interest expense	4,350	4,070	70	70
Contribution by participants	750	740	-	-
Remeasurement gains and (losses) on liabilities				
- Financial assumptions	8,960	(160)	-	-
- Demographic assumptions	(7,200)	-	-	-
- Experience	310	990	(45)	29
Benefits paid	(4,760)	(4,930)	(206)	(205)
Past service cost	1,890	60	-	-
Closing balance at 31 March	177,140	169,150	2,774	2,955

Local Government Pension Scheme Assets

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 2019			Asset split at 31 March 2018
	%	%	%	%
	Quoted	Unquoted	Total	Total
Equities	54.0	6.4	60.4	62.6
Property	0.7	6.9	7.6	7.0
Government Bonds	22.6	0.1	22.7	23.7
Corporate Bonds	1.1	4.1	5.2	1.0
Cash	2.3	-	2.3	2.6
Other	0.1	1.7	1.8	3.1
Total	80.8	19.2	100.0	100.0

Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries. Estimates for the Hampshire County Council Fund are based on the latest full valuation of the scheme as at 31 March 2016 for funded benefits and 31 March 2017 for unfunded benefits.

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

	Funded Benefits 31 March		Unfunded Benefits 31 March	
	2019 % p.a	2018 % p.a	2019 % p.a	2018 % p.a
Mortality assumptions:				
Future lifetime from age 65 (aged 65 at accounting date)				
Men	23.3	24.1	23.3	24.1
Women	26.1	27.2	26.1	27.2
Future lifetime from age 65 (aged 45 at accounting date)				
Men	24.9	26.2	n/a	n/a
Women	27.8	29.4	n/a	n/a
Principal financial assumptions (% per annum)				
Discount rate	2.4	2.6	2.4	2.6
RPI inflation	3.3	3.2	3.3	3.2
CPI inflation	2.2	2.1	2.2	2.1
Pension increases	2.2	2.1	2.2	2.1
Pension accounts revaluation rate	2.2	2.1	n/a	n/a
Salary increases	3.7	3.6	n/a	n/a

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2019 and the projected service cost for the year ending 31 March 2020 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.

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. The Government applied to the Supreme Court for permission to appeal this judgement, however the Supreme Court rejected the Government's request on 27 June 2019. The next stage is for the case to be referred to the Employment Tribunal to agree the remedy, following appropriate consultation.

While the judgement was not in relation to members with LGPS benefits it would be reasonable to assume that Government will now seek a remedy for all public sector schemes, including the LGPS, with the remedy potentially differing by Scheme depending on the transitional protections adopted. As a result, the actuaries have calculated a 'worst-case' scenario impact at LGPS Scheme level on assumptions that are reflective of those that are used for accounting. The figures are approximate based on an estimate of the LGPS liabilities as a whole. The additional liability of £1.63 million is shown as a Past Service Cost in 2018/19.

Discount rate assumption

	+0.1% p.a.	Base Figure	-0.1% p.a.
Adjustment to discount rate			
Present value of total obligation (£M)	174.00	177.14	180.34
% change in present value of total obligation	-1.80		1.80
Projected service cost (£M)	3.82	3.94	4.06
Approximate % change in projected service cost	-3.00		3.10

Rate of general increase in salaries

	+0.1% p.a.	Base Figure	-0.1% p.a.
Adjustment to salary increase rate			
Present value of total obligation (£M)	177.67	177.14	176.62
% change in present value of total obligation	0.30		-0.30
Projected service cost (£M)	3.94	3.94	3.94
Approximate % change in projected service cost	0		0

Rate of increase to pensions in payment and deferred pension assumptions

	+0.1% p.a.	Base Figure	-0.1% p.a.
Adjustment to pension rate increase			
Present value of total obligation (£M)	179.80	177.14	174.52
% change in present value of total obligation	1.50		-1.50
Projected service cost (£M)	4.06	3.94	3.82
Approximate % change in projected service cost	3.10		-3.00

Post retirement mortality assumption

	-1 year	Base Figure	+1 year
Adjustment to mortality age rating assumption			
Present value of total obligation (£M)	181.08	175.51	169.98
% change in present value of total obligation	3.20		-3.20
Projected service cost (£M)	4.09	3.94	3.79
Approximate % change in projected service cost	3.80		-3.80

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 F. Johns MRICS.

The various sites at Daedalus were revalued by M. Newman MRICS to 31 March 2019.

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

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Total £'000
Historic	-	2,877	10,953	13,830
2014/15	-	15	-	15
2015/16	-	3,223	-	3,223
2016/17	-	224	-	224
2017/18	-	2,100	-	2,100
2018/19	124,055	79,527	-	203,580
Total	124,055	87,966	10,953	222,972

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 31st March 2019. 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 2019, the Council had entered into a number of contracts for the construction, purchase or enhancement of Property, Plant and Equipment in 2019/20 and future years, budgeted to cost £16.8 million. Similar commitments at 31 March 2018 were £1.6 million. The major commitments are purchases of Commercial Properties, and a Fareham Housing development.

Movement in Non-Current Assets 2018/19

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £000	Infrastr ucture Assets £'000	Community Assets £'000	Assets Under Constr- uction £'000	Total £'000
Cost or Valuation							
At 1 April 2018	120,239	95,376	10,666	2,106	377	3,944	232,708
Additions	3,261	1,052	1,082	29	-	310	5,734
Revaluation increases/(decreases) to RR	-	(6,568)	-	-	-	-	(6,568)
Revaluation increases/(decreases) to SDPS	1,997	(5,110)	-	-	-	-	(3,113)
Derecognition – Disposals	(1,442)	(410)	(795)	-	-	-	(2,647)
Reclassified to/from Held for Sale	-	(262)	-	-	-	-	(262)
Other movements	-	3,888	-	-	-	(3,888)	-
At 31 March 2019	124,055	87,966	10,953	2,135	377	366	225,852
Depreciation and impairment							
At 1 April 2018	2,459	2,461	7,225	938	34	-	13,117
Depreciation Charge	2,437	2,431	904	28	3	-	5,803
Depreciation written out to RR	-	(1,564)	-	-	-	-	(1,564)
Depreciation written out to SDPS	(2,459)	(94)	-	-	-	-	(2,553)
Derecognition – Disposals	(27)	-	(782)	-	-	-	(809)
At 31 March 2019	2,410	3,234	7,347	966	37	-	13,994
Net Book Value							
At 31 March 2019	121,645	84,732	3,606	1,169	340	366	211,858
At 31 March 2018	117,780	92,915	3,441	1,168	343	3,944	219,591

Movement in Non-Current Assets 2017/18

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £000	Infrastr ucture Assets £'000	Community Assets £'000	Assets Under Constr- uction £'000	Total £'000
Cost or Valuation							
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	-	(380)	-	-	-	-	(380)
Revaluation increases/(decreases) to SDPS	(2,325)	(2,270)	-	-	-	-	(4,595)
Derecognition – Disposals	(899)	-	(482)	-	-	-	(1,381)
Reclassified to/from Held for Sale	-	341	-	-	-	-	341
Other movements	-	(677)	-	-	-	(345)	(1,022)
At 31 March 2018	120,239	95,376	10,666	2,106	377	3,944	232,708
Depreciation and impairment							
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	-	-	-	-	-	-	-
Depreciation written out to SDPS	(1,460)	(686)	-	-	-	-	(2,146)
Derecognition – Disposals	(18)	-	(461)	-	-	-	(479)
At 31 March 2018	2,459	2,461	7,225	938	34	-	13,117
Net Book Value							
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

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 Notes to the HRA 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.

	2018/19 £'000	2017/18 £'000
Rental, sales income and service charges	(4,127)	(3,964)
Direct operating expenses	733	684
Net (gain)/loss	(3,394)	(3,279)

Movement in Fair Value of Investment Properties

	Value at 31 March 2018 £'000	Acquisitions £'000	Change in Value £'000	Re- classifications £'000	Value at 31 March 2019 £'000
Commercial	9,775	-	236	-	10,011
Leisure	1,138	35	(7)	-	1,167
Office	3,666	-	93	-	3,759
Other	4,652	-	(279)	-	4,373
Retail	39,741	-	(2,389)	-	37,352
Total	58,973	35	(2,346)	-	56,662

	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
Total	54,413	1,251	2,287	1,023	58,973

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 2019 £'000
Commercial	6,311	3,630	70	10,011
Leisure	-	21	1,146	1,167
Office	2,200	923	636	3,759
Other	2,177	1,929	267	4,373
Retail	36,985	367	-	37,352
Total	47,673	6,870	2,119	56,662

Note 19 Leases

Council as Lessee – Finance Leases

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

	31 March 2019 £'000	31 March 2018 £'000
Property, Plant and Equipment	10,158	10,511
Investment Property	6,128	5,840
Total	16,286	16,351

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 2019 £'000	31 March 2018 £'000
Not later than one year	4,528	4,151
Later than one year and not later than five years	13,209	12,816
Later than five years	45,333	45,124
Total	63,070	62,091

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 2018/19, contingent rents of £0.63 million were received by the Council (2017/18 £0.56 million).

Note 20 Short Term Debtors

	31 March 2019 £'000	31 March 2018 £'000
Central government bodies	1,315	1,944
Other local authorities	1,885	2,229
Community Infrastructure Levy	1,096	1,443
Other entities and individuals	2,249	1,655
Housing benefits overpaid	1,761	1,688
Council tenants arrears	809	818
Council Tax and NNDR arrears	542	564
Provision for doubtful debts	(1,577)	(1,867)
Total	8,080	8,474

Note 21 Short Term Creditors

	31 March 2019 £'000	31 March 2018 £'000
Central government bodies	5,204	6,070
Other local authorities	4,151	2,406
Receipts in advance	786	1,907
Other entities and individuals	2,282	1,775
Total	12,423	12,158

Note 22 Provisions

	Balance at 1 April £'000	Provision in year £'000	Applied in year £'000	Balance at 31 March £'000
Business rate appeals	1,614	906	(72)	2,448
Insurance	72	13	(31)	54
Employee related	188	209	(188)	209
Total 2018/19	1,874	1,128	(291)	2,711
Total 2017/18	3,008	277	(1,411)	1,874

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.

Note 23 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 2019 £'000	31 March 2018 £'000
Balance at 1 April	6,678	7,859
Movements in year:		
Amounts received (with conditions)	813	3,505
Amounts recognised as income (conditions subsequently met):		
- Within Cost of Services	(1,134)	(1,187)
- Within Taxation and Non-Specific Grants	(524)	(3,499)
Balance at 31 March	5,833	6,678
Receipts in Advance (Capital Grants)		
Leisure developer contributions	1,861	1,939
Homes England	442	1,413
Affordable housing developer contributions	440	450
Other developer contributions	986	435
Other capital contributions	332	231
Solent Local Enterprise Partnership	-	-
	4,061	4,468
Receipts in Advance (Revenue Grants)		
Air quality grants	254	650
Titchfield Country Park developer contribution	518	571
Welborne Garden Village contribution	488	488
National Grid IFA2 developer contribution	457	457
Other revenue contributions	55	44
	1,772	2,210
Total Receipts in Advance	5,833	6,678

Note 24 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 2017 £'000	Transfers Out £'000	Transfers In £'000	31 March 2018 £'000	Transfers Out £'000	Transfers In £'000	31 March 2019 £'000
General Fund							
Major Repairs and Renewals	1,302	-	-	1,302	-	-	1,302
Other Earmarked Reserves	3,818	(2,291)	286	1,813	(303)	2,409	3,919
Earmarked Capital Reserves	5,036	(2,192)	1,200	4,044	(1,274)	1,125	3,895
	10,156	(4,483)	1,486	7,159	(1,577)	3,534	9,116
HRA							
Housing Repairs Account	1,500	-	-	1,500	-	-	1,500
Capital Development Fund	3,520	-	-	3,520	(129)	-	3,391
Debt Repayment Fund	-	-	1,140	1,140	-	1,140	2,280
Leaseholder Repairs	159	-	103	262	-	18	280
	5,179	-	1,243	6,422	(129)	1,158	7,451
Total	15,335	(4,483)	2,729	13,581	(1,706)	4,692	16,567

Note 25 Capital Expenditure and Capital Financing

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

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

2017/18 £'000		2018/19 £'000
75,211	Opening Capital Finance Requirement	90,556
	Capital Investment	
23,107	Property, Plant and Equipment	5,734
1,251	Investment Properties	35
520	Revenue Expenditure Funded from Capital under Statute	855
	Sources of Finance	
(282)	Capital Receipts	(655)
(5,053)	Government Grants and Other Contributions	(1,277)
	Sums set aside from revenue:	
(1,600)	HRA Major Repairs Reserve	(1,690)
(2,183)	Direct Revenue Contributions	(2,337)
(415)	Minimum Revenue Provision	(698)
90,556	Closing Capital Finance Requirement	90,523
	Explanation of movements in year	
15,345	Increase/(decrease) in underlying need to borrow	(33)

Note 26 Unusable Reserves

	31 March	
	2019 £'000	2018 £'000
Revaluation Reserve	30,979	36,842
Capital Adjustment Account	147,511	151,428
Pensions Reserve	(59,224)	(61,165)
Collection Fund Adjustment Account	54	869
Accumulated Absences Account	(209)	(188)
Pooled Fund Adjustment Account	(127)	-
Available for Sale Financial Instruments Reserve	-	(156)
	118,984	127,630

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.

2017/18 £'000		2018/19 £'000
36,677	Balance at 1 April	36,842
5,430	Upward revaluation of assets	3,056
(4,824)	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services	(8,051)
606		(4,995)
(441)	Difference between current value depreciation and historical cost depreciation	(543)
-	Accumulated gains on assets disposed or reclassified to Investment Properties	(325)
(441)	Amount written off to the Capital Adjustment Account	(868)
36,842	Balance at 31 March	30,979

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.

2017/18 £'000		2018/19 £'000
149,170	Balance at 1 April	151,428
Reversal of items relating to capital expenditure in the Comprehensive Income and Expenditure Statement		
(5,206)	Charges for depreciation and impairment of non-current assets	(5,812)
(3,434)	Revaluation losses on property, plant and equipment	(654)
(7)	Amortisation of intangible assets	(7)
(520)	Revenue expenditure funded from capital under statute	(855)
(901)	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	(1,752)
139,102		142,348
(11)	Amount credited to Capital Receipts Reserve relating to part repayment of principal on long term debtor	(16)
0	Cumulative (gains)/losses on assets sold or reclassified as Investment Properties	325
441	Adjustment amounts written out of the Revaluation Reserve	543
139,532	Net written out amount of the cost of non-current assets consumed in the year	143,200
Capital financing applied in the year		
358	Use of the Capital Receipts Reserve to finance new capital expenditure	655
1,600	Use of the Major Repairs Reserve to finance new capital expenditure	1,690
5,053	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,277
415	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	698
2,183	Capital expenditure charged against the General Fund and HRA balances	2,337
149,141		149,857

2,287	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(2,346)
151,428	Balance at 31 March	147,511

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.

2017/18		2018/19
£'000		£'000
(58,271)	Balance at 1 April	(61,165)
(299)	Actuarial gains or losses on pension assets and liabilities	5,946
(4,960)	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	(7,120)
2,365	Employers' pension contributions and direct payments to pensioners payable in the year	3,115
(61,165)	Balance at 31 March	(59,224)

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.

2017/18		2018/19
£'000		£'000
(417)	Balance at 1 April	869
82	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	59
1,204	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	(873)
869	Balance at 31 March	55

Note 27 Financial Instruments

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

	Long Term		Short Term	
	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000
- Borrowing	40,000	40,000	5,511	12,017
- Bank overdraft	-	-	462	334
Total Borrowing	40,000	40,000	5,973	12,351
Long Term Creditors	3,390	3,735	-	-
Trade Creditors	-	-	4,401	4,296
Total Financial Liabilities	43,390	43,735	10,374	16,647

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

	Long Term		Short Term	
	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000
- Investments at amortised cost	-	-	9,043	7,007
- Fair value through profit or loss	1,873	1,844	-	-
Total Investments	1,873	1,844	9,043	7,007
- Cash at amortised cost	-	-	4	4
- Fair value through profit or loss	-	-	2,102	3,001
Total Cash and Cash Equivalent	-	-	2,106	3,005
Long Term Debtors	117	133	-	-
Trade Debtors	-	-	4,070	4,361
Total Financial Assets	1,990	1,977	15,219	14,373

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.

Financial Instruments - Fair Values

Financial instruments classified as fair value through profit or loss are carried in the Balance Sheet at fair value. These assets are shares in money market funds and other pooled funds and the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by discounting the contractual cash flows over the whole life of the instrument at the appropriate rate for local authority loans.

The fair values of long term borrowing are:

	31 March 2019		31 March 2018	
	Balance Sheet £'000	Fair Value £'000	Balance Sheet £'000	Fair Value £'000
Borrowing	40,000	51,620	40,000	52,356

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 current rates available for similar borrowing as at the Balance Sheet date.

The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment. Movements in the fair value during the life of long term debtors and creditors 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 23 February 2018) 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 Public Works Loan Board (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 2019		As at 31 March 2018	
	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000
Less than 3 months	5,973	7,149	4,351	10,012
3 to 6 months	-	4,000	8,000	-
6 months to 1 year	-	-	-	-
1 to 5 years	-	1,873	-	1,844
Over 35 years	40,000	-	40,000	-
Total	45,973	13,022	52,351	11,856

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 2019.

Rating Category	31 March 2019 £'000	31 March 2018 £'000
AAA or equivalent	3,995	4,845
AA or equivalent	-	2,000
A or equivalent	6,020	4,006
BBB or equivalent	-	4
Not rated	3,007	1,001
Total	13,022	11,856

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 £13 million (2017/18 £11.9 million **restated from previous year's Statement of Accounts to include long term debtors**) 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 2019 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 (£197,000 as at 31 March 2019, £456,000 as at 31 March 2018). 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 2019 £'000	Bad Debt Provision %	Bad Debt Provision £'000	Amount Outstanding as at 31 March 2018 £'000	Bad Debt Provision %	Bad Debt Provision £'000
Less than 1 year old	1,989	0.6	11	2,180	5	117
1 and 2 years old	63	19	12	176	67	117
2 and 3 years old	55	62	34	26	84	22
More than 3 years old	147	95	140	210	95	200
Total	2,254		197	2,592		456

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 2019 the Council had £2 million 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.

Transition to IFRS 9 Financial Instruments

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1st April 2018. The main changes include the reclassification of financial assets.

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the remeasurement is instead shown as an additional line in the Movement in Reserves Statement. The changes made on transition to the Balance Sheet are summarised below:

	IAS 39 31 March 2018 £'000	Reclass- ification £'000	IFRS 9 31 March 2018 £'000
Investments			
Loans and Receivables	9,678	(9,678)	-
Investments at amortised cost	-	7,007	7,007
Available for sale investments	1,844	(1,844)	-
Fair value through profit or loss	-	1,844	1,844
Total Investments	11,522	(2,671)	8,851
Cash and Cash Equivalents			
Cash at amortised cost	-	4	4
Fair value through profit or loss	-	3,001	3,001
Total Cash and Cash Equivalents	-	3,005	3,005
Trade debtors	4,361	-	4,361
Long term debtors	133	-	133
Total Debtors	4,494	-	4,494
Total Financial Assets	16,016	334	16,350
Borrowing	(52,017)	-	(52,017)
Bank overdraft	-	(334)	(334)
Long term creditors	(3,735)	-	(3,735)
Trade creditors	(4,296)	-	(4,296)
Total Financial Liabilities	(60,048)	(334)	(60,382)
Net Financial Liabilities	(44,032)	-	(44,032)

Changes to unusable reserves are:

	IAS 39 31 March 2018 £'000	Reclass- ification £'000	IFRS 9 31 March 2018 £'000
Unusable Reserves			
Available for sale reserve	156	(156)	-
Pooled fund adjustment account	-	156	156
Other unusable reserves	127,474	-	127,474
Total Unusable Reserves	127,630	-	127,630

Note 28 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 2018/19, 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 2018/19 is shown in note 12.

Chief Officers

Chief Officers have the ability to influence the Council. During 2018/19, 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 £1,974,614 (2017/18 £1,990,339). In 2018/19, PCJC paid a contribution of £150,000 to the Council (£145,000 in 2017/18). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2019, £2,509,988 was invested with the Council (£2,016,539 at 31 March 2018).

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 2018/19, the Partnership charged Gosport Borough Council £113,594 (2017/18 £100,498) and Portsmouth City Council £100,844 (2017/18 £100,985) 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 2019, the balance of retained surpluses for future investment in the service was £149,478 for Fareham Borough Council, £91,327 for Gosport Borough Council and £49,066 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 2018/19, the Partnership charged Gosport Borough Council £616,629 (2017/18 £745,852) 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 29 Contingent Liabilities

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

Municipal Mutual Insurance – Scheme of Arrangement

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 £50,000 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%. The current value of outstanding claims is £169,000 with a contingent liability of £127,000. 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 30 Cash Flow Statement - Operating Activities (Interest)

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

2017/18 £'000	2018/19 £'000
61 Interest received	(36)
(1,404) Interest paid	(1,446)
(1,343)	(1,482)

Note 31 Cash Flow Statement – Adjustment to net surplus or deficit on the provision of services for non-cash movements

2017/18 £'000	2018/19 £'000
5,186 Depreciation and impairment	5,812
3,433 Downward valuations	654
7 Amortisation of intangible assets	7
5,407 Increase/decrease in creditors	(888)
(980) Increase/decrease in debtors	54
37 Increase/decrease in inventories	(24)
2,597 Movement in pension liability	2,644
921 Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised	1,427
(3,421) Other non-cash items charged to the net surplus/deficit on provision of services	3,154
13,187	12,840

Note 32 Cash Flow Statement - Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities

2017/18 £'000	2018/19 £'000
(4,306) Capital grants credited to surplus/deficit on the provision of services	(1,206)
(1,509) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(3,720)
(5,815)	(4,926)

Note 33 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 2018/19 financial year and its position at the year-end of 31 March 2019. 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 2018/19 and the Service Reporting Code of Practice 2018/19, 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 such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and charges on an accruals basis to the relevant service line of the Comprehensive Income and Expenditure Statement.

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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. The two classes that are applicable to the Council are measured at:

- amortised cost, and
- fair value through profit or loss (FVPL)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets 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.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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 current 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.

	2018/19 £'000	2017/18 £'000
Income		
Gross rent income		
- Dwellings	(11,020)	(10,989)
- Other	(341)	(329)
Charges for services and facilities	(1,164)	(1,084)
Contributions towards expenditure	(37)	(19)
Total income from service	(12,562)	(12,421)
Expenditure		
Repairs and maintenance	3,158	4,160
Supervision and management	2,841	2,756
Rents, rates, taxes and other charges	78	47
Depreciation and impairment of non-current assets (note 7)	(1,907)	3,447
Debt management expenses	31	36
Provision for doubtful debts	124	(13)
Total expenditure on service	4,325	10,433
Net Expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement	(8,237)	(1,988)
HRA service share of corporate and democratic core	449	261
Net Expenditure for HRA Services	(8,070)	(1,727)
Gain on sale of HRA non-current assets	(1,439)	(616)
Change in fair value of Investment Properties	(15)	-
Interest payable	1,795	1,795
Interest receivable	(67)	(53)
Pension interest cost	267	231
(Surplus) or Deficit for Year on HRA Services	(7,247)	(370)

Movement on the HRA Statement

	2018/19 £'000	2017/18 £'000
Balance on the HRA at the end of previous year	(1,824)	(2,370)
(Surplus) or Deficit for year on HRA Income and Expenditure Statement	(7,529)	(370)
Remove gain on sale of HRA non-current assets	1,456	616
Pension reserve contributions	(640)	(534)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(1)	-
Capital expenditure charged to HRA Balances	1,228	461
Transfers to/from Major Repairs Reserve	2,544	2,577
Transfers to/from Capital Adjustment Account	1,923	(3,447)
Adjustments between accounting basis and funding basis under statute	6,793	(327)
Net (increase) or decrease before transfers to or from the reserves	(736)	(696)
Transfer to/(from) reserves	1,029	1,243
(Increase) or decrease in year on the HRA	293	546
Surplus Carried Forward	(1,531)	(1,824)

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 2019	31 March 2018
Houses	778.75	784.25
Flats	1,449.00	1,461.00
Bungalows	166.00	166.00
	2,393.75	2,411.25

During the year 13 homes were sold under the right to buy scheme (16 in 2017/18) and 0.5 shared-owner properties were fully acquired by their owners (2.5 in 2017/18). The Council bought 8 homes that were 100% in private ownership and fully acquired 3 shared-owner homes (1 in 2017/18 and land at Station Road), 14 homes were sold for private development (none in 2017/18).

Note 2 Value of Housing Revenue Account Property

Council dwellings have been valued in their current use with an allowance for occupation by a secure social tenant including the right to buy where applicable. The vacant possession value at 31 March 2019 is £382 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 2018/19	Council Dwellings £'000	Other Land and Buildings £'000	Plant and Equipment £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation					
At 1 April 2018	120,239	5,356	87	-	125,682
Additions	3,261	-	-	129	3,390
Revaluation Increases/(decreases) to RR	-	(17)	-	-	(17)
Revaluation Increases/(decreases) to SDPS	1,997	-	-	-	1,997
Derecognition - Disposals	(1,442)	(85)	-	-	(1,527)
Other reclassifications	-	-	-	-	-
At 31 March 2019	124,055	5,254	87	129	129,525
Depreciation and Impairment					
At 1 April 2018	2,459	93	21	-	2,572
Depreciation Charge	2,437	99	8	-	2,544
Depreciation written out to RR	-	-	-	-	-
Depreciation written out to SDPS	(2,459)	(93)	-	-	(2,552)
Derecognition - Disposals	(27)	-	-	-	(27)
At 31 March 2019	2,410	99	29	-	2,538
Net Book Value					
At 31 March 2019	121,645	5,155	58	129	126,987
At 31 March 2018	117,780	5,263	66	-	123,110

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	-	-	-	-	-
Revaluation Increases/(decreases) to SDPS	(2,325)	299	-	-	(2,026)
Derecognition - Disposals	(899)	-	-	-	(899)
Other reclassifications	-	-	-	-	-
At 31 March 2018	120,239	5,356	87	-	125,682
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	-	-	-	-	-
Depreciation written out to SDPS	(1,460)	(93)	-	-	(1,553)
Derecognition - Disposals	(18)	-	-	-	(18)
At 31 March 2018	2,459	93	21	-	2,572
Net Book Value					
At 31 March 2018	117,780	5,263	66	-	123,110
At 31 March 2017	120,144	4,564	75	-	124,783

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

Note 3 Major Repairs Reserve

	2018/19 £'000	2017/18 £'000
Balance at 1 April	984	7
Receipts in year	2,544	2,577
Used in year	(1,690)	(1,600)
Balance at 31 March	1,838	984

Note 4 Housing Repairs Account

	2018/19 £'000	2017/18 £'000
Balance at 1 April	1,500	1,500
Contribution from HRA	2,981	4,079
Other Income	171	81
Expenditure	(3,170)	(4,213)
Transfer to Reserve	18	53
Balance at 31 March	1,500	1,500

Note 5 Capital Financing

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

	Houses and Flats £'000
Capital Receipts	471
Capital Development Fund	129
Major Repairs Reserve	1,690
Revenue Contributions	1,153
Expenditure in 2018/19	3,443

Note 6 Capital Receipts

Capital receipts from the Right to Buy sales of HRA property in 2018/19 were £1.472 million (£1.497 million in 2017/18).

Note 7 Depreciation and Impairment

		2018/19 £'000	2017/18 £'000
Depreciation	Dwellings	2,437	2,477
	Garages	99	93
	Plant and Equipment	8	8
	Total	2,544	2,578
Amortisation	Intangible Asset	5	5
Revaluation (Gain)/Loss	Dwellings	(4,456)	864
Total Charge		(1,907)	3,447

For 2018/19 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 2019, arrears were 4.78% of the gross income due in the year. 2018/19 and 2017/18 were both 52 week rent years. The arrears figures are as follows:

	2018/19 £'000	2017/18 £'000
Arrears as at 31 March	606	559
Gross Income	12,674	12,738
Provision for Uncollectable Rents	515	450
Arrears as a percentage of gross income	4.78%	4.39%

Collection Fund

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

	Council Tax £'000	Business Rates £'000	2018/19 Total £'000	2017/18 Total £'000
Income				
Council Tax (notes 1 and 2)				
Billed to Taxpayers	69,117	-	69,117	64,213
Non-Domestic Rates - Due (note 3)	-	42,179	42,179	39,617
Transitional Protection Payments	-	(998)	(998)	(1,731)
Total Income	69,117	41,181	110,298	102,099
Expenditure				
Collection Fund Surplus/(Deficit) in Previous Year				
Central Government	-	2,049	2,049	(921)
Fareham Borough Council	25	1,640	1,665	(647)
Hampshire County Council	193	369	562	505
Police and Crime Commissioner for Hampshire	28	-	28	100
Hampshire Fire and Rescue	11	41	52	21
	257	4,099	4,356	(942)
Precepts, Demands and Shares				
Central Government	-	18,589	18,589	18,592
Fareham Borough Council	6,613	14,871	21,484	21,238
Hampshire County Council	51,167	3,346	54,513	51,357
Police and Crime Commissioner for Hampshire	7,561	-	7,561	7,011
Hampshire Fire and Rescue	2,801	372	3,173	3,077
	68,142	37,178	105,320	101,275
Charges to the Collection Fund				
Cost of Collection Allowance	-	138	138	138
Increase/(Decrease) in Appeals Provision	-	2,083	2,083	(2,745)
Increase/(Decrease) in Bad Debt Provision	112	(258)	(146)	794
	112	1,963	2,075	(1,813)
Total Expenditure	68,511	43,240	111,751	98,520
Fund balance brought forward at 1 April	(1,095)	3,360	2,265	(1,314)
Surplus/(Deficit) for the Year	606	(2,059)	(1,453)	3,579
Fund balance carried forward at 31 March	(489)	1,301	812	2,265

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 42,605 for 2018/19 (42,372 for 2017/18). 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:

	2018/19 £'000	2017/18 £'000
Fareham Borough Council	155.22	150.22
Police and Crime Commissioner for Hampshire	177.46	165.46
Hampshire Fire and Rescue	65.74	63.84
Hampshire County Council	1,200.96	1,133.10
Total	1,599.38	1,512.62

Note 2 Non-Domestic Rates (NDR)

NDR is organised on a national basis. The Government specifies a rate in the £ (in 2018/19, 48.0p for small businesses and 49.3p for large; in 2017/18, 46.6p for small businesses and 47.9p 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 2019 was £102,725,606 (£101,931,713 as at 31 March 2018). This rateable value is based on the valuation list effective from 6 March 2019.

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 2018/19, the Business Rates Baseline was £16,431,936 (2017/18 £15,831,543) and the Baseline funding level was £1,855,178 (2017/18 **£1,801,068**).

Note 3 Collection Fund Balance

The Collection Fund balance for 2018/19 was a surplus of £0.81 million (a surplus of £2.27 million in 2017/18) 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.

A decorative graphic consisting of seven vertical bars of varying heights, creating a staircase effect. The background is a blurred image of French text in a serif font, with words like 'sais', 'serait', 'sages', 'discuter', and 'dén' visible. A large white number '5' is overlaid on the left side of the graphic.

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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 date

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.



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INDEPENDENT AUDITOR'S REPORT



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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.

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FAREHAM

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STATEMENT OF

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