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FAREHAM
BOROUGH COUNCIL

AGENDA
AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 22 July 2019

Time: 6.00 pm

Venue: Collingwood Room - Civic Offices

Members:

Councillor J E Butts (Chairman)

Councillor S D Martin (Vice-Chairman)

Councillors P J Davies
T Davies
Mrs T L Ellis
Mrs C Heneghan
J G Kelly

Deputies: I Bastable
J S Forrest

1. **Apologies**

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

   To confirm as a correct record the Minutes of the Audit and Governance Committee meeting held on the 11 March 2019.

3. **Chairman's Announcements**

4. **Declarations of Interest and Disclosures of Advice or Directions**

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

5. **Deputations**

   To receive any deputations of which notice has been lodged.

6. **Statement of Accounts** (Pages 9 - 104)

   To consider a report by the Deputy Chief Executive Officer on the draft Statement of Accounts for 2018/19.

7. **External Audit - Audit Results Report** (Pages 105 - 156)

   To consider a report from the Deputy Chief Executive Officer summarising the findings of the External Auditors from their audit of the 2018/19 Statement of Accounts.

8. **Annual Counter Fraud Report** (Pages 157 - 168)

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

9. **Internal Audit Progress Report** (Pages 169 - 190)

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

10. **Head of Audits Annual Opinion** (Pages 191 - 204)

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

11. **Annual Governance Statement** (Pages 205 - 238)

    To consider a report by the Head of Finance and Audit on the 2018/19 Annual Governance Statement.

12. **Review of Committee Work Programme** (Pages 239 - 242)

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

P GRIMWOOD
Chief Executive Officer
Civic Offices
www.fareham.gov.uk
12 July 2019

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

FAREHAM
BOROUGH COUNCIL

Minutes of the Audit and Governance Committee

(to be confirmed at the next meeting)

Date: Monday, 11 March 2019

Venue: Collingwood Room - Civic Offices

PRESENT:

Councillor J E Butts (Chairman)

Councillor S D Martin (Vice-Chairman)

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

Also Present:

1. APOLOGIES

An apology of absence was received from Councillor P J Davies.

2. MINUTES

RESOLVED that the Minutes of the Audit and Governance Committee meeting held on the 26 November 2018 be confirmed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

The Chairman made the following announcement –

Update on framework agreements (housing contracts)

Members may recall that the following the Head of Audit's Annual report in July 2017, the Committee asked to receive an update on the actions being taken to put together the framework agreements for spend with contractors and suppliers used by Housing, Property and Building Services, which were breaching the Fareham Borough Council's Contract Procedure Rules.

The Manager Director of Fareham Housing provided the Committee with an update to the approach being taken in July 2018.

I can now inform you that following an OJEU complaint tender, a report went to the Executive in February to award a contract for Void Property Maintenance and Component Improvements (such as kitchens) to Mountjoy Ltd, and that contract is due to start in April 2019 for a period of 3 years.

Work has also progressed on developing a series of framework agreements for a variety of responsive repairs work over the next few months. A contractors' event has recently been held to engage with local businesses which was attended by almost 100 people representing 45 local businesses.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest made at this meeting.

5. DEPUTATIONS

There were no deputations made at this meeting.

6. EXTERNAL AUDIT ANNUAL CERTIFICATION REPORT

The Committee considered a report from the Head of Housing and Benefits on the findings from the 2017-18 certification work carried out by the External Auditors (Ernst and Young).

RESOLVED that the Committee: -

(a) considered the findings of the Annual Certification Report 2017-18 submitted by the Council's external auditors; and

(b) commented on the findings as appropriate.

7. EXTERNAL AUDIT ANNUAL PLAN AND FEE

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

At the invitation of the Chairman, Jason Jones addressed the Committee to advise of an amendment required to page 5 of Appendix A to the report. Under the Pension and Liability Valuation section, the wording should say – '*The Council's pension fund liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet'*. The word liability has replaced the word asset.

RESOLVED that the Committee approved the 2018/19 Audit Plan, attached as Appendix A to this report.

8. RISK MANAGEMENT MONITORING REPORT

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

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

9. TREASURY MANAGEMENT POLICY AND STRATEGY

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

RESOLVED that the Committee noted the Treasury Management Strategy and Prudential Indicators for 2019/20, attached as Appendix A to this report.

10. INTERNAL AUDIT CHARTER AND STRATEGY

The Committee considered a report by the Head of Finance and Audit on the Internal Audit Charter and Strategy.

RESOLVED that the Committee: -

(a) approved the Internal Audit Charter attached as Appendix A to the report; and

(b) approved the Internal Audit Strategy attached as Appendix B to the report.

11. INTERNAL AUDIT ANNUAL PLAN

The Committee considered a report by the Director of Finance and Resources on the delivery of proposed Internal Audit work in 2019/20.

RESOLVED that the Committee approved the draft Internal Audit Plan for 2019/20, attached as Appendix A to the report.

12. INTERNAL AUDIT PROGRESS REPORT

The Committee received a report by the Head of Finance and Audit on the latest internal audit work.

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

13. CONSTITUTION UPDATE

The Committee considered a report by the Monitoring Officer on updates made to the Council's Constitution.

RESOLVED that the Committee: -

(a) agreed the updates to the Constitution as set out in Appendix A and B to the report; and

(b) recommend the updates to Council for approval.

14. ANNUAL REPORT OF THE COMMITTEE

The Committee considered a report by the Head of Finance and Audit on the Annual Report of the Audit and Governance Committee.

RESOLVED that the Committee: -

(a) noted the contents of the report; and

(b) submits the Committee's Work Programme for 2019/20, as shown in Appendix A, to Council for endorsement.

(The meeting started at 6.00 pm
and ended at 7.10 pm).

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 July 2019**

Report of: **Deputy Chief Executive Officer**

Subject: **STATEMENT OF ACCOUNTS**

SUMMARY

Local Authorities have a duty to prepare and publish an annual Statement of Accounts in accordance with regulations issued by the Secretary of State. Members are requested to formally approve the annual Statement of Accounts for 2018/19 that is attached to this report.

The Audit and Governance Committee's areas of responsibility for the Council's Financial Reporting are:-

a) to review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council;

b) to consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

RECOMMENDATION

It is recommended that the Committee approves the audited Statement of Accounts for 2018/19, attached as Appendix A, for publication by 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.

INTRODUCTION

1. The Accounts and Audit Regulations 2015 require every local authority to produce and publish an annual Statement of Accounts in accordance with "proper practice" and prescribes the procedures to be followed preceding the publication of the accounts and sets out the dates by which the accounts must be approved and published.

2. The Local Government Act 2003 (Section 21) defines proper accounting practices for this purpose to be the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code) for the relevant year.

3. The audited Statement of Accounts 2018/19 set out in Appendix A has been prepared in accordance with the Code.

THE PURPOSE OF THE STATEMENT OF ACCOUNTS

4. The Code is based on approved accounting standards so that an authority's accounts present a "true and fair view" of the financial position and transactions of the authority. It has been prepared on the basis that the purpose of a local authority's published Statement of Accounts is to give electors, Members and other interested parties clear information about the authority's finances.

THE AUDIT PROCESS

5. The Council's external auditors, Ernst & Young LLP are responsible for forming an opinion on the Statement of Accounts and certifying that it is a "true and fair" view of the financial position of Fareham Borough Council as at 31 March 2019.

6. The auditors carried out a detailed audit during July 2019 in accordance with the Code of Audit Practice. All audit differences identified during the audit, and listed in the external auditor's Audit Results Report, have been adjusted for.

FASTER CLOSING – ACCOUNTS AND AUDIT REGULATIONS 2015

7. The Accounts and Audit Regulations 2015, which came into force with effect from 1 April 2015, required the Council to produce, audit and publish the accounts earlier in future years.

8. 2018/19 is the second year the unaudited accounts were produced and published by the end of May, instead of the end of June and the audited accounts have to be approved and published by the end of July, instead of the end of September.

KEY ISSUES AND MATTERS OF INTEREST

9. The Statement of Accounts includes a new look Narrative Report which highlights the Council's performance and achievements during 2018/19. Key issues and matters of interest are:

   - **Solent Airport at Daedalus** – There was capital investment of £1.1 million at Solent Airport including the fitting out costs of the new Fareham Innovation Centre extension and the final costs for the new general aviation, business hangars and the refurbishment of the air traffic control tower. The Council used low cost borrowing of £0.7 million to fund the majority of the capital works along with the original grant monies received from Homes England.

- **Welborne** – The development of the new community of Welborne has been given 'Garden Village' status by the Government. As part of this initiative £300,000 garden village capacity funding has been received in 2018/19.

- **Community Infrastructure Levy (CIL)** – The Council raised £1.5 million from CIL during 2018/19 (£1.5 million in 2017/18). This has been transferred to the Council's capital reserves. £83,000 of CIL reserves were used to fund the Hill Head coastal protection scheme, bus shelter improvements and the Holly Hill cemetery extension.

- **Housing Stock** – During the year, 13 homes were sold under the right to buy scheme (16 in 2017/18) and 8 homes were bought back using 1:4:1 housing capital receipts (2 in 2017/18).

- **Assets** – The overall value of the Council's long-term assets decreased by £10 million (increase by £18 million in 2017/18) mainly due to revaluations at Daedalus (£10 million) and retail commercial property (£2.4 million), offset by increases in Council dwellings (£3.9 million).

- **Capital Receipts** – The Council generated capital receipts of £3.7 million (£1.5 million in 2017/18) from the sale of Council dwellings (£2.9 million) and land at Daedalus (£0.8 million).

- **Borrowing and Investments** – The Council's investments increased from £11.5 million to £12.6 million at the year end and short-term borrowing reduced from £12 million to £5.5 million.

- **Reserves** – The General Fund reserve increased 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. Council reserves now total £162.6 million, £42 million of which are in 'usable' reserves which can be used to fund Council services; subject to certain limitations and the need to maintain prudent reserves for financial stability.

- **Housing Revenue Account** – The Housing Revenue Account decreased in year by £293,000 (decrease of £546,000 in 2017/18) but overall Housing Reserves increased by £1.84 million to £12.4 million.

- **Pension Fund** – The Council's pension fund liability decreased by £3.6 million to £57.6 million (£2.9 million increase in 2017/18). The main reasons for the change are due to increases in the return on assets and actuarial gains as a result of changes to the financial assumptions used.

THE CONTENT OF THE STATEMENT OF ACCOUNTS

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

Narrative Report

11. The Narrative Report provides information about the Council's main objectives and strategies and the principal challenges that it faces. It also provides a commentary on how the Council has used its resources to achieve its desired outcomes.

12. The Narrative Report is not formally part of the Statement of Accounts and is not covered directly by the statutory requirements for an audit opinion.

Statement of Responsibilities for the Statement of Accounts

13. The statement sets out the responsibilities of the Council, the Audit and Governance Committee and the Deputy Chief Executive Officer for the production and approval of the accounts and is signed by the Deputy Chief Executive Officer. It also carries the signature of the Chairman of the Audit and Governance Committee to confirm the approval of the Statement of Accounts by the Audit and Governance Committee.

Core Statements

14. The following core accounting statements are included:

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

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

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

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

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

15. The following supplementary statements are also included:
    - HRA Income and Expenditure Account
    - Statement of Movement on the HRA Balance
    - Collection Fund (Council Tax and Business Rates)

Glossary

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

Independent Auditor's Report

17. The external auditor's opinion on the accounts and their view as to whether the accounts are a true and fair view of the Council's financial position and performance for the year. This will be included within the final published document and published by 31 July 2019.

RISK ASSESSMENT

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

CONCLUSION

It is recommended that the Committee approves the audited Statement of Accounts for 2018/19, attached as Appendix A, for publication by 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.

Background Papers: None

Reference Papers: Code of Practice on Local Authority Accounting 2018/19

Appendices: Appendix A - Statement of Accounts 2018/19 (currently the unaudited version)

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

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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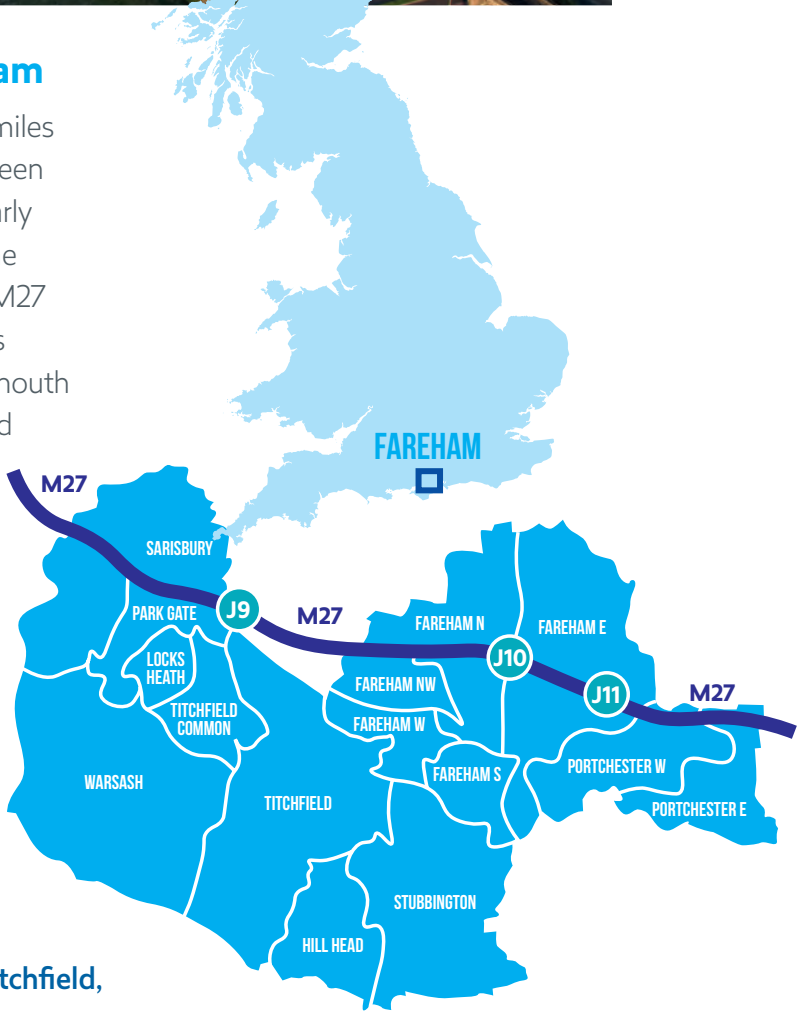
1 NARRATIVE REPORT AND WRITTEN STATEMENTS

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 position[1] 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:

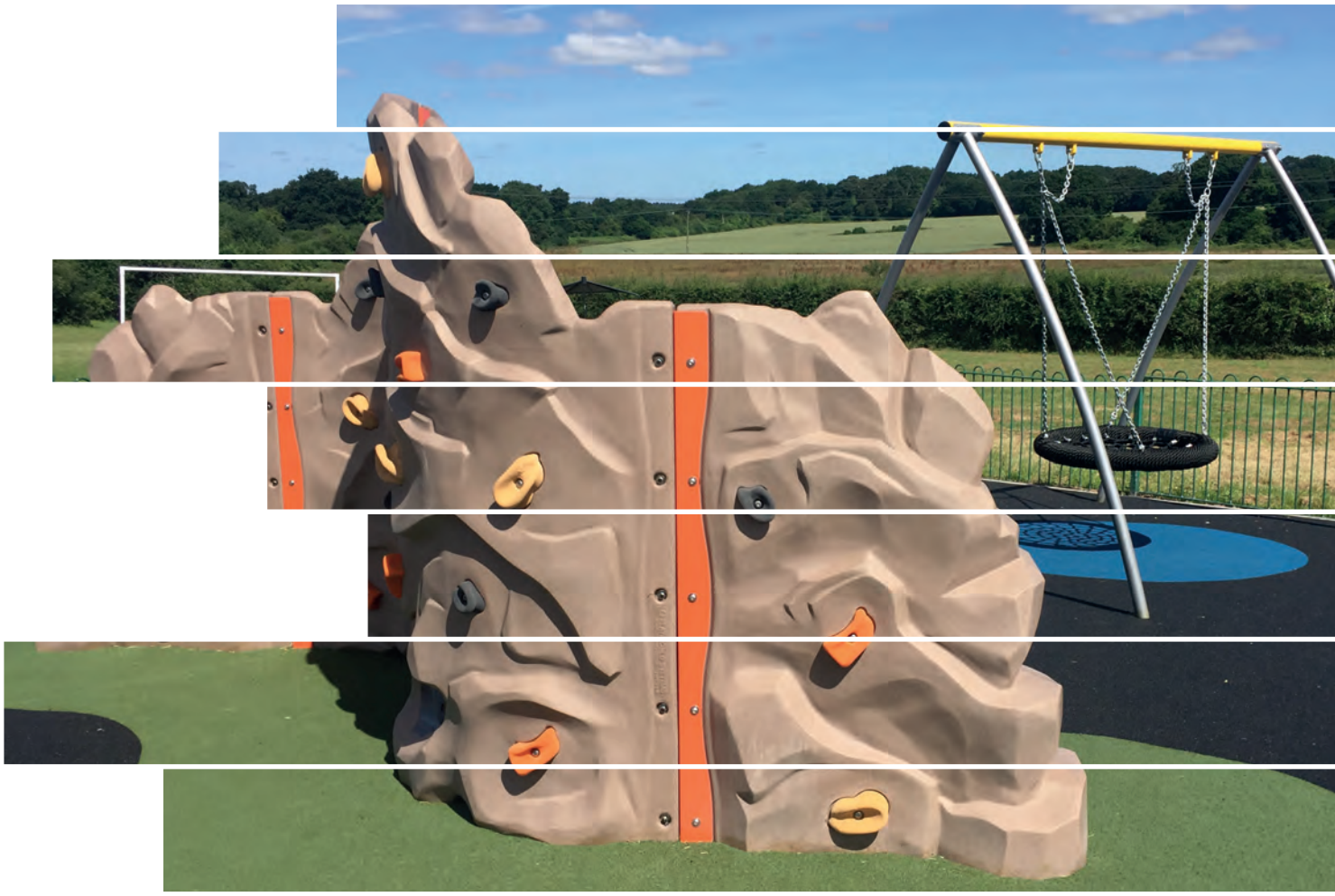
- **Reduction in non-specific Government Funding of £978,000 (50%)**
- **Increase in payments to and on behalf of employees of £366,000**
- **Introduction of the Apprenticeship levy of £45,000**
- **Increases in insurance premiums for catastrophic injury settlements of £40,000**
- **Contributions to 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

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

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 and 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**.

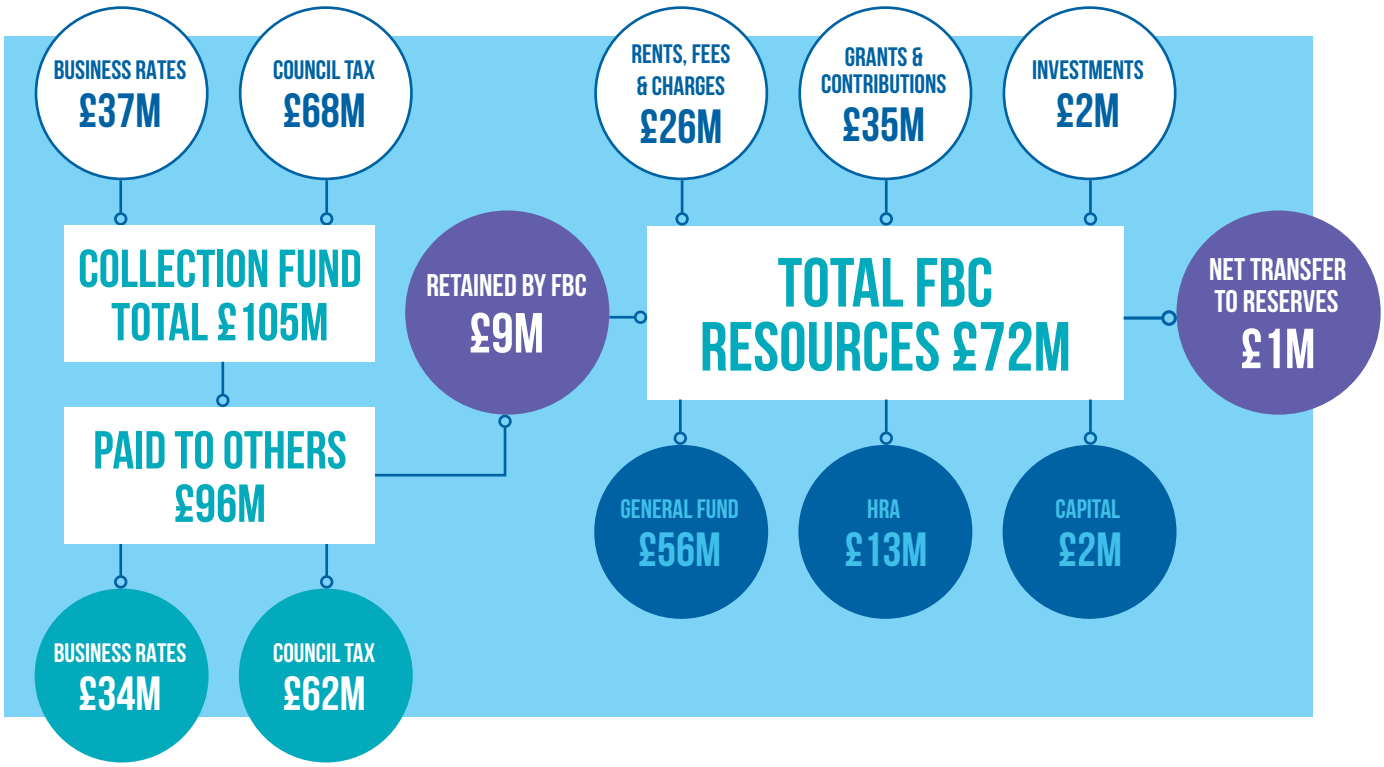
We are aware that further challenges lie ahead including the continued reduction in Government funding.

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

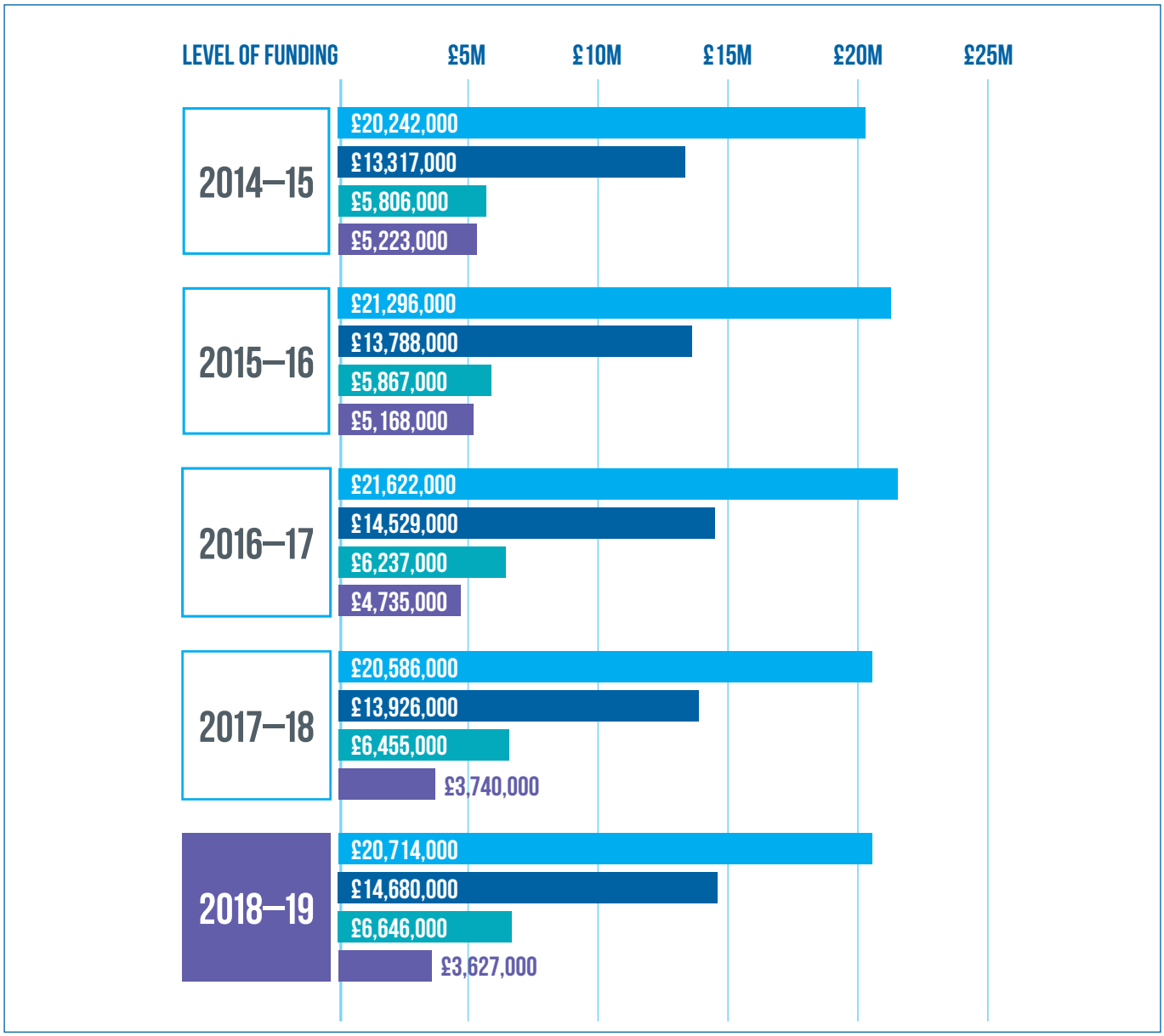
Council Tax and Business Rates

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

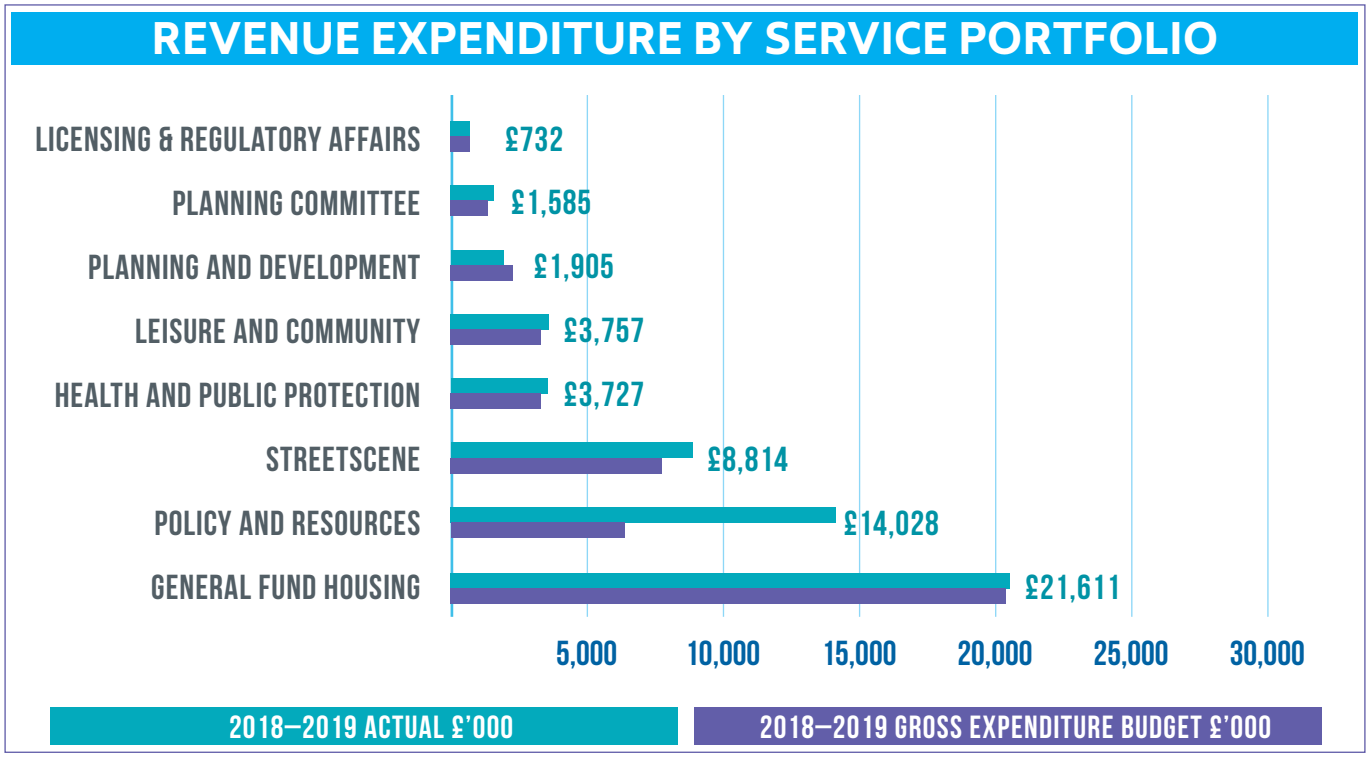
The diagram below summarises the reduction in funding from the Government and the greater reliance now placed on local sources of income.



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.



Snapshot of services provided in 2018/19

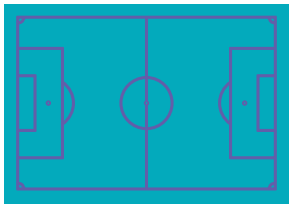
2,588,664
Bins emptied

392
Environmental Health inspections

2,394
Council houses

43
Play areas

1,268
Sports pitch bookings



281
Homeless applications determined

1,646
Planning applications determined

26
Consultations

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

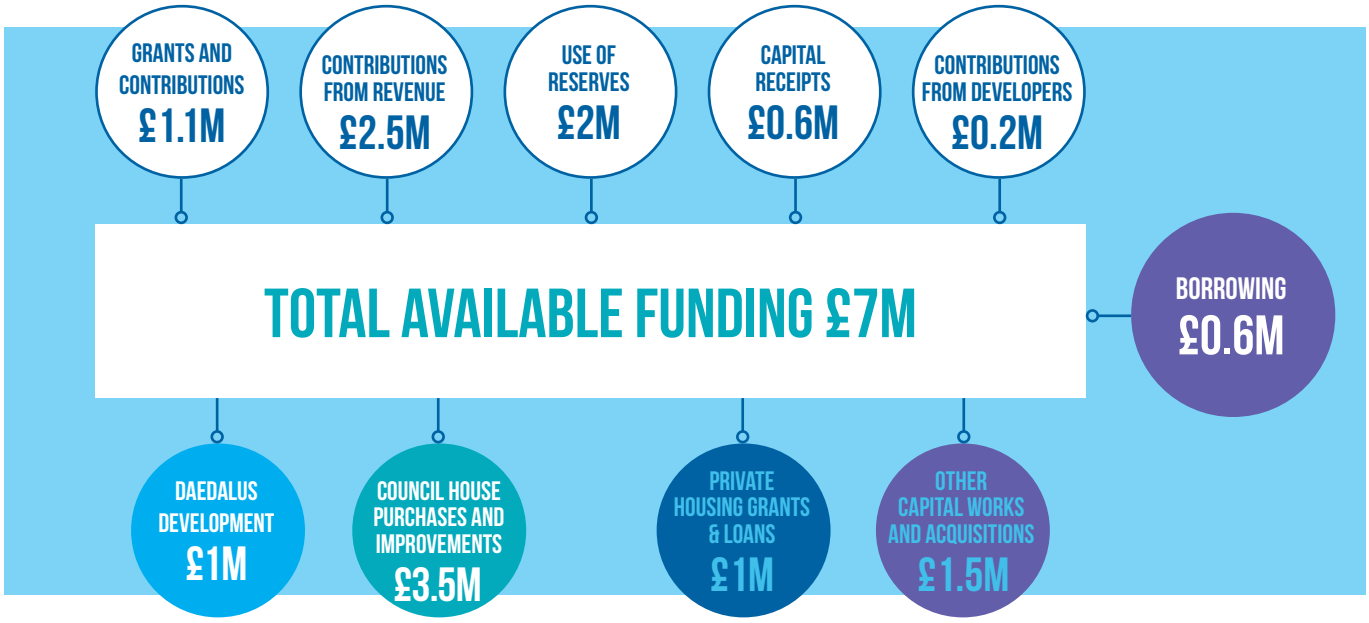
Commerce to help spread the message to its members and a large number of small building companies attended a pizza and beer event to encourage them to tender for council contracts.

- 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.**
- **The six new business hangars opened and rent paying tenants started to take up occupancy generating £35,000 of income for 2018/19.**
- **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 £587,700 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 is 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.

2 CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement in note 8.

2017/18 (Restated)					2018/19		
Gross Exp £'000	Gross Income £'000	Net Exp £'000		Note	Gross Exp £'000	Gross Income £'000	Net Exp £'000
847	(451)	396	Licensing and Regulatory Affairs Committee		732	(246)	486
1,399	(662)	737	Planning Committee		1,585	(612)	973
21,649	(20,735)	914	Housing Portfolio		21,493	(20,453)	1,040
10,433	(12,421)	(1,988)	Housing Revenue Account		4,325	(12,562)	(8,237)
4,542	(1,483)	3,059	Leisure and Community Portfolio		3,654	(1,660)	1,994
2,064	(2,458)	(394)	Planning and Development Portfolio		1,905	(2,440)	(535)
8,347	(2,493)	5,854	Policy and Resources Portfolio		11,353	(4,428)	6,925
2,885	(575)	2,310	Health and Public Protection Portfolio		3,728	(926)	2,802
8,020	(2,087)	5,933	Streetscene Portfolio		8,814	(2,487)	6,327
60,187	**(43,365)**	**16,822**	**Cost of Services**		**57,589**	**(45,814)**	**11,775**
			Other Operating Expenditure				
		(596)	(Gain)/loss on disposal of assets				(1,434)
		214	Housing capital receipts				196
			Financing and Investment Income and Expenditure				
		1,404	Interest payable				1,447
		(79)	Interest receivable				(206)
		-	Net (gain)/losses on financial assets at fair value through profit and loss				(29)
		1,420	Pension net interest cost	16			1,540
		(2,287)	Changes in fair value of investment properties	18			2,346
		(3,279)	Investment properties rental and expenses	18			(3,394)
			Taxation and Non-Specific Grant Income				
		(6,373)	Council tax income				(6,646)
		(2,586)	Non-domestic rates income				(2,665)
		(7,239)	Grants and contributions not distributable to services	10			(3,009)
		(2,579)	**(Surplus)/Deficit on Provision of Services**				**(79)**
		(606)	(Surplus)/deficit on revaluation of property, plant and equipment assets				4,995
		299	Pension liability re-measurements	16			(5,946)
		156	(Surplus)/deficit on revaluation of available-for-sale financial assets				-
		-	Other				7
		(151)	**Other Comprehensive Income and Expenditure**				**(944)**
		(2,730)	**Total Comprehensive Income and Expenditure**				**(1,023)**

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	28	1,873
133	Long term debtors		117
280,757	**Total long term assets**		**270,710**
7,007	Short term investments	28	9,043
-	Assets held for sale	19	262
87	Inventories		111
8,474	Short term debtors	21	8,080
230	Payments in advance		286
3,005	Cash and cash equivalents	28	2,106
18,803	**Current assets**		**19,888**
(334)	Bank overdraft	28	(462)
(12,017)	Short term borrowing	28	(5,511)
(12,158)	Short term creditors	22	(12,423)
(45)	Depositors		(97)
(1,874)	Provisions	23	(2,711)
(26,428)	**Current liabilities**		**(21,204)**
(4,468)	Receipts in advance - capital grants	24	(4,061)
(2,210)	Receipts in advance - revenue grants	24	(1,772)
(40,000)	Long term borrowing	28	(40,000)
(3,735)	Long term creditors		(3,390)
(61,165)	Pension scheme liability	16	(57,594)
(111,578)	**Long term liabilities**		**(106,817)**
161,554	**Net assets**		**162,577**
33,924	Usable reserves		41,963
127,630	Unusable reserves	27	120,614
161,554	**Total Reserves**		**162,577**

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	(7,456)	-	7,529	-	-	-	73	950	1,023
Adjustments between accounting basis and funding basis under regulations	9,591	-	(6,794)	854	2,888	1,427	7,966	(7,966)	-
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**	**(7,016)**	**1,023**
Balance at 31 March 2019	**8,853**	**16,567**	**1,530**	**1,838**	**7,507**	**5,668**	**41,963**	**120,614**	**162,577**

	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**

3

NOTES TO THE ACCOUNTS

Note 1 Expenditure and Funding Analysis

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

	2017/18 (Restated)				2018/19	
Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Compre-hensive Income and Expenditure Statement £'000		Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Compre-hensive Income and Expenditure Statement £'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)	7,990	6,925
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**	**5,093**	**11,775**
(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)**	**(2,803)**	**(79)**
(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	445	156	7,990
Health and Public Protection Portfolio	662	59	-	721
Streetscene Portfolio	1,165	266	(260)	1,171
Net Cost of Services	**5,948**	**806**	**(1,661)**	**5,093**
Other income and expenditure from the Expenditure and Funding Analysis	(1,238)	1,540	(2,592)	(2,290)
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**	**2,346**	**(4,253)**	**2,803**

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 a jointly controlled operation of the Council and under the Code the Council would normally recognise in its financial statements its share of PCJC's assets, liabilities, expenses and income. Group Accounts have not been produced as the differences between the Council's group and single entity accounts would be very minor.

Note 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	-	-	-	(5,490)
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**	**(7,965)**

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 Balances	(1,722)	-	(461)	-	-	-	2,183
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 May 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.

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

	Funded Benefits		Unfunded Benefits	
	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
Comprehensive Income and Expenditure Statement:				
Cost of Services				
- Current service cost	3,690	3,480	-	-
- Past service cost	260	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	**5,420**	**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	**(749)**	**5,160**	**25**	**99**
Movement in Reserves Statement:				
Reversal of net charges made to the surplus/(deficit) in accordance with the Code	(5,420)	(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		Unfunded Benefits	
	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000
Fair value of assets	120,690	110,941	-	-
Present value of defined benefit obligation	175,510	169,150	2,774	2,955
Funded status	(54,820)	(58,209)	-	-
Liability recognised on the Balance Sheet	(54,820)	(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 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'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 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'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	260	60	-	-
Closing balance at 31 March	**175,510**	**169,150**	**2,774**	**2,955**

Local Government Pension Scheme Assets Comprised

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

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

	Asset split at 31 March 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.

Discount rate assumption			
Adjustment to discount rate	**+0.1% p.a.**	**Base Figure**	**-0.1% p.a.**
Present value of total obligation (£M)	172.02	175.13	178.29
% change in present value of total obligation	-1.80		1.80
Projected service cost (£M)	3.50	3.61	3.72
Approximate % change in projected service cost	-3.00		3.10
Rate of general increase in salaries			
Adjustment to salary increase rate	**+0.1% p.a.**	**Base Figure**	**-0.1% p.a.**
Present value of total obligation (£M)	175.70	175.13	174.57
% change in present value of total obligation	0.30		-0.30
Projected service cost (£M)	3.61	3.61	3.61
Approximate % change in projected service cost	0		0
Rate of increase to pensions in payment and deferred pension assumptions			
Adjustment to pension rate increase	**+0.1% p.a.**	**Base Figure**	**-0.1% p.a.**
Present value of total obligation (£M)	177.72	175.13	172.58
% change in present value of total obligation	1.50		-1.50
Projected service cost (£M)	3.72	3.61	3.50
Approximate % change in projected service cost	3.10		-3.00
Post retirement mortality assumption			
Adjustment to mortality age rating assumption	**-1 year**	**Base Figure**	**+1 year**
Present value of total obligation (£M)	180.69	175.13	169.61
% change in present value of total obligation	3.20		-3.20
Projected service cost (£M)	3.75	3.61	3.47
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	Infrastructure Assets £'000	Community Assets £'000	Assets Under Construction £'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	Infrastructure Assets £'000	Community Assets £'000	Assets Under Construction £'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	(392)	-	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 Assets Held for Sale

	2018/19 £'000	2017/18 £'000
Balance at 1 April	-	341
Assets newly classified as held for sale:		
- Property, Plant and Equipment	262	-
Assets declassified as held for sale:		
- Property, Plant and Equipment	-	(341)
Assets sold	-	-
Balance at 31 March	**262**	**-**

The Asset Held for Sale, as at 31st March 2019, relates to the Locks Heath Memorial Hall.

Note 20 Leases

Council as Lessee – Finance Leases

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

	31 March 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	3,769
Later than one year and not later than five years	13,209	12,164
Later than five years	45,333	46,202
Total	**63,070**	**62,135**

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 21 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
Other entities and individuals	6,457	6,168
Total	**9,657**	**10,341**
Provision for doubtful debts	(1,577)	(1,867)
Total	**8,080**	**8,474**

Note 22 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
Other entities and individuals	3,068	3,682
Total	**12,423**	**12,158**

Note 23 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 24 Receipts in Advance

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

	31 March 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 25 Transfers to/from Earmarked Reserves

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

	1 April 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 26 Capital Expenditure and Capital Financing

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

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

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 27 Unusable Reserves

	31 March 2019 £'000	31 March 2018 £'000
Revaluation Reserve	30,979	36,842
Capital Adjustment Account	147,511	151,428
Pensions Reserve	(57,594)	(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)
	120,614	**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 £'000		2018/19 £'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	(5,490)
2,365	Employers' pension contributions and direct payments to pensioners payable in the year	3,115
(61,165)	**Balance at 31 March**	**(57,594)**

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 £'000		2018/19 £'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 28 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:

	As at 31 March 2019		As at 31 March 2018	
Time to Maturity	**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) 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 29 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 2018/18 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 £110,985) 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 30 Contingent Liabilities

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

a) 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

b) Pensions

McCloud/Sargeant Case

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 ruling potentially has implications for all public sector schemes which were reformed around the same time and could lead to members who were discriminated against being compensated.

The transitional protections applied to all active members of public service schemes who were within 10 years of their Normal Pension Age on 1 April 2012. In relation to the LGPS, all members were moved into the new 2014 Scheme, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits would be at least as valuable in terms of amount and when they could be drawn than if they had remained in the 2008 Scheme.

The Government has applied to the Supreme Court for permission to appeal this judgement. If this appeal is unsuccessful, the case would be referred back to the Employment Tribunal and it would be prudent to assume the remedy would be equivalent to extending the 'best of both' underpin to all members.

The Government Actuary's Department (GAD), under instruction of the LGPS Scheme Advisory Board, has calculated a potential IAS 19 accounting liability expected to be 0.5% to 1.0% of defined benefit obligation, should the government be unsuccessful in its application to appeal or if the Court of Appeal's judgement is upheld by the Supreme Court and the agreed remedy for the LGPS is to extend the 'underpin' protections to all members. This estimate is at Scheme level encompassing a range of different assumptions typically used by employers to report pension costs. For the Council this is expected to be between £0.89 million and £1.78 million. The eventual impact on the Council's accounts will depend on the remedy chosen by government to compensate members (which may not be the scenario modelled by the GAD); the membership profile (age/sex/salary) of Fareham Borough Council's membership, and the assumptions used to report pension costs at time of recognition.

GMP Indexation and Equalisation

In March 2016 the Government introduced an 'interim solution' which made the LGPS responsible for paying the full increases on Guaranteed Minimum Pensions (GMPs) for individuals reaching State Pension Age (SPA) before December 2018. This cost was accounted for in 2017. In January 2018 Government extended this to individuals reaching SPA after 5 April 2021, passing further costs on to the LGPS. This has not yet been accounted for.

Separately, the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. HM Treasury responded to confirm that public sector schemes already have a method to equalise guaranteed minimum pension benefits.

Aon, as the Fund's actuary has estimated that the potential IAS 19 accounting liability of full GMP indexation (and equalisation) for members reaching State Pension Age from 6 December 2018 to be in the region of 0.3% of the defined benefit obligation (£0.53 million). This estimate has been calculated for a typical LGPS Fund and is indicative of an additional liability for a typical employer and does not reflect the individual characteristics of the Council's membership. Costs could be higher for employers with a membership that is older than average (who predominantly accrued service between 1978 and 1997 when GMPs were being accrued).

Note 31 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 32 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 33 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 34 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 variation. Full details of the valuation method are shown in note 16 to the core financial statements.

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

Service cost comprising:

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

Re-measurement comprising:

- The return on plan assets: Excluding amounts included in net interest on the net defined benefit liability charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

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

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

Discretionary Benefits

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

EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

FINANCIAL INSTRUMENTS

Financial Liabilities

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

Financial Assets

Financial assets are classified into two types:

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

Loans and receivables which are initially measured at their fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income

and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

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

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

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

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

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

GRANTS AND CONTRIBUTIONS

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

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

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

Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Business Improvement District

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

Community Infrastructure Levy

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

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

HERITAGE ASSETS

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

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

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

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

INTANGIBLE ASSETS

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

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

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

INVENTORIES AND LONG TERM CONTRACTS

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

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

INVESTMENT PROPERTIES

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

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

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

LEASES

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

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

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

The Council as Lessee – Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its 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	167	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	**(7,529)**	**(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	(357)	(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 £1,765,033).

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.

5 GLOSSARY OF TERMS

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

Current Service Costs (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

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

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

Depreciated Replacement Cost (DRC)

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

Discretionary Benefits

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

Exceptional Items

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

Expected rate of return on pensions assets

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

Fair Value

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

Finance Lease

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

Government Grants

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

Heritage Assets

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

Historical Cost

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

Infrastructure Assets

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

Interest Cost (Pensions)

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

Investments (Non Pensions Fund)

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

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

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

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

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

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

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

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

Operating Leases
A lease other than a finance lease.

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

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

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

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

Projected Unit Method

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

Property, Plant and Equipment

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

Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

Related Parties

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

Retirement Benefits

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

Scheme Liabilities

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

Useful Life

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

6 INDEPENDENT AUDITOR'S REPORT

7 CONTACTS

HOW TO CONTACT US

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

For more information please contact us at:

Deputy Chief Executive Officer

Fareham Borough Council
Civic Offices
Civic Way
Hampshire
PO16 7AZ

Tel: 01329 236100
Fax: 01329 550576

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

www.fareham.gov.uk

customerservices@fareham.gov.uk

FAREHAM BOROUGH COUNCIL STATEMENT OF ACCOUNTS 2018/2019

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BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 July 2019**

Report of: **Deputy Chief Executive Officer**

Subject: **EXTERNAL AUDIT - AUDIT RESULTS REPORT**

SUMMARY

The Committee is asked to consider the External Auditor's Annual Results Report (Appendix A), summarising the findings from the 2018/19 audit which is now substantially complete.

Having considered the findings of the External Auditor and the Statement of Accounts, a "letter of representation" will be sent from the Council's Section 151 Officer (Deputy Chief Executive Officer) to the External Auditor. This will enable the External Auditor to issue their audit report on the Council's financial statements. The Statement of Accounts can then be published by the statutory publication deadline, 31 July 2019.

RECOMMENDATION

It is recommended that: -

(a) the Audit and Governance Committee notes the contents of the Annual Results Report (Appendix A); and

(b) the Deputy Chief Executive Officer and the Chairman of the Audit and Governance Committee sign the Letter of Representation, subject to the external auditors completing their outstanding procedures and any further amendments to the accounts being agreed by the Deputy Chief Executive Officer in consultation with the Chairman of the Audit and Governance Committee.

Background Papers: None

Reference Papers: None

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

APPENDIX A

Fareham Borough Council
Audit results report
Year ended 31 March 2019

July 2019

Building a better working world

Private and Confidential

11 July 2019

Dear Audit and Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Fareham Borough Council for 2018/19.

We are progressing our audit of Fareham Borough Council (the Authority) for the year ended 31 March 2019.
Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, before the deadline of 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 22 July 2019.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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02 Areas of Audit Focus

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

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

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 11 March 2019 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality. In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.333m. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross revenue expenditure, we have updated our overall materiality assessment to £1.377m. This results in updated performance materiality, at 75% of overall materiality, of £1.033m, and an updated threshold for reporting misstatements of £0.068m.

Status of the audit

We are progressing our audit of Fareham Borough Council's financial statements for the year ended 31 March 2019 and are performing the procedures outlined in our Audit planning report.

The shorter deadlines mean a condensed period to undertake our work, and necessarily we are working to the 31 July deadline. Having started our audit on 1 July 2019 we have made good initial progress, but your request to provide this report on 11 July means that we are only approximately 50% through the planned timetable. Therefore, progress should be read in that context. We will provide you with a verbal update on our progress at the 22 July Audit and Governance Committee.

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

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

Audit differences

At the time of writing there were no audit differences in the draft financial statements.

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

Executive Summary

Areas of audit focus

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

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

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

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

Control observations

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

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified no significant risks over sustainable resource deployment. We have revisited this assessment and considered the wider results of our other audit procedures; we identified no significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. Details can be found in Section 5 Value for Money.

Executive Summary

Other reporting issues

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

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

We have no other matters to report.

Independence

We have no matters to highlight on Independence.

02 Areas of Audit Focus

Significant risk

Risk of fraud in revenue recognition – capitalising revenue expenditure

What is the risk?

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

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This could result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

What judgements are we focused on?

We focused on the following:

- Understanding the controls relevant to this significant risk;
- For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support these additions and expenditure. We reviewed the sample selected against the definition of capital expenditure in IAS 16; and
- Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

What did we do?

- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Amended our sample sizes when testing additions to reflect the existence of this risk. Agreed samples to source documentation to ensure the capital/revenue split was reasonable; and
- Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.

What are our conclusions?

Based on the work completed at the time of drafting this report:

- We have not identified any issues with the classification of capital expenditure.
- We have not identified any instances of inappropriate judgements being applied.

Significant Risk

Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

The manipulation of capitalising expenditure could also occur through management override of controls.

What judgements are we focused on?

We focused on the following:

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

What did we do?

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

What are our conclusions?

Based on the work completed at the time of drafting this report:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied, or of any management bias.
- We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.

Significant Risk

Other financial statment risk

Valuation of land and buildings

What is the risk?

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

What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the valuer including their professional capabilities; and
- The reasonableness of the underlying assumptions used by the Council's expert valuer.

What did we do?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Reviewed the relationship of the valuer to the Council;
- Challenged the assumptions used by the Council's valuers by reference to external evidence;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Reviewed assets not subject to valuation in 2018/19 and confirmed that the remaining asset base was not materially misstated;
- Sample tested key asset information used by the valuers in performing their valuation;
- We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

What are our conclusions?

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

Our work is well progressed and we will provide you a verbal update on the outcome of our procedures at the Audit and Governance Committee on 22 July 2019.

Other financial statment risk

Pension Liability valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £57.594m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on the following:

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

What did we do?

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

What are our conclusions?

Our work in this area is substantially complete.

We obtained assurances from the auditors of Hampshire Pension Fund that the information supplied to the actuary in relation to Fareham Borough Council was accurate and complete.

We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: AON Hewitt.

We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.

Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.

We identified an adjusting event after reporting date relating to the pension fund liability, the effect of which increased past service cost and gross liability. The Council has contacted the actuary for an updated IAS 19 report and have agreed to amend the accounts if this is material.

Other areas of audit focus

NDR Appeals Valuation

What is the risk?

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

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

What judgements are we focused on?

We focused on the following:

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

What did we do?

- Reviewed the calculation of the provision for accuracy;
- Ensured calculation of the provision included consideration of unlodged appeals;
- Considered the relevance and reasonableness of assumptions, methods and models used by the management specialist; and
- Performed post year-end review of appeals settled to determine whether the revised rateable value and effective date of the appeal are in line with the provision

What are our conclusions?

Our work in this area is still in progress and we will provide you a verbal update on the outcome of our procedures at the Audit and Governance Committee on 22 July 2019.

Other financial statement risk

New accounting standards – IFRS 9

What is the risk?

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and changed how financial assets are classified and measured, how the impairment of financial assets are calculated, and the disclosure requirements for financial assets.

What did we do?

- Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets;
- Reviewed the new expected credit loss model impairment calculations for assets; and
- Checked additional disclosure requirements

What are our conclusions?

- We have reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues;
- Financial instruments were appropriately classified and valued in line with the requirements of IFRS 9;
- We have reviewed the new expected credit loss model impairment calculations for assets and identified no issues; and
- Additional disclosure requirements were in line with the requirements of IFRS 9.

Other financial statement risk

New accounting standards – IFRS 15

What is the risk?

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

Where the standard is relevant, the recognition of revenue will change and new disclosure requirements introduced

What did we do?

- Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.
- Considered application to the authority's revenue streams, and where the standard was relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Checked additional disclosure requirements.

What are our conclusions?

- We have reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues;
- For relevant revenue streams we confirmed that revenue was recognised in line with the requirements of IFRS 15; and
- Additional disclosure requirements were in line with the requirements of IFRS 15.

Areas of Audit Focus

Other matters

Assessment of new Accounting Standards

- IFRS 16 Leases: Implementation date for IFRS 16 is 1 April 2020. In your view the impact of the introduction of IFRS 16 and its amendments is not material as the Council is not party to significant operating leases as lessee. In our view, given the immaterial balance of operating leases as lessee in the accounts, it is unlikely that the future implementation of IFRS 16 will have a material impact on the single entity financial statements of the Council. Lessor arrangements remain unchanged under IFRS 16.

03 Audit Report

Draft audit report

Our proposed audit report

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

Opinion

We have audited the financial statements of Fareham Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- The related notes 1 to 34,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes 1 to 8, and
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
the Deputy Chief Executive Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Deputy Chief Executive Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive Officer is responsible for the other information.

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

Audit Report

Our proposed audit report

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Fareham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Deputy Chief Executive Officer

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 23, the Deputy Chief Executive Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements , in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

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

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

Audit Report

Our proposed audit report

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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

Certificate

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

Use of our report

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

04 Audit Differences

Audit Differences

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

Summary of adjusted differences

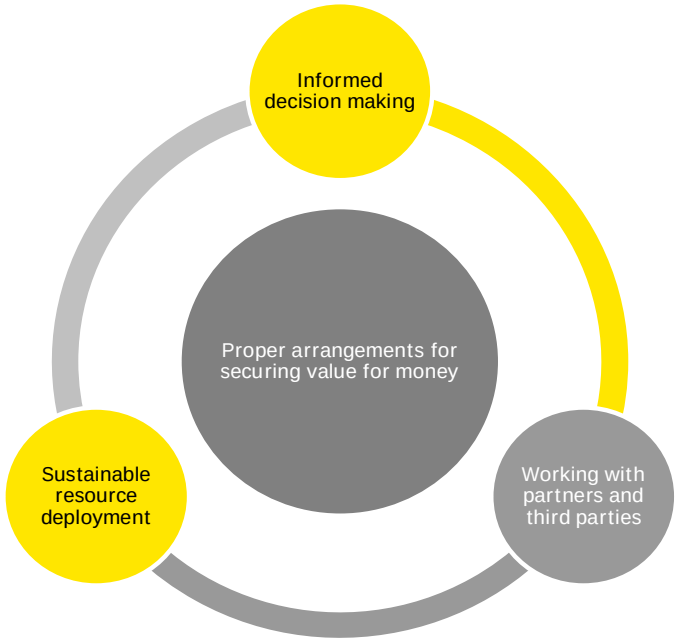
We have no matters to bring to your attention.

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

At the time of writing our report there were no uncorrected misstatements.

05 Value for Money Risks

Value for Money



Background

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

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

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

Overall conclusion

We did not identify any significant risks around these criteria. We are satisfied that the Authority has adequate arrangements in place in regard to financial resilience over the medium term.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

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

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

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

Whole of Government Accounts

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

We are currently concluding our work in this area, but anticipate have no matters to report as the Council is below the £500m threshold for undertaking detailed audit procedures.

Other reporting issues

Other powers and duties

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

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

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have no matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

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

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

08 Data Analytics

Data analytics — Journal entries

Analytics Driven Audit

Data analytics

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

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

In 2018/19, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

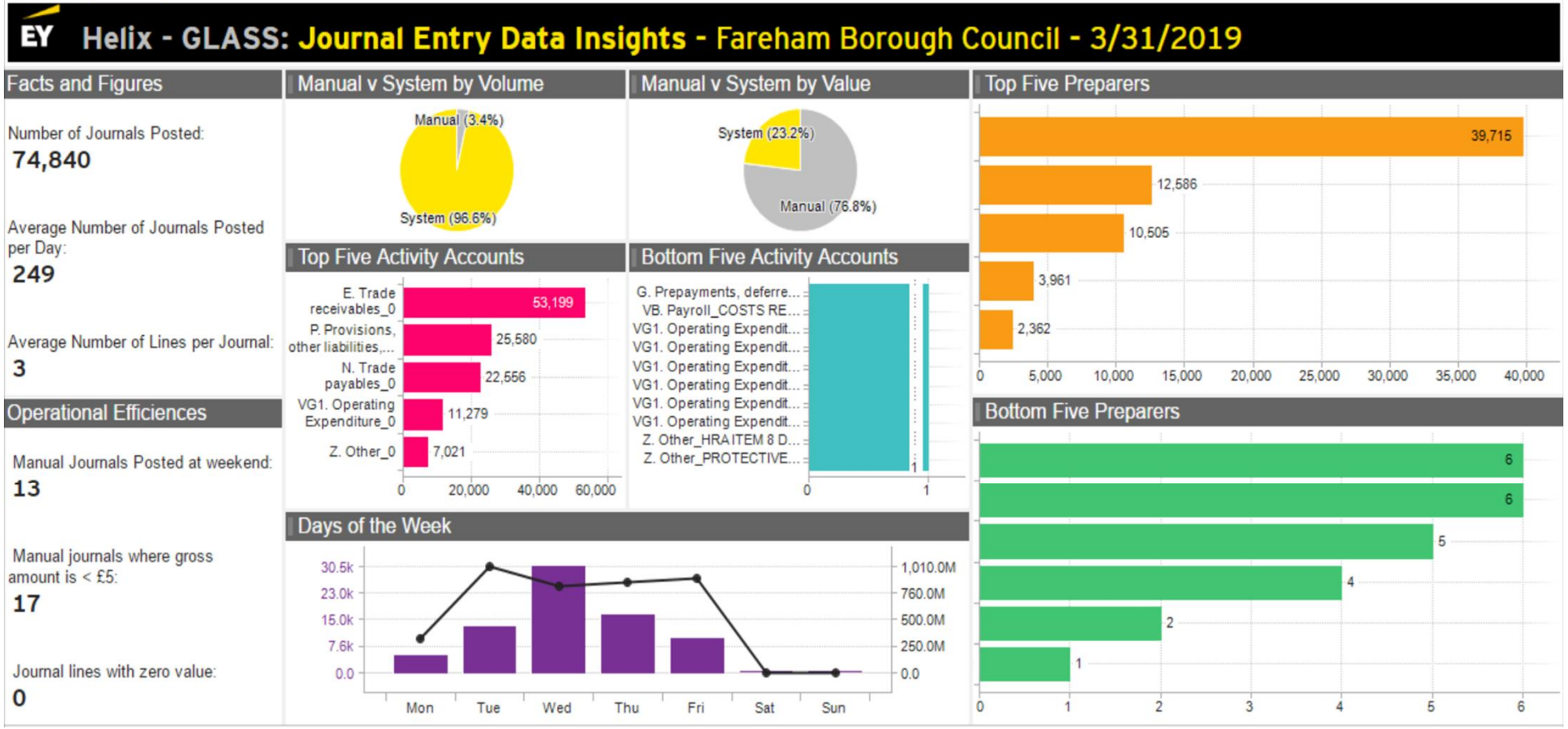
Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then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

Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples. On completion of our procedures we will share this information with management to provide additional insight and value from our audit procedures.



Journal Entry Testing

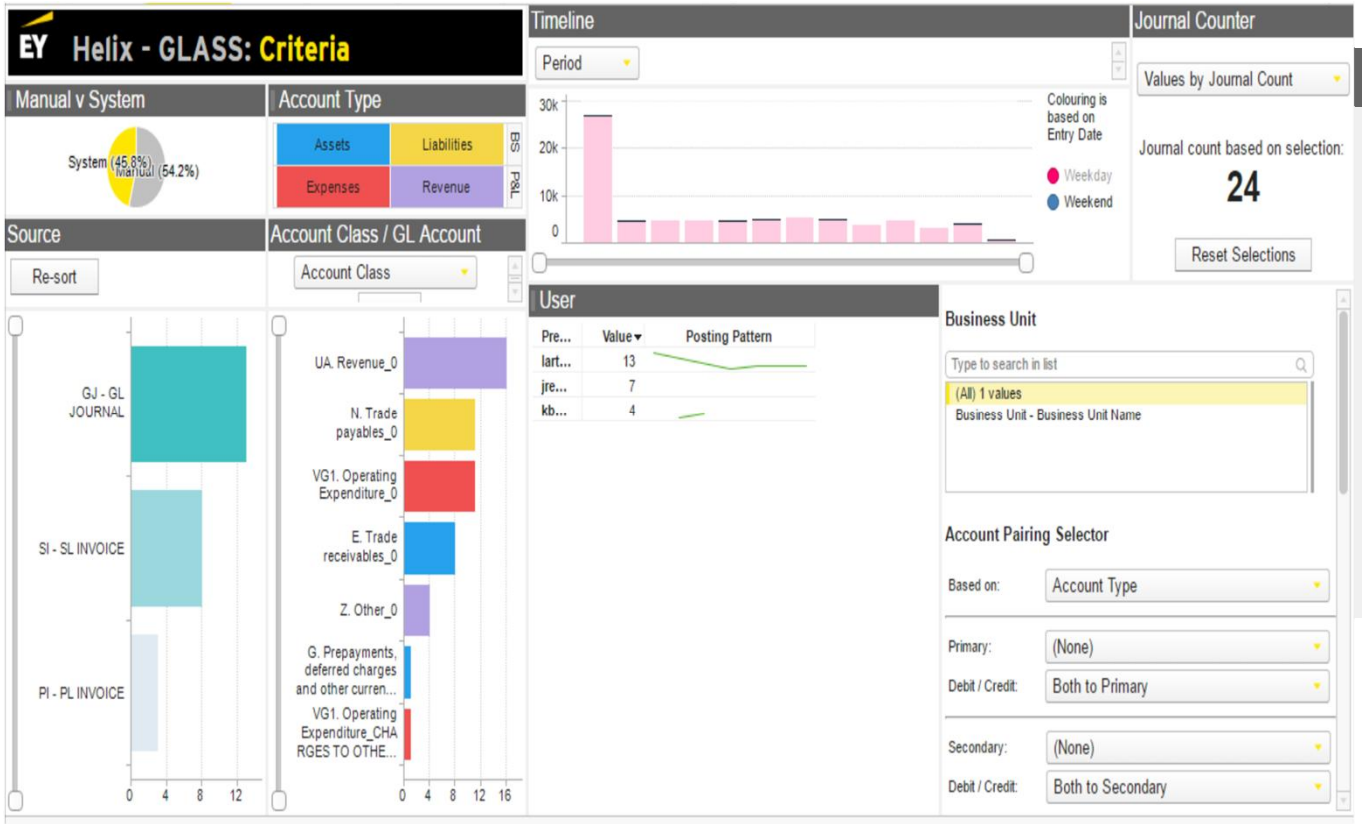
What is the risk?

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

What judgements are we focused on?

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

Journal entry data criteria – 31 March 2019



What did we do?

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

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

The graphic shows journals posted on weekends which was one of our criteria considered for unusual journals

What are our conclusions?

Our work in this area is still in progress. We will isolate a sub set of journals for further investigation and obtain supporting evidence to verify the posting of these transactions and conclude whether they were appropriately stated.

9 Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 1 February 2019.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Governance Committee on 22 July 2019.

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

Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

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

As at the date of this report, we are contracted to provide audit services for a further four years from 1 April 2019.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

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

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	TBC*	37,137	37,137	48,230
Non-audit work – Grant claims	N/A	N/A	N/A	18,391
Total non-audit services	N/A	N/A	N/A	18,391
Total fees	TBC*	37,137	37,137	66,621

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

10 Appendices

Appendix A

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	11 March 2019 Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	11 March 2019 Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	11 March 2019 Audit planning report

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	July 2019 Audit results report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	July 2019 Audit results report
Subsequent events	• Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	22 July 2019 To be confirmed with letter of representation at Audit and Governance Committee meeting
Fraud	• Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Governance Committee responsibility.	July 2019 Audit results report We have no matters to report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	July 2019 Audit results report We have no matters to report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	11 March 2019 Audit planning report July 2019 Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	July 2019 Audit results report We have no matters to report
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	July 2019 Audit results report We have no matters to report
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	July 2019 Audit results report We have no matters to report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	July 2019 Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	July 2019 Audit results report We have no matters to report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	July 2019 Audit results report
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	11 March 2019 Audit planning report July 2019 Audit results report

Appendix B

Management representation letter

Management Rep Letter

To be prepared on Fareham Borough Council's letterhead

XX July 2019

Ernst & Young
Wessex House,
19 Threefield Lane,
Southampton
SO14 3QB United Kingdom

This letter of representations is provided in connection with your audit of the financial statements of Fareham Borough Council ("the Council") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Fareham Borough Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

Appendix B

Management representation letter

Management Rep Letter

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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

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

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date].*
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter

Management Rep Letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

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

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Comparative information – corresponding financial information

1. 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.
2.The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

Management representation letter

Management Rep Letter

H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3.There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Use of the Work of a Specialist – Actuary

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

K. Use of the Work of a Specialist – Property valuers

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

L. Estimate – NNDR appeals and other provisions

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of provisions (including the NNDR appeals provision) appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Management representation letter

Management Rep Letter

M. Estimates - Valuation of Council land and buildings estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the valuation of land and buildings estimate appropriately reflect our intent and ability to use and maintain these assets on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events.

N. Estimate – Pensions Valuation Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the pensions valuation estimate appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

O. Retirement benefits

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

Yours faithfully,

_____
Andrew Wannell – Deputy Chief Executive Officer (S151 Officer)

_____
Councillor Johnathan Butts - Chair of the Audit and Governance Committee

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FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 July 2019**

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

Subject: **ANNUAL COUNTER FRAUD REPORT**

SUMMARY

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

The Audit and Governance Committee's areas of responsibility for Counter Fraud include:
a) to review the assessment of fraud risks and potential harm to the council from fraud and corruption; and b) to monitor the counter-fraud strategy, actions and resources.

RECOMMENDATIONS

It is recommended that the Audit and Governance Committee note the contents of the report.

INTRODUCTION

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

ACTIVITY SINCE THE LAST REPORT

Strategic Actions

2. **Joint working with the DWP:** The Government has re-introduced joint working of fraud between Local Authorities and the Department for Work & Pensions (DWP). This was rolled out in stages during the year and Fareham went live in October 2018. The purpose of joint working is to re-align some of the processes by sharing intelligence gathering, thus investigating cases more quickly and interviewing a customer under caution by one joint interview rather than 2 separate interviews.

3. This enables the Council Tax Support offences to be included in the DWP prosecution cases as the whole of a fraud is considered. Previously the Local Authority had to instead offer a Civil Penalty if the fraud overpayment did not meet the Authority's own prosecution value of £2,000. The new joint working rules do not allow the Local Authority to prosecute DWP offences, which include Housing Benefit, this must still all be undertaken by the Crown Prosecution Service on behalf of DWP.

4. As at the end of 2018/19 we had 8 cases we had been working jointly with the DWP. Four of these have since been closed for no further action.

5. **Changes to Investigatory Powers:** The Investigatory Powers Act brings some changes in May 2019 to surveillance and how we obtain communications data. The biggest change for us is the removal of judiciary authorisation for Communications data and this is now authorised via a process through NAFN. Surveillance authorisation remains unchanged and Senior Officers only (Head of Service and above) provide initial authorisation with the final authorisation via the Magistrates Court. Surveillance is currently used during the investigation of Tenancy fraud and Council Tax Support cases and this year helped to recover 2 social housing properties.

6. **Database Cleansing:** Students were employed over the summer weeks to carry out a series of data cleansing tasks on our council tax, business rates, housing and sundry debtors' databases. Although not the primary reason for the data cleanse, this work is helping improve the quality of matches and reduce the number of false matches in data matching exercises undertaken including the NFI.

Specific Areas of Fraud

7. **Business Rates (NDR) Business Match:** A detailed exercise was undertaken in the year using a facility provided by an external company who had access to an independent database of businesses in our borough, which is regularly updated from several sources. This was matched to our Business Rates database to identify any businesses that we may not currently be billing. 188 matches have been returned to us which we are currently reviewing as to their potential to include them as a rateable business. The majority are likely to be sole traders using their residential address as a point of contact. There were also 50 businesses highlighted as possibly no longer trading. The review of these has been completed and no issues were found.

8. **Business Rates (NDR) Reliefs**: Last year we reported that Hampshire had been unsuccessful in its bid to be part of a discretionary proactive exercise into NDR relief fraud organised by the Cabinet Office who lead on the National Fraud Initiative.

9. The Hampshire Fraud Group have therefore undertaken their own local exercise comparing databases for properties in receipt of Small Business Rates Relief (SBRR). This relief can only be claimed for a single property under a certain rateable value. This exercise identified 2 cases of abuse for Fareham in respect of one business inappropriately claiming SBRR and another failing to declare an empty property. These 2 cases resulted in additional business rates payments of **£8,300** which have already been received.

10. **Tenancy Fraud:** A data matching exercise was carried out this year using a new tool (IDIS) which allows us to carry out matching of data sets in-house without the need to pay a third party to do this for us. This exercise involved matching our list of current tenants with credit agency data to identify if any of them had a mortgage, which would indicate they were a property owner. No cases were found.

11. **Council Tax Single Residents Discount (SRD) Review:** The Hampshire Chief Finance Officers have now engaged a third-party company to undertake a review of all SRDs in addition to the 2-yearly review carried out by the Revenues team. The company will operate on a no win no fee basis; where an inappropriate discount is found the fee charged will be less than the amount of Council Tax recovered by the Council.

12. Fareham BC has now signed up to take part in this review in 2019/20. The company will be given our SRD data and send out a letter for each one. They will then carry out a data matching exercise with all the returned letters to test the accuracy of the declaration. Fareham will decide what action to take with those accounts where letters have not been returned once numbers are known.

13. **Insurance Fraud:** The internal audit team carried out a data match of the last 5 years of insurance data and matched it to fraud case subjects to see if there is any indication of the insurance claim system being targeted by potential fraudsters. Four claims were found which had been made by parties who had been investigated for other types for fraud. However, no payments had been made on any of these claims indicating that the insurance claim process is being effective in repudiating claims with insufficient evidence of the Council being at fault.

INVESTIGATION REFERRALS AND OUTCOMES

14. The information provided in Appendix C shows the number of fraud and irregularity cases received and investigated in the last financial year, and the information required to be published on our website in accordance with the Transparency Code. There was a total of 1,865 cases investigated, leading to **126** cases of fraud or irregularity being found. These amounted to a total value of **£300,336**. The largest area of fraud found by value was for housing benefit and council tax support payments (£220,212); half of this (£110,688) was found as a result of FBC investigations into council tax support cases.

Whistleblowing

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

Sanctions

16. There have been no criminal sanctions following any investigation where Fareham Borough Council was the lead investigating party. However, 25 civil penalties have been applied, totalling **£1,710.**

17. With the introduction of joint working with DWP, it is anticipated that some cases of overpaid Council Tax Support will now be taken through the criminal justice system.

18. 3 properties were recovered during this financial year, one of these belonged to a Housing Association and the other 2 properties belong to Fareham Borough Council. In all 3 cases, the tenants were found to be residing elsewhere.

Interesting Cases

19. **Housing Fraud - Vulnerable Tenant:** A Neighbourhood Officer had received complaints from other residents that a young man wasn't living in his council-owned flat but instead was letting other people stay there. CCTV showed that this was possibly the case as unknown males were seen entering and leaving the flat.

20. An alternative address was found for where the tenant was staying, a few streets away, at a friend's house. A brief conversation with him revealed that he hadn't stayed there for some time, but this was for various reasons, so an appointment was made for the following day. During the appointment it was apparent that the tenant had some learning difficulties as he could not read or write and was only 19 years old. He had been targeted by older men to use his flat to stay and for drug taking and he didn't know what to do. He had also not been paying any bills as he had not received any benefits for some time as he had failed to turn up for an appointment at the Job Centre.

21. He had been given money by those using his flat and was using it to buy junk food and cigarettes. It was decided that although the tenant had breached his tenancy by not living there and had allowed others to stay there, he was a vulnerable young man and clearly needed help and support from professional organisations. The occupants of his flat were told to leave immediately, and the locks were changed so that no one but the tenant could gain entry to the flat. A referral form was sent to Two Saints charity to assist with getting benefits back in payment and support given so that bills could be paid, and debt repayment plans set up. He was also provided with a food bank voucher and a bag of food to help in the immediate time.

22. **Housing Fraud – Non-Residency of Council House**: An investigation was raised in February 2018 following the non-return of a Single Occupancy discount review form, which was highlighted as unusual as the tenant was living in an FBC owned flat and was receiving several Social Security Benefits as well as full Housing Benefit.

23. It was known that the tenant's mother lived in Portchester and perhaps the tenant was spending a lot of his time there. As part of our enquiries, the tenant's bank statements were requested which showed that although all his Benefits were being paid into his bank account, there was no expenditure coming out of it. It also revealed that because of this the amount of capital he held in this account exceeded £16,000, which is the capital threshold limit to be able to claim the Benefits he was receiving.

24. Enquiries were also made with the utility company, who confirmed that usage of electricity was also minimal which would indicate no one was living in the flat. The Responsive Repairs team also confirmed that they had been unable to contact the

tenant in order to carry out a smoke detection test. CCTV in the block of flats revealed that no one was seen entering or leaving the flat between the period 4th March to 6 April 2018. It was therefore decided to call the tenant into the offices for a formal interview to question him about his residency.

25. The tenant failed to attend 2 appointments that were sent to him. The third appointment letter was hand delivered to him at his mother's house in Portchester. He attended the appointment and admitted during the interview that he had been living at his mother's house for the past 2 years and had no intention of living in his flat as his main or principle home because he was caring for his mother. He was issued with a Notice to Quit which had an expiry date of 4th June; however, he returned his flat keys to the council on 21 May 2018.

Offences:

Non-residency in Council Flat

Housing Benefit overpayment	£2,801
Council Tax Support overpayment	£818
Total Overpayments	**£3,619**

Sanctions and Redress:

Council Flat recovered
Overpayments being recovered
Civil Penalty of £70 issued

26. **Housing Fraud – Non-Residency of Housing Association Property**: An anonymous referral was received from a neighbour, concerned because the property, a 3-bedroomed house which belonged to a Housing Association, was not being lived in by the tenant but instead a relative was staying there.

27. Enquiries indicated that this relative could be the tenant's mother and the tenant's partner who had been credit linked to the address was also linked to an address in Portsmouth. Requests for car details and bank statements were made and the bank statements showed that the tenant's daily spending centred around Portsmouth, particularly within a 2-mile radius of her partner's known address. Due to other evidence received it was decided that surveillance was necessary to establish the tenant's true residence. After a small period, it was becoming doubtful that the man in Portsmouth was the tenant's partner.

28. Further enquiries revealed an address in Havant and it was at this address that the tenant's car was seen and during the period of the surveillance it was clear that her property in Fareham was not being lived in as her main or principle home, but she was living in Havant with her partner. This was all denied when the tenant was interviewed under caution. However, using all the evidence gathered during the investigation, the Housing Association issued a Notice to Quit and the Benefits Team decided that Housing Benefit and Council Tax support should not have been paid for this address.

Offences:	
Non-residency in Housing Association Property	
Housing Benefit overpayment	£3,264
Council Tax Support overpayment	£110
Total Overpayments	**£3,374**
Sanctions and Redress:	
Housing Association property recovered	
Overpayments being recovered	
Civil Penalty of £70 issued	

29. **Payroll Fraud – Officer impersonation:** There has been an increase in a new type of bank mandate fraud over the current years, in which a fraudster pretends to be a senior officer at a council to create a payment in the system.

30. One such fraud was attempted in 2019 during which the payroll team received an email that looked to come from the Chief Executive Officer asking them to change the bank account details for his salary payment.

31. The officer dealing with the email immediately challenged its validity thus preventing any diversion of the payment due in the next salary run which would have taken place in the following 2 weeks.

NATIONAL FRAUD INITIATIVE

32. The National Fraud Initiative (NFI) is a mandatory data matching exercise organised by the Cabinet Office. All data sets requested since the last report have been submitted on time. There have been 4 releases of new matches since the last report which fall into the 2018/19 financial year, resulting in an additional 3,291 matches to review.

33. The table below shows the progress made on clearing all matches since the last report. During the year the teams have managed to clear **1,598 (20%)** of the old and new matches leaving 6,198 still to review.

Progress Made on Clearance of NFI Matches

Date of Matches	Subject of match	Number of matches received to review	Number of matches still to clear - last report	Number of matches still to clear - current
2018/19 Matches	Council Tax	**1,943**	NEW	**1,700**
Dec 2017	Council Tax	**3,577**	3,549	**2,871**
2018/19 2-yearly main exercise (Received Jan 2019)	Benefits	**385**	NEW	303
	Council Tax Reduction	**376**	NEW	324
	Housing Tenants	**184**	NEW	116
	Waiting List	**91**	NEW	33
	Payroll	**15**	NEW	7
	Procurement	**1**	NEW	1
	Residents Parking	**2**	NEW	0
	Creditors	**294**	NEW	294
	Total	**1,348**		**1,078**
2017/18 Extra matches (Received May 2017 and Feb 2018)	Benefits	**16**	11	0
	Council Tax Reduction	**6**	5	0
	Housing Tenants	**21**	20	20
	Total	**43**	**36**	**20**
2016/17 2-yearly main exercise (Received Jan 2017)	Benefits	**463**	88	0
	Council Tax Reduction	**493**	303	0
	Housing Tenants	**194**	163	163
	Waiting List	**117**	117	117
	Right to Buy	**4**	2	2
	Payroll	**13**	0	0
	Creditors	**339**	247	247
	Total	**1,624**	**920**	**529**
Grand Total		**8,535**	4,505	**6,198**

34. The table below shows the number and value of fraud cases arising from the clearance of NFI matches in the last 12 months. More detail of how much fraud and error has been identified from each NFI exercise is provided in Appendix A. Any frauds that were being pursued by FBC will have been included in the overall statistics in Appendix C.

Fraud Cases Identified from NFI

Data Set	Nature of Fraud	Date of Committee Report					
		July 2019		July 2018		Sept 2017	
		Number	Value	Number	Value	Number	Value
Housing Benefits and CTR	Undeclared earnings of adult at the property.					1	£382
Council Tax	Undeclared second adult living at property	35	£30,716	16	£17,580	6	£2,192
TOTAL		**35**	**£30,716**	**16**	**£17,580**	**7**	**£2,574**

USE OF LEGAL POWERS

35. Key powers available to investigators for the detection and prevention of fraud are:

- Powers of Surveillance, using a Covert Human Intelligence Source, or obtaining Communications data designated by the Regulation of Investigatory Powers Act 2000 (RIPA) and the Investigatory Powers Act 2016.

- Authorised Officer powers to obtain information from specified parties including employers, utilities companies and banks under the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 Regulations and the Prevention of Social Housing Fraud (Power to require Information) (England) regulations 2014

36. There are several safeguards in the Council processes to make sure that investigation powers are only used when legal, proportionate and necessary. These include:

a) All RIPA applications are required to be authorised by a trained designated officer in the Council.

b) All RIPA authorisations, other than communications data, are presented to a magistrate for approval.

c) All RIPA applications for communications data are submitted to the National Anti-Fraud Network (NAFN) where they are reviewed and authorised by a NAFN officer before the request for information is issued.

d) All approved RIPA authorisations are logged on a central register which flags up when they expire. A formal cancellation form is completed for every application.

e) The Council is required to complete annual returns on the use of the RIPA powers and is subject to an inspection every 3 years from the Investigatory Powers Commissioner's Office (IPCO). The last inspection in 2018 concluded that ‘our usage and standards are an example to all’.

f) The National Anti-Fraud Network (NAFN) is subject to an annual inspection from the Investigatory Powers Commissioner's Office (IPCO), which may cover applications made by Fareham Borough Council depending on the sample they select to test.

g) Most Authorised Officer powers are also executed via application to the National Anti-Fraud Network (NAFN). They are reviewed and authorised by a NAFN officer before the request for information is issued.

37. We also report every year to this committee how many times we use these powers, as follows, and publish the frequency of our use of authorised officer powers as part of our Transparency data.

Usage in 2018/19

38. There have been 3 authorisations granted under the Regulation of Investigatory Powers Act 2000 (RIPA) between 1 April 2018 and 31 March 2019 as summarised in Appendix B.

39. There have been 386 uses of Authorised Officer powers during investigations in the last 12 months, as detailed in the table below. This compares to 154 last year.

Authorised Officer powers used 1 April 2018 and 31 March 2019	
Prevention of Social Housing Fraud Act	**Council Tax Reduction Regulations & Data Protection Act exemptions**
20	**366**

RISK ASSESSMENT

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

Appendices:

Appendix A – Cumulative Findings from National Fraud Initiative Exercises

Appendix B - Authorisations for use of RIPA

Appendix C - Annual Fraud Case Figures 2018/19

Background Papers: None

Reference Papers: None

Enquiries: For further information on this report please contact Elaine Hammell (Ext 4344) or Andrea Kingston (Ext 4618).

Appendix A

Cumulative Findings from National Fraud Initiative Exercises

Year of Exercise*	Type	No. of Matches	No. of Fraud Cases found	Value of Fraud cases	No. of Errors found	Value of Errors
2018/19	Council Tax	1,943	19	£13,250	8	0
2018/19	Full Exercise	1,348	-	-	12	£37,634
2017/18	Council Tax	3,577	16	£17,466	8	0
2016/17 & 2017/18	Full Exercise & Extra matches	1,624	1	£382	8	£3,181
2016/17	**Council Tax**	**669**	**25**	**£23,509**	**32**	**£667**
2015/16	**Waiting List**	**42**	**0**	**0**	**7**	**£0**
2014/15+2015/16	**Full Exercise**	**994**	**13**	**£15,901**	**12**	**£0**
2014/15+2015/16	**Council Tax**	**1,054**	**6**	**£3,149**	**0**	**0**
2014/15	**Student Loans**	**19**	**1**	**£1,258**	**0**	**0**
2013/14	**Council Tax**	**553**	**34**	**£13,774**	**4**	**£1,334**
2012/13	**Full Exercise**	**1,333**	**13**	**£34,838**	**14**	**£14,724**
2011/12	**Council Tax**	**484**	**21**	**£12,264**	**2**	**£770**
2010/11	**Full Exercise**	**1,760**	**335#**	**£26,356**	**13**	Not split out
2009/10	**Council Tax**	**1,424**	**43**	**£18,648**		
2008/09	**Full Exercise**	**1,779**	**212#**	**£54,978**	**3**	Not split out
2008/09	**Council Tax**	**747**	**130**	**£87,920**	**3**	Not split out

*Compilation of the results of NFI started to be compiled in this way in 2008/09. Those exercises in bold have been completed so there will be no further findings.
Included match of concessionary travel permits against deceased database with no monetary value used.

Appendix B

Authorisations for use of RIPA (April 18 to March 19)

Ref No	Date Authorised Internally	Authorising Officer	Suspected Offence	Investigation power used	Date Authorised by a Magistrate	Duration of authorisation (in days)	Outcome for the Investigation
1	25/04/18	Head of Housing and Benefits	Housing Benefit Fraud Council Tax Benefit Fraud Council Tax Support Fraud Council Tax Single Resident Discount Fraud On the basis of an undeclared partner living at the claimant's address.	Surveillance	24/04/18	30	Evidence obtained that crime or disorder IS NOT occurring
2	06/06/18	Head of Housing and Benefits	Housing Benefit Fraud Council Tax Support Fraud Council Tax Single Resident Discount Fraud On the basis of an undeclared partner living at the claimant's address.	Surveillance	13/06/18	43	Evidence obtained that crime or Disorder MAY BE occurring
3	21/03/19	Head of Housing and Benefits	Tenancy Fraud (Managed lease property) Housing Benefit Fraud Council Tax Support Fraud Council Tax Single Resident Discount Fraud On the basis of non-residency at claimant property and undeclared partner living together at true residence.	Surveillance	28/03/19	Still open	Investigation still in progress

Appendix C

Annual Fraud Case Figures 2018/19

	2018/19			2017/18		
	Number of Fraud Cases			Number of Fraud Cases		
Type of Fraud	Investigated	Fraud Concluded	Value	Investigated	Fraud Concluded	Value
Housing Benefit and Council Tax Benefit	259	34	**£220,212**	341	67	**£240,416**
Council Tax Support	449	35	**£34,129**	171	63	**£36,273**
Council Tax	934	38	**£31,967**	86	21	**£20,413**
Business Rates	3	2	**£8,274**	-	-	-
Housing	201	4	-	32	3	-
Procurement - Payments	-	-	-	41	1	-
Permits and Passes	-	-	-	-	-	-
Other	2	-	-	5	3	-
SUB-TOTAL	**1,848**	**113**	**£294,581**	**676**	**158**	**£297,102**
Other Irregularity	Investigated	Irreg Concluded	Value	Investigated	Irreg Concluded	Value
Employee and Payroll	11	10	**£5,733**	12	11	-
Finance and Insurance	5	2	**£22**	1	1	**£20**
Other e.g. abuse of position	1	1	-	5	2	-
SUB-TOTAL	**17**	**13**	**£5,755**	**18**	**14**	**£20**
TOTAL	**1,865**	**126**	**£300,336**	**694**	**172**	**£297,122**
Sanctions and Redress						
Administrative Penalties levied			£5,554			£10,887
Council Tax Civil Penalties			£1,710			£4,130
Housing Benefit recovered			£64,164			£42,906
Counterfeit note intercepted			£20			£20
Compensation and other awards						£4,500
POCA Confiscation						£1,411
Total			**£71,448**			**£63,854**
Housing properties recovered / prevented		**3**			**2**	
Non FBC Fraud found (DWP benefits)		**6**	**£53,689**		**13**	**£118,451**

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 July 2019**

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

Subject: **INTERNAL AUDIT PROGRESS REPORT**

SUMMARY

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

The Audit and Governance Committee's areas of responsibility for Internal Audit include: -

a) to approve significant interim changes to the internal audit plan and resource requirements;

b) to make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations;

c) to review updates on the work of internal audit including key findings, issues of concern and actions in hand as a result of internal audit work.

RECOMMENDATION

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

INTRODUCTION

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

PROGRESS OF 2018/19 AUDIT PLAN

2. The original plan for the year contained 25 audits. As previously reported there have been some changes to the "wider work" audits in the plan resulting in 2 audits being added, 2 being removed for coverage in different ways and another 2 being postponed until the 2019/20 plan.

3. Although both teams have continued to experience extraordinary impacts on staff resources this year, both teams, which includes the additional staff recruited, have managed to make significant progress on the delivery of the rest of the plan such that sufficient work has been completed to support the Annual Audit Opinion. 22 of the remaining 23 audits are at least at the fieldwork stage and 18 audits have now been finalised, as detailed in Appendix Two.

FINALISING PREVIOUS AUDIT PLANS

4. The current status of the 9 audits remaining from the previous Audit Plans is detailed in Appendix One. Work has continued on the following three older audits which should get them to a final report in the coming months:

- Cloud Computing
- Risk Inspections of Public Areas
- Building Health and Safety Risks

PROGRESS OF 2019/20 AUDIT PLAN

5. Work has started to deliver the 2019/20, as noted in Appendix Three, such that 4 audits have now reached the fieldwork stage.

FINDINGS FROM COMPLETED AUDITS

6. The 9 latest final reports that have been issued are listed below, with the opinions given and number of recommendations made:

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
Cemeteries & Closed Churchyards 2018/19	Strong	-	-	-
Planning Applications 2018/19	Strong	-	-	-
Orchard 2018/19 (Housing Rents IT system)	Strong	-	1	-
Fixed Assets 2018/19	Reasonable	-	-	1
Review of compliance with new CIPFA	Reasonable	-	1	-

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
guidance on Audit Committees 2018/19				
Software Control Follow up	Reasonable	-	2	-
Markets Contract 2018/19	Limited	2	5	-
Ferneham Hall Follow up 2018/19	Not applicable	-	-	24
Housing Maintenance - part 2	Not applicable	1	4	3

7. Detail of the areas covered, recommendations made and the actions to be taken is provided in Appendix Four.

RISK ASSESSMENT

8. There are a few risk considerations in relation to this report, arising from those audits that have only been given limited assurance. Details of the risks is given in Appendix Four.

Appendices:

Appendix One - Update on Outstanding Audits from Previous Plans

Appendix Two - Audits in the 2018/19 Audit Plan

Appendix Three - Audits in the 2019/20 Audit Plan

Appendix Four - Findings from the Latest Completed Audits

Appendix Five - Reference Tables

Background Papers: None

Reference Papers:

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

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

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

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

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

Report by the Head of Finance and Audit to the Audit and Governance Committee on 11 March 2019 on the Internal Audit Plan 2019/20

Enquiries:

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

APPENDIX ONE

Update on Outstanding Audits from Previous Plans

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

Audit Title	Type of Audit**	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
					Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
2014/15										
Information Governance Opinion	Computer	6	Stage 8							
Contract Completion	Corporate, Specialist, Governance	10	Stage 8							
2015/16										
Land Charges	Service and Systems – HR	12	Stage 8							
2016/17										
Daedalus Operating Contracts	Service and Systems – HR	12	Stage 9							
Cloud Based Computing	Computer	15	Stage 9							
Leaseholder Charges	Joint working project		Stage 5							
Building Health and Safety Risks	Follow Up / Joint working		Stage 9							
2017/18										
Commercial Estates	Service and Systems – HR	15	Stage 9							
Risk Inspections of Public Areas	Thematic Review		Stage 5							

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

APPENDIX TWO

Audits in the 2018/19 Plan

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
OPINION AUDITS											
1	**Council Tax and Business Rates**	Fundamental System	15	**Stage 10**	Strong	-	1	-	1	-	1
2	**Capital Expenditure & Accounting**		10	**Stage 10**	Reasonable	-	-	-	2	-	2
3	**Accounts Payable**		10	**Stage 10**	Strong	-	-	1	1	-	-
4	**Fixed Assets (NEW)**		10	**Stage 10**	Reasonable	-	-	-	1	-	1
5	**Cemeteries & Closed Churchyards (NEW)**	Service and Systems – High Risk	15	**Stage 10**	Strong	-	-	2	3	-	-
6	**Housing Grants & Home Improvements**		10	**Stage 10**	Reasonable	1	1	-	-	2	-
7	**Parking Strategy and Income**		15	**Stage 10**	Reasonable	-	2	-	4	1	2
8	**Vehicle Management**		15	**Stage 10**	Strong	-	2	-	5	2	-
9	**Housing Communal Services**		10	**Stage 10**	Reasonable	1	-	-	3	-	-
10	**Planning Applications (NEW)**		15	**Stage 10**	Strong	-	-	2	1	-	-
11	**Markets Contract (NEW)**	Service and Systems - Other	5	**Stage 10**	Limited	2	5	-	-	-	-
12	Out of hours service		12	Stage 5					-	-	-
13	**Orchard (NEW) (Housing Rents IT system)**	Computer	15	**Stage 10**	Strong	-	1	-	-	-	-
14	**Software Control Follow up (NEW)**		8	**Stage 10**	Reasonable	-	2	-	-	7	-
15	**Ferneham Hall Follow up (NEW)**	Follow Up	10	**Stage 10**	Not applicable	-	-	-	55	5	24
16	**Dog Control Follow up**		5	**Stage 10**	Limited	-	-	-	1	-	6
	Contingency / In-house support		50								
	Total Planned Time		**230**								
WIDER WORK											
17	**Insurance claimants who have been the subject of fraud**	Computer - data analytics		**Stage 10**	Not applicable	-	-	-	-	-	-

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
	investigations										
18	**Review of compliance with new CIPFA guidance on Audit Committees (EXTRA - NEW)**	Publication review		**Stage 10**	Reasonable	-	1	1	-	-	-
19	**Housing Maintenance - part 2 (NEW)**	Post investigation systems work		**Stage 10**	Not applicable	1	4	-	14	11	3
20	Write Offs History Analysis & Interest charges	Thematic review		Stage 4							
21	Housing Options Debtors (EXTRA)	Thematic Review		Stage 4							
22	Review of outstanding IT audit recommendations	Follow Up		Stage 9							
23	Review of all other outstanding audit recommendations	Follow Up		Stage 1							
	Use of depot storage areas and security of plant, equipment and materials.	Joint working project		To now be treated as reactive work							
	Deceased persons list	Thematic Review		Postponed to next year							
	Contract Management	Corporate / Contract - joint working		Postponed to next year							
	General Data Protection Regulations - Responding to database search requests	Corporate - joint working		Deleted for delivery by service							

APPENDIX THREE

Audits in the 2019/20 Plan

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
OPINION AUDITS											
1	Payroll and Employee Expenses	Fundamental Systems	15	Stage 1							
2	Housing Rents		15	Stage 1							
3	Banking		5								
4	Treasury Management		10								
5	Tenancy Management	Services and Systems – High Risk	15								
6	Parks and Open Spaces		15								
7	Street Cleansing		10								
8	Local Plan		10	Stage 4							
9	Property Maintenance – Council Housing Voids	High Risk/ Contract Audit	15								
10	Fuel System	Computer Audit	10	Stage 4							
11	BACS processing through Bottomline		10								
12	Recording of sickness through the HR 21 system	Corporate, Specialist, Governance	10								
13	Safeguarding	Services and System - Other	10	Stage 4							
14	Planning Advice		5								
15	Land Charges		10	Stage 4							
16	CCTV Control Centre		10								
17	Dog Control Follow Up	Limited Opinion Follow Up	8								
	Contingency / In-house support		47								
	Total Planned Time		**230**								

No.	Audit Title	Type of Audit	Days in Plan	Stage reached of 10*	Assurance Opinion*	New Recommendations*			Previous Recs. (E and I only)		
						Essential	Important	Advisory	Implemented	Cancelled	Not Implemented
WIDER WORK											
18	Contract Management	Corporate – Joint Working									
19	Disabled Facilities Grants – Grant Certification 2018/19	Certification		Stage 1							
20	Deceased Persons List	Thematic Review									
21	Assurance on Partnership Governance	Corporate Assurance Work									
22	Anti-Bribery Policy										
23	Annual Testing of Procurement Decisions										

APPENDIX FOUR

Finding from the Latest Completed Audits

Audit Title	**Cemeteries and Closed Churchyards**	**Overview of Subject:** Fareham Borough Council are currently responsible for 11 different cemeteries and closed churchyards and this is managed by the Streetscene team. The Authority's responsibilities include maintenance of the grounds, registering of burials, memorial inspection and repairs as well as the processing of income received as a result of interment. The team within Streetscene deal with on average over 200 burials a year which generates income of approximately £200,000 per year. Maintenance is dealt with internally by the Grounds Maintenance team.
Year of Audit	**2018/19**	
Type of Work	Opinion audit – High Risk	
Assurance Opinion Given	**Strong**	
Direction of Travel	⇧2007/08	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (💣)	Important (▲)	Advisory (🏳)	Implemented	Cancelled	Not Implemented
Reserved plots			-	-	1	-	-	-
Income from interment			-	-	-	-	-	-
Grounds Maintenance			-	-	-	-	-	-
Register searches			-	-	1	-	-	-
Repair and removal of memorials			-	-	-	-	-	-
Income channels			-	-	-	-	-	-
Acceptance of payments by Cheque			-	-	-	-	-	-
Income processing			-	-	-	-	-	-
Reconciliations			-	-	-	1	-	-
Memorial processing			-	-	-	1	-	-
Registers and Records			-	-	-	1	-	-

Audit Title	Planning Applications	**Overview of Subject:** The Fareham Borough Council planning application process receives an average of 1,500 applications per year generating approximately £500,000 of income.
Year of Audit	2018/19	
Type of Work	Opinion audit – High Risk	
Assurance Opinion Given	Strong	
Direction of Travel	⇧2013/14	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (💣)	Important (▲)	Advisory (⚑)	Implemented	Cancelled	Not Implemented
Policies and Strategies			-	-	-	-	-	-
Management of Planning applications compliant			-	-	-	-	-	-
Work on listed buildings			-	-	-	-	-	-
Applications for Demolition			-	-	-	-	-	-
Collection of fees/Other Income			-	-	1	1	-	-
Planning Liaison with other departments			-	-	1	-	-	-
Performance against KPIs is monitored			-	-	-	-	-	-
Section 106 Agreements			-	-	-	-	-	-

Audit Title	**Orchard (Housing Rents IT System)**	**Overview of Subject:** The Orchard system provides a platform for the Authority to manage its Housing portfolio and manage rent collection from tenants. The Authority currently uses the system to manage approximately 2,400 Council properties, 550 garages and 400 leasehold properties, which were sold under the Rent to Buy Scheme, and 75 managed leases. The system provides different functions through modules which allow users to utilise different areas of the Housing Management system without paying for the entire software.
Year of Audit	**2018/19**	
Type of Work	Opinion audit - Computer	
Assurance Opinion Given	**Strong**	
Direction of Travel	⇧(2007/08)	

Areas of Scope	**Adequacy and Effectiveness of Controls**		**New Recommendations Raised**			**Previous Rec Implementation (E and I only)**		
			Essential (💣)	**Important (▲)**	**Advisory (⚐)**	**Implemented**	**Cancelled**	**Not Implemented**
User Acceptance Testing			-	1	-	-	-	-
Change Control Processes			-	-	-	-	-	-
Back-ups and recovery			-	-	-	-	-	-
Data Management			-	-	-	-	-	-
Data Validation			-	-	-	-	-	-
Audit Logs			-	-	-	-	-	-
Access Permissions			-	-	-	-	-	-
System upgrades/Patch Management			-	-	-	-	-	-
Interfaces			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	**User Acceptance Testing -** Testing highlighted that a process was in place to test system updates on the Orchard system in a test environment before being deployed to the live server; a template was also provided showing the areas that are considered when the updates are tested. However, no records are kept of the testing that takes place and as such there is no evidence to suggest this is being completed every time. This issue was risk accepted by management on the basis that no issues have been occurring from inadequate testing. They also think that the destruction of the testing records helps keep the personal data safe as the data extracted for testing is extracted from the live system.

Audit Title	Fixed Assets
Year of Audit	2018/19
Type of Work	Opinion audit – Fundamental system
Assurance Opinion Given	Reasonable
Direction of Travel	⇔2015/16

Overview of Subject: The Fareham Borough Council Fixed Asset Register details over 3,000 assets with a total net book value of £200M. This includes land, buildings, council dwellings, investment properties and vehicles. The Net Book Value is calculated as the value of the assets including any revaluation as at 31st March 2018 (Gross Book Value) less any depreciation charges. Assets are capitalised over a value of £10,000, although if works above the value of £10,000 are undertaken, but do not enhance the asset, they are not capitalised.

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (💣)	Important (▲)	Advisory (🏳)	Implemented	Cancelled	Not Implemented
Policies and Strategies			-	-	-	1	-	-
Monitoring of financial data, including balance sheet valuation and depreciation			-	-	-	-	-	-
Deeds and Insurance			-	-	-	-	-	-
Asset Register Maintenance including: de-minumus limits; acquisitions & enhancements.			-	-	-	-	-	-
Technology Forge IT system			-	-	-	-	-	-
Approval and income for disposals			-	-	-	-	-	-
Leasing Agreements			-	-	-	-	-	-
Stamp Duty Land Tax			-	-	-	-	-	-
Asset Management Plan/Asset Maintenance Programme			-	-	-	-	-	1

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Previous Important	**Current Asset Maintenance Plan** – The Asset Management Plan has not been updated since 2012 although there are planned maintenance programmes in place.

Audit Title	Review of compliance with new CIPFA guidance on Audit Committees	**Overview of Subject:** The Audit and Governance Committee has been in operation since 2012/13 when the previous Audit Committee merged with the Standards Committee. It is a standalone non-executive committee which leads on corporate governance. Best practice on the functions and operation of the Committee is issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which encourages committees to carry out self-assessments of their level of compliance with the latest best practice guidance. New guidance was issued in 2018 and this audit sought to update the assessment of the level of compliance.
Year of Audit	2018/19	
Type of Work	Wider work - Publication review	
Assurance Opinion Given	**Reasonable**	
Direction of Travel	⇔ 2007/08	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (💣)	Important (▲)	Advisory (🚩)	Implemented	Cancelled	Not Implemented
Audit & Governance Committee terms of reference & adherence			-	-	-	-	-	-
Structure & Membership (including wider function)			-	-	-	-	-	-
Independence & Accountability			-	-	-	-	-	-
Member Training & Skills Mix			-	-	1	-	-	-
Partnership Assurance			-	1	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	**Partnership Assurances** – There is a new requirement in the 2018 guidance for the Committee to oversee assurances in relation to partnership arrangements. Work has therefore been included in the 2019/20 internal audit plan to review partnership assurances and the flow to the Audit and Governance Committee

Audit Title	Software Control
Year of Audit	2018/19
Type of Work	Computer audit Follow Up
Assurance Opinion Given	Reasonable
Direction of Travel	⇧2015/16

Overview of Subject: The use of unlicensed software or the unauthorised downloading, sharing, selling, or the installing of multiple copies of licensed software is illegal and can result in both civil as well as criminal penalties. Unlicensed software use also includes license infringement by installing a piece of software more times than the license permits. This audit therefore reviewed the Council's arrangements to effectively manage the software in use at the Council, by confirming the status of the 7 previous recommendations made in the 2015/16, when an audit of opinion of Limited was given.

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (💣)	Important (▲)	Advisory (🏳)	Implemented	Cancelled	Not Implemented
Software Policies			-	1	-	-	3	-
Software Inventory			-	Covered in important rec below	-	-	1	-
Software Copyright			-	1	-	-	3	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	**Reliance on manual records** – Licences are managed in a variety of ways and there is currently no accurate identification tool to determine what software is installed on the computers under FBC's control and ownership. A management tool is being used to deploy all software but this has yet to be linked to a more sophisticated licence management tool to reduce the risk of human error. There is, however, a plan of work in progress to move to a more automated licence management system.
Important	**Security Policies** – The IT Security Policy is a work in progress but no formal update has been made since the original audit. However, Fareham Borough Council have employed a new IT Security Officer 2018 who is having a significant input into the updating of the IT Security Policy and other IT Policies.

Audit Title	Market Contract	
Year of Audit	2018/19	**Overview of Subject:** Fareham and Portchester operate street markets for traders to sell goods on a Monday and Wednesday. Administration of these markets has historically been the responsibility of Fareham Borough Council however this has been outsourced since October 2017. The management company keeps a percentage of the income received.
Type of Work	Opinion Audit - Services and Systems - Other	
Assurance Opinion Given	**Limited**	
Direction of Travel	No previous opinion	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (💣)	Important (▲)	Advisory (⚑)	Implemented	Cancelled	Not Implemented
Signed Contract			1	-	-	-	-	-
Compliance with Contract			-	1	-	-	-	-
Food Hygiene Certificates			1	-	-	-	-	-
Health and Safety Certificates			-	1	-	-	-	-
Contract Payments			-	-	-	-	-	-
Income Sources			-	-	-	-	-	-
Collection of income			-	1	-	-	-	-
Right to work			-	1	-	-	-	-
Markets Trader's Data			-	1	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Essential	**Food Hygiene Certificates -** The Market Agreement stipulates that traders who sell food must have a hygiene rating of 3 or above and that the company should undertake checks to verify that appropriate ratings are held. However, no verification of these checks happening had been carried out. A request has since been made to the company who have provided evidence that these checks are being carried out. The FBC Environmental Health team have also carried out their own checks on the ratings held by the relevant traders.
Essential	**Signed Contract -** The Agreement with the company was signed in October 2017 but has not since been renewed. The contract was originally designed to run for 12 months with a maximum extension of 3 years, at the end of each year the Authority is required to give written notice 3 months prior to the renewal advising that they intend to extend the contract for another 12 months. It was agreed that a written request would be sent to the company in July 2019 so that a valid contract is in place for the remainder of the term.

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	**Compliance with Contract –** Market Traders are required to have adequate public liability insurance as well as up to date application forms. There was no evidence that the Authority had confirmed that the company had checked that these documents were available and up to date for all traders. It was agreed that compliance checks would be reinstated.
Important	**Health and Safety –** Testing established that the Authority had not verified that the company had a Health and Safety Policy and procedure in place and that it is provided to traders to ensure compliance with the legislation. It was agreed checks will be reinstated to ensure compliance with Health and Safety Regulations.
Important	**Collection of Income –** Checks are not currently undertaken to ensure that income received into the Authority is reflective of the market income taken in by the Service provider. Whilst the current reconciliation checks what the Service provider has paid into the Authority over the course of the month, records of market traders in attendance are not reviewed alongside income received to reconcile the expected returns with the actual income. It was agreed that checks would be incorporated into the inspections carried out on the number of traders in attendance at the market.
Important	**Right to Work –** No evidence was found that the Authority had confirmed that the company were carrying out checks to ensure that traders were not working illegally. It was agreed that information on the checks being made would be requested by the Head of Environmental Health.
Important	**Market Trader's Data –** A clause in the agreement with the company enables the Authority to share market information for the purposes of the prevention and detection of fraud including the participation in the annual National Fraud Initiative (NFI) data match. The service was not aware of this clause and therefore did not participate in the data matching exercise since the commencement of the agreement. It was agreed that the Authority will exercise its right to request and use trader's data from the company to be included in the next NFI data upload.

Audit Title	Ferneham Hall	**Overview of Subject:** A planned audit of Ferneham Hall was carried out in 2017/18 which resulted in an audit assurance opinion of Limited and required extra testing to be carried out. This resulted in two further reports, one related to stock taking processes and the other related to Bar wastage.
Year of Audit	**2018/19**	
Type of Work	Follow Up	An audit was therefore included in the plan for 2018/19 to review the progress being made to implement the actions arising. However, it should be noted that the operation of Ferneham Hall is scheduled to change significantly in 2020/21, at which point many of the actions will no longer be needed, so the follow up is put in that context.

The 84 actions agreed have been followed up and the status for these was found to be as follows:

Status	**Total Actions**	Essential	Important
Complete	**55**	13	42
Nearly complete	**5**	3	2
In progress	**15**	8	7
Not Started	**4**	0	4
No Longer Needed	**5**	2	3
Total	**84**	**26**	**58**

Overall 70% of the agreed actions were found to have been completed, and further 25% were being progressed. This includes all the 24 essential actions. The actions still being progressed relate to Inventory checks, stockroom control, stock rotation and managerial review of food purchases and wastage.

The 4 actions not started, relate to:

- the absence of financial analyses being produced after each show to establish profitability of the hirers.
- management checks relating to the level of under/overs in the bankings.
- retention and attachment of the redeemed loyalty cards to the complimentary items sheet.

Audit Title	**Housing Maintenance (Part 2)**	**Overview of Subject:** The Building Maintenance Service is based at the Council depot and carries out approximately 8,000 responsive repairs for tenants in council housing and to other council properties, each year. An unplanned audit was carried out of the service in 2016/17. A number of issues were found, and an action plan was agreed with the then managers of the service. A meeting to follow up progress of the actions was held in September 2017. The managers then changed during a restructure in April 2018 and the new manager requested further audit testing to be carried out. This audit was therefore scheduled to formally follow up the issues arising from the original work carried out in 2016/17 and to review the impact of the housing department restructure. It also included further testing of areas not completed in the first review; particularly in relation to Ground works and stock control. It also included duplicate invoice testing, especially where contractors also used sub-contractors.
Year of Audit	**2018/19**	
Type of Work	Wider Work – post investigation systems review	

Implementation of Previous Recommendations

11/28 of the original recommendations were cancelled due to staff and process changes and 14/17 (82%) previous recommendations were found to be fully complete. The remaining 3 recommendations which are in progress relate to providing a briefing on the revised Gifts and Hospitality Policy, which has yet to be launched; the verification of invoices to ensure that they are correct, and the accurate recording in FBC records of materials used against individual jobs.

New Audit Coverage

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Essential	**Service Charges -** Problems were found with the accuracy of the costs being recorded on the IT system which were then being used to recharge to leaseholders. In particular, costs were being missed which should have been recharged. A meeting is being organised with the different teams involved to strengthen the processes going forward. The Council is also considering purchasing a system to make the administration of service charges easier.
Important	**Invoice Verification -** 2/5 paid invoices tested were found to have arithmetical errors that equated to an over charge to the Council. All 5 invoices included charges in addition to the 10% uplift agreed in the framework agreement. A new contract is being put in place for each contractor which should mitigate the Council being over charged in the future. Invoices will be checked against these individual contracts to ensure charges being invoiced are accurate and agree to the original requested job.
Important	**Glazing Supplier Charges** - Some glazing companies were found to be making charges in excess or differing to that stipulated in the framework agreements. The charges amounted to a significant amount over the last 2 years. The Head of

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
	Service has now spoken to the companies concerned to agree a new charging regime.
Important	**Outstanding Jobs -** At the time of audit there were approximately 1200 jobs on the management system that had not been closed, many dating back more than 6 months. There is currently no regime to identify jobs on the system which are not being progressed or should have been closed. Testing also showed that 7/17 jobs shown as complete on the system were still considered by the tenant to be partially outstanding; all related to works carried out by contractors. The Housing Policy Officer is currently looking at options for purchasing a new system that will meet more requirements than the current system does. In addition, it has been suggested that a sample of visits to tenants, who have had jobs carried out by contractors, will be undertaken quarterly to ensure that the works have been completed as instructed.
Important	**Stock Control -** The stores process is still reliant on manually completed requests and no stock takes are undertaken. There is therefore no way of knowing if all movements in stock can be accounted for. It has been agreed that a stocktake would be undertaken and all the items will be added to a spreadsheet to allow it to become an automated store record for future stock checks.

APPENDIX FIVE

Reference Tables

1. Scale of Assurance Opinions

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

2. Scale of Recommendation Priorities

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

3. Stages of An Audit Assignment

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

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date **22 July 2019**

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

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

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2018/19 and gives an overall assurance opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

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

The Audit and Governance Committee's areas of responsibility for Internal Audit include: -

a) to consider the head of internal audit's annual report and opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion.

b) to consider reports from the head of internal audit on internal audit's performance, including conformance to the Public Sector Internal Audit Standards, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

RECOMMENDATION

It is recommended that the contents of the report are noted as a source of evidence for the 2018/19 Annual Governance Statement.

INTRODUCTION

1. This report covers the assurances that are available through the work of the Internal Audit service on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

2. It is one of the key documents to inform this year's Annual Governance Statement.

ASSURANCES AVAILABLE TO SUPPORT THE OPINION

Completion of Planned Assignments

3. The revised audit plan for 2018/19 included 23 (27 last year) audit assignments of different types to give a good representation of the audit universe (which contains 162 audit titles). 17 of these assignments were to produce an audit opinion and 180 days, plus 50 days in-house support and contingency time, was assigned to this type of work.

4. At the time of giving this annual opinion, all but 3 of the 2018/19 assignments have been undertaken with sufficient coverage for conclusions to have been drawn and to be useable as a source of assurance. 18 (19 last year) have been fully completed and actions agreed with the Audit Sponsor.

5. Four pieces of work outstanding from previous plans have also now been completed or mostly completed, so are also relied upon for this report.

6. This is considered adequate coverage as set out in the Internal Audit Strategy to allow the annual opinion to be produced. Appendices A and B give the latest status of the assignments and the key assurance measures arising from the work.

Spread of Individual Assignment Opinions

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

Table 1 - Spread of Assignment Assurance Opinions Given

Year	Strong	Reasonable	Limited	Minimal	Total
2018/19	6 (30%)	11	3	0	20
2017/18	5 (36%)	7	2	0	14
2016/17	8 (47%)	8	1	0	17
2015/16	4 (27%)	11	1	0	16
2014/15	6 (40%)	8	1	0	15

8. No opinions of 'Minimal Assurance' were issued again in the year. The audit of the service (Planning Applications) in the year which had undergone a "Systems Thinking" intervention was given a *Strong* assurance opinion.

9. There were three 'Limited Assurance opinions' awarded. The first was for the Markets audit, where a few weaknesses were found in monitoring that the contractor was complying to the specification.

10. The second was the follow up of last year's Dog Control audit where we were unable to give assurance that all income due to the Council was collected, or that the correct amounts had been paid for kennelling. Although some progress had been made to address the weaknesses this was not enough to fully sign off the recommendations.

11. The last is expected for the Cloud audit (report still at draft stage) which will be addressed by building in the service system plans and wider costings into the strategy and developing contract management skills for services being provided by a third party.

12. Managers are working with the audit team to implement a series of agreed actions for each of these audits.

Income or Expenditure Errors found

13. Errors are defined as spending we incurred when we shouldn't have, or uncollected income. Errors were found in fewer audits this year, in 3 audits (5 last year). However, the value of errors found increased, where they could be quantified. Income errors totalling £5,180 and expenditure errors totalling £1,430 were noted.

Implementation of Recommendations

14. During 2018/19, 15 of the audits included a review of the progress made with implementing previous recommendations. These covered 190 essential or important actions. Testing confirmed that **69%** of the recommendations have been implemented.

15. Of the recommendations followed up **28** were essential recommendations. Of these, 15 (54%) were closed as complete or no longer needed and all the rest were in progress.

16. The table below compares this to previous years.

Table 2 – Trend in Implementation of Recommendations

	No of audits with recommendation reviews	No. of recs tested	% of recommendations tested signed off by audit as implemented or closed
2018/19	15	190	69% + 18% in progress
2017/18	6	20	35% + 24% in progress
2016/17	4	8	50%
2015/16	8	23	57% + 17% in progress
2014/15	13	69	57% + 14% in progress

17. The rest of the follow up work has not been completed in 2018/19. The communications team have been working up a user guide to help with the roll out of the new management system to services and to obtain an updated implemented status for the 390 actions outstanding on the database. This will be progressed in the 2019/20 plan.

Other Sources of Assurance in the Year

18. Appendix C lists other sources of assurance that have been available this year to support the Annual Audit Opinion. There is nothing significant to highlight.

Governance, Ethics and IT

Governance

19. A specific piece of governance work was carried out as part of the 2018/19 audit plan. This covered reviewing compliance of the operation of the Audit and Governance Committee with the latest guidance issued by the Chartered Institute of Public Finance and Accountancy.

20. An action arose because of this work to look at what partnership governance assurances are in place and how they flow to the Audit and Governance Committee.

Ethics

21. The Public Sector Internal Audit Standards require the *'internal audit activity to evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities'.* A programme of work has been drawn up to help provide on-going assurances on our ethics arrangements.

22. This year's work involved assisting implementation of the actions arising from last year's Focus Group and employee survey. Actions that have been completed include:

- Rebranding the Whistleblowing Policy as the 'Raise a Concern' Policy to remove the negative connotations of "snitching".

- Rolling out the new Procurement and Contract Procedure Rules and developing a "supplier spend" tool to help improve transparency and strengthen awareness on the need to demonstrate financial stewardship in purchasing decisions.

23. Actions not yet fully complete include:

- Provide refresher training of managers on how to manage "concerns" brought to their attention and provide appropriate feedback.

- Finalise and roll out briefings on the revised Employee Interests, Gifts and Hospitality Policy, and the new ways of registering these.

Information Technology Governance

24. The Public Sector Internal Audit Standards require the '*internal audit activity to assess whether the information technology governance of the organisation supports the organisation's strategies and objectives'.*

25. The conclusion arising from this work for 2018/19 is that the information technology governance of the Council is adequate to support the organisation's strategies and objectives. This is based on the risk discussions with the Head of Service and knowledge of the findings from the following computer audits:

- Orchard audit (Housing system)
- Software Control follow up
- Cloud audit (at draft stage)
- Follow up of 32 previous IT recommendations; especially the progress made in relation to Network security (at draft stage)

26. The work the organisation has carried out to continue to meet the Public Services Network (PSN) requirements was also noted as was the work being carried out by the new ICT Security Officer, particularly in relation to Data Protection Impact Assessments. However, there is still some work needed to clarify the ICT security policies and expand the ICT strategy for Cloud migration of the service systems.

Risk Management

27. In accordance with the latest risk management policy, all services were examined in the year and evidence of effective risk management compiled into two 6-monthly reports to the Committee.

28. A considerable amount of work was also carried out to finalise the project in the audit plan looking specifically at the strength of the Council's inspection regimes to identify risks and hazards on council land and property. This work is still at the exit meeting stage but has identified some areas where action is recommended.

HEAD OF AUDIT OPINION

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

30. Using the information outlined in this report, in the opinion of the Head of Finance and Audit, the Council had a framework of governance, risk management and control for the year 2018/19 which was generally working effectively, although some opportunities to strengthen arrangements were found in the year. There is awareness amongst managers about their top risks and the importance of control mechanisms within the Systems Thinking culture, and the need to address any major weaknesses found.

31. The opinion is based on the following evidence:

- no "minimal" audit assurance opinions were again given this year;
- the service audited which have undergone a Systems Thinking intervention (Planning Applications) this year have been given a 'strong' audit assurance opinion;
- income or expenditure errors were recorded in three audits in the year, totalling over £6,000;
- new essential recommendations (12) were made in seven areas of audit but managers are taking action to address the issues found;
- collaborative working with managers on 3 system areas in the year is leading to improved control and efficiency.

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

a) Rolling out training and support for contract management, including where IT systems are provided by a third party in the Cloud.
b) Strengthening debt collection and write off processes in a number of services.
c) Reviewing what partnership governance assurances are in place and how they flow to the Audit and Governance Committee*.

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

33. There has been significant progress made on issues highlighted last year including:

- Finalising the framework agreements for spend with contractors and suppliers used by Housing, Property and Building Services, which were in breach of FBC Procurement and Contract Procedure Rules.
- Carrying out manager briefings on the rules in the new Procurement and Contract Rules.
- Improving management control and the equipment and stock controls in Ferneham Hall.
- Carrying out proactive counter fraud campaigns.

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

a) Carrying out stock condition surveys and implementing asset management plans.

b) Fully embedding the new system for managing costs associated with housing repairs, or moving to an alternative system.

c) Rolling out the new action management system to services to improve the management of recommendations arising from audit reports, and update the data available on the level of implementation *.

d) Clarifying the ICT security policies for the Council.

35. The 2 issues above marked with an asterisk have been included in this year's Annual Governance Statement.

AUDIT SERVICE QUALITY ASSURANCE

36. As required by the Public Sector Internal Audit Standards (PSIAs), the service has developed a documented Quality Assurance and Improvement Plan (QAIP) which consists of a self-assessment against the standards, on-going monitoring arrangements and local performance measures.

37. The QAIP is designed to provide reasonable assurance to its key stakeholders that the service: *performs its work in accordance with its Charter; operates in an effective and efficient manner; is perceived by its key stakeholders as adding value and improving the service that it provides*.

38. The PSIAs require the Head of Internal Audit to report on the outcomes of the QAIP each year which is covered by the following sections.

Audit Independence

39. In conformance with PSIAs 1110, it is confirmed that that the internal audit activity was organisationally independent. This is assessed on the basis that the Head of Finance and Audit reported functionally to the Audit and Governance Committee during the year and had free and unfettered access to the Chief Executive Officer and Chair of the

Committee.

40. Whilst there is a potential conflict from the dual role of Head of Finance and Head of Audit there are compensating controls which are set out in the Audit Charter as follows:

The Head of Finance and Audit and the External Partner Authorised Officer (at Portsmouth City Council) will be a member of a professional accountancy or auditing body.
The Head of Finance and Audit will assume the auditee role in audits of specific finance and local taxation systems.
The majority of planned "opinion" work will be carried out by the auditors of the external partner who are not employees of the council and who report to their own head of audit.
The original copy of all audit reports submitted by the external partners will be filed as part of the audit trail for that audit.
Although the teams will liaise on the scope of the audit and the content of the final audit report, the External Partner Authorised Officer will be sent a copy of the final report allowing them to raise any concerns they have with the content with the Section 151 Officer.
The Section 151 Officer will meet annually with the External Partner Authorised Officer without the Head of Finance and Audit being present.

41. The arrangements laid out in the Audit Charter were adhered to in the year.

Self-Assessment against the Standards

42. A revised set of standards came into practice last year. We carried out a self-assessment last year on our conformance with the changes. Our self-assessment this year continued our rolling review of conformance with 10 standards selected by the reviewing officer. The standards covered this year covered the following standards:

2300	Performing the Engagement
2310	Identifying Information
2320	Analysis and Evaluation
2340	Engagement Supervision
2400	Communicating Results
2410	Criteria for Communicating
2420	Quality of Communications
2421	Errors and Omissions
2440	Disseminating Results
2600	Communicating the Acceptance of Risks

No areas of not conformance were found.

43. Improvements made to processes since the last report included:

- ✓ Audit Charter updated to reflect the new standards including adopting the Mission, definition and core principles for Public Sector Internal Audit.
- ✓ Revised Charter presented to senior managers at the Chief Executive's Assurance Group.
- ✓ Completed 3 yearly review of the Internal Audit Strategy.

44. Our self-assessment for 2018/19 therefore concluded that we have fully conformed to 49 [48 last year] of the 52 applicable standards with partial conformance with the other

3. It should be noted that there are 128 parts making up the 52 standards.

45. Instances of non- or part conformance are given in Appendix D; we are now down to those where no further action is planned to improve conformance. Due to the compensating controls documented, none of the areas are considered significant enough for reporting in the Annual Governance Statement.

Local Performance Measures

46. Three local performance measures were used for the service in 2018/19, as discussed below.

Completion of Plan

47. The first measure covers the amount of planned work that is finalised by the time of the Annual Report. There has been some improvement in this indicator again this year, as summarised in the table below.

Table 3 – Completion of Plan	2018/19	2017/18	2016/17	2015/16	2014/15
% of reports finalised by time of Head of Audits Report	78% (18/23)	70% (19/27)	68% (15/21)	59% (13/22)	29% (6/21)

Time Taken to Deliver Assignments

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

Time Taken	2018/19	2017/18	2016/17	2015/16
Average number of calendar months between start and finish of audits finalised since the last annual report. (Number of audits in the measure)	3.4 (20)	6.3 (14)	6.7 (21)	7.2 (11)

Customer Feedback

49. The third measure covers customer feedback. We now use a face to face interview with an auditor not involved in the assignment in order to obtain feedback. 14 interviews have been completed since the last report (10 relating to the 2018/19 plan) and a score applied as shown in the table below.

Level of Customer Satisfaction	2018/19	2017/18	2016/17	2015/16
Audit was above expectations	14% (2)	8 % (1)		22% (2)
Happy with the audit	86% (12)	76% (10)	66% (10)	33% (3)
Minor problems with the audit		8 % (1)	27% (4)	45% (4)
Significant problems with the audit		8 % (1)	7% (1)	0

50. The main area that auditees were pleased with was that they could be involved in the timing of the audit to ensure that, where possible, busy times of the year could be avoided. They also appreciated that during the audit the auditor did not take up too much of anyone's time. The auditees also commented that they found the auditors organised, professional and polite.

51. The main area for improvement suggested in a few audits concerned the length of time taken from the start to the finish of an audit was too long. There were also a couple of comments about low significant issues being included in draft reports. This feedback is discussed with the provider for each audit so that any lessons can be learnt.

RISK ASSESSMENT

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

CONCLUSION

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

Appendices:

A. Results of Planned Assignments 2018/19
B. Results of Planned Assignments from previous years not available last year
C. Additional Sources of Assurance this year
D. Areas of Non-Conformance with the Public Sector Internal Audit Standards

Background Papers: None

Reference Papers:

Report to Audit and Governance Committee on 11/03/19 on the Internal Audit Strategy

Report to Audit and Governance Committee on 23/07/18 on Head of Audit's Annual Opinion 2017/18

Quarterly audit reports to the Audit and Governance Committee during 2018/19

Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 – Public Sector Internal Audit Standards (PSIAS)

Enquiries:

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

APPENDIX A

RESULTS OF PLANNED ASSIGNMENTS 2018/19

Audit Title	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel	New Recommendations			Previous Recs. (E and I only)			
					Essential	Important	Advisory	Implemented	Cancelled	In Progress	Not Implemented
FUNDAMENTAL SYSTEM AUDITS											
Council Tax and Business rates	10	15	**Strong**	⇔ 2015/16	-	**1**	-	**1**	-	-	**1**
Capital Expenditure and Accounting	10	10	**Reasonable**	⇔ 2015/16	-	-	-	**2**	-	-	**2**
Accounts Payable	10	10	**Strong**	⇔ 2015/16	-	-	**1**	**1**	-	-	-
Fixed Assets	10	15	**Reasonable**	⇔ 2015/16	-	-	-	**1**	-	-	**1**
SERVICES & SYSTEMS – HIGH RISK											
Cemeteries & Closed Churchyards	10	15	**Strong**	⇧ 2007/08	-	-	**2**	**3**	-	-	-
Housing Grants and Home Improvements	10	10	**Reasonable**	⇔ 2012/13	**1**	**1**	-	-	**2**	-	-
Parking Strategy and Income	10	15	**Reasonable**	⇩ 2015/16	-	**2**	-	**4**	**1**	-	**2**
Vehicle Management	10	15	**Strong**	⇧ 2006/07	-	**2**	-	**5**	**2**	-	-
Housing Communal Services	10	10	**Reasonable**	⇩ 2002/03	**1**	-	-	**3**	-	-	-
Planning Applications (V)	10	15	**Strong**	⇧ 2013/14	-	-	**2**	**1**	-	-	-
SERVICES & SYSTEMS – Other											
Markets Contract	10	5	**Limited**	No Previous Opinion	**2**	**5**	-	-	-	-	-
Out of Hours (draft)	5	12	Reasonable	No Previous Opinion	-	2	2	-	-	-	-
COMPUTER AUDITS											
Orchard (Housing Rents IT system)	10	15	**Strong**	⇧ 2007/08	-	**1**	-	-	-	-	-
Software Control Follow Up	10	8	**Reasonable**	⇔	-	**2**	-	-	**7**	-	-

Audit Title	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel	New Recommendations			Previous Recs. (E and I only)			
					Essential	Important	Advisory	Implemented	Cancelled	In Progress	Not Implemented
				20015/16							
FOLLOW UP											
Ferneham Hall	10	10	N/A	N/A	-	-	-	**55**	**5**	**20**	**4**
Dog Control	10	5	**Limited**	⇔ 2017/18	**-**	**-**	**-**	**1**	**-**	**2**	**4**
WIDER WORK											
Insurance claimants who have been the subject of fraud investigations	10		N/A	N/A	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Review of compliance with new CIPFA guidance on Audit Committees	10		**Reasonable**	N/A	**-**	**1**	**1**	**-**	**-**	**-**	**-**
Housing Maintenance invoicing and stock control - part 2	10		N/A	N/A	**1**	**4**	**-**	**14**	**11**	**2**	**1**
Write Offs History Analysis & Interest charges	4		N/A	N/A							
Housing Options Debtors	4		N/A	N/A							
Review of outstanding IT audit recommendations (draft)	9		N/A	N/A	2	2	-	11	15	2	4
Review of all other outstanding audit recommendations	1		N/A	N/A							
Totals					7	23	8	102	43	26	19

APPENDIX B

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

Audit Title	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel	New Recommendations			Previous Recs. (E and I only)			
					Essential	Important	Advisory	Implemented	Cancelled	In Progress	Not Implemented
SERVICE AND SYSTEM AUDITS – High Risk											
Property Maintenance and Inspections – Council Buildings (non-housing) 2017/18	10	15	Reasonable	No Previous Opinion	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Developers Contributions 2017/18	10	15	Reasonable	⇔ 2013/14	**-**	**1**	**2**	**2**	**1**	**-**	**-**
Computer Audits											
Chipside 2017/18	10	12	Reasonable	No Previous Opinion	**-**	**2**	**1**	**2**	**-**	**-**	**-**
Cloud 2016/17 (draft)	9	15	Limited	No Previous Opinion	4	4	1	-	-	-	-

APPENDIX C

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

Reactive work undertaken by the Team	Fraud investigation into Housing options payment fraud Additional testing of reason for 5 credit notes being received
Other work undertaken by the team	Monthly stock checks and assistance with reconciliation at Ferneham Hall Fraud data matching for National Non-Domestic Rates (part complete) Leading on GDPR assessments for finance and audit teams
Other sources	HMRC compliance inspection of tax treatment of councillors' expenses – January 2019 PUSH audit by Hampshire CC – May 2018 Project Integra audit by Hampshire CC - June 2018 Markets audit by Gosport audit team – November 2018 6 monthly risk management reports Attendance at Corporate Financial Forecasting and Medium - Term Finance Strategy meetings Lead or attendance on project team meetings concerning Welborne, Printing, Procurement, Employee registers of interest, Whistleblowing, Debt Collection, Rail travel, emergency planning.

APPENDIX D

Areas of Non Conformance with the Public Sector Internal Audit Standards

Standard	***Area of Non Conformance***	***Comments***
1100 Independence and Objectivity (part)	The Chief Executive Officer and Chair of the Audit and Governance Committee do not formally feed into the performance appraisal of the Chief Audit Executive.	**No further action proposed** Informal mechanisms are in place for concerns about independence to be raised. Regular meetings occur between the Section 151 Officer and the Head of Finance and Audit [HFA]. There are also regular one to ones between the Chief Executive Officer and Section 151 Officer and an annual one to one between the Chief Executive Officer and the HFA. The HFA has access to the Chair and Vice chairs of the Audit and Governance Committee during the quarterly chairman briefings and can approach them directly should she have any concerns. They can also raise any concerns they have with the performance of the internal audit service.
1312 External Assessments	No external assessments are currently included in the Quality Assurance and Improvement Plan.	**No further action proposed** Given the current financial climate it is unlikely that we would want to incur additional costs to pay for an independent external verification of our self-assessment. However, our audit partners completed an external assessment last year which provides us with assurance on their processes. The in-house team do monitor any feedback on conformance to the standards received from the external auditors, and the internal audit partners. We have also introduced peer discussions in the Hampshire Audit managers group in which one authority presents how they comply with a section of standards and leads a discussion on the strengths and weaknesses of their approach.
2020 Communication and Approval (part)	The entire internal audit activity's plan and resource requirements were not presented to senior managers in addition to the board for review.	**No further action proposed** The Audit and Governance Committee is responsible for endorsing the Annual Plan of work which the Deputy Chief Executive as the Section 151 Officer has previously reviewed. Other Directors are consulted on coverage in the plan for their department and receive information on the proposed Annual Plans and any changes to these before approval and are invited to provide feedback.

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 July 2019**

Report of: **Deputy Chief Executive Officer**

Subject: **ANNUAL GOVERNANCE STATEMENT**

SUMMARY

This report brings the 2018/19 Annual Governance Statement for member approval before publishing with the Statement of Accounts.

The Audit and Governance Committee's areas of responsibility for the Annual Governance Statement include:
a) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council;
b) To review the Council's Annual Governance Statement, prior to approval, and consider whether it properly reflects the risk environment and supporting assurances.

RECOMMENDATION

It is recommended that the Committee:

a) approve the Annual Governance Statement for 2018/19, as attached in Appendix C of the report; or

b) identify any changes required.

INTRODUCTION

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

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

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

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

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

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

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

2. The 'proper practices' for this obligation are regarded to be the CIPFA/SOLACE publication 'Delivering Good Governance in Local Government, which was last revised in April 2016.

3. This report therefore informs members of the processes that have been used to prepare the Annual Governance Statement for 2018/19 as attached as Appendix C, and seeks approval for this to accompany the audited Statement of Accounts for 2018/19 due to be published at the end of July 2019.

CHANGES TO THE PROCESS

4. The Governance Framework '*comprises the systems and processes and culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor achievement of the strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services'.* The system of internal control *'is a significant part of the framework and is designed to manage risk to a reasonable level'.*

5. The Council has defined its Governance Framework as consisting of 23 components as listed in Appendix A which is consistent with the 2016 guidance. Two of these are discretionary components which are considered important to this authority.

6. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a document in January 2018 reviewing how well Councils complied with the 2016 guidance. This publication was reviewed to identify if there were any areas for strengthening in our process. Two actions were taken as a consequence:

   a) Making the AGS easier to find on our website

   b) Introducing table formats for the new action plan and the progress on previous actions.

RESPONSIBILITIES OF THIS COMMITTEE

7. The annual review of the effectiveness of the Council's governance framework and systems of control has now been completed by the officers on the 'Chief Executive's Assurance Group', who have also compiled the action plan for completion. These findings have been fed into the text of the Annual Governance Statement.

8. Member involvement in the process is important to establish corporate ownership of the governance framework. The specific role of members in the process is to:-

   (a) confirm that a robust approach has been taken to review the Council's governance framework and systems of internal control;

   (b) confirm that the sources of evidence are appropriate and support the Annual Governance Statement; and

   (c) approve the content of the Statement and action plan or make suggestions for improvement.

9. The final version of the Statement, taking on board members' comments, will then be submitted for endorsement by the Chief Executive Officer and the Leader of the Council before being published.

SOURCES OF EVIDENCE

10. Each of the elements of the framework were reviewed and discussed by the Chief Executive Assurance Group which consists of the Chief Executive, all the directors and the Head of Finance and Audit. The following additional evidence was also reviewed to support the discussions:

- Outcomes of Audit work in 2018/19.
- Summary of external assurances received in the year (as listed in Appendix B).
- Review of progress made on the actions included in the previous Annual Governance Statement.

ANNUAL GOVERNANCE STATEMENT

11. The Annual Governance Statement, as attached as Appendix C, has been drafted in accordance with the CIPFA proper practices guidance. The lists of improvements identified during this review are highlighted on pages 24-25 of the statement. It should be noted that these do not necessarily signify a significant control weakness in the Council's framework but tend more to reflect ideas for improvements to existing processes.

RISK ASSESSMENT

12. The Annual Governance Statement is a statutory requirement and will be published on the Council's internet site with the Statement of Accounts. It is audited by the Council's external auditors.

CONCLUSION

13. This organisation has defined an appropriate Governance Framework on which to base its Annual Governance Statement. The sources of assurance have been subject to a

review to allow the Annual Governance Statement to be drawn up for 2018/19.

Appendices:

Appendix A – Components of the Fareham BC Governance Framework.

Appendix B – Sources of External Assurance Reviewed this year

Appendix C – Draft Annual Governance Statement 2018/19 (attachment).

Background Papers: None

Reference Papers:

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

CIPFA - Review of Annual Governance Statements 2016/17 - January 2018

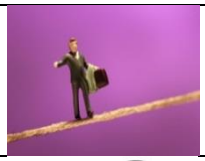
Enquiries:

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

APPENDIX A

Components of the Fareham BC Governance Framework

Mandatory Elements		
1		**Openness** Documenting a commitment to openness and acting in the public interest
2		**Communication** Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
3		**Vision and Outcomes** Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.
4		**Vision and Actions** Translating the vision into courses of action for the authority, its partnerships and collaborations.
5		**Service Quality and Value for Money** Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.
6		**Constitution** Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.
7		**Monitoring Officer** Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function.
8		**Decision Making** Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships, information provided to decision makers, and robustness of data quality.
9		**Scrutiny** Ensuring an effective scrutiny function is in place.
10		**Codes of Conduct** Developing codes of conduct which define standards of behaviour for members and staff and that these codes and policies are communicated effectively.

11		**Whistleblowing and Conflicts of Interest** Developing policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively
12		**Training and Development** Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.
13		**Head of Paid Service** Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function.
14		**Laws and Policies** Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful.
15		**Financial Management** Ensuring the authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015) and, where they do not, explain why and how they deliver the same impact.
16		**Risk Management** Reviewing the effectiveness of the framework for identifying and managing risks and for performance demonstrating clear accountability.
17		**Counter Fraud** Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).
18		**Partnerships and Governance** Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements.
19		**Internal Audit** Ensuring the authority's assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact.
20		**Audit Committee** Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities (2013).
21		**External Audit** Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.
Discretionary Elements		

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

APPENDIX B

Sources of External Assurance Reviewed this Year

Type	Report
External Audit	Annual Audit Letter 2017/18 (August 2018)
	Audit Results Report 2017/18 (July 2018)
	Annual Certification Report 2017/18 (December 2018)
Government Department or Agency	Local Government Ombudsmen Report 2017/18 (July 2018)
	HM Revenue and Customs review of employer compliance tax treatment of the members payroll (January 2019)
	Ministerial Directive issued by the Department of the Environment, Food and Rural Affairs (DEFRA) in relation to Air Quality (March 2019)
	Public Service Network Compliance (2018/19)
	Driver and Vehicle Licensing Agency (DVLA) data assurance audit of our use of Keeper at Date of Event Enquiries (October 2018)
	Driver and Vehicle Standards Agency (DVSA) Vehicle Operators Compliance Risk Score (March 2019) and Vehicle Test History (March 2019)
Other	Hampshire Safeguarding Children Board (HSCB] S11 Compliance Letter (April 2018)
	Partnership Coverage by other Audit Teams (PUSH, Project Integra,)
	Hampshire County Council Property Services Annual Review of the Building Control Partnership (March 2019)
	Insurance Company (Allianz) review of Daedalus Airfield (October 2018)
	Annual ICT Security Assessment (November 2018)

Appendix C

FAREHAM
BOROUGH COUNCIL

Annual Governance Statement

2018/19

Fareham Borough Council

Civic Offices, Civic Way, Fareham PO16 7AZ

SCOPE OF RESPONSIBILITY

Fareham Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

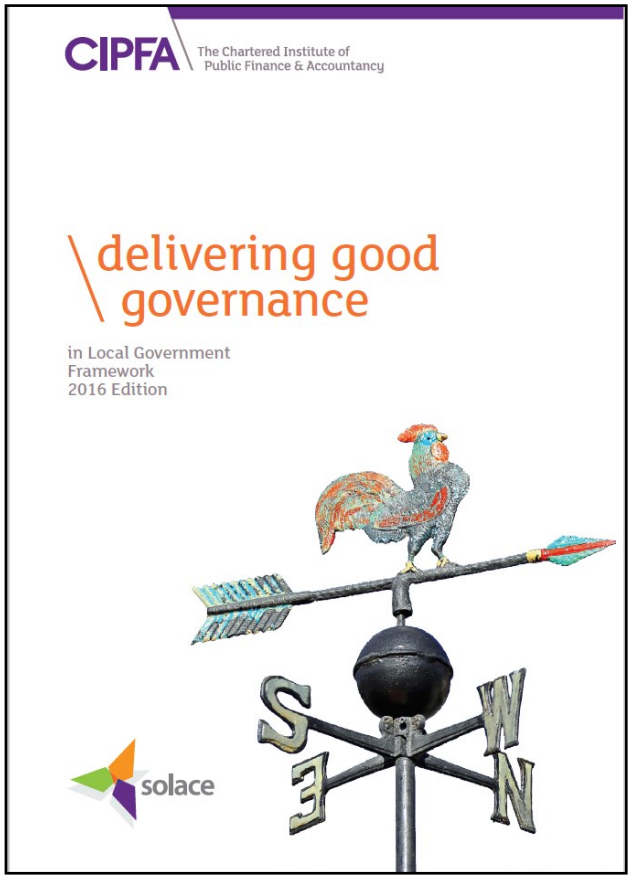
Fareham Borough Council also has a duty under the Local Government Act 1999 to make arrangements securing continuous improvements to the ways in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for putting arrangements in place for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Fareham Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy's framework; *Delivering Good Governance in Local Government*.

A copy of our code is on our website at: http://www.fareham.gov.uk/about_the_council/strategies/policydocs.aspx.

This statement explains how Fareham Borough Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, regulation 6 (1b) which requires all relevant authorities to prepare an annual governance statement.



THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads its communities.

It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

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

The governance framework has been in place at Fareham Borough Council for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

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

Openness

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

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

We have developed a Freedom of Information Publication Scheme which is published on our website along with a Transparency portal which provides financial information and other data about the way the Council is being run. This can be found on our website here:

http://www.fareham.gov.uk/about_the_council/financial_information/intro.aspx

We have reviewed compliance with the latest requirements of the Transparency Code and carry out reviews of any further changes needed.

In 2018/19 we have improved the content and layout of the "Have your say" pages on our website making it easier to take part in consultations and get feedback from the public. You can find out more here:

http://www.fareham.gov.uk/have_your_say/

Community Communication

The Council's approach to communication is set out in the Communications and Engagement Strategy which is monitored and updated periodically. The next periodic review is in progress, due for completion in 2019/20.

We have moved the Council magazine "Fareham Today" to be a primarily online publication which is now produced three times a year. Households still have an option of requesting printed copies or receiving email alerts when an edition is published. Approximately 1,350 households have signed up to receive individual copies with a further 350 receiving email alerts.

We continue to see a consistent growth in followers on social media channels like Facebook and Twitter which give us ways to have informal two-way conservations with a wider range of people. We use the Council Connect stand in the Town Centre to display a range of material on targeted themes throughout the year. Themes this year included: the Welborne planning application consultation, Give Plastic the Push campaign, and the Daedalus 75 event in June 2019. The Team also work with the media to convey important messages.

The Council has a Public Relations, Marketing and Consultation Team who coordinate and undertake community consultations using a variety of methods which includes an e-panel of over 1,600 residents. In 2018/19 we carried out a refresh of the e-panel to make the content more engaging and to ensure we are fully compliant with the requirements of the General Data Protection Regulation in terms of who was included in consultations. We also now have conversations (10/10 surveys) with a sample of residents who have used a key service in the year which allows us to receive feedback about what matters to our customers for future improvements.

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

Alternative approaches used this year included use of a play area game to encourage children to take part in a consultation; a Business Breakfast used to talk about the town centre and clarify the role of the Council; and a Pizza evening to aid procurement engagement with local building firms.

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

In 2018/19 almost 9,000 people responded to 26 consultations and events. Key consultations this year have been on the Welborne Planning application, the review of the vision for Daedalus, producing a vision for Ferneham Hall and naming of the new countryside park, "Abbey Meadows".

Council's Visions and Outcomes

The Council's governance arrangements support the realisation of the Council's mission and objectives.

Our Corporate Strategy 2017-2023 describes an overall vision for the Borough - **Fareham: a prosperous and attractive place to be**. It sets out our priorities for improvement over a six-year period. This is available on our website at: http://www.fareham.gov.uk/about_the_council/strategies/keystrategies.aspx.

During 2018/19 we conducted an annual review of the Corporate Strategy which was reported to the Policy and Resources Scrutiny Panel and Executive in November, and the changes were approved by Council in December.

A project plan has been drawn up to deliver the priorities which is monitored by the Chief Executive's Management Team twice a year. A process is being developed to feed the finances, needed to deliver the Corporate Priorities set, into the Medium-Term Financial Strategy.

Notable achievements from the Strategy to date are delivery of the Holly Hill Leisure Centre, the extension to the Innovation Centre at Daedalus, and the sport pitches and play area at the Coldeast site. The refurbishment of Westbury Manor Museum has also been completed and the Council has supported the construction of the road improvement scheme at Newgate Lane.

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

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

We also monitor any changes in demographics in the Borough which may influence what our priorities should be.

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

Service Quality and Value for Money

The Council is implementing a programme of cultural change which is leading to better quality and value for money services.

We have been reviewing our services using 'Systems Thinking' which redefines the purpose from the customer's point of view and puts them at the heart of the processes we use to deliver them. Reviews result in improved customer experiences and faster service delivery

In 2018/19, reviews commenced in Tenancy Services and the Building Control partnership. The review of StreetScene has continued to expand into other areas and there has been a continuation of work in Democratic Services.

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

Our Local Service Agreements (LSAs) set out how well we are doing on delivering key services in line with our corporate priorities. They are updated annually and reviewed by the Chief Executive's Management Team and the Executive. During 2018/19 the LSAs were reviewed to reflect the latest developments and a section added in on major achievements in the year. The LSAs include a list of key performance measures which are monitored during the year and over years including 10/10 survey results. These indicators are being continually revised as we determine what measures truly match the purpose of the service.

In 2019 the Public Relations and Communications team were awarded Best Public Sector Team of the year in the PRide awards given by the Chartered Institute of Public Relations.

The Council has a corporate efficiency plan which identifies cost saving actions to offset funding reductions. In 2018/19 £986,000 of savings were built into the budgets from the 2016 efficiency plan. During 2018/19 we carried out a series of discussions with Heads of Service to identify further opportunities for income generation and cost reduction to support the next five year Financial Strategy. This resulted in the development of an "Opportunities Plan" which included the need to use reserves to support delivery of the programme, including the establishment of a Project Team. It was possible to build in £587,000 of this plan already into the 2019/20 budgets.

The Council continues to buy some goods and services jointly with other councils, and build upon successful services delivered jointly with other local authorities. For example in 2018/19 Hampshire councils, led by Portsmouth City Council, jointly procured the external audit of the Housing Benefit subsidy claim work for the next four years.

Work has also started to retender for our insurance provider. Fareham leads on this as a joint procurement in Hampshire as part of the Hampshire Insurance Forum.

Member and Officer Roles and Responsibilities

The Council's Constitution sets out:

- How the Council operates;
- The roles, responsibilities and relationships between the different Council committees;
- The roles of Executive Members, Committee Chairmen, Ward Councillors and Chief Officers;
- The functions, responsibilities and post holders of the statutory offices: Head of Paid Service, Monitoring Officer and Chief Finance Officer.

A member/officer protocol lays out how communication is effected between the two roles.

The Constitution documentation continues to be reviewed by the Democratic Services team to keep it as a single reference source that meets the needs of its users. A refreshed website of the revised constitution went live early in 2018/19. An annual report to the Audit and Governance Committee was also introduced to advise members on updates made to the constitution during the year. This is being supplemented by separate reports to members where approval is needed for changes. For example, in 2018/19 there was a major change to the operation of the Scrutiny Panels. Work is being targeted in 2019/20 to refresh the Constitution procedure rules (Part 3).

There is a designated post which covers the Monitoring Officer responsibilities. The post-holder retired at the end of March 2019 and so there was a comprehensive hand over to the new designated post-holder. The Monitoring Officer keeps appraised of changes in requirements by attending appropriate courses and the Council subscribes to a national service to obtain advice as necessary. These arrangements will continue with the new post holder.

Decision Making

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

The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means.

Meetings are held in public except where personal or confidential matters are being discussed. During 2019/20 we will be investing in technology to allow the meetings to become paperless. The Notice of Key Decisions highlights any 'key decisions' due to be made and these are published 28 days before the decision is made, to enable wider transparency and opportunities for representation to the decision makers. These are discussed in advance by the Chief Executive's Management Team.

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

Scrutiny

Our committee structure follows the Executive Leader and cabinet model, which requires us to have a Scrutiny function. During 2018/19 a Vanguard review was completed to assess the output and purpose of the Scrutiny Board and Policy Development and Review Panels.

The review identified the need for a strengthened Scrutiny Function and therefore at its meeting in October, the Council approved the creation of a Scrutiny Panel for each of the six portfolio areas. This was rolled out in November 2018 using briefings with lead officers, the Panel chairmen and a Panel briefing at the start of each of the new Panel meetings.

FAREHAM
BOROUGH COUNCIL

Report to Council
11 October 2018

Subject: **Review of Policy Development and Review Panels and Scrutiny Board Meetings**

Report of: **Head of Democratic Services**

SUMMARY

This report provides the details of the Vanguard Intervention review of Committee Services, focussing on the work of the Policy Development and Review Panels and the Scrutiny Board. The Scrutiny Board and the Executive have been consulted on the proposals for changes to the Council's Committee Structure and no amendments were made to the proposals.

Each Panel is made up of seven non-executive councillors and reflects the political balance of the elected members. The Panels now meet a minimum of four times a year with extra meetings called when needed.

Each Scrutiny Panel has a Priority Plan which identifies the objectives from the Corporate Strategy and areas of the executive function that require their scrutiny. Part of their new focus is to be engaged in pre-scrutiny work and have an input in the decision making process by making recommendations to the Executive.

For example, in 2019 the Planning and Development Scrutiny Panel carried out a pre-scrutiny role of the Draft Local Plan consultation proposals.

A review of how the new Scrutiny Panels are performing will be carried out once they have been in place for a year, to confirm that the new arrangements are being consistently applied across the Council.

There were no decisions called in during 2018/19. The Scrutiny Board did, however, carry out a review of how a petition was handled and concluded that 'the steps taken by the Council in response to the submitted petition were correct'. The Board also received a further presentation from the Hampshire Fire and Rescue Service in 2018/19.

HAMPSHIRE
FIRE AND
RESCUE
SERVICE

Codes of Conduct

In accordance with the Localism Act 2011 we have a Code of Conduct which sets out the behaviours expected from our members, and we have arrangements in place to deal with matters of ethics, honesty and member conduct. New members receive an induction session on the content of the Code. Specific training on communication with the media is planned for 2019/20.

A report is presented annually to the Audit and Governance Committee setting out the number of complaints received about member conduct and the trends. A standards sub-committee is set up when a significant breach by a member requires investigation and the conclusion is reported at the next meeting of the Audit and Governance Committee and Full Council. The standards sub-committee was not convened in 2018/19.

The Council's Code of Conduct and Disciplinary Rules and Procedure aims to maintain appropriate standards of conduct at work by employees. It ensures that employees are treated fairly and supports an appropriate culture and working environment, through fair and effective management of disciplinary matters. A review of the code started in 2016/17 to update and simplify it for users and this will be finalised in 2019/20. Other arrangements, such as the register for employee interests, help everyone keep aware of the code.

A revised policy on employee gifts and hospitality and interests has been drafted to meet the needs of the Bribery Act and will be finalised in 2019/20. A new platform for the Register of interests will also be developed in 2019/20.

An internal audit of "ethics" was carried out in 2015/16 which included an employee survey. This gave positive assurance that appropriate arrangements are in place to manage behaviours. Follow up survey questions and focus group discussions were carried out in 2017 and 2018. These have fed into the work streams on Whistleblowing, Employee Registers of Gifts and Hospitality and the Procurement and Contract Procedure Rules.

Whistleblowing

The Council's Whistleblowing Policy is reviewed by the Audit and Governance Committee as required. The Policy is available to all employees via the intranet where periodic updates are also displayed.

Designated channels including electronic reporting methods are available for employees and members of the public.

Records are kept of incidents of whistleblowing and the results of investigations arising. Statistics are reported to the Audit and Governance Committee annually.

Focus groups were used in 2017/18 to challenge the effectiveness of the policy which led to a rebranding in 2018/19 as the "Raise a Concern Policy". During 2019/20 we will be rolling out further training for managers and employees on raising concerns using the Skillgate platform.

Member and Officer Development

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

These modules are reviewed individually with new members appointed in the year and any additional training needs identified. A central library is also maintained to allow members to access briefing information outside of training events.

The programme is supplemented by specific topic briefings for members. Six member training/briefing events took place in 2018/19, including sessions on the General Data Protection Regulation, Welborne and Affordable Housing.

Officer training and development is based around a simplified individual performance management process. A review of this process was undertaken using structured interviews in 2017/18. A number of actions have been agreed which will be implemented in 2019/20. These include rolling out training and support for managers to assist them with delivering the Council's vision for individual performance management.

There is a coordinated approach to the identification of the training needs of the organisation which helps us make the most of money spent on employee development and training. In-house training sessions are delivered by a combination of online training for theory with face to face sessions for practical learning.

The Council's online training suite, called Skillgate, is used by both members and employees. We have expanded our use of the authoring tool to create local courses when the generic course does not meet our needs. All new employees complete an online induction package through Skillgate which includes a number of tests and checks of understanding before the programme is complete.

In 2018/19 we have been utilising an external consultant who has commenced leadership training with the senior management team.

Other specific training in 2018/19 included using an external trainer to carry out corporate refresher training on the Regulation of Investigatory Powers Act. Learning and development has also continued in the Department of Fareham Housing through briefing sessions and action based learning in relation to fire risks in properties. An external trainer was also engaged to deliver training on CCTV responsibilities across the Council.

In 2019/20 we are developing a holist approach to awareness of mental health and emotional wellbeing issues. This will include training for managers and supervisors to supplement our on-going support to employees.

In 2017/18 we adopted a new approach to recruiting, developing and employing apprentices in line with the government apprenticeship levy. The new framework enables us to offer training opportunities on a wider basis than the previous traditional apprenticeship route. As at the end of 2018/19 we have ten employees in the apprenticeship scheme which is fully utilising our levy funding.

Ensuring Compliance with Relevant Laws and Polices

Fareham Borough Council and Southampton City Council are in an established partnership for the provision of legal services. This helps ensure that the Council has access to a wider range of solicitors for support. It also gives joint responsibility for ensuring the Council identifies changes in legislation and has the right policies and procedures in place to ensure on-going compliance. In 2018/19 the legal partnership was named Legal Team of the Year at the Local Government Legal Awards 2018.

In 2019/20 there are plans to extend the property legal team to deal with the number of property related corporate projects.

A review has been carried out to agree the most significant laws and polices where assurance is needed as part of the governance framework. Part of this assurance is provided by the Internal Audit Service and additional assurance mechanisms are introduced to provide information when needed. For example, in 2018/19 the Chief Executive's Management Team received regular updates on the work being carried out to comply with the General Data Protection Regulation. A Vanguard review of how the Council manages external requests for information, such as under the Freedom of Information Act 2000, has commenced for completion in 2019/20.

Key policies are regularly reviewed to ensure they are up to date and relevant and new and refresher training is rolled out when considered appropriate. A new policy on handling vexatious complaints was introduced in 2018/19.

During 2018/19 we also developed and implemented a new approach to procurement as set out in the new Procurement and Contract Procedure Rules.

This was supported by a series of member and officer workshops. There have also been a buyers' event and a presentation to representatives of the Chamber of Commerce, Federation of Small Businesses and Segensworth Business Improvement District and the Local Enterprise Partnership.

The new approach includes the introduction of an annual report on the application of the new rules. The first of these is due in 2019/20.

The review of the Council's Financial Regulations to streamline down to the key rules has also been completed. These enable the Council to manage its financial affairs using available resources. The amalgamated rules are due to be presented to the Audit and Governance Committee for launch in 2019/20.

Financial Management

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

The Council has adopted an integrated approach to service and financial planning which allows for pressures and opportunities to be considered and reflected promptly in the Council's financial plans. The Council's Medium Term Finance Strategy (MTFS) and Treasury Management Strategy are updated each year and approved by Members. During 2018/19 the content of the MTFS and the supporting documents were reviewed to improve the visibility of the different financial influences such as the corporate priorities. The Strategy has predicted a funding gap in 2020/21. An Opportunities Plan was therefore developed in 2018/19 to identify ways of bridging the gap and buffering the Council from future pressures. The Policy and Resources Scrutiny Panel requested and received a presentation on the key messages arising from this Strategy. Further work will also be carried out in 2019/20 to update the cost implications of delivering the corporate priorities, and to update the Strategy for any implications arising from the Fair Funding Review.

Finances are monitored regularly through reporting and discussions with budget holders, directors and the relevant portfolio holder. Accountants are established as Finance Business Partners (FBP) to the services they support and contribute to the development of their services.

In 2019/20 we plan to expand the information provided to managers using a new drill down tool, which was piloted in 2018/19 to provide better information on spend with Suppliers.

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

Twice yearly financial reports showing expenditure against budgets are prepared and presented to the Chief Finance Officer and Executive Members. These focus on services with spend or income over £1 million or which are subject to fluctuations in demand. Corporate financial forecasting meetings are scheduled monthly where the senior finance managers review the budgetary position and forthcoming pressures and opportunities to allow a forecast position to be established. A rota of FBP attendance has been introduced to give more detailed information about service spend.

Quarterly reports on the Council's loans and investments are presented to the Chief Finance Officer, Chief Executive Officer, and half yearly to the Executive along with a set of indicators which measure the impact of capital investment decisions. Treasury investments are made, having taken into account advice from the Council's treasury management consultants in order to reflect current market developments.

In 2018/19 we developed a new high-level Capital Strategy report which was presented to Full Council in February 2019; this meets the requirements of the new Prudential Code. This will be further expanded to provide further information that meets the local needs.

Risk Management

In 2017 the Council adopted a new approach to Risk Management using system thinking principles. This puts the focus on managing risks as an everyday normal Council activity rather than using resources to maintain corporate risk registers. This policy consists of seven principles and includes arrangements for monitoring the effectiveness of the policy.

A joint review by the audit and insurance teams was carried out in 2018/19 looking at the ownership of risk inspections in public areas.

Work will be progressed in 2019/20 to implement the actions arising to strengthen our arrangements.

A key component of the policy is to embed a culture of everyone acting as the eyes and ears of the Borough. This message was strengthened in 2018/19 through the Brief the Chief meetings. A crib sheet of "who to report issues to" has also been piloted.

FAREHAM
BOROUGH COUNCIL

WHO TO CONTACT WHEN YOU SEE SOMETHING

What Type of Problem have you seen?	Things the service is interested in	Which service To Contact
Abandoned Vehicle		Street Scene – Civil Enforce't
Bins - Domestic	Abandoned, bins out of place, all other domestic bin related issues	Street Scene – Refuse
Bins – Litter	Excessive amounts present in a location, overflowing litter bins	Street Scene - Operations
Bins – Recycling Banks	Overflowing bring banks e.g. glass	Street Scene – Operations/waste
Bus Shelters	Broken, graffiti	Street Scene – Parks Group
Car Parks	Trip hazards within, lighting problems, machine problems, ticket problems	Enviro Health - Parking
Cemetery		Street Scene – Parks Group
Construction – see Planning		

Emergency Planning and Business Continuity

In accordance with the Civil Contingencies Act 2004, the Council worked in partnership with Portsmouth and Southampton's Joint Emergency Preparedness, Resilience and Response Team to ensure its readiness to respond to emergencies is maintained in 2018/19.

Monthly meetings have identified areas within emergency planning that require revision and updating. During 2018/19 Fareham's Emergency Response Plan underwent its scheduled review, improvements were identified and introduced surrounding the functionality of the Emergency Control Centre. These changes were introduced taking consideration feedback from training and exercising undergone across multiple Local Authority areas within Hampshire.

In 2018/19 a new training and exercising schedule was developed, and introduced to train staff on the changes made to the Emergency Response Plan. Since implementation staff have attended a new training programme to ensure they are fully aware of the processes in place when responding to an incident within Fareham.

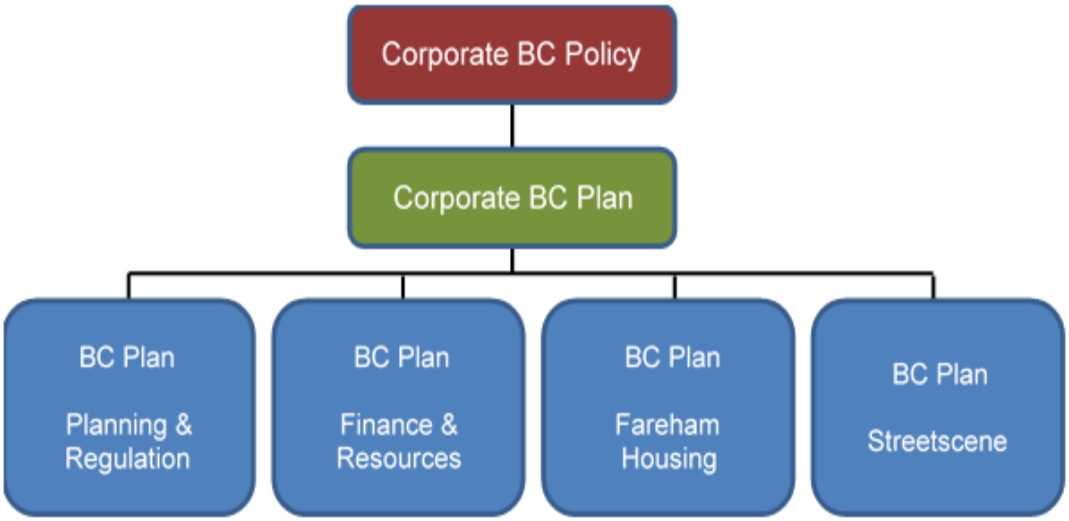
The Council demonstrated its ability to respond to an incident at any level within the Borough through its Annual Exercise “Amber Spark” at the end of January 2019. We will be further developing the arrangements in 2019/20 by strengthening the recruitment process for volunteers and updating the contracts directory.

The Council has a duty to ensure that Business Continuity Management Systems are in place to ensure that the authority can still provide its critical services when it is involved in an emergency response or faced with a disruption.

Fareham’s arrangements have undergone a review within 2018/19 and a revised approach has been developed comprising individual plans within each directorate. These plans are designed to aid and inform service recovery in the event of a major disruption of day-to-day activity. To enable a consistent review of the Business Continuity Plans short workshops are held with each service annually working through different scenarios.

The focus for 2019/20 will be to embed the new Business Continuity arrangements in place. A test of the Corporate Business Continuity Plan will be held in the summer of 2019 using a cyber threat scenario table top exercise.

Work was also carried out with Solent Airport (Daedalus) to review their arrangements for their D-Day 75 celebrations by a table top exercise. This will be followed by a live exercise to be held later in the year.



Counter Fraud

The Council has adopted an Anti Fraud and Corruption Policy which is supported by a programme of work to review and strengthen our counter fraud arrangements, where needed. These include training, data matching exercises and strengthening our policies and procedures.

This policy was updated in 2016/17 alongside the Sanctions and Redress Policy as a result of the Benefit Investigators transferring to the Department of Work and Pensions. In 2018/19 these arrangements have changed to allow joint working on cases and prosecutions. At the end of the year we had eight open joint working cases.

In 2019/20 we are planning to refresh the sister Anti-Bribery Policy.

The Council has retained professional investigation skills and resources which are used to deliver a full programme of work. We carry out risk assessments on the top frauds faced by councils to ensure our approach to prevention and detection of fraudulent activity remains cost effective.

In 2018/19 we started work to understand our risk of Business Rates fraud and undertook a few proactive campaigns; including the cross Hampshire data matches of Small Business Rates Relief. This identified two cases where businesses were underpaying.

We have also been starting to develop a platform that will allow us to carry out data matching exercises in-house.

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

In 2018/19 we investigated 1,865 cases leading to 126 individual frauds or irregularities being found. These amounted to a total value of £300,000. The largest value of fraud found was for housing benefit payments (£220,000); the majority of this was found as a result of investigating council tax support cases.

Further statistics can be found on our Transparency webpage:

http://www.fareham.gov.uk/about_the_council/financial_information/intro.aspx#fraud

Partnership Governance

The Council delivers some services by entering into partnership agreements.

These are assessed for their significance in terms of the results they seek to deliver, their profile/reputation and resources involved. The Council maintains a Corporate List of its significant partnerships. This was last reviewed by the Chief Executive's Management Team in March 2019 to confirm the significance of the partnership, review any potential governance issues and review how each is performing.

The Council recognised seventeen partnerships of which ten were deemed significant to the Council in 2018/19.

The East Solent Coastal partnership was shortlisted in the Partnership category of the LGC awards in 2018.

Lead officers are assigned to each partnership. They are responsible for the day to day liaison and for providing the Chief Executive's Management Team with details of any significant changes to the circumstances / membership of the partnership. Senior Officers and/or Members sit on the board of the Council's significant partnerships, if there is one, and take an active part in discussions and decision making.

During 2018/19 the Head of Planning Strategy and Regeneration has been on a paid secondment for one day a week, undertaking work as the PUSH Planning Coordinator for the Chairman of the PUSH Planning Officers Group. This a rolling three month contract subject to the appointment of a full-time PUSH Project Manager.

Internal Audit and Audit and Governance Committee

The Council has an internal audit service which delivers a risk based plan of work approved by the Audit and Governance Committee. We have applied "Systems Thinking" to the provision of the service to focus on what matters to the organisation. This has informed our Internal Audit Strategy which was updated in 2018/19. We carry out four different strands of work to inform the annual audit opinion and help the organisation improve its systems of control.

In 2018/19 the service was jointly delivered in partnership with Portsmouth City Council. This helps in the delivery of the whole scope of audit work and in maintaining independence. An exercise has also been carried out with other audit teams in Hampshire to document where assurances can be shared.

Managers receive a report of findings following an internal audit review and an action plan is agreed to address any weaknesses found. These actions are tracked until they are completed. An action management system has been developed to improve the information available to managers and help capture updates on implementation. In 2018/19 we started a pilot approach to assist managers self serve the system which will be further developed in 2019/20.

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

The service operates to the Public Sector Internal Audit Standards and the Internal Audit Charter was updated in 2018/19 to reflect recent changes in the standards. Our annual review of compliance with the standards concluded that in 2018/19 we fully conformed with 48 of the 52 Audit Standards and partially conformed with the other four. Compensating activities are in place which included an external assessment undertaken by our audit partners last year.

The Council has an Audit and Governance Committee which undertakes the functions of an Audit Committee in accordance with the CIPFA guidance. It reports directly to the Full Council. It meets four times a year and receives reports covering the range of governance issues set out in its terms of reference. In particular it receives the Head of Audit's Annual Report and the External Auditor's Audit Results Report.

In 2018/19 a review of compliance with the 2018 guidance on effective Audit Committees, was published by the Chartered Institute of Public Finance and Accountancy. This identified that work was needed to review the flow of assurance about partnerships that the committee receives.

Internal audit cannot give absolute assurance but an opinion was provided to the Audit and Governance Committee in July 2019. The opinion given was that:

The Council had a framework of governance, risk management and control for the year 2018/19 which was generally working effectively, although some opportunities to strengthen arrangements were found in the year. There is awareness amongst managers about their top risks and the importance of control mechanisms within the Systems Thinking culture, and the need to address any major weaknesses found.

The opinion is based on the following evidence:

⇒ *no "minimal" audit assurance opinions were again given this year;*

⇒ *the service audited which have undergone a Systems Thinking intervention (Planning Applications) this year has been given a 'strong' audit assurance opinion;*

⇒ *income or expenditure errors were recorded in three audits in the year, totalling over £6,000;*

⇒ *new essential recommendations (12) were found in seven areas of audit but managers are taking prompt action to address the issues found;*

⇒ *collaborative working on 3 system areas in the year is leading to improved control and efficiency.*

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

◊ *Rolling out training and support for contract management, including where IT systems are provided by a third party in the Cloud.*

◊ *Strengthening debt collection and write off processes in a number of services..*

◊ *Review what partnership governance assurances are in place and how they flow to the Audit and Governance Committee*

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

There has been significant progress made on issues highlighted last year including:

- *Finalising the framework agreements for spend with contractors and suppliers used by Housing, Property and Building Services, which were in breach of FBC Procurement and Contract Procedure Rules.*
- *Carrying out manager briefings on the rules in the new Procurement and Contract Rules.*
- *Improving management control and the equipment and stock controls in Ferneham Hall.*
- *Carrying out proactive counter fraud campaigns.*

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

◊ *Carrying out the stock condition surveys and implementing asset management plans.*

◊ *Fully embed the systems for managing costs associated with housing repairs or move to an alternative system.*

◊ *Roll out the new action management system to services to improve the management of recommendations arising from audit reports, and update the data available on the level of implementation.*

◊ *Clarify the ICT security policies for the Council..*

External Audit and Other External Assurances

The Council's independent external auditors for the year were Ernst and Young. They have worked throughout the year in accordance with their code of practice.

The findings from the work carried out last year were summarised in their Annual Audit Letter which was presented to the Audit and Governance Committee in September 2018 and circulated to Members and the statutory officers. This report was very positive and unqualified opinions were given by the auditors. There are no outstanding recommendations to be implemented.

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

- Annual certification report from the External auditors 2017/18;
- Report of the Local Government Ombudsman 2017/18;
- Ministerial Directive issued by the Department of the Environment, Food and Rural Affairs in relation to Air Quality (March 2019);
- DVLA assessment of our use of Keeper at Date of Event enquiries (October 2018);
- Vehicle Operators Compliance Risk Score (March 2019) and Vehicle Test History (March 2019) assessed by the Driver and Vehicle Standards Agency;
- HM Revenue and Customs review of employer compliance tax treatment (January 2019);
- Hampshire County Council review of our safeguarding arrangements (April 2018) and Building Control Partnership (March 2018);
- Compliance work undertaken to meet the requirements of the Public Service Network;
- Insurance company review of the Daedalus Airfield (October 2018);
- Partnership coverage by other internal audit teams.

Review of Effectiveness Conclusion

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

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

The group reviewed the following evidence:

- Analysis of the 23 parts of our governance framework against current knowledge, including reports seen by Senior Officers during the year;
- Highlights from Head of Audit's Annual Report 2018/19;
- Summary of reports and feedback we have received from external auditors, inspectors or other external agencies in the year;
- Review of progress made on the actions included in the previous Annual Governance Statement.

Chief Executive's Assurance Group (CXAG)

Review of Effectiveness of the Governance Framework 2018/19

Conclusion options	Meaning
Status known and OK	The preliminary review concludes that CXAG do not need any further assurance on this area this year and no improvement action is needed. These are likely to have been the subject of specific assurance mechanisms through CXMT.
Status known with action	The preliminary review concludes that CXAG do not need any further assurance on this area this year but assurance mechanisms during the year suggest we may want to include an improvement action.
Further Info needed	CXAG would like further assurance coming back to another meeting.

Elements making up the Governance Framework

Element	CXAG Conclusion	Areas already addressed 2018/19	Possible Actions for further improvement 2019/20
Essential Elements in the Guidance			

The conclusion from the review of effectiveness is that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The Audit and Governance Committee have reviewed the sources of assurances used this year and have scrutinised the content of the Annual Governance Statement.

Actions taken to address the issues raised in the 2017/18 Annual Governance Statement

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

	Issue 2017/18	Status	Update 2018/19
1	Refresh the e-panel to make the content more engaging and to ensure we are fully compliant with GDPR.	Complete	**Head of Leisure and Corporate Services** The email format of the correspondence with the e-panel has been redesigned to allow images and videos to be embedded. The panel graphics have also been rebranded. During 2018/19 everyone on the panel was required to re-register to ensure we had a clean database and everyone had signed up to the new privacy statement.
2	Develop a long-term plan for financing and prioritising the corporate projects.	In Progress	**Head of Finance and Audit** A corporate review has been carried out to map the corporate priorities to the new Scrutiny Panels. This has led to named officers assigned to the corporate projects needed to deliver the priorities. Finance officers will now be liaising with the lead officers to flesh out the requirements and identify those which do not currently have ear marked financial provision.
3	Continue with the next phase of Systems Thinking reviews of Council services including Building Control, Tree Management and StreetScene.	Complete	**Head of Leisure and Corporate Services** In 2018/19, reviews have commenced in Tenancy Services and the Building Control partnership. The review of StreetScene has continued to expand into other areas and there has been a continuation of work in Democratic Services.
4	Carry out Finance Strategy reviews with Heads of Service and produce an action plan to bridge the future funding gap.	Complete	**Head of Finance and Audit** Eleven meetings were held with individual Heads of Service and their financial business partner which generated 132 ideas to reduce costs or increase income. These were reviewed by senior managers and the priority projects agreed in an "Opportunities Plan". This included the need to use reserves to support delivery of part of the programme. The proposal was approved by members and the recruitment to the Project Team has now been completed.
5	Introduce an annual report to the Audit and Governance Committee on updates made to the constitution.	Complete	**Head of Democratic Services** The first annual report was presented to the Audit and Governance Committee in November 2018 and there has also been a significant update taken to the March 2019 committee.
6	Complete the full review of the effectiveness of the Scrutiny Board and the Policy Development and Review Panels and implement any recommendations arising.	Complete	**Head of Democratic Services** During 2018/19 a vanguard review was completed to assess the output and purpose of the Scrutiny Board and Policy Development and Review Panels. The review identified the need for a strengthened Scrutiny Function and therefore at its meeting in October, the Council approved the creation of a Scrutiny Panel for each of the six portfolio areas. This was rolled out in November 2018 using briefings with lead officers, the Panel chairmen and a Panel briefing at the start of each of the new Panel meetings.

Actions taken to address the issues raised in the 2017/18 Annual Governance Statement

	Issue 2017/18	Status	Update 2018/19
7	Finalise the review of the Disciplinary Code of Conduct and Disciplinary Rules to update it and make it simpler for users. (B/Fwd.).	**No progress to date**	**Head of HR and ICT** Resources have changed within the Human Resources Team which has affected the delivery of policy work. We are therefore hoping to finish this review in 2019/20.
8	Finalise and launch the revised employee gifts and hospitality and interests' policy. (B/Fwd.)	**No progress to date**	**Head of Finance and Audit** Due to competing priorities we have not been able to progress this policy this year. We are hoping to therefore complete this review in 2019/209 when the new platform for registering interests is launched.
9	Develop fire risk assessment training for officers visiting properties.	**Superseded**	**Director of Fareham Housing** The approach to fire risk in housing has developed during the year. Whilst officers visiting properties have been briefed on what to look out for, particularly in relation to the integrity of fire doors, wide spread training has not been given. Instead an officers action group have been meeting quarterly to implement actions identified from risk assessments carried out by an external contractor, and to review the implications of the new MHCLG standard for fire doors. The decision has now been made to utilise a further external contractor to carry out fire door inspections to establish the stand still position against the standard after which the use of in-house officers and the need for training will be reviewed.
10	Develop a programme of training and support for managers of all levels to assist them with delivering the Council's vision for individual performance management.	**In Progress**	**Head of HR and ICT** Resources have changed within the Human Resources Team which has affected the delivery of our plan for management development. However, we have been utilising an external consultant who has commenced leadership training with the senior management team. We are therefore hoping to finish this review in 2019/20.
11	Develop a new high-level Capital Strategy report for Full Council to meet the requirements of the new Prudential Code.	**Complete**	**Finance Strategy and Development Manager** To prepare for the new Capital Strategy, the Finance Manager attended two CIPFA workshops and one workshop run by the Council's treasury advisors, Arlingclose. Arlingclose provided a template which covered all the requirements of the Prudential Code. This was used to produce the first Capital Strategy which was approved by Full Council on 22 February 2019. http://moderngov.fareham.gov.uk/documents/s22191/Appendix%20B%20Capital%20Strategy.pdf
12	Roll out the new action management system to service managers and improve information available on the level of action implementation. (B/Fwd)	**In Progress**	**Head of Finance and Audit** In 2018/19 we started working with a pilot service to develop a training session and guide that can be provided to service managers in support of their use of the database. This has led to the need to make a few development changes to the system to make it more user friendly for services. We will continue the roll out in 2019/20.

Actions taken to address the issues raised in the 2017/18 Annual Governance Statement

	Issue 2017/18	Status	Update 2018/19
13	Complete the review of the Contract Procedure Rules and Financial Regulation 15 (Procurement) and roll out the new policy to managers.	**Complete**	**Head of Democratic Services and Head of Finance and Audit** In 2018/19 we completed a major revision of our procurement which amalgamated 3 previous documents into one new set of Procurement and Contract Procedure Rules. Roll out of the policy was supported by a series of members, senior manager, and service specific workshops.
14	Review the approach to Emergency Planning and Business Continuity following the new Emergency Planning agreement with Portsmouth and Southampton City Council.	**Complete**	**Head of Building Repairs and Maintenance Service** The Emergency response plan was reviewed using the learning from previous exercises at the Council and from multiple local authority areas and agencies in Hampshire and changes were introduced surrounding the functionality of the Emergency Control Centre. These were rolled out and tested through training and an exercise in January 2019. The Business Continuity arrangements have also undergone a review within 2018/19 and a revised approach has been developed comprising of individual plans within each directorate.

Status
Complete
In Progress
Superseded
No progress to date

Planned Governance Improvements 2019/20

Whilst there have been a number of improvements made through the year, the Council strives for continuous improvement. Therefore, following the review of effectiveness, we have selected the following improvement opportunities, for priority action in the next year. Some of these relate to actions not yet fully complete from previous years:

Ref	Part of Framework	Planned Improvement	Lead officer
1	Partnerships and Governance	**Review what partnership governance assurances are in place and how they flow to the Audit and Governance Committee.**	Head of Finance and Audit
2	Council's Vision and Outcomes	**Develop a process to feed the finances needed to deliver the priorities set out in the Corporate Strategy, into the Medium-Term Financial Strategy. (B/fwd)**	Head of Finance and Audit
3	Community Communication	**Complete the periodic review of the Communications and Engagement Strategy**	Director of Leisure and Community
4	Scrutiny	**Carry out a post-implementation review of the new Scrutiny Panels, once they have been in place for 12 months.**	Head of Democratic Services
5	Codes of Conduct	**Finalise the review of the Disciplinary Code of Conduct and Disciplinary Rules to update it and make it simpler for users. (B/fwd)**	Director of Support Services
6	Codes of Conduct	**Carry out a training session with members covering the media avenues available and the potential pitfalls to be aware of.**	Director of Leisure and Community
7	Whistleblowing	**Develop a Skillgate package for managers on how to handle concerns brought to their attention.**	Director of Support Services
8	Conflicts of Interest	**Launch the revised employee 'gifts and hospitality and interests' policy via Skillgate.**	Head of Finance and Audit
9	Training and Development	**Roll out mental health and wellbeing training and support for employees and managers.**	Director of Support Services
10	Head of Paid Service	**Develop a programme of training and support for managers of all levels to assist them with delivering the Council's vision for individual performance management. (B/fwd)**	Director of Support Services

Planned Governance Improvements 2018/19

Ref	Part of Framework	Planned Improvement	Lead officer
11	Compliance with relevant law and policies	**Complete a vanguard style review of how the Council manages external requests for information.**	Head of Democratic Services
12	Compliance with relevant law and policies	**Develop the annual report to provide senior managers assurance on compliance with the new Procurement and Contract Procedure Rules.**	Head of Finance and Audit
13	Compliance with relevant law and policies	**Finalise the revised version of the Financial Procedure Rules for committee approval and communication to employees**	Head of Finance and Audit
14	Financial Management	**Review the implications of the Fair Funding Review for the Medium Term Financial Strategy.**	Finance Manager
15	Counter Fraud	**Refresh the Anti-Bribery Policy produced in 2011 and review awareness with the principles contained.**	Head of Finance and Audit
16	Internal Audit	**Roll out the new action management system to service managers and improve information available on the level of action implementation.** (B/fwd)	Head of Finance and Audit
17	Emergency Planning and Business Continuity	**Carry out a test of updated Business Continuity plans by way of a Table Top exercise.**	Head of Building Repairs and Maintenance Service

Certification

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions are outlined above.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Fareham Borough Council by:

Councillor S.D.T. Woodward	P.K.Grimwood
Executive Leader	Chief Executive Officer

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 July 2019**

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

Subject: **REVIEW OF WORK PROGRAMME**

SUMMARY

This report reviews the current work programme for the Committee.

RECOMMENDATION

It is recommended that the Committee approve the work programme for the rest of the municipal year, as shown in Appendix A.

INTRODUCTION

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

WORK PROGRAMME 2019/20

2. The progress on the work programme for the year is shown in Appendix A. This shows the reports expected in relation to each of the functions of the Committee along with an update on the delivery of the programme.

3. There have been no changes to the programme to date and all reports for the first meeting have been delivered.

RISK ASSESSMENT

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

CONCLUSION

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

Appendices: Appendix A – Audit and Governance Committee Work Programme 2019/20 as at June 2019.

Background Papers: None

Reference Papers: Report to the Audit and Governance Committee – 11 March 2019 - Annual Report of the Committee

Enquiries:

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

APPENDIX A

WORK PROGRAMME FOR 2019/20

Committee Function and Report Subject		Frequency	Last Covered	July 2019	September 2019	November 2019	March 2020
COMMITTEE WORKING ARRANGEMENTS							
Review of Work Programme and training plan		Quarterly	2018-19	Completed	**YES**		**YES, and Annual Report**
Review of the Functions of the Committee		3 yearly	2016-17		**YES**		
Review of the Constitution		Annual	2018-19			**YES**	
ETHICAL FRAMEWORK AND STANDARDS							
Standards of Conduct	Review of Code of Conduct for Members	As needed	2015-16				
	Review of member / officer protocol	As needed	2008-09				
	Overview of Complaints against the Council	Annual	2018-19		**YES**		
Member Training and Development	Review of Members Training and Development Programme	As needed	2015-16				
GOVERNANCE FRAMEWORK							
Framework	Local Code of Corporate Governance	As needed	2016-17				
	Annual Governance Statement	Annual	2018-19	Completed			
Key Policy	**Review of Financial Regulations**	3 yearly	2018-19		**YES**		
	Review of Contract Procedure Rules	3 yearly	2018-19				
	Treasury Management Policy and Strategy	Annual	2018-19			**YES**	**YES - Policy and indicators**
Risk Management	Policy	As needed	2016-17				
	Risk Management Monitoring Reports	6 monthly	2018-19		**YES**		**YES**
	Business Continuity	3 yearly	2018-19				
	Specific Risk Management topics	As needed	None				
Counter Fraud	**Counter Fraud Policy and Strategy**	3 yearly	2016-17			**YES**	
	Anti-Bribery Policy	As needed	2011-12			**YES**	
	Sanctions and Redress Policy	As needed	2016-17				
	Counter Fraud Annual Report	Annually	2018-19	Completed			

Committee Function and Report Subject	Frequency	Last Covered	July 2019	September 2019	November 2019	March 2020
INTERNAL AUDIT ASSURANCE						
Internal Audit Strategy	3 yearly	2018-19				
Internal Audit Annual Plan	Annual	2018-19				**YES**
Internal Audit Progress Report	Quarterly	2018-19	Completed	**YES**	**YES**	**YES**
Head of Audit's Annual Opinion	Annual	2018-19	Completed			
EXTERNAL ASSURANCE						
Update on Arrangements for Appointment of External Auditors	As needed	2018-19				
Annual Plan and Fee	Annual	2018-19				**YES**
Annual Audit Letter	Annual	2018-19		**YES**		
Annual Certification Report	Annual	2018-19			**YES**	
Specific reports from inspection agencies	As needed	2018-19 (RIPA)				
STATEMENT OF ACCOUNTS						
Statement of Accounts	Annual	2018-19	Completed			
External Audit – Audit Results Report	Annual	2018-19	Completed			
OTHER						
Updates on legal issues	As needed	2017-18				
Issues referred from the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
		Number of Items	7	7	6	6