

FAREHAM
BOROUGH COUNCIL

**STATEMENT OF
ACCOUNTS**

**for the year ended
31st March 2014**

STATEMENT OF ACCOUNTS

**for the year ended
31st March 2014**

A. WANNELL CPFA

DIRECTOR OF FINANCE & RESOURCES

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ALL ABOUT US

Where is Fareham?

Fareham is located in an area of some 30 square miles along the south coast of Hampshire between Portsmouth and Southampton with a population of 111,600.

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

Fareham's origins go back to a small settlement that was developed before Roman times around a crossing point of the River Wallington, close to the top of the present day High Street. The Romans came to the area in about AD43 and built a large fortress at Portchester, to shelter their garrison and defend Portsmouth Harbour (its ruins can still be seen).



What Does The Council Do?

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

The Chief Executive Officer is responsible for the overall co-ordination and management of Fareham Borough Council's services. He is supported by four departments which all carry out a wide range of services. The majority of the departments are located in the Civic Offices, at the heart of the town centre.

Political Issues

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

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

THE EXPLANATORY FOREWORD

1. Introduction

Fareham Borough Council's accounts for the year 2013/14 are set out commencing on page 11.

The purpose of each of the main statement pages is explained below:

The Comprehensive Income and Expenditure Statement covering income and expenditure on all services including council housing. It includes day-to-day transactions from running the organisation as well as gains/losses on assets and pension liability re-measurements. The Comprehensive Income and Expenditure shown represents the total movement in the Council's reserves during the year.

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipt Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulations",

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Council. Reserves are classified as either usable or unusable.

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the accounting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and 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 flows 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) to the Council.

In addition, the supplementary financial statements are shown on pages 67 and 73 consist of:

The Housing Revenue Account Income and Expenditure Statement and Statement of Movement on Housing Revenue Account Statement which shows the income and expenditure on council housing.

The Collection Fund which records all income from council tax and business rates. Expenditure includes the precepts to the Government, Hampshire County Council, Hampshire Fire and Rescue Authority, Police and Crime Commissioner for Hampshire and Fareham Borough Council's own demand on the Collection Fund. The Collection Fund is not incorporated within the Comprehensive Income and Expenditure Statement as it reflects the statutory requirement for billing authorities to maintain a separate fund.

These accounts are supported by the accounting policies and various notes to the accounts.

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

2. Where The Money Comes From

The main sources of the Council's income to pay for services are set out in the following table:

	£'000	%
Income from services	16,579	34
Government grants to services	22,471	47
Council tax payers	5,733	12
Central Government Funding	3,298	7
Use of reserves and corporate income	160	0
Total	<u>48,241</u>	<u>100</u>

3. What The Money is Spent on

The main types of expenditure on services are set out in the following table:

	£'000	%
Employees and internal support	15,781	33
Running expenses	11,378	24
Transfer payments	18,730	38
Capital charges and costs	2,352	5
Total	<u>48,241</u>	<u>100</u>

Running expenses include the maintenance of buildings, operating vehicles and the purchase of supplies and services. Transfer payments include council tax benefit and housing benefit (rent allowances to private sector tenants and rent rebates to Council tenants).

4. The Services Provided

The gross expenditure of the main services provided by the Council and the revised budget for 2013/14 is set out in the following table:

	Gross Expenditure £'000	Revised Budget £'000	Variation £'000
Central services to the public (e.g. local land charges, elections, council tax collection)	2,113	2,424	311
Cultural and related services	3,478	3,272	(206)
Environmental and regulatory services	6,238	6,140	(98)
Planning services	3,865	3,781	(84)
Highways and transport services	2,003	2,238	235
Local authority housing (HRA)	5,782	6,892	1,110
Other housing services (e.g. housing strategy and advice, housing benefit administration)	21,722	23,078	1,356
Corporate and democratic core	3,029	2,764	(265)
Non-distributed costs (e.g. pension adjustments)	11	214	203
Total	<u>48,241</u>	<u>50,803</u>	<u>2,562</u>

5. Capital

In 2013/14, the Council spent £10.8 million on projects in the capital programme, compared with a revised budget of £13.4 million. The net under spending of £2.6 million was mainly the result of changes to the phasing of the programme with expenditure now expected to occur in 2014/15.

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

Capital Expenditure:	£'000	%
Commercial Property Investment Acquisitions	3,890	36
Council Housing*	3,229	30
Other Housing	1,430	13
Vehicles	704	7
Daedalus Development	469	4
Leisure Services	455	4
Car Park Improvements	205	2
Information, Communication & Technology	166	2
Council Buildings	120	1
Environmental Improvements	93	1
Other Services	35	0
Total	<u>10,796</u>	<u>100</u>

Financed by:	£'000	%
Capital Receipts	5,084	47
Revenue and Reserves	4,432	41
External Contributions	712	7
Government Grants	568	5
Total	<u>10,796</u>	<u>100</u>

*Council Housing capital expenditure was financed by the Housing Revenue Account revenue and reserves (£2.896 million), capital receipts (£0.02 million) and government grant (£0.313 million).

£2.4 million of the total capital expenditure was not capitalised and was charged to revenue.

Assets are shown on the balance sheet net of depreciation. The net book value of the Council's non-current assets at 31 March 2014 was £158 million (2012/13 £154 million).

6. Reserves

The Council's total usable reserves at 31 March 2014 amounted to £38.0 million (2012/13 £38.7 million). Against this, the actuarial valuation of the Council's share of pension fund assets and liabilities at 31 March 2014 indicated a £45.2 million (2012/13 £59.4 million) deficiency of assets compared with future liabilities to current members of the pension scheme. This liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. The actuarial valuation will be reviewed each year, and will reflect further payments into the fund, and movements in the value of investments of which a large proportion is held in equities. The deficiency could increase, decrease, or become a surplus before the majority of liabilities (pension benefits) become payable.

7. Significant Accounting Changes

There have been the following significant accounting changes in 2013/14.

Business Rates Retention Scheme

The Local Government Finance Act 2012 introduced a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013.

Under the new arrangements the Council is required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

Pensions Accounting

Changes to the standard IAS 19 Employee Benefits came into effect on 1 April 2013 requiring the 2012/13 accounts to be restated under the new accounting standard.

The key change is that the interest cost and expected return on asset items have been replaced by a single 'net interest' item calculated at the discount rate.

There are also additional disclosure requirements. In particular there is a requirement to provide a sensitivity analysis, for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption at that date.

8. Significant Developments during the Year

Due to continuing restraint on public sector spending, funding for local services reduced by £0.5m in the year, and has been projected to reduce further in the coming years.

To ensure that the Council's financial standing remains robust, the Executive agreed a programme of efficiencies amounting to £0.8m, focussed on reducing costs and improving revenue, with minimum impact on the services provided to customers.

Delivery of the programme commended in 2013/14, and where severance costs were incurred, these could be met within the overall budget for staffing. These pressures are expected to continue in the medium term, but the measures put in place should ensure that the Council can set a balanced budget for the next 3 years (to 31st March 2017).

9. Further information

This Statement and a summary of accounts can be viewed via the Council's website at www.fareham.gov.uk. Further information about the Council's finances is published in the estimates book which is available from the Finance Team at the Civic Offices and also on the Council's website.

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised in the local press.

The accounts must be audited by the end of September and the auditor's report is included within the Statement.

STATEMENT OF RESPONSIBILITY FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Director of Finance and Resources.
- manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- approve the statement of accounts. Responsibility for this has been delegated to the Audit and Governance Committee.

The Director of Finance and Resources Responsibilities

The Director of Finance and Resources is responsible for the preparation of the Council's Statement of Accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2014.

In preparing this statement of accounts, the Director of Finance and Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Director of Finance and Resources has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2014 and its income and expenditure for the year then ended.

Signed:

A Wannell CPFA
Director of Finance and Resources

Date: 22 September 2014

CONFIRMATION OF APPROVAL BY MEMBERS

I confirm that these accounts were approved by the Audit and Governance Committee at the meeting held on 22 September 2014.

Signed on behalf of Fareham Borough Council:

Chairman of Audit and Governance Committee
Fareham Borough Council

Date: 22 September 2014

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. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement in note 7.

Restated 2012/13				2013/14		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
6,650	(5,197)	1,453	Central services to the public	2,113	(1,047)	1,066
4,833	(559)	4,274	Cultural and related services	3,478	(600)	2,878
5,940	(1,715)	4,225	Environment and regulatory services	6,238	(1,813)	4,425
3,587	(614)	2,973	Planning services	3,865	(780)	3,085
2,061	(2,968)	(907)	Highways and transport services	2,003	(3,012)	(1,009)
6,140	(11,207)	(5,067)	Local authority housing (HRA)	5,782	(11,521)	(5,739)
21,687	(20,159)	1,528	Other housing services	21,722	(20,096)	1,626
2,682	(190)	2,492	Corporate and democratic core	3,029	(243)	2,786
71	(1)	70	Non distributed costs	11	(1)	10
53,651	(42,610)	11,041	Cost of Services	48,241	(39,113)	9,128
Other Operating Expenditure						
			(209) (Gain) or loss on disposal of assets			1,290
			138 Housing capital receipts to Government pool			158
Financing and Investment Income and Expenditure						
			1,401 Interest payable and similar charges			1,405
			(648) Interest receivable			(431)
			2,450 Pension net interest cost (note 17)			2,510
			1,503 Changes in fair value of investment properties (note 19)			1,407
			(2,125) Investment properties rental and expenses (note 19)			(2,087)
Taxation and Non-Specific Grant Income						
			(6,080) Council Tax Income			(5,733)
			(4,072) NNDR Income			(1,645)
			(2,593) Grants and contributions not distributable to services (note 9)			(5,353)
		806	(Surplus) or Deficit on Provision of Services			649
			(Surplus) or deficit on revaluation of Property, Plant and Equipment assets (note 35)			(923)
			3,435 Pension liability remeasurements (note 17)			(17,051)
		1,295	Other Comprehensive Income and Expenditure			(17,974)
		2,101	Total Comprehensive Income and Expenditure			(17,325)

BALANCE SHEET

The Balance Sheet summarises the position of the Council's assets and liabilities as at the Balance Sheet date. The net assets are matched by a combination of usable and unusable reserves. These are shown in more detail in notes 33 and 35.

31 March 2013 £'000		31 March 2014 £'000	Notes
	Property, Plant and Equipment		18
82,358	- Council dwellings	82,870	
34,775	- Other land and buildings	36,223	
2,186	- Infrastructure	556	
3,388	- Vehicles, plant, furniture, equipment	3,489	
356	- Community assets	353	
202	Heritage assets	194	20
30,587	Investment properties	33,070	19
142	Assets under construction	1,200	18
10	Surplus assets held for disposal	10	18
161	Intangible assets	118	21
0	Long term investments	2,000	36
84	Long term debtors	81	27
154,249	Long term assets	160,164	
22,304	Short term investments	26,149	36
1,310	Assets held for sale	1,265	22
31	Inventories	27	
5,270	Short term debtors	3,782	28
57	Payments in advance	125	
10,376	Cash and cash equivalents	12,325	26,36
39,348	Current assets	43,673	
(1,239)	Short term borrowing	(1,430)	36
(3,191)	Short term creditors	(8,684)	29
(743)	Depositors	(445)	30
(459)	Provisions	(1,828)	31
(5,632)	Current liabilities	(12,387)	
	Receipts in advance		32
(4,025)	- Capital grants	(4,711)	
(365)	- Revenue grants	(261)	
(40,600)	Long term borrowing	(40,400)	36
(59,441)	Pension scheme liability	(45,219)	17
(104,431)	Long term liabilities	(90,591)	
83,534	Net assets	100,859	
38,726	Usable reserves	37,960	33
44,808	Unusable reserves	62,899	35
83,534	Total Reserves	100,859	

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2013	6,976	13,470	4,358	2,650	11,253	19	38,726	44,808	83,534
Movement in reserves during 2013/14									
Surplus/(deficit) on provision of services	(4,821)		4,172				(649)		(649)
Other Comprehensive Income and Expenditure							0	17,974	17,974
Total Comprehensive Income & Expenditure	(4,821)	0	4,172	0	0	0	(649)	17,974	17,325
Adjustments between accounting basis and funding basis under regulations	5,771		(2,232)	398	(4,302)	248	(117)	117	0
Net increase/(decrease) before transfers to earmarked reserves	950	0	1,940	398	(4,302)	248	(766)	18,091	17,325
Transfers to/from earmarked reserves	(1,726)	3,906	(2,180)				0		0
Increase/(decrease) in 2013/14	(776)	3,906	(240)	398	(4,302)	248	(766)	18,091	17,325
Balance at 31 March 2014 carried forward	6,200	17,376	4,118	3,048	6,951	267	37,960	62,899	100,859

	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Restated Balance at 31 March 2012	6,322	10,863	4,813	1,251	12,253	70	35,572	50,063	85,635
Movement in reserves during 2012/13									
Surplus/(deficit) on provision of services	(3,948)		3,142	0	0	0	(806)	0	(806)
Other Comprehensive Income and Expenditure							0	(1,295)	(1,295)
Total Comprehensive Income and Expenditure	(3,948)	0	3,142	0	0	0	(806)	(1,295)	(2,101)
Adjustments between accounting basis and funding basis under regulations	5,132	0	(1,517)	1,400	(1,004)	(51)	3,960	(3,960)	0
Net increase/(decrease) before transfers to earmarked reserves	1,184	0	1,625	1,400	(1,004)	(51)	3,154	(5,255)	(2,101)
Transfers to/from earmarked reserves	(530)	2,607	(2,080)	(1)	4		0		0
Increase/(decrease) 2012/13	654	2,607	(455)	1,399	(1,000)	(51)	3,154	(5,255)	(2,101)
Balance at 31 March 2013 carried forward	6,976	13,470	4,358	2,650	11,253	19	38,726	44,808	83,534

CASH FLOW STATEMENT

This statement summarises the movements in the Council's cash transactions. It shows the volume of financial activity that takes place between the Council and its stakeholders.

The Cash Flow Statement is different to the other statements because it is on a cash basis and some of the figures may not agree with other figures in the accounts which are all on an accruals basis (i.e. based on amounts payable and receivable rather than actually paid or received). The bottom section of the statement shows a reconciliation of the movement in Cash and Cash Equivalents in the year to the figures shown in the Balance Sheet.

Restated 2012/13 £'000		2013/14 £'000	Notes
(806)	Net surplus or (deficit) on the provision of services	(649)	
7,945	Adjustments to surplus or deficit on the provision of services for non-cash movements	11,069	42
(2,497)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(2,342)	43
<u>4,642</u>	Net Cash flows from operating activities	<u>8,078</u>	41
	Investing Activities		
(4,914)	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	(7,231)	
(28,000)	Purchase of short-term and long-term investments	(28,000)	
631	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	937	
28,000	Proceeds from short-term and long-term investments	22,000	
1,544	Other receipts from investing activities	2,156	
<u>(2,739)</u>	Net Cash flows from Investing Activities	<u>(10,138)</u>	
	Financing Activities		
1,303	Cash receipts of short and long-term borrowing	191	
(2,086)	Other receipts from financing activities	4,018	
(1,135)	Repayments of short and long-term borrowing	(200)	
<u>(1,918)</u>	Net Cash flows from Financing Activities	<u>4,009</u>	
<u>(15)</u>	Net increase or decrease in cash and cash equivalents	<u>1,949</u>	
10,391	Cash and cash equivalents at the beginning of the reporting period	10,376	26
10,376	Cash and cash equivalents at the end of the reporting period	12,325	

NOTES TO THE ACCOUNTS

1. Accounting Policies

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

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

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

iii. Cash and Cash Equivalents

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

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

iv. Exceptional Items

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

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

vi. Charges to Revenue for Non-Current Assets

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

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

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

vii. Employee Benefits

Benefits Payable During Employment

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

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

Termination Benefits

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

offer of those benefits or when the Council recognises costs for a restructuring.

Post-Employment Benefits (Retirement Pensions)

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

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation. Full details of the valuation method are shown in note 17 to the core financial statements.

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

Service cost comprising:

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

Re-measurements comprising:

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

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

Discretionary Benefits

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

viii. Events After the Balance Sheet Date

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

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

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

ix. Financial Instruments

Financial Liabilities

Financial liabilities are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

In most cases the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types; Loans and Receivables and Available for Sale assets. The Council has no Available for Sale assets.

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

x. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

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

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

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

xi. Heritage Assets

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

Heritage assets shall normally be recognised and measured in accordance with the Council's accounting policies on property, plant and equipment. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses). Where there is no historical cost information, it will not be recognised in the Balance Sheet but 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 impairment of Heritage Assets will be considered in the event of physical deterioration or doubts as to its authenticity. Any impairment will be recognised and measured in accordance with the Council's general policies on impairment.

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. If an asset is disposed of, the proceeds will be accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and receipts.

xii. Intangible Assets

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

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

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

xiii. Inventories and Long Term Contracts

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

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

xiv. Investment Property

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

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

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

xv. Leases

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

Where an arrangement includes both land and buildings, the land and buildings elements are considered separately for classification and, in general, leases of land are considered to be operating leases.

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

The Council as Lessee - Finance Leases

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

Lease payments are apportioned between:

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

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The Council as Lessee - Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges 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 rent-free period at the commencement of the lease).

The Council as Lessor - Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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. A gain, representing the Council's net investment in the lease, is 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), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

The Council as Lessor - Operating Leases

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

xvi. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of CIPFA's *Service Reporting Code of Practice 2013/14 (SERCOP)*, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the net cost of services.

xvii. Property, Plant and Equipment

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

Recognition

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

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

Measurement

Assets are initially measured at cost, comprising:

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- council dwellings - calculated in line with the Government major repairs allowance as provided in the HRA Buyout Debt calculation
- other buildings - straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment - straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer
- infrastructure - straight-line allocation over individually assessed life for each asset.

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

Componentisation of an asset will be considered where:

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xviii. Provisions, Contingent Liabilities and Contingent Assets

Provisions are made where an event has taken place that gives the Council a financial obligation that probably requires settlement but where the timing and amount of settlement is uncertain.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xix. Reserves

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

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

xx. Revenue Expenditure Funded from Capital under Statute

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

xxi. VAT

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

2. Prior Year Adjustments

The Council has adopted a new accounting policy which impacts on the comparative figures for 2012/13. The change is due to the revision of the accounting standard IAS 19 Employee Benefits.

Prior year adjustments are required for the 2012/13 comparative figures to reflect the changes in accounting policy. None of the changes impact on the Balance Sheet. A summary of changes in the main statements are:

	2012/13 original £'000	2012/13 restated £'000	2012/13 correction £'000
Comprehensive Income and Expenditure Statement			
Cost of Services - Net Expenditure	10,951	11,041	90
Pension interest cost and expected return on assets	1,460	0	(1,460)
Pension interest cost	0	2,450	2,450
(Surplus)/deficit on provision of services	(274)	806	1,080
Actuarial (gains)/losses on pension assets/liabilities	4,515	0	(4,515)
Pension liability remeasurements	0	3,435	3,435
Movement in Reserves Statement - Usable Reserves			
Surplus/(deficit) on provision of services	274	(806)	(1,080)
Other Comprehensive Income and Expenditure	2,375	1,295	(1,080)
Adjustments between accounting basis and funding basis under regulations	(2,880)	(3,960)	(1,080)
Cash Flow Statement			
Net (surplus)/deficit on provision of services	274	(806)	(1,080)
Adjustments to surplus or deficit on the provision of services for non cash movements	6,865	7,945	1,080

3. New Accounting Standards yet to be Adopted

The Code requires the Council to identify any accounting standards that have been issued but have yet to be adopted and could have a material impact on the accounts. There have been changes to the following standards in the 2014/15 Code:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- IAS 32 Financial Instruments: Presentation

The changes to the Code take effect from 1 April 2014 and the Council will adopt those changes at that date. However, changes to these standards are unlikely to have any impact on the accounts.

4. Critical Judgements in Applying Accounting Policies

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

Asset Reclassifications - the Council has made judgements on whether assets are classified as Investment Property, Heritage Asset or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of

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

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

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

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

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

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

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

5. 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 2014 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 £176,900 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 17 provides details of the impact of changes to the key assumptions.
Financial Assets and Liabilities	Estimation of fair values for financial assets and liabilities are based on current lending rates for equivalent loans and investments. These are provided by the Council's treasury advisors.	Fair value estimates do not apply to instruments which mature with the next 12 months. The values are disclosed as a note to the accounts and do not impact on the primary statements.
Bad Debt Provision	The Council has made allowances for doubtful debts of £1.78 million in 2013/14 (2012/13 £1.85 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 £89,000 (2012/13 £92,500).
Provisions	The Council has made provisions for outstanding insurance claims, accumulated absences and land charges. The calculation for accumulated absences is based on 20% of the workforce.	A 10% increase or decrease in provisions would require an adjustment of £47,700 (2012/13 £45,900).
Business Rates Appeals Provision	Under the new business rates retention scheme, which came into effect on 1 April 2013, the Council has assumed some liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. The estimate for the provision is based on software modelling and the latest list of outstanding rating list proposals provided by the Valuation Office Agency. The estimate looks at changes in comparable hereditaments, market trends and other valuation issues including the potential for certain proposals to be withdrawn.	The Council has made an allowance of £3.38 million for these refunds within the Collection Fund. The Council's share of the provision is £1.35 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 £135,000.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Finance and Resources on 22 September 2014. 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 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Adjustments between Accounting Basis and Funding Basis under Regulation

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

	----- Usable Reserves -----						
	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
2013/14							
Capital Adjustment Account Adjustments							
Depreciation and impairment of non-current assets	1,937		2,444				(4,381)
Revaluation losses on Property, Plant and Equipment	(641)		(1,967)				2,608
Revaluation of Investment Properties	1,407						(1,407)
Amortisation of intangible assets	38		5				(43)
Capital grants and contributions applied	(831)		(313)				1,144
Revenue expenditure funded from capital under statute	763						(763)
Property written out on disposal	1,659		568				(2,227)
Capital expenditure charged to the General Fund and HRA balances	(889)						889
Capital Grants Unapplied Account Adjustments							
Capital grants and contributions unapplied							
Application of grants to capital financing transferred to Capital Adjustment Account	(248)					248	0
Capital Receipts Reserve Adjustments							
Proceeds from disposal of property	(50)		(887)		937		0
Capital Receipts applied					(5,084)		5,084
Housing Capital Receipts					3		(3)
Payments to the Government housing capital receipts pool	158				(158)		0
Major Repairs Reserve Adjustments							
Major Repairs Allowance credited to HRA			(2,443)	2,443			0
Major Repairs Reserve to finance new capital expenditure				(2,045)			2,045
Financial Instruments Adjustment Account							
Amount by which finance costs charged to the CI&E are different from finance costs chargeable in the year in accordance with statutory requirements							0
Pensions Reserve Adjustments							
Net charges for retirement benefits	4,305		595				(4,900)
Employer's contribution to Pension Fund/directly to pensioners	(1,830)		(241)				2,071
Collection Fund Adjustment Account							
Collection Fund adjustment	(76)						76
Accumulated Absences Account Adjustments							
Accumulated Absences adjustment	69		7				(76)
Total Adjustments	5,771	0	(2,232)	398	(4,302)	248	117

Restated 2012/13	Usable Reserves							Unusable Reserves
	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Adjustment Account Adjustments								
Depreciation and impairment of non-current assets	3,023		2,489					(5,512)
Revaluation losses on Property, Plant and Equipment			(1,457)					1,457
Revaluation of Investment Properties	1,571		(68)					(1,503)
Amortisation of intangible assets	29							(29)
Capital grants and contributions applied	(1,867)		(33)					1,900
Revenue expenditure funded from capital under statute	812							(812)
Property written out on disposal	132		283					(415)
Capital expenditure charged to the General Fund and HRA balances	(584)		(48)					632
Capital Grants Unapplied Account Adjustments								
Capital grants and contributions unapplied								
Application of grants to capital financing transferred to Capital Adjustment Account							(51)	51
Capital Receipts Reserve Adjustments								
Proceeds from disposal of property	(48)		(406)		454			0
Capital Receipts applied					(1,493)			1,493
Housing Capital Receipts	(170)				173			(3)
Payments to the Government housing capital receipts pool	138				(138)			0
Major Repairs Reserve Adjustments								
Major Repairs Allowance credited to HRA			(2,488)	2,488				0
Major Repairs Reserve to finance new capital expenditure				(1,088)				1,088
Financial Instruments Adjustment Account								
Amount by which finance costs charged to the CI&E are different from finance costs chargeable in the year in accordance with statutory requirements			(99)					99
Pensions Reserve Adjustments								
Net charges for retirement benefits	3,947		573					(4,520)
Employer's contribution to Pension Fund/directly to pensioners	(1,869)		(260)					2,129
Collection Fund Adjustment Account								
Collection Fund adjustment	63							(63)
Accumulated Absences Account Adjustments								
Accumulated Absences adjustment	(45)		(3)					48
Total Adjustments	5,132	0	(1,517)	1,400	(1,004)	(51)	(3,960)	

8. Amounts Reported for Resource Allocation Decisions

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

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

- Internal budget reports exclude charges in relation to impairments to assets but these are charged in the Comprehensive Income and Expenditure Statement.
- Income earned from the Council's property portfolio is shown as a service income in Policy, Strategy and Finance when reporting to the Executive, but this is excluded from the cost of services in the Comprehensive Income and Expenditure Statement.

The tables below reconcile the revenue outturn reports presented to the Executive on 7 July 2014 for year ended 31 March 2014 and 8 July 2013 for year ended 31 March 2013 to the net cost of services shown in the Comprehensive Income and Expenditure Account.

For Year Ended 31 March 2014	L&RAC	L&C	Housing	Public	PSF	Street-	SP&E	PC	HRA	Grand
	£'000	£'000	£'000	£'000	£'000	scene	£'000	£'000	£'000	Total
Fees, Charges & Other										
Service Income	(331)	(404)	(488)	(590)	(3,504)	(1,598)	(2,674)	(485)	(11,441)	(21,515)
Government Grants	0	0	(518)	0	(19,401)	0	(20)	0	0	(19,939)
Total Income	(331)	(404)	(1,006)	(590)	(22,905)	(1,598)	(2,694)	(485)	(11,441)	(41,454)
Employee Expenses	408	384	807	1,307	2,987	2,324	1,142	707	1,307	11,373
Other Operating Expenses	151	1,468	1,510	1,102	21,914	3,122	914	166	5,736	36,083
Support Service Recharges	131	401	248	624	1,300	596	276	235	767	4,578
Total Operating Expenses	690	2,253	2,565	3,033	26,201	6,042	2,332	1,108	7,810	52,034
Net Cost to Services	359	1,849	1,559	2,443	3,296	4,444	(362)	623	(3,631)	10,580
For Year Ended 31 March 2013	L&RAC	L&C	Housing	Public	PSF	Street-	SP&E	PC	HRA	Grand
	£'000	£'000	£'000	£'000	£'000	scene	£'000	£'000	£'000	Total
Fees, Charges & Other										
Service Income	(272)	(426)	(395)	(476)	(4,037)	(1,414)	(2,598)	(396)	(11,162)	(21,176)
Government Grants	0	0	(581)	0	(23,178)	0	(70)	0	0	(23,829)
Total Income	(272)	(426)	(976)	(476)	(27,215)	(1,414)	(2,668)	(396)	(11,162)	(45,005)
Employee Expenses	333	378	650	1,142	2,716	2,248	912	713	1,296	10,388
Other Operating Expenses	264	2,805	1,245	1,246	26,862	2,779	1,116	184	5,660	42,161
Support Service Recharges	130	449	204	612	1,269	611	261	220	724	4,480
Total Operating Expenses	727	3,632	2,099	3,000	30,847	5,638	2,289	1,117	7,680	57,029
Net Cost to Services	455	3,206	1,123	2,524	3,632	4,224	(379)	721	(3,482)	12,024

L&RAC = Licensing and Regulatory Affairs Committee

L&C = Leisure and Community

PSF = Policy Strategy and Finance

SP&E = Strategic Planning and

PC = Planning Committee

HRA = Housing Revenue Account

The following table reconciles the net cost of services identified above to the net cost of service shown in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2013/14	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Mgt £'000	Not Included in I&E £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges & Other Service Income	(21,515)	(150)		2,087	(208)	(19,786)	(2,087)	(21,873)
Interest and Investment Income	0					0	974	974
Income from Council Tax	0					0	(5,733)	(5,733)
Government Grants	(19,939)					(19,939)	(6,998)	(26,937)
Total Income	(41,454)	(150)	0	2,087	(208)	(39,725)	(13,844)	(53,569)
Employee Expenses	11,373				3,020	14,393		14,393
Other Operating Expenses	36,083			(1,407)	1,835	36,511	3,917	40,428
Support Service Recharges	4,578				(4,647)	(69)		(69)
Depreciation, Amortisation & Impairment	0			(1,982)		(1,982)		(1,982)
Payments to Housing Capital								
Receipts Pool	0					0	158	158
Gain or Loss on Disposal of Non-Current Assets	0					0	1,290	1,290
Total Operating Expenses	52,034	0	0	(3,389)	208	48,853	5,365	54,218
Surplus or Deficit on the provision of services	10,580	(150)	0	(1,302)	0	9,128	(8,479)	649
Reconciliation to Subjective Analysis 2012/13 - Restated	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Mgt £'000	Not Included in I&E £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges & Other Service Income	(21,176)	(150)		2,056	(275)	(19,545)	(2,124)	(21,669)
Interest and Investment Income						0	753	753
Income from Council Tax						0	(6,080)	(6,080)
Government Grants	(23,829)					(23,829)	(6,665)	(30,494)
Total Income	(45,005)	(150)	0	2,056	(275)	(43,374)	(14,116)	(57,490)
Employee Expenses	10,388		90		2,992	13,470		13,470
Other Operating Expenses	42,161			(1,509)	1,544	42,196	3,959	46,155
Support Service Recharges	4,480				(4,261)	219		219
Depreciation, Amortisation & Impairment			(1,457)	(20)		(1,477)		(1,477)
Payments to Housing Capital								
Receipts Pool						0	138	138
Gain or Loss on Disposal of Non-Current Assets						0	(209)	(209)
Total Operating Expenses	57,029	0	(1,367)	(1,529)	275	54,408	3,888	58,296
Surplus or Deficit on the provision of services	12,024	(150)	(1,367)	527	0	11,034	(10,228)	806

9. Grant Income

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

	2013/14	2012/13
	£'000	£'000
Service Specific Revenue Grants and Contributions (included in Cost of Services)		
Department for Works and Pensions:		
- Rent Allowances Subsidy	12,854	13,017
- Rent Rebates	6,120	6,075
- Housing and Council Tax Benefit Administration	447	531
- Discretionary Housing Payments	71	34
- Council Tax Benefit Subsidy	70	4,332
- New Burdens Grants	44	0
Department for Communities and Local Government:		
- Disabled Facilities Grant	255	336
- NNDR Collection Allowance	143	143
- New Burdens Local Council Tax Support Scheme	42	0
- Bellwin Scheme	8	0
- NNDR Collection	0	3
Homes and Communities Agency:		
- 101 Gosport Road	0	30
Hampshire County Council:		
- Portchester Community Centre	134	0
- Solent Disturbance Funding and Mitigation Project	78	0
- Community Safety Partnership	45	15
- Play Ranger Services	18	0
- Welfare Assistance	10	0
- Welborne Transport Funding	10	0
- Youth/Play Activities Grant	2	10
- Lockswood Community Centre	0	64
Other:		
- Portchester Crematorium	150	150
- Whiteley Joint Fund	103	48
- Environment Agency	20	0
- Cabinet Office - Electoral Registration Grants	19	0
Grant	6	0
- Natural England	0	70
- Developer Contributions	0	61
- Allotment Associations	0	8
- Fareham Community Action	0	8
	<u>20,649</u>	<u>24,935</u>

	2013/14 £'000	2012/13 £'000
Credited to Taxation and Non Specific Grant Income		
Department for Communities and Local Government:		
- Revenue Support Grant	2,533	79
- New Homes Bonus	1,107	658
- Capacity Funding - Welborne Planning	485	0
- Council Tax Freeze Grant	61	152
- Community Right to Bid/Challenge Grants	16	13
- Capitalisation Provision Redistribution Grant	13	0
- Town Centre Regeneration	0	100
- Local Services Support Grant	0	57
Homes and Communities Agency:		
- Daedalus Innovation Centre Funding	387	0
- National Affordable Housing Programme	313	33
Hampshire County Council:		
- Portchester Community Centre	0	708
Other:		
- Community Infrastructure Levy	248	0
- Developer Contributions	182	578
- Football Foundation	8	215
Total	<u>5,353</u>	<u>2,593</u>

10. Audit Fees Payable

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

	2013/14 £'000	2012/13 £'000
External audit services	63	63
Certification of grant claims and returns	24	18
Total	<u>87</u>	<u>81</u>

11. Agency Services

The Council carried out certain work on an agency basis for which it was fully reimbursed. The Council also received a contribution towards the related administrative work for the Highways Agency. This is classified in the Comprehensive Income and Expenditure Statement under Highways and Transport Services.

As highways agent for Hampshire County Council, the Head of Parking and Enforcement was responsible for the supervision of highways maintenance and certain improvement schemes. Net expenditure reimbursed by Hampshire County Council in 2013/14 was £357,358 (2012/13 was £351,581).

12. Trading Operations

The Council has considerable holdings of commercial land and property. The Council also has a Building Services trading account which provides building services for the Council under arrangements equivalent to commercial contracts, the objective being to break even. Building Services surpluses have been credited to service accounts. The trading results are shown below.

	2013/14		(Surplus)/	2012/13
	Income	Expenditure	Deficit	(Surplus)/
	£'000	£'000	£'000	Deficit
Fareham Shopping Centre	(670)	34	(636)	(772)
Market Quay	(309)	14	(295)	(290)
Industrial/Commercial estates	(1,194)	43	(1,151)	(1,072)
Other land and property holdings	(266)	278	12	(21)
Building Services	(424)	423	(1)	(29)
Total	(2,863)	792	(2,071)	(2,184)

13. Members' Allowances

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

	2013/14	2012/13
	£'000	£'000
Basic Allowances	204	202
Special Responsibility Allowances	166	165
Superannuation and National Insurance	34	35
Travelling and Subsistence Allowances	7	8
Conference Expenses	3	4
Internet Rental Allowance	1	1
Total	415	415

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

14. Remuneration of Staff

The number of employees, including senior officers (see note 15), whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 was:

Remuneration Band	2013/14	2012/13
	Number of employees	Number of employees
£50,000 - £54,999	4	2
£55,000 - £59,999	6	12
£60,000 - £64,999	1	2
£65,000 - £69,999	0	2
£70,000 - £74,999	1	0
£75,000 - £79,999	0	2
£80,000 - £84,999	3	2
£85,000 - £89,999	2	0
£110,000 - £114,999	1	0
£115,000 - £119,999	1	1
£130,000 - £134,999	1	0

15. Senior Officer Emoluments

Post Title	Salary (Inc fees and allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind (e.g. car allowance) £	Total remuneration excl pension contributions £	Pension contributions £	Total remuneration incl pension contributions £
2013/14								
Chief Executive Officer (1)	118,257	0	0	0	0	118,257	14,469	132,726
Director of Planning & Environment	80,228	0	0	0	0	80,228	10,491	90,718
Director of Regulatory & Democratic Services (3)	99,303	0	0	12,375	0	111,678	216,306	327,984
Director of Community	80,278	0	0	0	0	80,278	10,491	90,768
Director of Finance & Resources	83,903	0	0	0	0	83,903	10,977	94,879
Director of Streetscene (2)	74,634	0	0	0	0	74,634	9,764	84,398
	<u>536,602</u>	<u>0</u>	<u>0</u>	<u>12,375</u>	<u>0</u>	<u>548,977</u>	<u>272,497</u>	<u>821,474</u>
2012/13								
Chief Executive Officer (1)	117,264	0	0	0	0	117,264	13,689	130,953
Director of Planning & Environment	79,325	0	0	0	0	79,325	10,387	89,712
Director of Regulatory & Democratic Services	82,960	0	0	0	0	82,960	10,868	93,828
Director of Community	79,161	0	0	0	0	79,161	10,387	89,548
Director of Finance & Resources	81,012	0	0	0	0	81,012	10,627	91,639
Director of Streetscene (2)	64,180	0	0	0	0	64,180	8,408	72,588
	<u>503,902</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>503,902</u>	<u>64,366</u>	<u>568,268</u>

Notes:

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

(1) Includes pay in respect of the Returning Officer role in Council elections.

(2) New post with effect from 01/11/2012.

(3) Includes severance paid as pension contributions.

16. Termination Benefits

The Council terminated the contracts of a number of employees in 2013/14, incurring liabilities of £700,252 (£409,671 in 2012/13). The number of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below.

Exit Package Cost band (including special payments)	Number of compulsory redundancies		Number of other departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
£0 - £20,000	0	0	19	23	19	23	£79,638	£103,556
£20,001 - £40,000	0	0	7	0	7	0	£213,564	£0
£40,001 - £60,000	0	0	1	0	1	0	£47,178	£0
£60,001 - £80,000	0	1	1	0	1	1	£69,291	£77,251
£100,001 - £120,000	0	1	0	0	0	1	£0	£108,508
£180,001 - £200,000	0	1	0	0	0	1	£0	£180,082
£220,001 - £240,000	0	1	0	0	0	1	£0	£230,855
	<u>0</u>	<u>4</u>	<u>28</u>	<u>23</u>	<u>28</u>	<u>27</u>	<u>£409,671</u>	<u>£700,252</u>

17. Pensions

Participation in Pension Schemes

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

The disclosures below relate to the following schemes:

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

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

Contributions for the Accounting Period Ending 31 March 2015

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2015 are estimated to be £2.25m. 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 2015, the Employer expects to pay £0.22m directly to beneficiaries.

Transactions Relating to Post-employment Benefits

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

	Funded Benefits		Unfunded Benefits	
	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000
<u>Comprehensive Income and Expenditure Statement</u>				
Cost of Services				
- Current service cost	2,380	2,000	0	0
- Past service cost	10	70	0	0
Financing and Investment Income and Expenditure				
- Interest net defined benefit liability	2,380	2,310	130	140
(Surplus)/deficit on the provision of services	<u>4,770</u>	<u>4,380</u>	<u>130</u>	<u>140</u>
Other Charges to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
- Return on plan assets (in excess of)/below that recognised in net interest	(5,477)	(6,739)	0	0
Actuarial (gains)/losses due to:				
- Changes in financial assumptions	(10,720)	10,040	(144)	354
- Changes in demographic assumptions	(2,020)	0	90	0
- Liability experience	1,290	(170)	(70)	(50)
Total amount recognised in Other Comprehensive Income and Expenditure	<u>(16,927)</u>	<u>3,131</u>	<u>(124)</u>	<u>304</u>
Total Amount Recognised	<u>(12,157)</u>	<u>7,511</u>	<u>6</u>	<u>444</u>
<u>Movement in Reserves Statement</u>				
Reversal of net charges made to the surplus/(deficit) in accordance with the Code	(4,770)	(4,380)	(130)	(140)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	(1,859)	(1,913)	0	0
Retirement benefits payable to pensioners	0	0	(212)	(216)

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	
	2013/14	2012/13	2013/14	2012/13
	£'000	£'000	£'000	£'000
Fair value of assets	79,199	72,233	0	0
Present value of defined benefit obligation	121,290	128,340	3,128	3,334
Funded status	(42,091)	(56,107)	0	0
Liability recognised on the Balance Sheet	(42,091)	(56,107)	(3,128)	(3,334)

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

Active members	29%
Deferred Pensioners	14%
Pensioners	57%

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

	Funded Assets		Unfunded Assets	
	2013/14	2012/13	2013/14	2012/13
	£'000	£'000	£'000	£'000
Opening balance at 1 April	72,233	63,991	0	0
Interest income	3,070	2,980	0	0
Remeasurement gains and (losses)				
- Return on plan assets, excluding amount included in net interest expense	5,477	6,739	0	0
Contributions by the employer	1,859	1,913	212	216
Contributions by participants	660	620	0	0
Benefits paid	(4,100)	(4,010)	(212)	(216)
Closing balance at 31 March	<u>79,199</u>	<u>72,233</u>	<u>0</u>	<u>0</u>

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

	Funded Benefits		Unfunded Benefits	
	2013/14	2012/13	2013/14	2012/13
	£'000	£'000	£'000	£'000
Opening balance at 1 April	128,340	114,500	3,334	3,106
Current service cost	2,380	2,000	0	0
Interest expense	5,450	5,290	130	140
Contributions by participants	660	620	0	0
Remeasurement (gains) and losses on liabilities:				
- Financial assumptions	(10,720)	10,040	(144)	354
- Demographic assumptions	(2,020)	0	90	0
- Experience	1,290	(170)	(70)	(50)
Benefits paid	(4,100)	(4,010)	(212)	(216)
Past service cost	10	70	0	0
Closing balance at 31 March	<u>121,290</u>	<u>128,340</u>	<u>3,128</u>	<u>3,334</u>

Local Government Pension Scheme Assets Comprised

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

The Administering Authority 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			Asset split
	31 March 2014			at
	%	%	%	31 March 2013
	Quoted	Unquoted	Total	%
Equities	57.6	3.2	60.8	57.6
Property	7.5	0.0	7.5	7.8
Government Bonds	23.5	0.1	23.6	24.9
Corporate Bonds	1.4	0.2	1.6	1.3
Cash	3.8	0.0	3.8	2.3
Other	0.2	2.5	2.7	6.1
Total	94.0	6.0	100.0	100.0

Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the Hampshire County Council Fund being based on the latest full valuation of the scheme as at 31 March 2013 for funded benefits and 31 March 2014 for unfunded benefits.

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

	Funded Benefits		Unfunded Benefits	
	31 March		31 March	
	2014	2013	2014	2013
	% p.a.	% p.a.	% p.a.	% p.a.
Mortality assumptions:				
Future lifetime from age 65 (aged 65 at accounting date)				
Men	24.4	24.0	24.4	24.0
Women	26.2	25.0	26.2	25.0
Future lifetime from age 65 (aged 45 at accounting date)				
Men	26.5	25.7	n/a	n/a
Women	28.5	26.9	n/a	n/a
Principal financial assumptions (% per annum):				
Discount rate	4.3	4.3	4.2	4.1
RPI inflation	3.3	3.6	3.2	3.5
CPI inflation	2.3	2.7	2.2	2.6
Rate of increase to pensions in payment	2.3	2.7	2.2	2.6
Rate of increase to deferred pensions	2.3	2.7	n/a	n/a
Rate of general increase in salaries	3.8	4.6	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 2014 and the projected service cost for the year ending 31 March 2015 is set out in the table below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same. For inflation, for example, we have assumed this will not change the salary inflation figure and will affect pension increases only. The sensitivity of unfunded benefits is not included on materiality grounds.

Discount rate assumption

Adjustment to discount rate	+0.1% p.a	-0.1% p.a
Present value of total obligation (£M)	119.31	123.28
% change in present value of total obligation	-1.6%	-1.7%
Projected service cost (£M)	2.46	2.62
Approximate % change in projected service cost	-3.1%	3.1%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% p.a	-0.1% p.a
Present value of total obligation (£M)	121.58	120.91
% change in present value of total obligation	0.3%	0.3%
Projected service cost (£M)	2.57	2.51
Approximate % change in projected service cost	1.2%	-1.2%

Rate of increase to pensions in payment and deferred pension assumptions

Adjustment to pension increase rate	+0.1% p.a	-0.1% p.a
Present value of total obligation (£M)	122.91	119.68
% change in present value of total obligation	1.4%	-1.3%
Projected service cost (£M)	2.59	2.49
Approximate % change in projected service cost	2.0%	-2.0%

Post retirement mortality assumption

Adjustment to mortality age rating assumption	-1 year	+1 year
Present value of total obligation (£M)	124.24	118.23
% change in present value of total obligation	2.5%	-2.5%
Projected service cost (£M)	2.62	2.46
Approximate % change in projected service cost	3.1%	-3.1%

18. Property, Plant and Equipment

Valuation information

The Council's property portfolio has been revalued in accordance with the statement of accounting policies and to reflect the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. The portfolio was completely re-valued in 1998/99 by the Council's own valuer, D. M. Quainton BSc (Hons) FRICS. Since then it has been revalued on a rolling basis by the Council's own valuers K. Boothroyd BSc (Hons) MRICS, F. Johns MRICS and G. Lloyd FRICS; except for Council dwellings which were revalued as at April 2012 by Hellier Langston, chartered surveyors and have since then been revalued to 1 April 2013 by K. Boothroyd BSc (Hons) MRICS. The table below shows the dates of revaluation of non-current assets. Vehicles, plant, equipment and non-operational assets are valued at historic cost:

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Surplus Assets £'000	Total £'000
Historic		2,026	8,932		10,958
2010/11		1,806			1,806
2011/12		5,720			5,720
2012/13		2,567			2,567
2013/14	85,228	25,260		10	110,498
	<u>85,228</u>	<u>37,379</u>	<u>8,932</u>	<u>10</u>	<u>131,549</u>

Movement in Non-Current Assets 2013/14

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra- structure Assets £'000	Comm- unity Assets £'000	Surplus Assets £'000	Assets Under Construc- tion £'000	Total £'000
Cost or Valuation								
At 1 April 2013	84,769	35,231	8,923	4,923	377	10	142	134,375
Additions	1,396	1,093	964				1,058	4,511
Revaluation increases/(decreases) to RR	89	830						919
Revaluation increases/(decreases) to SDPS	(442)	250						(192)
Derecognition - Disposals	(584)	(25)	(955)	(3,642)				(5,206)
At 31 March 2014	85,228	37,379	8,932	1,281	377	10	1,200	134,407
Depreciation and Impairment								
At 1 April 2013	2,411	456	5,535	2,737	21	0	0	11,160
Depreciation Charge	2,373	702	844	60	3			3,982
Depreciation written out to RR		(2)						(2)
Depreciation written out to SDPS	(2,410)	0						(2,410)
Derecognition - Disposals	(16)	0	(936)	(2,072)				(3,024)
At 31 March 2014	2,358	1,156	5,443	725	24	0	0	9,706
Net Book Value								
At 31 March 2014	82,870	36,223	3,489	556	353	10	1,200	124,701
At 31 March 2013	82,358	34,775	3,388	2,186	356	10	142	123,215

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

The figures for: Other Land & Buildings, Vehicles Plant & Equipment and Assets Under Construction include assets owned by the Housing Revenue Account (HRA). Details for these can be found on page 69 Note 2.

Movement in Non-Current Assets 2012/13

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra- structure Assets £'000	Comm- unity Assets £'000	Surplus Assets £'000	Assets Under Construc- tion £'000	Total £'000
Cost or Valuation								
At 1 April 2012	84,273	35,065	8,414	4,982	377	135	409	133,655
Additions	946	1,089	619				1,613	4,267
Revaluation increases/(decreases) to RR	22	(160)				296		158
Revaluation increases/(decreases) to SDPS	(355)	17				63		(275)
Derecognition - Disposals	(280)	(32)	(110)	(59)				(481)
Reclassified to/from Held for Sale		(748)				(484)	(1,717)	(2,949)
Other movements	163	0					(163)	0
At 31 March 2013	84,769	35,231	8,923	4,923	377	10	142	134,375
Depreciation and Impairment								
At 1 April 2012	1,813	2,162	4,792	2,380	18	0	0	11,165
Depreciation Charge	2,418	285	830	373	3			3,909
Depreciation written out to RR	0	(1,978)						(1,978)
Depreciation written out to SDPS	(1,812)	(12)						(1,824)
Derecognition - Disposals	(8)	(1)	(87)	(16)				(112)
At 31 March 2013	2,411	456	5,535	2,737	21	0	0	11,160
Net Book Value								
At 31 March 2013	82,358	34,775	3,388	2,186	356	10	142	123,215
At 31 March 2012	82,460	32,903	3,622	2,602	359	135	409	122,490

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

The figures for: Other Land & Buildings, Vehicles Plant & Equipment and Assets Under Construction include assets owned by the Housing Revenue Account (HRA). Details for these can be found on page 69 Note 2

Other movements relate to assets previously valued below the de-minimus level of £10,000 that have now been revalued and recognised as above.

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

Council dwellings were re-valued as at 1 April 2013 (the previous valuation was as at 1 April 2012). The valuation takes into account the use for social housing, and assumes social housing tenanted value is 32% of vacant possession value.

Depreciation

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

Council Dwellings	- use of Major Repairs Allowance
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

Capital Commitments

At 31 March 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15 and future years, budgeted to cost £5.5 million. Similar commitments at 31 March 2013 were £2.3 million. The major commitments are:

	2013/14 £'000
Works to council houses and flats - Collingwood Court	5,079
Sport and recreation	17

19. Investment Properties

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council's Investment Property portfolio has been re-valued in accordance with the statement of accounting policies by K. Boothroyd BSc (Hons) MRICS.

	2013/14 £'000	2012/13 £'000
Rental, sales income and service charges from investment property	(2,571)	(2,590)
Direct operating expenses arising from investment property	484	465
Net (gain)/loss	<u>(2,087)</u>	<u>(2,125)</u>

Movement in Fair Value of Investment Properties	2013/14 £'000	2012/13 £'000
Balance at 1 April	30,587	32,090
Purchases	3,890	0
Net gains/losses from fair value adjustments	(1,407)	(1,503)
Transfers to/from Property, Plant and Equipment		0
Balance at 31 March	<u>33,070</u>	<u>30,587</u>

20. Heritage Assets

	Sculptures and Structures	
	2013/14 £'000	2012/13 £'000
Cost or Valuation at 1 April	316	316
Additions/(Disposals)	<u>0</u>	<u>0</u>
Gross Book Value at 31 March	316	316
Depreciation and Impairment at 1 April	114	106
Depreciation charge	<u>8</u>	<u>8</u>
At 31 March	122	114
Net Book Value at 31 March	194	202

In the late 1990's, the Council commissioned a series of ironwork sculptures to commemorate the life and works of Henry Cort. These can be viewed along West Street precinct, Fareham.

To commemorate Her Majesty's Golden Anniversary, the Council commissioned the design and construction of "HM Jubilee Gates". These are situated at the southern end of Market Quay Car Park.

To commemorate the 25th Anniversary of the Falklands Conflict, the Council commissioned the design and construction of the "Falklands Arch" which is situated in Cremer Mall.

These assets are valued in the Balance Sheet at depreciated historic cost.

21. Intangible Assets

The Council accounts for software licences as intangible assets which are written off over their useful life.

	2013/14 £'000	2012/13 £'000
Balance at 1 April		
- Gross carrying amount	1,066	982
- Accumulated amortisation	(905)	(876)
Net carrying amount at 1 April	<u>161</u>	<u>106</u>
 Additions		
- Purchases	0	84
- Amortisation for the period	(43)	(29)
Net carrying amount at 31 March	<u>118</u>	<u>161</u>
 Comprising:		
- Gross carrying amount	1,066	1,066
- Accumulated amortisation	(948)	(905)

The Council has several software suites which are amortised over what is considered to be their individual useful economic lives. These range from 3 to 10 years.

22. Assets Held for Sale

	Non-Current Assets	
	2013/14 £'000	2012/13 £'000
Balance at 1 April	1,310	90
 Assets newly classified as held for sale:		
- Property, Plant and Equipment	0	2,949
Revaluation losses	0	(1,684)
Assets sold	(45)	(45)
Balance at 31 March	<u>1,265</u>	<u>1,310</u>

The assets currently held for sale are:

- The site and adjoining land of the old and new community centres in Portchester. These are being sold as part of the arrangement with Hampshire County Council for the continued provision of community facilities in that area.
- Plots of land in Fareham town centre. These are being sold to a Housing Association who will provide additional housing in the Borough.

23. Impairment Losses

During 2013/14, the Council de-recognised impairment losses incurred and charged to Surplus/Deficit on Provision of Services in earlier years of £393,522. This relates mostly to the increased revaluation of the several car parks.

The Council also recognised impairment losses of £420,117. This related to the downward revaluation of several other car parks and Ferneham Hall.

24. Leases

Council as Lessee

Finance Leases

The Council has acquired some assets under Finance Leases.

The assets acquired under the leases are carried as Property, Plant and Equipment and Investment Property in the Balance Sheet at the following net amounts:

	31 March 2014 £'000	Restated 31 March 2013 £'000	Original 31 March 2013 £'000
Property, Plant and Equipment	6,191	5,637	0
Investment Property	4,226	373	0
	<u>10,417</u>	<u>6,010</u>	<u>0</u>

All properties are subject to the Council making peppercorn minimum lease payments. There are no contingent rents payable.

None of the properties are subject to finance lease liabilities as premiums were paid at the inception of the lease.

The 2012/13 figures have been restated following a review of long term leases in which a number of Property, Plant and Equipment and Investment Properties were identified. The restatement does not affect the Balance Sheet or any other note in the Statement.

Operating Leases

The Council has not acquired any vehicles or equipment by entering into operating leases.

The Council has acquired some land by entering into operating leases, with varying lives. The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2014 £'000	Restated 31 March 2013 £'000
Not later than one year	9	15
Later than one year and not later than five years	31	80
Later than five years	348	150
	<u>388</u>	<u>245</u>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	31 March 2014 £'000	31 March 2013 £'000
Minimum lease payments	11	13
Contingent rents	13	18
	<u>24</u>	<u>31</u>

Council as Lessor

Finance Leases

The Council has not leased out any property under a Finance Lease.

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 2014 £'000	31 March 2013 £'000
Not later than one year	1,980	1,804
Later than one year and not later than five years	6,227	5,189
Later than five years	40,288	39,104
	<u>48,495</u>	<u>46,097</u>

The minimum lease payments receivable do not include rents that are contingent rents on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2013/14, contingent rents of £712,348 were receivable by the Council (2012/13 £1.03 million).

25. Capital Expenditure and Capital Financing

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

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

2012/13 £'000	2013/14 £'000
51,050 Opening Capital Finance Requirement	51,050
Capital Investment	
4,268 Property, Plant and Equipment	4,511
0 Investment Properties	3,890
84 Intangible Assets	0
812 Revenue Expenditure Funded from Capital under Statute	763
Sources of Finance	
(1,493) Capital receipts	(5,084)
(1,951) Government grants and other contributions	(1,146)
Sums set aside from revenue:	
(1,088) HRA major repairs reserve	(2,045)
(632) Direct revenue contributions	(889)
<u>51,050</u> Closing Capital Finance Requirement	<u>51,050</u>

26. Cash and Cash Equivalents

	31 March	
	2014	2013
	£'000	£'000
Cash held by the Council	10	10
Bank current accounts	(553)	(464)
Short-term deposits with banks	12,868	10,830
Total	<u>12,325</u>	<u>10,376</u>

27. Long Term Debtors

	31 March	
	2014	2013
	£'000	£'000
Mortgages - sale of council houses	4	4
Mortgages - other	77	80
Total	<u>81</u>	<u>84</u>

28. Short Term Debtors

	31 March	
	2014	2013
	£'000	£'000
Central government bodies	625	2,460
Other local authorities	573	1,223
Public corporation and trading funds	0	0
Other entities and individuals	4,372	3,438
Total	<u>5,570</u>	<u>7,121</u>
Provision for Doubtful Debts	<u>(1,788)</u>	<u>(1,851)</u>
Total	<u>3,782</u>	<u>5,270</u>

29. Short Term Creditors

	31 March	
	2014	2013
	£'000	£'000
Central government bodies	4,512	1,210
Other local authorities	1,634	574
Public corporation and trading funds	0	21
Other entities and individuals	2,538	1,386
Total	<u>8,684</u>	<u>3,191</u>

30. Depositors

	31 March	
	2014	2013
	£'000	£'000
Property Rent Deposits	35	43
Other	410	700
Total	<u>445</u>	<u>743</u>

31. Provisions

	Balance at 1 April £'000	Provision in year £'000	Applied in year £'000	Balance at 31 March £'000
Business Rate Appeals	0	1,351	0	1,351
Insurance	121	62	121	62
Employee Related	188	265	188	265
Land Charges	150	0	0	150
Total 2013/14	<u>459</u>	<u>1,678</u>	<u>309</u>	<u>1,828</u>
Total 2012/13	<u>287</u>	<u>435</u>	<u>263</u>	<u>459</u>

A new provision has been set up in 2013/14 for business rate appeals. The insurance provision is set up to meet certain known liabilities in respect of risks e.g. fire, explosion, storm, flood, burst pipes, impact. The employee related provision is used for accumulated absences due and there is a provision for personal search litigation for land charges.

32. 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	
	2014 £'000	2013 £'000
Balance at 1 April	4,390	4,530
Movements in year:		
Amounts received (with conditions)	1,984	1,853
Amounts recognised as income (conditions subsequently met):		
- Within Cost of Services	(512)	(492)
- Within Taxation and Non-Specific Grants	(890)	(1,501)
Balance at 31 March	<u>4,972</u>	<u>4,390</u>
Grants Receipts in Advance (Capital Grants)		
Leisure developer contributions	3,714	3,583
Affordable housing developer contributions	30	30
Other developer contributions	397	412
Other capital grants	570	0
	<u>4,711</u>	<u>4,025</u>
Grants Receipts in Advance (Revenue Grants)		
Whiteley developer contributions	250	354
Other developer contributions	11	11
	<u>261</u>	<u>365</u>
Total Receipts in Advance	<u>4,972</u>	<u>4,390</u>

33. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and notes 7 and 34.

34. 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 in 2013/14.

	Balance at 1 April 2012			Balance at 31 March 2013			Balance at 31 March 2014
	£'000	Transfers Out £'000	Transfers In £'000	£'000	Transfers Out £'000	Transfers In £'000	£'000
General Fund							
Major Repairs and Renewals Reserve	1,280	0	22	1,302	0	0	1,302
Other Earmarked Reserves	2,805	(480)	74	2,399	(283)	102	2,218
Earmarked Capital Reserve	4,727	(1,132)	2,044	5,639	(1,540)	3,447	7,546
Total	8,812	(1,612)	2,140	9,340	(1,823)	3,549	11,066
HRA							
Housing Repairs Account	1,800	(84)	84	1,800	(16)	16	1,800
Capital Development Fund	0	0	2,164	2,164	0	2,164	4,328
Leaseholder Repairs Reserve	251	(85)	0	166	0	16	182
Total	2,051	(169)	2,248	4,130	(16)	2,196	6,310
Grand Total	10,863	(1,780)	4,388	13,470	(1,839)	5,745	17,376

35. Unusable Reserves

	31 March	
	2014	2013
	£'000	£'000
Revaluation Reserve	9,652	8,828
Capital Adjustment Account	98,637	95,591
Financial Instruments Adjustment Account	0	0
Deferred Capital Receipts Account	4	4
Pensions Reserve	(45,219)	(59,441)
Collection Fund Adjustment Account	90	14
Accumulated Absences Account	(265)	(188)
	<u>62,899</u>	<u>44,808</u>

a) Revaluation Reserve

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

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

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

on the Capital adjustment Account.

2012/13 £'000		2013/14 £'000
6,773	Balance at 1 April	8,828
3,580	Upward revaluation of assets	923
(1,440)	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services	0
2,140		923
(42)	Difference between fair value depreciation and historical cost depreciation	(42)
(43)	Accumulated gains on assets disposed or reclassified to Investment Properties	(57)
(85)	Amount written off to the Capital Adjustment Account	(99)
8,828	Balance at 31 March	9,652

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. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

2012/13 £'000	2013/14 £'000
97,158 Balance at 1 April	95,591
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(5,512) Charges for depreciation and impairment of non-current assets	(4,381)
1,457 Revaluation losses on Property, Plant and Equipment	2,608
(29) Amortisation of Intangible Assets	(43)
(812) Revenue expenditure funded from capital under statute	(763)
(415) Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,227)
91,847	(4,806)
(2) Amount credited to Capital Receipts Reserve relating to part repayment of principle on long term debtor	(2)
43 Cumulative (gains)/losses on assets sold or reclassified as Investment Properties	57
42 Adjustment amounts written out of the Revaluation Reserve	42
91,930 Net written out amount of the cost of non-current assets consumed in the year	90,882
Capital financing applied in the year	
1,493 Use of the Capital Receipts Reserve to finance new capital expenditure	5,084
1,088 Use of the Major Repairs Reserve to finance new capital expenditure	2,045
1,899 Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,144
52 Application of grants to capital financing from the Capital Grants Unapplied Account	0
632 Capital expenditure charged against the General Fund and HRA balances	889
5,164	9,162
(1,503) Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,407)
95,591 Balance at 31 March	98,637

c) Financial Instruments Adjustment Reserve

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund or HRA Balance as appropriate to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund or HRA Balance in accordance with statutory arrangements for spreading the burden on council tax or council rents. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2012/13 £'000	2013/14 £'000
(99) Balance at 1 April	0
Proportion of premiums incurred in previous financial years to be charged against the General Fund or HRA Balance in accordance	
99 with statutory requirements	0
<u>0</u> Balance at 31 March	<u>0</u>

d) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2012/13 £'000	2013/14 £'000
5 Balance at 1 April	4
(1) Transfer to the Capital Receipts Reserve upon receipt of cash	0
<u>4</u> Balance at 31 March	<u>4</u>

e) 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 accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. 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.

Restated 2012/13 £'000	2013/14 £'000
(53,615) Balance at 1 April	(59,441)
(3,435) Actuarial gains or losses on pension assets and liabilities	17,051
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the	
(4,520) Comprehensive Income and Expenditure Statement	(4,900)
Employers' pension contributions and direct payments to pensioners	
2,129 payable in the year.	2,071
<u>(59,441)</u> Balance at 31 March	<u>(45,219)</u>

f) 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 council tax and NDR payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2012/13 £'000	2013/14 £'000
77 Balance at 1 April	14
(63) 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	62
Amount by which NNDR income credited to the Comprehensive	
0 Income and Expenditure Statement is different from NNDR	14
calculated for the year in accordance with statutory requirements	
<u>14</u> Balance at 31 March	<u>90</u>

g) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for paid absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfer to or from the Account.

2012/13 £'000	2013/14 £'000
(236) Balance at 1 April	(188)
Settlement or cancellation of accrual made at the end of the	
236 preceding year	188
<u>(188)</u> Amounts accrued at the end of the current year	<u>(265)</u>
Amount by which officer remuneration charged to the	
48 Comprehensive Income and Expenditure Statement on an	
accruals basis is different from remuneration chargeable in	(77)
the year in accordance with statutory requirements	
<u>(188)</u> Balance at 31 March	<u>(265)</u>

36. Financial Instruments

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

	----- Long-term -----		----- Current -----	
	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000
Borrowing at amortised cost	40,400	40,600	1,430	1,239
Trade Creditors	0	0	3,368	1,756
Financial Liabilities	<u>40,400</u>	<u>40,600</u>	<u>4,798</u>	<u>2,995</u>
Loans and receivables	2,000	0	38,475	32,681
Mortgages	81	84	0	0
Trade Debtors	0	0	1,978	1,679
Financial Assets	<u>2,081</u>	<u>84</u>	<u>40,453</u>	<u>34,360</u>

All borrowing is on fixed terms so there is no possibility of profit or loss and therefore they are shown as at amortised cost. A 5 year interest free loan of £1 million was received from Hampshire County Council during 2012/13. Of the £600,000 balance remaining, £400,000 is shown within long term borrowing and £200,000 within short term borrowing.

The Council has no financial assets that can be traded and no unquoted equity investments and therefore all investments and cash and cash equivalents are classified as Loans and Receivables carried in the Balance Sheet at amortised cost. The accrued interest at 31 March 2014 of £167,800 is included within the total investment outstanding of £38,475,000.

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

Fair Values of Assets and Liabilities

Financial liabilities, financial instruments represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the net present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates as at 31 March 2014 of 4.29% to 4.31% for loans from the PWLB and interest rate of 0.95% for loans receivable, based on new lending rates for equivalent loans and investments at that date.
- no early repayment or impairment is anticipated.
- where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

	31 March 2014		31 March 2013	
	Balance Sheet £'000	Fair Value £'000	Balance Sheet £'000	Fair Value £'000
Borrowing	40,400	34,149	40,600	36,117
Loans and receivables	2,000	2,019	0	0
Mortgages	81	81	84	84

The fair value of the borrowing is lower than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2014) arising from a commitment to pay interest to lenders below current market rates.

The fair value of the loans and receivables is higher than the carrying amount because the Council's portfolio of investments includes fixed rate loans where the rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2014) attributable to the commitment to receive interest above current market rates.

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

37. Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Council's activities expose it to a variety of financial risks. The key risks are:

Credit risk - the possibility that other parties might fail to pay amounts due to the Council;

Liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments;

Re-financing risk - the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;

Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the *Local Government Act 2003* and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - the Council's overall borrowing;
 - its maximum and minimum exposures to fixed and variable rates;
 - its maximum and minimum exposures to the maturity structure of its debt;
 - its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, along with quarterly updates to the Executive and a mid-year update to the Audit and Governance Committee.

The prudential indicators and the annual treasury management strategy approved by Council on 22 February 2013 are available on the Council website. The key issues within the revised strategy were:

- The Authorised Limit for 2013/14 was set at £61 million. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £49 million. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 25% based on the Council's net debt.

These policies are implemented by the Council's treasury officers. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

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, in accordance with the Fitch, Moody's and Standard & Poors' credit ratings services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

- Credit ratings of Short Term F1, Long Term A, Support bb- and Individual 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria.
- Part-nationalised UK institutions.
- Building Societies with assets in excess of £5bn.

The following analysis shows the gross credit exposure by credit rating of the Council's investments as at 31 March 2014.

Rating Category	£'000
AA or equivalent	9,019
A or equivalent	25,426
BBB or equivalent	<u>6,030</u>
Total	<u>40,475</u>

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

The Council's maximum exposure to credit risk in relation to its £40.5 million investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2014 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 (£421,000 at 31 March 2014, £767,000 as at 31 March 2013). 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 2014			Amount Outstanding as at 31 March 2013		
	£'000	Bad Debt Provision %	£'000	£'000	Bad Debt Provision %	£'000
Less than 1 year old	708	6	39	491	21	103
1 and 2 years old	168	16	27	256	63	162
2 and 3 years old	70	60	42	106	75	79
More than 3 years old	329	95	313	445	95	423
Total	1,275		421	1,298		767

Collateral – During the reporting period the Council held no collateral as security.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets is as follows:

Maturity of Investments	As at 31 March 2014	As at 31 March 2013
	£'000	£'000
Less than 3 months	18,399	18,681
3 to 6 months	8,046	6,000
6 months to 1 year	12,030	8,000
1 to 2 years	2,000	0
Total	40,475	32,681

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

Refinancing and Maturity risk

The Council maintains a significant investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the Council's treasury officers address the operational risks within the approved parameters. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	Amount Outstanding	
	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Maturity analysis of financial liabilities		
Less than 3 months	1,230	1,039
6 months to 1 year	200	200
1 year to 5 years	400	600
More than 38 years	40,000	40,000
Total	<u>41,830</u>	<u>41,839</u>

All other trade creditors are due to be paid in less than one year.

Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, 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 and affect the General Fund Balance.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The Council's treasury officers will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

The interest rate profile of the Council's financial liabilities and assets that are all in sterling is shown in the following table:

Interest Rate Profile	Financial Liabilities £'000	Financial Assets £'000
Non-interest bearing	3,968	1,978
Fixed rate	41,230	40,556
Total	<u>45,198</u>	<u>42,534</u>
Fixed Rate		
Weighted Average Interest Rate (%)	3.50	0.92
Weighted Average Period (in years)	43.00	0.96

Price risk and Foreign exchange risk - The Council has no equity shares or shareholdings, and has no financial assets or liabilities denominated in foreign currencies, and thus has no exposure to fluctuations regarding price and foreign exchange risks.

38. Trust Funds

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

The fund is invested with the Council. It does not represent assets of the Council and is not included in the Balance Sheet. The capital value of the fund is £283,999 at 31 March 2014.

In 2013/14, the fund's income was £1,322 and there was no expenditure. (In 2012/13, the fund's income was £2,487 and there was no expenditure). The fund's only asset was investments with the Council of £283,999 and it had no liabilities.

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

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

	Income £'000	Expenditure £'000	Assets £'000
Sarisbury recreation ground	11	11	land
Swanwick Lane recreation ground	3	3	land
King George V playing fields	2	2	land
Crofton recreation ground	18	18	land
Titchfield recreation ground	16	16	land
Hook & Warsash allotments	5	5	land

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

39. Related Party Transactions

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

Central Government

Central Government has effective control over the general operations of the Council as it is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 8 on reporting for resource allocation decisions and shown in the Grant Income note in Note 9.

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2013/14, 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 2013/14 is shown in Note 13.

Chief Officers

Chief Officers have the ability to influence the Council. During 2013/14, there were no material related party transactions between the Council and Chief Officers.

Portchester Crematorium Joint Committee

The Portchester Crematorium Joint Committee (PCJC) is a jointly controlled operation of the Council. The PCJC manages the operations of Portchester Crematorium. The Joint Committee is represented equally by the four constituent authorities, Fareham Borough Council, Gosport Borough Council, Havant Borough Council and Portsmouth City Council. Further information can be obtained from The Treasurer to the Joint Committee, Civic Offices, Civic Way, Fareham, PO16 7AZ.

Fareham Borough Council's share of the net assets of PCJC is £1,960,000 (2012/13 £1,413,000). In 2013/14, PCJC paid a contribution of £150,000 to the Council (£150,000 in 2012/13). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2014, £940,000 was invested with the Council (£750,000 at 31 March 2013).

Gosport and Fareham Building Control Partnership

The Gosport and Fareham Building Control Partnership provides building control services to both Fareham and Gosport Borough Council. The Partnership has been in operation since 2003. During 2013/14, the Partnership charged Gosport Borough Council £157,931 (2012/13 £146,911) for statutory building control services. The Partnership has a policy of dividing generated surpluses between the two authorities based on fee generating work in each Authority area. At 31 March 2014, the balance of retained surplus for future investment in the service held by Fareham Borough Council was £77,378 and £55,076 held by Gosport Borough Council.

40. Contingent Liabilities

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

41. Cash Flow Statement - Operating Activities (Interest)

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

2012/13 £'000	2013/14 £'000
526 Interest received	586
(1,401) Interest paid	(1,405)
<u>(875)</u>	<u>(819)</u>

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

Restated 2012/13 £'000	2013/14 £'000
5,512 Depreciation and impairment	4,381
(1,457) Downward valuations	(2,615)
29 Amortisation of intangible assets	43
0 Increase/decrease in interest creditors	0
350 Increase/decrease in creditors	1,686
(122) Increase/decrease in interest debtors	155
(840) Increase/decrease in debtors	(417)
(8) Increase/decrease in inventories	4
2,391 Movement in pension liability	2,829
172 Contributions to/(from) provisions	1,369
415 Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised	2,227
<u>1,503</u> Movement in investment property values	<u>1,407</u>
<u>7,945</u>	<u>11,069</u>

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

2012/13 £'000	2013/14 £'000
(1,867) Capital grants credited to surplus/deficit on the provision of services	(1,402)
0 Net adjustment from the sale of short and long term investments	0
(630) Proceeds from the sale of property plant and equipment, investment property and intangible assets	(940)
<u>(2,497)</u>	<u>(2,342)</u>

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

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

	2013/14	Restated 2012/13
	£'000	£'000
Income		
Gross rent income		
- Dwellings	(10,344)	(10,049)
- Other	(249)	(234)
Charges for services and facilities	(614)	(631)
Contributions towards expenditure	(314)	(293)
Total income from service	(11,521)	(11,207)
Expenditure		
Repairs and maintenance	2,640	2,227
Supervision and management	2,617	2,745
Rents, rates, taxes and other charges	33	35
Payment of negative subsidy to Government	0	(4)
Depreciation and impairment of non-current assets (note 8)	482	1,031
Debt management expenses	32	24
Provision for doubtful debts	(22)	82
Total expenditure on service	5,782	6,140
Net expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement	(5,739)	(5,067)
HRA service share of corporate and democratic core	147	139
Net Expenditure for HRA Services	(5,592)	(4,928)
Gain on sale of HRA non-current assets	(319)	(123)
Change in fair value of Investment Properties	0	(68)
Interest payable	1,870	1,864
Interest receivable	(123)	(165)
Pension interest cost	305	311
Capital grants and contributions receivable	(313)	(33)
(Surplus)/Deficit for year on HRA Services	(4,172)	(3,142)

MOVEMENT ON THE HRA STATEMENT

	2013/14	Restated 2012/13
	£'000	£'000
Balance on the HRA at the end of previous year	(4,358)	(4,814)
(Surplus) or Deficit for year on HRA I&E Statement	(4,172)	(3,142)
Remove gain on sale of HRA non-current assets	319	123
Pension reserve contributions	(354)	(313)
Amortisation of premiums and discounts	0	99
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(7)	3
Capital expenditure charged to revenue	0	48
Transfers to/from Major Repairs Reserve	2,443	2,488
Transfers to/from Capital Adjustment Account	(169)	(930)
Adjustments between accounting basis and funding basis under statute	2,232	1,518
Net (increase) or decrease before transfers to or from the reserves	(1,940)	(1,624)
Transfer to/(from) reserves	2,180	2,080
Increase or (decrease) in year on the HRA	240	456
Surplus Carried Forward	(4,118)	(4,358)

The total surplus carried forward excludes balances of:

- Repairs Account;
- Leaseholder Repairs Reserve;
- HRA Capital Grants Unapplied; and
- Capital Development Fund.

which are included within the Movement in Reserves Statement.

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Housing Stock

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

	31 March 2014	31 March 2013
Houses	809.75	818.75
Flats	1,374.00	1,413.00
Bungalows	166.00	165.00
	2,349.75	2,396.75

The reduction in properties is due to the demolition of Collingwood House and 6 properties in Gibraltar Close plus properties sold under right to buy.

2. Value of Housing Revenue Account Property

Council dwellings have been valued in their current use with an allowance for the right to buy. The vacant possession value at 1 April 2013 is £271,830,250. The difference in valuation is the economic cost to the government of providing council housing at less than open market rents.

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

	Council Dwellings £'000	Other Land & Buildings £'000	Plant & Equipment £'000	Assets Under Construction £'000	Total £'000
Movement in Values 2013/14					
Cost or Valuation					
At 1 April 2013	84,769	3,498	38	142	88,447
Additions	1,396			982	2,378
Revaluation Increases/(decreases) to RR	89				89
Revaluation Increases/(decreases) to SDPS	(442)				(442)
Derecognition - Disposals	(584)				(584)
At 31 March 2014	85,228	3,498	38	1,124	89,888
Depreciation and Impairment					
At 1 April 2013	2,411	70	1		2,482
Depreciation Charge	2,373	70	1		2,444
Depreciation written out to SDPS	(2,410)				(2,410)
Derecognition - Disposals	(16)				(16)
At 31 March 2014	2,358	140	2	0	2,500
Net Book Value					
At 31 March 2014	82,870	3,358	36	1,124	87,388
At 31 March 2013	82,358	3,428	37	142	85,965

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

Movement in Values 2012/13	Council Dwellings £'000	Other Land & Buildings £'000	Plant & Equipment £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation					
At 1 April 2012	84,273	3,218	38	51	87,580
Additions	946			254	1,200
Revaluation Increases/(decreases) to RR	22	292			314
Revaluation Increases/(decreases) to SDPS	(355)				(355)
Recognition - Other	163			(163)	0
Derecognition - Disposals	(280)	(12)			(292)
At 31 March 2013	84,769	3,498	38	142	88,447
Depreciation and Impairment					
At 1 April 2012	1,813	64			1,877
Depreciation Charge	2,418	70	1		2,489
Depreciation written out to RR	(216)	(64)			(280)
Depreciation written out to SDPS	(1,596)				(1,596)
Derecognition - Disposals	(8)				(8)
At 31 March 2013	2,411	70	1	0	2,482
Net Book Value					
At 31 March 2013	82,358	3,428	37	142	85,965
At 31 March 2012	82,460	3,154	38	51	85,703

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

3. Investment Properties

Movement in Fair Value of HRA Investment Properties

	2013/14 £'000	2012/13 £'000
Balance at 1 April	106	38
Net gains/losses from fair value adjustments	0	68
Balance at 31 March	<u>106</u>	<u>106</u>

4. Major Repairs Reserve

	2013/14 £'000	2012/13 £'000
Balance at 1 April	2,650	1,251
Receipts in year	2,442	2,488
Used in year:		
- Houses and flats	(2,044)	(1,089)
Balance at 31 March	<u>3,048</u>	<u>2,650</u>

5. Housing Repairs Account

	2013/14 £'000	2012/13 £'000
Balance at 1 April	1,800	1,800
Contribution from Housing Revenue Account	2,510	2,127
Other Income	44	38
Expenditure	<u>(2,554)</u>	<u>(2,165)</u>
Balance at 31 March	<u>1,800</u>	<u>1,800</u>

6. Capital Financing

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

	Houses and Flats £'000	Assets under Construction £'000	Total £'000
Capital Receipts	21	0	21
Government Grants	0	313	313
Major Repairs Reserve	<u>1,375</u>	<u>668</u>	<u>2,043</u>
Expenditure in 2013/14	<u>1,396</u>	<u>981</u>	<u>2,377</u>

7. Capital Receipts

Capital receipts from the sale of Housing Revenue Account property in the year were as follows:

	2013/14 £'000	2012/13 £'000
Right to buy sales of houses and flats	<u>887</u>	<u>406</u>
	<u>887</u>	<u>406</u>

8. Depreciation and Impairment

		2013/14 £'000	2012/13 £'000
Depreciation	Dwellings	2,373	2,417
	Garages	70	70
	Plant & Equipment	1	1
	Total	<u>2,444</u>	<u>2,488</u>
Amortisation	Intangible asset	<u>5</u>	<u>0</u>
Impairment	Dwellings	<u>785</u>	<u>140</u>
	Total	<u>785</u>	<u>140</u>
Revaluation gain	Dwellings	<u>(2,752)</u>	<u>(1,597)</u>
	Total	<u>(2,752)</u>	<u>(1,597)</u>
Total charge		<u>482</u>	<u>1,031</u>

The impairment charge in 2013/14 relates to the demolished units at Collingwood House and Gibraltar Close.

For 2013/14, there has been no change to the adjustment factor applied to the market value of properties to derive the Existing Use-Social Housing Valuation but there has been an increase in market values. This is represented by the revaluation gain.

9. Capital Asset Charges Accounting Adjustment

The HRA is debited with a sum equal to the impairment, depreciation of dwellings and other assets held within the account.

10. Arrears

At 31 March 2014, arrears were 3.99% of the gross income due in the year. 2013/14 was a 53 week rent year and 2012/13 a 52 week rent year. The arrears figures are as follows:

	2013/14	2012/13
	£'000	£'000
Arrears at 31 March	437	459
Gross incomes	10,951	10,704
Provision for uncollectable rents	374	370
Arrears as a percentage of gross income	3.99%	4.29%

THE COLLECTION FUND

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

	2013/14		2012/13	
	£'000	£'000	£'000	£'000
	Council Tax	Business Rates	Total	Total
Income				
Council Tax (notes 1 and 2)				
Billed to Taxpayers	56,962			55,910
Council Tax Benefits				4,281
Non-Domestic Rates - Due (note 3)		40,644		
Transitional Protection Payments		(397)		37,338
	56,962	40,247	97,209	97,529
Expenditure				
Collection Fund Surplus/(Deficit) in Previous Year (note 5)				
Central Government				
Fareham Borough Council	28			49
Hampshire County Council	207			364
Police and Crime Commissioner for Hampshire	29			51
Hampshire Fire and Rescue	12			21
	276	0	276	485
Precepts, Demands and Shares				
Central Government		18,085		
Fareham Borough Council	5,643	14,468		6,095
Hampshire County Council	41,768	3,255		45,111
Police and Crime Commissioner for Hampshire	6,087	362		6,357
Hampshire Fire and Rescue	2,470			2,668
	55,968	36,170	92,138	60,231
Charges to the Collection Fund				
Payment to National Pool				37,195
Cost of Collection Allowance		143		143
(Increase)/Decrease in Appeals Provision		3,377		0
(Increase)/Decrease in Bad Debt Provision	5	(57)		123
Write Off of Uncollectable Amounts	96	469		(23)
	101	3,932	4,033	37,438
	56,345	40,102	96,447	98,154
Fund balance brought forward at 1 April	136	0	136	761
Surplus/(Deficit) for the Year	617	145	762	(625)
Fund balance carried forward at 31 March	753	145	898	136

NOTES TO THE COLLECTION FUND

1. Council Tax

Council tax income derives from the charges raised according to the value of residential properties, classified into eight valuation bands 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; 40,244 for 2013/14 (43,465 for 2012/13). 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:

	2013/14	2012/13
	£	£
Fareham Borough Council	140.22	140.22
Police & Crime Commissioner for Hampshire	151.25	146.25
Hampshire Fire and Rescue Authority	61.38	61.38
Hampshire County Council	1,037.88	1,037.88
Total	<u>1,390.73</u>	<u>1,385.73</u>

Council tax bills were based on the following proportions for Bands A to H;

Band A	6/9
Band B	7/9
Band C	8/9
Band D	9/9
Band E	11/9
Band F	13/9
Band G	15/9
Band H	18/9

2. Non-Domestic Rates (NDR)

NDR is organised on a national basis. The Government specifies a rate in the £ (in 2013/14, 46.2p for small businesses and 47.1p for large; in 2012/13, 45.0p for small businesses and 45.8p 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 2014 was £102,381,887 (£103,927,458 as at 31 March 2013). This rateable value is based on the valuation list effective from 1 April 2010.

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

From 2013/14 a new system of Retained Business Rates has been introduced, changing the way in which this funding stream is received. During the year the Council collects business rates due in the usual way, but instead of paying this 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 2013/14 the Business Rates Baseline was £16,265,235 and the Baseline funding level was £1,684,805.

3. Collection Fund Balance

The Collection Fund balance attributable to the Council and the amounts payable to precepting authorities are as follows:

	2013/14 £'000	2012/13 £'000
Fareham Borough Council	134	14
Precepting Authorities	<u>764</u>	<u>122</u>
Total	<u>898</u>	<u>136</u>

4. Collection Fund - Balance Sheet Items

The accounting code reflects the view that billing authorities in England act as agents, collecting council tax on behalf of major preceptors and itself. This means that NDR and council tax transactions and balances need to be allocated between the billing council and major preceptors.

The Council has accounted for the Collection Fund balances in the Statement of Accounts by showing the balances which are attributable to the Council as follows:

Council Tax

- In the Balance Sheet at 31 March 2014, a debtor of £264,054 (£266,362 in 2012/13) has been shown within debtors as Council Tax payers' arrears and a creditor of £44,230 (£41,313 for 2012/13) has been shown within creditors as Council Tax payers in advance.
- There is also a creditor totalling £226,454 (debtor of £374,863 for 2012/13) included within debtors as Local Authorities. This represents the balance of the Council Tax Collection Fund surplus and Balance Sheet items which is attributable to the major preceptors.

NDR

- In the Balance Sheet at 31 March 2014, a debtor of £316,369 has been shown within debtors as Business rates arrears and a creditor of £147,482 has been shown within creditors as Business rates in advance.
- There is also a creditor totalling £2,113,397 included within creditors as Government Departments and Local Authorities. This represents the balance of the NDR Collection Fund surplus and Balance Sheet items which is attributable to the major preceptors.
- In 2012/13 NDR debtors and creditors were not recognised in the Council's Balance Sheet, the NDR balances were accounted for in the statement by showing the net total of the NDR balance sheet items and the amount due from the Government as at 31 March 2013 as a debtor of £1,304,578 within Government Departments.

5. Collection Fund - Movement in Reserves Statement

In the Movement in Reserves Statement, there is line for attributable movement on the Collection Fund balance to record a movement of £75,839 (£66,325 in 2012/13). This is because the accounting code requires that the Collection Fund income shown in the Comprehensive Income and Expenditure Statement for the year is the accrued income for the year instead of the amount that under regulation to be transferred to the General Fund.

GLOSSARY OF TERMS

Accruals

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

Actuarial Gains and Losses

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

Amortised Cost

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

Carrying Amount

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

Cash and Cash Equivalents

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

Community Assets

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

Contingency

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

Corporate and Democratic Core

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

Current Service Costs (Pensions)

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

Defined Benefit Scheme

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

Depreciation

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

Depreciated Replacement Cost (DRC)

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

Discretionary Benefits

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

Exceptional Items

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

Expected rate of return on pensions assets

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

Fair Value

The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Finance Lease

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

Government Grants

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

Heritage Assets

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

Historical Cost

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

Infrastructure Assets

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

Interest Cost (Pensions)

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

Investments (Non Pensions Fund)

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

Investments (Pensions Fund)

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

Investment Properties

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

Material

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding

circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Net Book Value

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

Net Current Replacement Cost

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

Non-Current Assets

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

Non-Operational Asset

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

Operating Leases

A lease other than a finance lease.

Operational Assets

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

Past Service Costs

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

Post Balance Sheet Events

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

Prior Year Adjustments

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

Projected Unit Method

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

Property, Plant and Equipment

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

Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

Related parties

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

Retirement benefits

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

Scheme liabilities

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

Useful Life

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

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

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

HOW TO CONTACT US

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