



FAREHAM BOROUGH
COUNCIL

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STATEMENT OF ACCOUNTS

**for the year ended
31st March 2012**

STATEMENT OF ACCOUNTS

**for the year ended
31st March 2012**

A. WANNELL CPFA

DIRECTOR OF FINANCE & RESOURCES

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ALL ABOUT US

Where is Fareham?

The Borough of Fareham lies on the Solent coastline between the cities of Southampton and Portsmouth covering an area of almost 30 square miles and has a population of 109,000 people

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 two political groups within Fareham Borough Council; Conservatives and Liberal Democrats and three independent councillors.

THE EXPLANATORY FOREWORD

1. Introduction

Fareham Borough Council's accounts for the year 2011/12 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 liabilities. The Comprehensive Income and Expenditure shown represents the total movement in the Council's reserves during the year.

The Balance Sheet which sets out the Council's financial position as at 31 March 2012. It discloses the assets and liabilities for all Council services.

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 which summarises the inflows and outflows of cash arising from transactions with third parties.

In addition, the supplementary financial statements are shown on pages 67 and 74 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 Hampshire County Council, Hampshire Fire and Rescue Authority, Hampshire Police Authority 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	18,188	18
Government grants to services	22,947	23
Council tax payers	6,029	6
Central Government Funding	5,044	5
Use of reserves and corporate income	49,506	48
Total	<u>101,714</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	14,648	14
Running expenses	10,865	11
Transfer payments	24,705	24
Capital charges and costs	51,496	51
Total	<u>101,714</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). Capital charges and costs include a one-off cost of £49.268 million relating to HRA debt (see note 6 below).

4. The Services Provided

The gross expenditure of the main services provided by the Council and the revised budget for 2011/12 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)	6,356	6,565	209
Cultural and related services	3,740	3,205	(535)
Environmental and regulatory services	5,813	6,127	314
Planning services	3,243	3,284	41
Highways and transport services	1,957	2,190	233
Local authority housing (HRA)	57,466	11,362	(46,104)
Other housing services (e.g. housing strategy and advice, housing benefit administration)	20,017	21,111	1,094
Corporate and democratic core	2,970	2,773	(197)
Non-distributed costs (e.g. pension adjustments)	152	230	78
Total	<u>101,714</u>	<u>56,847</u>	<u>(44,867)</u>

The main variation relates to the Housing Revenue Account which is explained in note 6. This variation does not impact on council tax levels as it is adjusted within the Movement in Reserves Statement.

5. Capital

In 2011/12, the Council spent £6.9 million on projects in the capital programme, compared with the budget of £10.4 million. The net under spending of £3.5 million was mainly the result of changes to the phasing of the programme with expenditure now expected to occur in 2012/13.

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

Capital Expenditure:	£'000	%
Council Housing	2,861	41.7
Council Buildings	1,347	19.6
Vehicles, Plant & Equipment	869	12.7
Other Housing	683	9.9
Leisure Services	625	9.1
Information, Communication & Technology	207	3.0
Solar Panels	89	1.3
Town Centre Development	83	1.2
Public Conveniences	42	0.6
Other Services	34	0.5
CCTV	28	0.4
Total	<u>6,868</u>	<u>100</u>
Financed by:	£'000	%
Revenue and Reserves	2,888	42
Government Grants	1,748	25
Capital Receipts	1,207	18
External Contributions	1,025	15
Total	<u>6,868</u>	<u>100</u>

£2.4 million of this 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 2012 was £155 million.

6. Exceptional Item

During 2011/12, the Council took on debt of £49.268 million to leave the Housing Revenue Account Subsidy System. £40 million of long term loans for between 40 and 50 years were borrowed from the Public Loans Work Board (PWLB) and £9.268 million from internal borrowing which has reduced the Council's investments to £33 million at 31 March 2012. The effect on the accounts is that in future years negative subsidy will not be paid to Central Government. This will be replaced by paying interest each year on the debt and providing for future repayment of the principal borrowed.

7. Reserves

The Council's total usable reserves at 31 March 2012 amounted to £35.6 million (2010/11 £32.9 million). Against this, the actuarial valuation of the Council's share of pension fund assets and liabilities at 31 March 2012 indicated a £53.6 million (2010/11 £41 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. Actual employer's contributions exceed current service costs therefore, there was a positive net revenue position for the pension fund in 2011/12 of £181,000 (2010/11 £240,000). 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.

8. Significant Change in Accounting Policy

For the 2011/12 Statement of Accounts, the Council has adopted Financial Reporting Standard 30 (FRS 30) on Heritage Assets. Heritage Assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained primarily for the contribution they make to knowledge and culture. FRS 30 has resulted in a change in accounting policy and the reclassification of some sculptures and structures from Community Assets to Heritage Assets. The Code of Practice on Local Authority Accounting requires the Council to apply a change in accounting policy retrospectively as if the policy had always been in place. This requires an additional Balance Sheet at the beginning of the earliest comparative period which is 1 April 2010 in this Statement.

9. Significant Developments during the Year

Despite difficult operating conditions, the Council has continued to improve the level of customer service provided, and has been taking steps to maintain its financial standing.

General Government support reduced by £0.5 million in the year (like-for-like compared to 2010/11), and a further reduction of £0.6 million was identified for the following financial year, 2012/13. Additionally, a number of service pressures were observed, which added to the budgetary challenges.

In the year, the Council published a new Corporate Strategy, describing the priorities for the period 2011 – 2017 and emphasising the commitment to ensure that the borough remains a prosperous safe and attractive place to live and work. The strategy affirmed the Council's overall priority to ensure that it offers good value for money by providing high quality services and maintaining high levels of resident satisfaction, whilst keeping council tax levels low when compared to other district councils.

To maintain the Council's position and provide the necessary resilience, a medium term financial strategy was agreed during the autumn 2011, which led to the development of a detailed efficiency programme to deliver £0.6m of cost reductions, focussing on priorities, people, proceeds and procurement.

While a number of significant funding developments and financial pressures face the Council during the forthcoming year, the budget setting process is expected to be flexible enough to prevent significant changes to public services in the foreseeable future.

10. 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.
- to manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- to 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 2012.

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 2012 and its income and expenditure for the year then ended.

Signed:



A Wannell CPFA
Director of Finance and Resources

Date: 24 September 2012

CONFIRMATION OF APPROVAL BY MEMBERS

I confirm that these accounts were approved by the Audit and Governance Committee at the meeting held on 24 September 2012.

Signed on behalf of Fareham Borough Council:

A handwritten signature in black ink that reads "Jim Knight". The signature is written in a cursive style with a period at the end.

Chairman of Audit and Governance Committee
Fareham Borough Council

Date: 24 September 2012

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the income and expenditure to the Council in the year on the provision of services and other operating activities. The total Comprehensive Income and Expenditure represents the total movement on net assets within the Balance Sheet. The statement includes some costs and income that are not allowed to be charged as income and expenditure to the General Fund (the account used to set the level of Council Tax). This means that to make a comparable presentation of the performance of the Council during the year it is necessary to adjust the surplus or deficit on the Comprehensive Income and Expenditure Statement to derive the movement on the General Fund. These adjustments are shown in the Movement in Reserves Statement and analysed in note 6.

2010/11			2011/12			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
6,855	(5,361)	1,494	Central services to the public	6,356	(5,158)	1,198
3,133	(461)	2,672	Cultural and related services	3,740	(544)	3,196
6,077	(1,634)	4,443	Environment and regulatory services	5,813	(1,978)	3,835
2,951	(913)	2,038	Planning services	3,243	(1,060)	2,183
3,225	(3,961)	(736)	Highways and transport services	1,957	(3,168)	(1,211)
9,071	(10,178)	(1,107)	Local authority housing (HRA)	8,198	(10,642)	(2,444)
28,106	0	28,106	- Exceptional costs for HRA (note 9)	49,268	0	49,268
19,494	(17,818)	1,676	Other housing services	20,017	(18,645)	1,372
3,636	(264)	3,372	Corporate and democratic core	2,970	(255)	2,715
12	0	12	Non distributed costs	152	(2)	150
			- Exceptional costs for change in pension liability (note 9)	0	0	0
(12,940)	0	(12,940)	Cost of Services	101,714	(41,452)	60,262
69,620	(40,590)	29,030				
			Other Operating Expenditure			
			(269) (Gain) or loss on disposal of assets			284
			187 Housing capital receipts to Government pool			206
			Financing and Investment Income and Expenditure			
			5 Interest payable and similar charges			23
			(696) Interest receivable			(774)
			1,930 Pension interest cost and expected return on assets (note 17)			1,290
			(22) Changes in fair value of investment properties			1,037
			(2,076) Investment properties rental and expenses (note 19)			(2,308)
			Taxation and Non-Specific Grant Income			
			(6,029) Income from the Collection Fund			(6,029)
			(1,832) Government grants not distributable to services (note 8)			(3,404)
			(5,445) Distribution from the NNDR pool			(3,522)
		14,783	(Surplus) or Deficit on Provision of Services			47,065
			Surplus or deficit on revaluation of Property, Plant and Equipment assets			(4,592)
			(4,810) Actuarial (gains)/losses on pension assets/liabilities			11,580
			(69) Other			16
		(3,824)	Other Comprehensive Income and Expenditure			7,004
		10,959	Total Comprehensive Income and Expenditure			54,069

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.

(As Restated)			31 March	
1 April	31 March		2012	Notes
2010	2011		£'000	
£'000	£'000			
		Property, Plant and Equipment		18
111,503	80,372	- Council dwellings	82,460	
28,042	29,635	- Other land and buildings	32,903	
2,982	2,983	- Infrastructure	2,602	
2,650	2,636	- Vehicles, plant, furniture, equipment	3,622	
342	339	- Community assets	359	
261	254	Heritage assets	210	20
33,288	33,310	Investment properties	32,090	19
0	143	Assets under construction	409	18
233	135	Surplus assets held for disposal	135	18
103	109	Intangible assets	106	21
7,000	3,000	Long term investments	5,000	36
94	91	Long term debtors	87	27
186,498	153,007	Long term assets	159,983	
16,228	32,244	Short term investments	17,182	36
58	15	Assets held for sale	90	22
26	24	Inventories	23	
6,091	3,060	Short term debtors	2,510	28
144	65	Payments in advance	63	
11,649	5,198	Cash and cash equivalents	10,391	26
34,196	40,606	Current assets	30,259	
(3,021)	(2,837)	Short term borrowing	(1,671)	36
(3,510)	(3,992)	Short term creditors	(3,630)	29
(66)	(52)	Depositors	(874)	30
(307)	(243)	Provisions	(287)	31
(6,904)	(7,124)	Current liabilities	(6,462)	
		Receipts in advance		32
(4,384)	(4,349)	- Capital grants	(4,117)	
(1,493)	(1,445)	- Revenue grants	(413)	
0	0	Long term borrowing	(40,000)	36
(57,250)	(40,990)	Pension scheme liability	(53,615)	17
(63,127)	(46,784)	Long term liabilities	(98,145)	
150,663	139,705	Net assets	85,635	
30,680	32,886	Usable reserves	35,572	33
119,983	106,819	Unusable reserves	50,063	35
150,663	139,705	Total Reserves	85,635	

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into usable reserves and unusable reserves. Usable reserves are used in the provision of services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). Unusable reserves are not used in the provision of services. This includes reserves that hold unrealised gains and losses (e.g. 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 'Adjustments between accounting basis and funding basis under regulations'. Movements during the year come from the Comprehensive Income and Expenditure Statement. These are then adjusted by the difference between the accounting basis and the funding basis by transfers between the General Fund and the other reserves. This is shown more fully in note 6.

	General Fund Balance £'000	Earmarked General Fund 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 2011	5,201	7,213	6,684	1,012	12,667	109	32,886	106,819	139,705
Movement in reserves during 2011/12									
Surplus/(deficit) on provision of services	(328)	2	(46,739)	0	0	0	(47,065)	0	(47,065)
Other Comprehensive Income and Expenditure	(15)						(15)	(6,989)	(7,004)
Total Comprehensive Income & Expenditure	(343)	2	(46,739)	0	0	0	(47,080)	(6,989)	(54,069)
Adjustments between accounting basis and funding basis under regulations	3,059	0	46,920	239	(413)	(38)	49,767	(49,767)	0
Net increase/(decrease) before transfers to earmarked reserves	2,716	2	181	239	(413)	(38)	2,687	(56,756)	(54,069)
Transfers to/from earmarked reserves	(1,595)	1,597	(1)	0	(1)	(1)	(1)	0	(1)
Increase/(decrease) in 2011/12	1,121	1,599	180	239	(414)	(39)	2,686	(56,756)	(54,070)
Balance at 31 March 2012 carried forward	6,322	8,812	6,864	1,251	12,253	70	35,572	50,063	85,635

	General Fund Balance £'000	Earmarked General Fund 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 2010	7,607	4,091	5,486	215	13,242	39	30,680	119,983	150,663
Movement in reserves during 2010/11									
Surplus/(deficit) on provision of services	10,020	0	(24,803)	0	0	0	(14,783)	0	(14,783)
Other Comprehensive Income and Expenditure	0	67	0	0	0	0	67	3,757	3,824
Total Comprehensive Income and Expenditure	10,020	67	(24,803)	0	0	0	(14,716)	3,757	(10,959)
Adjustments between accounting basis and funding basis under regulations	(9,373)	0	26,002	796	(575)	70	16,920	(16,920)	0
Net increase/(decrease) before transfers to earmarked reserves	647	67	1,199	796	(575)	70	2,204	(13,163)	(10,959)
Transfers to/from earmarked reserves	(3,053)	3,055	(1)	1	0	0	2	(1)	1
Increase/(decrease) 2010/11	(2,406)	3,122	1,198	797	(575)	70	2,206	(13,164)	(10,958)
Balance at 31 March 2011 carried forward	5,201	7,213	6,684	1,012	12,667	109	32,886	106,819	139,705

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.

2010/11 £'000	2011/12 £'000	Notes
(14,783) Net surplus or (deficit) on the provision of services	(47,065)	
Adjustments to surplus or deficit on the provision of services for non- 20,372 cash movements	4,873	42
Adjust for items included in the net surplus or deficit on the provision of (1,503) services that are investing and financing activities	(2,084)	43
4,086 Net Cash flows from operating activities	(44,276)	41
Investing Activities		
Purchase of Property, Plant and Equipment, Investment Property and (3,407) Intangible Assets	(3,932)	
(79,000) Purchase of short-term and long-term investments	(44,000)	
0 Other payments for investing activities	0	
Proceeds from the sale of Property, Plant and Equipment, Investment 521 Property and Intangible Assets	992	
67,000 Proceeds from short-term and long-term investments	57,000	
1,025 Other receipts from investing activities	1,008	
(13,861) Net Cash flows from Investing Activities	11,068	
Financing Activities		
341 Cash receipts of short and long-term borrowing	40,222	
3,508 Other receipts from financing activities	(418)	
(525) Repayments of short and long-term borrowing	(1,403)	
3,324 Net Cash flows from Financing Activities	38,401	
(6,451) Net increase or decrease in cash and cash equivalents	5,193	
11,649 Cash and cash equivalents at the beginning of the reporting period	5,198	26
5,198 Cash and cash equivalents at the end of the reporting period	10,391	

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 2011/12 financial year and its position at the year-end of 31 March 2012. 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 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2011 Act.

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.

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 seven components:

- **current service cost:** this is the increase in liabilities as a result of the number of years of service earned this year. This is shown as a cost to the services that the employees provide.
- **past service cost:** this is the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. This is shown as a non-distributed cost.
- **interest cost:** this is the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is shown as a financing cost within the Comprehensive Income and Expenditure Statement.
- **expected return on assets:** this is the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return. This is shown as investment income within the Comprehensive Income and Expenditure Statement.
- **gains or losses on settlements and curtailments:** this is the result of members of the scheme leaving, joining or stopping their contributions to the scheme. These actions relieve the Council of liabilities or reduce the expected future service or accrual of benefits of employees. This is shown as a non-distributed cost.
- **actuarial gains and losses:** these are 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. These are shown as other income and expenditure within the Comprehensive Income and Expenditure Statement.
- **contributions paid to the Hampshire County Council pension fund:** these are amounts paid as employer contributions to the pension fund and are included within the cost of services.

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 2011/12 (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 land, property or equipment below this amount is not recorded as an asset. The exception to this is DSO vehicle and plant purchases which must be over £5,000.

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 that 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 as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, 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
- 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 housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) 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 then reverses out the amounts charged so that 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 it is recoverable from Her Majesty's Revenue and Customs.

2. 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. There is one such standard which relates to amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010).

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period. The effective date of the standard was 1 July 2011 but we are not required by the Code to implement this amended disclosure requirement until 1 April 2012.

Following a review of the Council's financial assets and liabilities at 31 March 2012, it is considered unlikely that the IFRS 7 accounting standard will have a material impact on the financial statements of the Council.

3. 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 is classified as an associate of the Council and under the Code the Council would normally prepare Group Accounts. Group Accounts have not been produced as the differences between the Council's group and single entity accounts would be very minor.

4. 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 materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2012 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 buildings would increase by £154,200 for every year that useful lives had to be reduced.

Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £8.75 million. However, the assumptions interact in complex ways. During 2011/12, the Council's actuaries advised that the net pensions liability had increased by £0.91 million as a result of estimates being corrected as a result of experience and increased by £9.03 million attributable to updating of the assumptions.
Financial Assets and Liabilities	Estimation of fair values for financial assets and liabilities are based on current lending rates for equivalents 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 2011/12 (2010/11 £1.81 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 (2010/11 £90,000).
Provisions	The Council has made provisions for outstanding insurance claims and accumulated absences. For 2011/12, the calculation for accumulated absences is based on 20% of the workforce.	A 10% increase or decrease in provisions would require an adjustment of £28,700 (2010/11 £24,300).

5. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Director of Finance and Resources on 24 September 2012. 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 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. 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 -----						Unusable Reserves £'000
	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
2011/12							
Capital Adjustment Account Adjustments							
Depreciation and impairment of non-current assets	1,860		2,180				(4,040)
Revaluation losses on Property, Plant and Equipment			(2,372)				2,372
Revaluation of Investment Properties	946		90				(1,036)
Amortisation of intangible assets	38						(38)
Capital grants and contributions applied	(942)		(32)		6		968
HRA Buyout debt payment			49,268				(49,268)
Revenue expenditure funded from capital under statute	731						(731)
Property written out on disposal	1,150		141				(1,291)
Capital expenditure charged to the General Fund and HRA balances	(1,307)						1,307
Capital Grants Unapplied Account Adjustments							
Capital grants and contributions unapplied	(7)					7	
Application of grants to capital financing transferred to Capital Adjustment Account			(124)			(45)	169
Capital Receipts Reserve Adjustments							
Proceeds from disposal of property	(713)		(279)		992		
Capital Receipts applied					(1,207)		1,207
Housing Capital Receipts					2		(2)
Payments to the Government housing capital receipts pool	206				(206)		
Major Repairs Reserve Adjustments							
Major Repairs Allowance credited to HRA			(1,815)	1,815			
Major Repairs Reserve to finance new capital expenditure				(1,576)			1,576
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			(168)				168
Pensions Reserve Adjustments							
Net charges for retirement benefits	3,073		47				(3,120)
Employer's contribution to Pension Fund/directly to pensioners	(2,046)		(29)				2,075
Collection Fund Adjustment Account							
Collection Fund adjustment	34						(34)
Accumulated Absences Account Adjustments							
Accumulated Absences adjustment	36		13				(49)
Total Adjustments	3,059	0	46,920	239	(413)	(38)	(49,767)

	----- Usable Reserves -----						
	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
2010/11							
Capital Adjustments Account Adjustments							
Depreciation and impairment of non-current assets	1,023		2,208				(3,231)
Revaluation losses on Property, Plant and Equipment			28,106				(28,106)
Revaluation of Investment Properties	(22)		0				22
Amortisation of intangible assets	39		0				(39)
Capital grants and contributions applied	(744)		(143)				887
Revenue expenditure funded from capital under statute	721						(721)
Property written out on disposal	46		204				(250)
Capital expenditure charged to the General Fund and HRA balances	(941)						941
Capital Grants Unapplied Account Adjustments							
Capital grants and contributions unapplied	(90)					90	
Capital grants and contributions applied						(20)	20
Capital Receipts Reserve Adjustments							
Proceeds from disposal of property	(45)		(473)		518		
Capital Receipts applied					(906)		906
Payments to the Government housing capital receipts pool	187				(187)		
Major Repairs Reserve Adjustments							
Major Repairs Allowance credited to HRA			(1,765)	1,765			
Major Repairs Reserve to finance new capital expenditure				(969)			969
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			(171)				171
Pension Reserve Adjustments							
Net charges for retirement benefits	(7,053)		(1,977)				9,030
Employer's contribution to Pension Fund/directly to pensioners	(2,420)						2,420
Collection Fund Adjustment Account							
Collection Fund adjustment	(49)						49
Accumulated Absences Account Adjustments							
Accumulated Absences adjustment	(25)		13				12
Total Adjustments	(9,373)	0	26,002	796	(575)	70	(16,920)

7. 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 16 July 2012 for year ended 31 March 2012 and 25 July 2011 for year ended 31 March 2011 to the net cost of services shown in the Comprehensive Income and Expenditure Account.

For Year Ended 31 March 2012	L&RAC		Public		Street-		SP&E		Grand	
	£'000	£'000	Housing	Protection	PSF	scene	PC	HRA	Total	
Fees, Charges & Other										
Service Income	(298)	(520)	(324)	(521)	(3,764)	(1,463)	(2,773)	(481)	(10,586)	(20,730)
Government Grants	0	0	(561)	0	(22,286)	0	(100)	0	0	(22,947)
Total Income	(298)	(520)	(885)	(521)	(26,050)	(1,463)	(2,873)	(481)	(10,586)	(43,677)
Employee Expenses	437	320	675	1,169	2,663	2,291	827	658	1,279	10,319
Other Operating Expenses	11	1,426	1,202	1,180	24,989	2,470	964	169	57,648	90,059
Support Service Recharges	150	446	224	644	1,406	724	281	231	747	4,853
Total Operating Expenses	598	2,192	2,101	2,993	29,058	5,485	2,072	1,058	59,674	105,231
Net Cost to Services	300	1,672	1,216	2,472	3,008	4,022	(801)	577	49,088	61,554

For Year Ended 31 March 2011	L&RAC		Public		Street-		SP&E		Grand	
	£'000	Community	Protection	PSF	scene	PC	HRA	Total		
Fees, Charges & Other										
Service Income	(258)	(583)	(441)	(1,999)	(1,447)	(2,992)	(314)	(11,970)	(20,004)	
Government Grants	0	(433)	0	(21,774)	0	(892)	0	0	(23,099)	
Total Income	(258)	(1,016)	(441)	(23,773)	(1,447)	(3,884)	(314)	(11,970)	(43,103)	
Employee Expenses	437	880	899	(9,796)	2,291	1,076	735	1,291	(2,187)	
Other Operating Expenses	194	2,291	334	23,941	3,048	3,056	41	35,301	68,206	
Support Service Recharges	150	621	512	1,672	724	548	303	730	5,260	
Total Operating Expenses	781	3,792	1,745	15,817	6,063	4,680	1,079	37,322	71,279	
Net Cost to Services	523	2,776	1,304	(7,956)	4,616	796	765	25,352	28,176	

In 2011/12 changes were made to the portfolio structure taking effect from May 2011.

L&RAC = Licensing and Regulatory Affairs Committee

L&C = Leisure and Community

PSF = Policy Strategy and Finance

SP&E = Strategic Planning and Environment

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 2011/12	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	(20,730)	(140)	(440)	4,910	(75)	(16,475)	(2,308)	(18,783)
Interest and Investment Income						0	(751)	(751)
Income from Council Tax						0	(6,029)	(6,029)
Government Grants	(22,947)		60	149		(22,738)	(6,926)	(29,664)
Total Income	(43,677)	(140)	(380)	5,059	(75)	(39,213)	(16,014)	(55,227)
Employee Expenses	10,319		(185)		3,202	13,336		13,336
Other Operating Expenses	90,059	263	253	(3,814)	1,729	88,490	2,327	90,817
Support Service Recharges	4,853		(139)		(4,856)	(142)		(142)
Depreciation, Amortisation & Impairment			(2,072)	(137)		(2,209)		(2,209)
Payments to Housing Capital Receipts Pool						0	206	206
Gain or Loss on Disposal of Non-Current Assets						0	284	284
Total Operating Expenses	105,231	263	(2,143)	(3,951)	75	99,475	2,817	102,292
Surplus or Deficit on the provision of services	61,554	123	(2,523)	1,108	0	60,262	(13,197)	47,065

Reconciliation to Subjective Analysis 2010/11	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	(20,004)	(135)			(23)	(20,162)		(20,162)
Interest and Investment Income						0	(691)	(691)
Income from Council Tax						0	(6,029)	(6,029)
Government Grants	(23,099)					(23,099)	(7,277)	(30,376)
Total Income	(43,103)	(135)	0	0	(23)	(43,261)	(13,997)	(57,258)
Employee Expenses	(2,187)				3,823	1,636		1,636
Other Operating Expenses	68,206		(978)		1,681	68,909		68,909
Support Service Recharges	5,260				(5,481)	(221)		(221)
Depreciation, Amortisation & Impairment				(131)		(131)		(131)
Precept & Levies						0	1,930	1,930
Payments to Housing Capital Receipts Pool						0	187	187
Gain or Loss on Disposal of Non-Current Assets						0	(269)	(269)
Total Operating Expenses	71,279	0	(978)	(131)	23	70,193	1,848	72,041
Surplus or Deficit on the provision of services	28,176	(135)	(978)	(131)	0	26,932	(12,149)	14,783

8. Grant Income

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

	2011/12 £'000	2010/11 £'000
Service Specific Revenue Grants and Contributions (included in Cost of Services)		
Department for Works and Pensions:		
- Rent Allowances Subsidy	11,865	11,371
- Rent Rebates	5,682	5,421
- Council Tax Benefit Subsidy	4,276	4,517
- Housing and Council Tax Benefit Administration	519	555
- Discretionary Housing Payments	20	13
Department for Communities and Local Government		
- Disabled Facilities Grant	292	254
- Eco-Town Grant	0	100
- Land Charges New Burdens Grant	0	34
- Homelessness Initiatives	30	51
- NNDR Collection	3	8
- NNDR Collection Allowance	144	145
Department for Transport		
- Concessionary Travel	0	742
Environment Agency		
- Property Level Flood Protection Grant	0	50
Homes and Communities Agency		
- SDA Studies	100	50
- Coldeast Close	100	0
Hampshire County Council		
- Community Safety Partnership	15	78
- Community Development	271	32
- Town Centre TRO	47	0
- Bus Shelters	3	0
Other		
- Partnership for Urban South Hampshire	65	130
- Whiteley Joint Fund	70	58
- Big Lottery	50	36
- Portchester Crematorium	140	135
- Developer Contributions	153	100
- Hampshire Constabulary	0	15
	<u>23,845</u>	<u>23,895</u>

	2011/12 £'000	2010/11 £'000
Credited to Taxation and Non Specific Grant Income		
Department for Communities and Local Government		
- NNDR Entitlement	3,522	5,445
- Revenue Support Grant	1,089	791
- Council Tax Freeze Grant	150	0
- New Homes Bonus	227	0
- Area Based Grant	0	57
- Local Performance Service Agreement	0	1
- Local Services Support Grant	57	0
Homes and Communities Agency		
- National Affordable Housing Programme	117	150
Environment Agency		
- Property Level Flood Protection Grant	0	171
Hampshire County Council		
- Play Builder Grant	0	90
Other		
- Big Lottery	0	75
- Developer Contributions	1,758	499
Total	<u>6,920</u>	<u>7,279</u>

9. Exceptional Items

HRA Debt Buyout

During 2011/12, the Council took on debt of £49.268 million to leave the Housing Revenue Account Subsidy System. £40 million of long term loans for between 40 and 50 years were borrowed from the Public Loans Work Board (PWLB) and £9.268 million from internal borrowing which has reduced the Council's investments to £33 million at 31 March 2012. The effect on the accounts is that in future years negative subsidy will not be paid to Central Government. This will be replaced by paying interest each year on the debt and providing for future repayment of the principal borrowed.

HRA Dwellings Revaluation

During 2010/11, council dwellings were revalued downwards by £31.6 million. £28.106 million of this was charged to the Comprehensive Income and Expenditure Statement as there was insufficient amounts in the Revaluation Reserve. The downward revaluation was due to the change in the adjustment factor used, as advised by the Department for Communities and Local Government (DCLG), to adjust the vacant possession value to the existing use value for social housing.

Change in Pension Liability

During 2010/11, the Government changed the inflation index used to derive statutory pension increase from the Retail Price Index to the Consumer Price Index, this change has reduced the pension liability by £12.94 million.

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 auditors, the Audit Commission:

	2011/12 £'000	2010/11 £'000
External audit services	98	112
Certification of grant claims and returns	33	33
Total	<u>131</u>	<u>145</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 Community Safety and Enforcement was responsible for the supervision of highways maintenance and certain improvement schemes. Net expenditure reimbursed by Hampshire County Council in 2011/12 was £344,137 (2010/11 was £350,761).

12. Trading Operations

The Council has considerable holdings of commercial land and property. The Council also has a Building Service DSO (Direct Service Organisation) which provides building services for the Council under arrangements equivalent to commercial contracts, the objective being to break even. DSO surpluses have been credited to service accounts to comply with best value requirements. The trading results are shown below.

	2011/12			2010/11
	Income £'000	Expenditure £'000	Surplus £'000	Surplus/ (Deficit) £'000
Fareham Shopping Centre	961	61	900	861
Market Quay	332	17	315	322
Industrial / Commercial estates	1,169	120	1,049	1,086
Other land and property holdings	265	186	79	99
Building Services	583	522	61	118
Total	<u>3,310</u>	<u>906</u>	<u>2,404</u>	<u>2,486</u>

13. Members' Allowances

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

	2011/12 £'000	2010/11 £'000
Basic Allowances	203	202
Special Responsibility Allowances	158	157
Superannuation and National Insurance	35	48
Travelling and Subsistence Allowances	5	6
Conference Expenses	3	3
Internet Rental Allowance	1	1
Total	<u>405</u>	<u>417</u>

Details of individual allowances including travel and subsistence are published in full on the Council's website and are available from the Director of Finance and Resources at the Civic Offices.

14. Remuneration of Staff

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 was:

Remuneration Band	2011/12 Number of employees	2010/11 Number of employees
£50,000 - £54,999	5	6
£55,000 - £59,999	11	9
£60,000 - £64,999	0	0
£65,000 - £69,999	0	0
£70,000 - £74,999	0	0
£75,000 - £79,999	3	6
£80,000 - £84,999	1	0
£100,000 - £104,999	0	1
£105,000 - £109,999	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 £
2011/12								
Chief Executive Officer (1)	106,401	0	0	0	0	106,401	13,287	119,688
Solicitor to the Council	6,760	0	0	88,991	0	95,751	886	96,637
Director of Planning & Environment	77,528	0	0	0	0	77,528	10,146	87,674
Director of Regulatory & Democratic Services	81,123	0	0	0	0	81,123	10,627	91,750
Director of Community & Streetscene	77,451	0	0	0	0	77,451	10,146	87,597
Director of Finance & Resources	79,287	0	0	0	0	79,287	10,387	89,674
	428,550	0	0	88,991	0	517,541	55,479	573,020
2010/11								
Chief Executive Officer (1)	102,296	0	0	0	0	102,296	19,539	121,835
Solicitor to the Council	79,287	0	0	0	0	79,287	15,144	94,431
Director of Performance & Resources and Deputy Chief Executive Officer (2)	76,044	0	0	9,600	0	85,644	211,824	297,467
Director of Planning & Environment	75,653	0	0	0	0	75,653	14,445	90,098
Director of Regulatory & Democratic Services	75,628	0	0	0	0	75,628	14,445	90,073
Director of Community & Streetscene	75,628	0	0	0	0	75,628	14,445	90,073
Director of Finance & Resources	77,451	0	0	0	0	77,451	14,793	92,244
	561,987	0	0	9,600	0	571,587	304,634	876,221

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.

The reduction in pension contributions reflects a change in employer contribution rates from 19.1% in 2010/11 to 13.1% in 2011/12.

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

(2) Includes severance paid as pension contributions.

16. Termination Benefits

The Council terminated the contracts of a number of employees in 2011/12, incurring liabilities of £63,730 (£1,138,325 in 2010/11). Included in this sum is a provision for the redundancy payment to the Solicitor to the Council of £88,991 which has been reported in Note 15. 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	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
£0 - £20,000	5	0	14	14	19	14	£194,988	£63,730
£20,001 - £40,000	4	0	4	0	8	0	£227,934	£0
£40,001 - £60,000	2	0	3	0	5	0	£227,972	£0
£60,001 - £80,000	0	0	1	0	1	0	£72,958	£0
£80,001 - £100,000	1	0	0	0	1	0	£88,991	£0
£100,001 - £150,000	0	0	1	0	1	0	£118,583	£0
£150,001 - £200,000	0	0	0	0	0	0	£0	£0
£200,001 - £250,000	0	0	1	0	1	0	£206,899	£0
	12	0	24	14	36	14	£1,138,325	£63,730

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 that need to be disclosed at the time that employees earn their future entitlement.

The disclosures below relate to the following schemes:

- The Local Government Pension Scheme (LGPS) which is administered by Hampshire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- 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 Council recognises gains and losses in full, immediately through the Other Comprehensive Income and Expenditure Statement.

In accordance with International Financial Reporting Standards, disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

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 via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Funded Benefits		Unfunded Benefits	
	2011/12	2010/11	2011/12	2010/11
	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Statement				
Cost of Services				
- Current service cost	(1,680)	(1,970)	0	0
- Past service cost	(150)	12,630	0	300
- Settlements and curtailments	0	0	0	0
Financing and Investment Income and Expenditure				
- Expected return on pension fund assets	4,370	3,850	0	0
- Interest cost on pension scheme liabilities	(5,500)	(5,610)	(160)	(170)
Surplus/(deficit) on the provision of services	(2,960)	8,900	(160)	130
Other charged to the Comprehensive Income and Expenditure Statement				
- Actuarial (gains) and losses	11,360	(4,730)	220	(80)
Total charged to the Comprehensive Income and Expenditure Statement	8,400	4,170	60	50
Movement in Reserves Statement				
Reversal of net charges made to the (surplus)/deficit in accordance with the Code	2,960	(8,900)	160	(130)
Actual amount charged against the General Fund				
Balance for pensions in the year:				
Employers' contributions payable to scheme	(1,861)	(2,210)	0	0
Retirement benefits payable to pensioners	0	0	(214)	(210)

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £61.98 million.

Assets and liabilities in relation to post employment benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded Benefits		Unfunded Benefits	
	2011/12	2010/11	2011/12	2010/11
	£'000	£'000	£'000	£'000
Opening balance at 1 April	100,920	112,830	2,940	3,360
Current service cost	1,680	1,970	0	0
Interest cost	5,500	5,610	160	170
Contributions by scheme participants	640	670	0	0
Actuarial (gains) and losses	9,940	(2,880)	220	(80)
Benefits paid	(4,330)	(4,650)	(214)	(210)
Past service costs	150	(12,630)	0	(300)
Settlements and curtailments	0	0	0	0
Closing balance at 31 March	114,500	100,920	3,106	2,940

Reconciliation of fair value of the scheme assets:

	2011/12 £'000	2010/11 £'000
Opening balance at 1 April	62,870	58,940
Expected rate of return	4,370	3,850
Actuarial gains and (losses)	(1,420)	1,850
Employer contributions	1,861	2,210
Contributions by scheme participants	640	670
Benefits paid	(4,330)	(4,650)
Settlements	0	0
Closing balance at 31 March	<u>63,991</u>	<u>62,870</u>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £2.95 million (2010/11 was a gain of £5.70 million).

Scheme history

The history of asset values, the present value of liabilities and surplus/deficit is shown in the table below.

	Fair value of assets £'000	Present value of liabilities £'000	Surplus/ (deficit) £'000
At 31 March 2012	63,991	(114,500)	(50,509)
At 31 March 2011	62,870	(100,920)	(38,050)
At 31 March 2010	58,940	(116,190)	(57,250)
At 31 March 2009	44,860	(85,110)	(40,250)
At 31 March 2008	57,690	(82,120)	(24,430)

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £114.50 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £50.5 million. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £1.94 million. In addition, Strain on Fund Contributions may be required. For the unfunded benefits scheme in the year to 31 March 2013, the Council expects to pay £0.22 million directly to beneficiaries.

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 2010 for funded benefits and 31 March 2012 for unfunded benefits.

The principal assumptions used by the actuary have been:

	Funded Benefits		Unfunded Benefits	
	31 March		31 March	
	2012	2011	2012	2011
	% p.a.	% p.a.	% p.a.	% p.a.
Mortality assumptions:				
Longevity at age 65 for current pensioners:				
Men	23.9	23.8	23.9	23.8
Women	24.9	24.8	24.9	24.8
Longevity at age 65 for future pensioners:				
Men	25.6	25.6	25.6	25.6
Women	26.8	26.7	26.8	26.7
Principal financial assumptions (% per annum):				
Discount rate for scheme liabilities	4.7	5.5	4.6	5.5
RPI inflation	3.5	3.7	3.4	3.6
CPI inflation	2.5	2.8	2.4	2.7
Rate of increase to pensions in payment	2.5	2.8	2.4	2.7
Rate of increase to deferred pensions	2.5	2.8	0.0	0.0
Rate of general increase in salaries	5.0	5.2	0.0	0.0

Expected Rate of Return

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held. Also shown are the assumed rates of return adopted by the Employer for the purposes of IAS 19.

	Long term		Long term	
	expected rate of return at 31 March 2012	Asset split at 31 March 2012	expected rate of return at 31 March 2011	Asset split at 31 March 2011
	% pa	%	% pa	%
Equities	8.1	55.1	8.4	63.4
Property	7.6	7.7	7.9	7.3
Government Bonds	3.1	27.0	4.4	23.3
Corporate Bonds	3.7	1.5	5.1	1.7
Cash	1.8	4.1	1.5	4.3
Other	8.1	4.6	8.4	0.0
Total	<u>6.4</u>	<u>100.0</u>	<u>6.7</u>	<u>100.0</u>

The Council employs a building block approach in determining the rate of return on Fund assets.

Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principals. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2012.

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2011/12 %	2010/11 %
Experience gains/(losses) on funded assets	(2.2)	2.9
Experience gains/(losses) on funded liabilities	(0.8)	0.6
Experience gains/(losses) on unfunded liabilities	(0.6)	0.7

18. Property, Plant and Equipment

Valuation information

The Council's property portfolio has been revalued in accordance with the statement of accounting policies. 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 re-valued as at April 2007 by Daniells Harrison, chartered surveyors and have since then been revalued to 1 April 2011 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		298	8,908		9,206
2007/08		288			288
2008/09		5,682			5,682
2009/10		8,972		135	9,107
2010/11		6,801			6,801
2011/12	111,915	9,193			121,108
	<u>111,915</u>	<u>31,234</u>	<u>8,908</u>	<u>135</u>	<u>152,192</u>

Movement in Non Current Assets 2011/12

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation								
At 1 April 2011	106,261	31,832	7,573	4,981	354	135	143	151,279
Additions	1,428	603	1,650				780	4,461
Revaluation Increases/(decreases) to RR		2,137	78					2,215
Revaluation Increases/(decreases) to SDPS	637	(236)						401
Derecognition - Disposals	(141)	(721)	(823)					(1,685)
Other movements		1,679	57					1,736
Other reclassifications	513	(230)	(121)	1	23		(513)	(327)
At 31 March 2012	108,698	35,064	8,414	4,982	377	135	410	158,080
Depreciation and Impairment								
At 1 April 2011	25,889	2,198	4,937	1,998	15	0	0	35,037
Depreciation Charge	1,815	578	684	382	3			3,462
Depreciation written out to RR	(27)	(613)						(640)
Depreciation written out to SDPS	(1,735)							(1,735)
Impairment losses/(reversals) to RR								0
Impairment losses/(reversals) to SDPS	299							299
Derecognition - Disposals	(3)		(796)					(799)
Reclassifications		(1)	(33)					(34)
At 31 March 2012	26,238	2,162	4,792	2,380	18	0	0	35,590
Net Book Value								
At 31 March 2012	82,460	32,902	3,622	2,602	359	135	410	122,490
At 31 March 2011	80,372	29,634	2,636	2,983	339	135	143	116,242

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

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

Comparative Movements in 2010/11 (as restated)

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation								
At 1 April 2010	136,985	30,487	7,395	4,632	354	235	0	180,088
Additions	1,092	797	700	349			143	3,081
Revaluation Increases/(decreases) to RR	(3,506)	(11)						(3,517)
Revaluation Increases/(decreases) to SDPS	(28,106)	460						(27,646)
Derecognition - Disposals	(204)		(522)					(726)
Other reclassifications		100				(100)		0
At 31 March 2011	106,261	31,833	7,573	4,981	354	135	143	151,280
Depreciation and Impairment								
At 1 April 2010	25,482	2,445	4,745	1,650	12	2	0	34,336
Depreciation Charge	1,765	491	700	348	3			3,307
Depreciation written out to RR	(1,732)	(740)						(2,472)
Depreciation written out to SDPS	0							0
Impairment losses/(reversals) to RR		467						467
Impairment losses/(reversals) to SDPS	377	(467)						(90)
Derecognition - Disposals	(3)		(508)					(511)
Reclassifications		2				(2)		0
At 31 March 2011	25,889	2,198	4,937	1,998	15	0	0	35,037
Net Book Value								
At 31 March 2011	80,372	29,635	2,636	2,983	339	135	143	116,243
At 31 March 2010	111,503	28,042	2,650	2,982	342	233	0	145,752

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

There has been a prior year adjustment for 2010/11 relating to the reclassification of garages from Council Dwellings to Other Land and Buildings. The change in net book value at 31 March 2011 is £3,142,000 and 31 March 2010 £2,857,000.

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

Council dwellings were revalued as at 1 April 2011 (the previous valuation was as at 1 April 2010). 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	- 1 to 20 years
Infrastructure	- 5 to 50 years

Capital Commitments

At 31 March 2012, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years budgeted to cost £1.6 million. Similar commitments at 31 March 2011 were £5.9 million. The major commitments are:

	2011/12 £'000
Works to council houses and flats	1,028
House renovation grants/loans	370
Play and park schemes	117
Vehicles and plant	50
Information and communication technology	29
Environmental improvements	20
Improvements to community facilities	5
Ferneham Hall improvements	5

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 revalued in accordance with the statement of accounting policies by K. Boothroyd BSc (Hons) MRICS.

	2011/12 £'000	2010/11 £'000
Rental income and service charges from investment property	(2,775)	(2,742)
Direct operating expenses arising from investment property	467	666
Net (gain)/loss	<u>(2,308)</u>	<u>(2,076)</u>

Movement in Fair Value of Investment Properties	2011/12 £'000	2010/11 £'000
Balance at 1 April	33,310	33,288
Disposals	(390)	0
Net gains/losses from fair value adjustments	(1,037)	22
Transfers to/from Property, Plant and Equipment	207	0
Balance at 31 March	<u>32,090</u>	<u>33,310</u>

20. Heritage Assets

Cost or Valuation at 1 April	316	316
Additions	0	0
Disposals	<u>0</u>	<u>0</u>
Gross Book Value at 31 March	316	316
Depreciation and Impairment at 1 April	63	54
Depreciation charge	8	8
Surplus/Deficit on the Provision of Services At 31 March	<u>35</u>	<u>0</u>
	106	62
Net Book Value at 31 March	210	254

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 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 its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets comprise software licences which are written off over their useful life.

	2011/12 £'000	2010/11 £'000
Balance at 1 April		
- Gross carrying amount	947	902
- Accumulated amortisation	<u>(838)</u>	<u>(799)</u>
Net carrying amount at 1 April	109	103
- Purchases	35	45
- Amortisation for the period	<u>(38)</u>	<u>(39)</u>
Net carrying amount at 31 March	<u>106</u>	<u>109</u>
Comprising:		
- Gross carrying amount	982	947
- Accumulated amortisation	<u>(876)</u>	<u>(838)</u>

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	
	2011/12 £'000	2010/11 £'000
Balance at 1 April	15	58
Assets newly classified as held for sale:		
- Property, Plant and Equipment	90	0
Assets sold	<u>(15)</u>	<u>(43)</u>
Balance at 31 March	<u>90</u>	<u>15</u>

The assets currently held for sale are cara van plot sites at Dibles Ca ravan Park. These are being sold to enable the Council to improve housing options for local people in housing need. The plots are administered by Housing Services.

23. Impairment Losses

During 2011/12, the Council recognised impairment losses of £298,824. This related to the revaluing of the new council houses from historic cost to Existing Use Value-Social Housing being the prescribed valuation methodology for Council Dwellings.

24. Leases

Council as Lessee

Finance Leases

The Council has not acquired any assets under Finance Leases.

Operating Leases

The Council has acquired some vehicles and ICT equipment by entering into operating leases, with typical lives ranging between 5-8 years. The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2012 £'000	31 March 2011 £'000
Not later than one year	1	26
Later than one year and not later than five years	0	79
Later than five years	0	0
	<u>1</u>	<u>105</u>

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

	31 March 2012 £'000	31 March 2011 £'000
Minimum lease payments	1	26
Contingent rents	0	0
Sublease payments receivable	0	0
	<u>1</u>	<u>26</u>

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 2012 £'000	31 March 2011 £'000
Not later than one year	15	14
Later than one year and not later than five years	79	52
Later than five years	135	155
	<u>229</u>	<u>221</u>

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

	31 March 2012 £'000	31 March 2011 £'000
Minimum lease payments	15	16
Contingent rents	17	17
Sublease payments receivable	0	0
	<u>32</u>	<u>33</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 2012 £'000	31 March 2011 £'000
Not later than one year	1,550	1,554
Later than one year and not later than five years	4,705	4,931
Later than five years	39,960	42,168
	<u>46,215</u>	<u>48,653</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 2011/12, contingent rents of £1.02 million were receivable by the Council (2010/11 £1.11 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:

2010/11 £'000	2011/12 £'000
1,659 Opening Capital Finance Requirement	1,782
Capital Investment	
3,081 Property, Plant and Equipment	4,461
0 Investment Properties	0
45 Intangible Assets	35
721 Revenue Expenditure Funded from Capital under Statute	731
Sources of Finance	
(907) Capital receipts	(1,207)
(1,875) Government grants and other contributions	(2,713)
Sums set aside from revenue:	
(942) Direct revenue contributions	(1,307)
<u>1,782</u> Closing Capital Finance Requirement	<u>1,782</u>
Explanation of movements in year	
Increase in underlying need to borrow - supported by	
123 Government financial assistance	0
<u>123</u>	<u>0</u>

26. Cash and Cash Equivalents

	31 March		1 April
	2012 £'000	2011 £'000	2010 £'000
Cash held by the Council	10	10	10
Bank current accounts	(548)	(180)	1,628
Short-term deposits with banks	10,929	5,368	10,011
Total	<u>10,391</u>	<u>5,198</u>	<u>11,649</u>

27. Long Term Debtors

	31 March		1 April
	2012 £'000	2011 £'000	2010 £'000
Mortgages - sale of council houses	5	7	7
Mortgages - other	82	84	87
Total	<u>87</u>	<u>91</u>	<u>94</u>

28. Short Term Debtors

	31 March		1 April
	2012	2011	2010
	£'000	£'000	£'000
Central government bodies	241	875	3,849
Other local authorities	466	260	343
NHS bodies	1	0	(2)
Public corporation and trading funds	0	0	0
Other entities and individuals	3,584	3,737	3,345
Total	<u>4,292</u>	<u>4,872</u>	<u>7,535</u>
Provision for Doubtful Debts	<u>(1,782)</u>	<u>(1,812)</u>	<u>(1,444)</u>
Total	<u>2,510</u>	<u>3,060</u>	<u>6,091</u>

29. Short Term Creditors

	31 March		1 April
	2012	2011	2010
	£'000	£'000	£'000
Central government bodies	870	881	824
Other local authorities	775	890	645
NHS bodies	0	0	0
Public corporation and trading funds	0	0	0
Other entities and individuals	1,985	2,221	2,041
Total	<u>3,630</u>	<u>3,992</u>	<u>3,510</u>

30. Depositors

	31 March		1 April
	2012	2011	2010
	£'000	£'000	£'000
Property Rent Deposits	31	31	45
Other	843	21	21
	<u>874</u>	<u>52</u>	<u>66</u>

31. Provisions

	Balance at 1 April £'000	Provision in year £'000	Applied in year £'000	Balance at 31 March £'000
Insurance	56	36	41	51
Employee Related	187	236	187	236
Total 2011/12	<u>243</u>	<u>272</u>	<u>228</u>	<u>287</u>
Total 2010/11	<u>307</u>	<u>26</u>	<u>90</u>	<u>243</u>

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.

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		1 April
	2012	2011	2010
	£'000	£'000	£'000
Balance at 1 April	5,794	5,877	5,827
Movements in year:			
Amounts received (with conditions)	964	1,011	230
Amounts recognised as income (conditions subsequently met):			
- Within Cost of Services	(347)	(109)	(122)
- Within Taxation and Non-Specific Grants	(1,881)	(985)	(58)
Balance at 31 March	<u>4,530</u>	<u>5,794</u>	<u>5,877</u>
Grants Receipts in Advance (Capital Grants)			
Leisure developer contributions	3,759	3,998	3,968
Affordable housing developer contributions	0	65	139
Other developer contributions	358	286	277
	<u>4,117</u>	<u>4,349</u>	<u>4,384</u>
Grants Receipts in Advance (Revenue Grants)			
Open space maintenance contributions	0	974	963
Whiteley developer contributions	402	460	519
Other developer contributions	11	11	11
	<u>413</u>	<u>1,445</u>	<u>1,493</u>
Total Receipts in Advance	<u>4,530</u>	<u>5,794</u>	<u>5,877</u>

33. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and notes 6 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 2011/12.

	Balance at 1 April 2010 £'000	Transfers Out £'000	Transfers In £'000	Balance at 31 March 2011 £'000	Transfers Out £'000	Transfers In £'000	Balance at 31 March 2012 £'000
General Fund							
General Fund	7,607	(6,636)	4,230	5,201	0	1,121	6,322
Major Repairs and Renewals Reserve	1,000	0	125	1,125	0	155	1,280
Usable Capital Receipts Reserve	8,152	(234)	45	7,963	(896)	715	7,782
Other Earmarked Reserves	1,492	(112)	407	1,787	(388)	1,406	2,805
Grants Unapplied	39	(20)	90	109	(45)	6	70
Earmarked Capital Reserve	1,598	(837)	3,540	4,301	(1,256)	1,682	4,727
Total	19,888	(7,839)	8,437	20,486	(2,585)	5,085	22,986
HRA							
Housing Revenue Account	3,599	(1,978)	3,025	4,646	0	167	4,813
Housing Repairs Account	1,676	(19)	143	1,800	(2,658)	2,658	1,800
Major Repairs Reserve	215	(969)	1,765	1,011	(1,575)	1,815	1,251
Usable Capital Receipts	5,090	(858)	473	4,705	(519)	285	4,471
Grants Unapplied	0	(143)	150	7	(124)	117	0
Leaseholder Repairs Reserve	212	0	19	231	0	20	251
Total	10,792	(3,967)	5,575	12,400	(4,876)	5,062	12,586
Grand Total	30,680	(11,805)	14,012	32,886	(7,461)	10,147	35,572

35. Unusable Reserves

	31 March		1 April
	2012	2011	2010
	£'000	£'000	£'000
Revaluation Reserve	6,773	2,675	3,678
Capital Adjustment Account	97,158	145,471	174,124
Financial Instruments Adjustment Account	(99)	(267)	(438)
Deferred Capital Receipts Account	5	7	7
Pensions Reserve	(53,615)	(40,990)	(57,250)
Collection Fund Adjustment Account	77	110	61
Accumulated Absences Account	(236)	(187)	(199)
	<u>50,063</u>	<u>106,819</u>	<u>119,983</u>

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:

- Revalued 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.

2010/11 £'000			2011/12 £'000
3,678	Balance at 1 April		2,675
730	Upward revaluation of assets	4,684	
	Downward revaluation of assets and impairment losses not		
(1,783)	charged to Surplus/Deficit on the Provision of Services	(93)	4,591
<u>(1,053)</u>			
	Difference between fair value depreciation and historical		
(8)	cost depreciation		
	Accumulated gains on assets sold or scrapped or		
58	reclassified to Investment Properties	(493)	
<u>50</u>	Amount written off to the Capital Adjustment Account		(493)
<u>2,675</u>	Balance at 31 March		<u>6,773</u>

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

2010/11 £'000	2011/12 £'000
174,124 Balance at 1 April	145,471
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(3,231) Charges for depreciation and impairment of non-current assets	(4,040)
(28,106) Revaluation losses on Property, Plant and Equipment	2,371
(58) Cumulative (gains)/losses on assets sold or reclassified as Investment Properties	493
(39) Amortisation of Intangible Assets	(38)
(721) Revenue expenditure funded from capital under statute	(731)
0 HRA Buyout payment to DCLG	(49,268)
(250) 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	(1,291)
141,719	(52,504)
7 Adjustment amounts written out of the Revaluation Reserve	0
141,726	92,967
Capital financing applied in the year	
906 Use of the Capital Receipts Reserve to finance new capital expenditure	1,207
969 Use of the Major Repairs Reserve to finance new capital expenditure	1,576
887 Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	968
20 Application of grants to capital financing from the Capital Grants Unapplied Account	169
941 Capital expenditure charged against the General Fund and HRA balances	1,307
3,723	5,227
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	
22	(1,036)
145,471	97,158
Balance at 31 March	

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. As a result, the balance on the Account at 31 March 2012 will be charged to the HRA over the next year.

2010/11 £'000	2011/12 £'000
(438) Balance at 1 April	(267)
Premiums incurred in the year and charged to the	
0 Comprehensive Income and Expenditure Statement	0
Proportion of premiums incurred in previous financial years	
to be charged against the General Fund or HRA Balance in	
171 accordance with statutory requirements	<u>168</u>
<u>(267)</u>	168
Amount by which finance costs charged to the	
Comprehensive Income and Expenditure Statement are	
different from finance costs chargeable in the year in	
0 accordance with statutory requirements	<u>0</u>
<u>(267) Balance at 31 March</u>	<u>(99)</u>

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.

2010/11 £'000	2011/12 £'000
7 Balance at 1 April	7
Transfer of deferred sale proceeds credited as part of the gain/loss	
0 on disposal to Comprehensive Income and Expenditure Statement	0
0 Transfer to the Capital Receipts Reserve upon receipt of cash	<u>(2)</u>
<u>7 Balance at 31 March</u>	<u>5</u>

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.

2010/11 £'000	2011/12 £'000
(57,250) Balance at 1 April	(40,990)
4,810 Actuarial gains or losses on pension assets and liabilities	(11,580)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the	
9,030 Comprehensive Income and Expenditure Statement	(3,120)
Employers' pension contributions and direct payments to pensioners	
2,420 payable in the year.	2,075
<u>(40,990)</u> Balance at 31 March	<u>(53,615)</u>

Collection Fund Adjustment Account

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

2010/11 £'000	2011/12 £'000
61 Balance at 1 April	110
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax	
49 calculated for the year in accordance with statutory requirements	(33)
<u>110</u> Balance at 31 March	<u>77</u>

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated 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.

2010/11 £'000	2011/12 £'000
(199) Balance at 1 April	(187)
Settlement or cancellation of accrual made at the end of the	
199 preceding year	187
<u>(187)</u> Amounts accrued at the end of the current year	<u>(236)</u>
Amount by which officer remuneration charged to the	
Comprehensive Income and Expenditure Statement on an	
accruals basis is different from remuneration chargeable in	
12 the year in accordance with statutory requirements	(49)
<u>(187)</u> Balance at 31 March	<u>(236)</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	31 March	1 April	31 March	31 March	1 April
	2012	2011	2010	2012	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing at amortised cost	40,000	0	0	1,671	2,837	3,021
Trade Creditors	0	0	0	1,558	1,528	1,233
Financial Liabilities	40,000	0	0	3,229	4,365	4,254
Loans and receivables	5,000	3,000	7,000	27,573	37,442	27,877
Mortgages	87	91	94	0	0	0
Trade Debtors	0	0	0	1,720	1,715	1,551
Financial Assets	5,087	3,091	7,094	29,293	39,157	29,428

All borrowing is on fixed terms so there is no possibility of profit or loss and therefore they are shown as at amortised cost. This includes accrued interest and as at 31 March 2012 this £17,000.

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 2012 of £211,000 is included with the outstanding principal of £32,362,000.

Debtors and creditors and other balance sheet items that arise statutorily 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, NNDR, 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 2012 of 4.37% to 4.41% for loans from the PWLB and rates of between 0.75% and 1.83% 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 calculated are as follows:

	31 March 2012		31 March 2011		1 April 2010	
	Balance	Fair	Balance	Fair	Balance	Fair
	Sheet	Value	Sheet	Value	Sheet	Value
	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing	41,671	33,067	2,837	2,837	3,021	3,021
Loans and receivables	32,573	33,445	40,442	40,537	34,877	35,327
Mortgages	87	87	91	91	94	94

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 2012) 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 a number of 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 2012) 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 approved by Council on 25 February 2011 and the annual treasury

management strategy approved by Council on 14 April 2011 are both available on the Council website. These were subsequently revised in light of the Housing Revenue Account reforms and approved by Council on 24 February 2012. The key issues within the revised strategy were:

- The Authorised Limit for 2011/12 was set at £82.5m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £59.5m. 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 10% 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 C and Individual 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria.
- UK institutions provided with support from the UK Government;
- Building societies with assets in excess of £500m.

The following analysis shows the gross credit exposure by credit rating of the Council's investments as at 31 March 2012.

Rating Category	£'000
AAA or equivalent	3,002
AA or equivalent	0
A or equivalent	25,523
Rating not strong	2,025
Not rated	2,023
Total	<u>32,573</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 £33 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 2012 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 (£797,000 at 31 March 2012, £662,000 as at 31 March 2011). 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 2012			Amount Outstanding as at 31 March 2011			Amount Outstanding as at 1 April 2010		
	£'000	Bad Debt Provision		£'000	Bad Debt Provision		£'000	Bad Debt Provision	
		%	£'000		%	£'000		%	£'000
Less than 1 year old	630	15	97	632	17	108	543	0	0
1 and 2 years old	167	69	115	150	62	92	243	50	121
2 and 3 years old	152	79	119	176	85	150	109	75	81
old	490	95	466	328	95	312	278	95	264
Total	1,439	797		1,286	662		1,173	466	

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	As at 31	As at 1
	March	March	April
	2012	2011	2010
	£'000	£'000	£'000
Less than 3 months	21,573	15,442	27,877
3 to 6 months	3,000	15,000	0
6 months to 1 year	3,000	7,000	0
1 to 2 years	5,000	3,000	4,000
More than 2 years	0	0	3,000
Total	32,573	40,442	34,877

All other trade receivables 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 2012 £'000	As at 31 March 2011 £'000	As at 1 April 2010 £'000
Maturity analysis of financial liabilities			
Less than 3 months	1,671	2,714	2,898
3 to 6 months	0	0	0
6 months to 1 year	0	123	123
More than 40 years	40,000	0	0
Total	<u>41,671</u>	<u>2,837</u>	<u>3,021</u>

All other trade and payables 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 team 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 risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

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	1,558	1,720
Floating rate	0	0
Fixed rate	<u>41,671</u>	<u>32,660</u>
Total	<u>43,229</u>	<u>34,380</u>
Fixed Rate		
Weighted Average Interest Rate (%)	3.50	1.51
Weighted Average Period (in years)	45.00	0.53

The following table provides a sensitivity analysis based on the impact of a 1% change in interest rates (with all other variables held constant).

Impact	Increase by 1% £'000	Decrease by 1% £'000
On interest payable	7	(7)
On interest receivable	<u>341</u>	<u>(316)</u>
On surplus/deficit on the provision of services	<u>348</u>	<u>(323)</u>

In 2011/12 a decrease of 1% would have reduced the interest on certain investments and borrowings to zero.

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 £278,776 at 31 March 2012.

In 2011/12 the fund's income was £2,493 and there was no expenditure. (In 2010/11 the fund's income was £1,926 and there was no expenditure). The fund's only asset was investments with the Council of £278,776 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 to the Charities Commission are shown in the table below. A significant proportion of the income is contributed by the Council.

	£'000	£'000	£'000
Sarisbury recreation ground	10	10	land
Swanwick Lane recreation ground	0	0	land
King George V playing fields	0	0	land
Crofton recreation ground	17	17	land
Titchfield recreation ground	0	0	land
Hook & Warsash allotments	1	1	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 7 on reporting for resource allocation decisions and shown in the Grant Income note in Note 8.

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2011/12 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 2011/12 is shown in Note 13.

Chief Officers

Chief Officers have the ability to influence the Council. During 2011/12 there were no material related party transactions between the Council and Chief Officers.

Portchester Crematorium Joint Committee

The Portchester Crematorium Joint Committee (PCJC) is an associate of the Council as it has significant influence over its activities. The PCJC manages the operations of Portchester Crematorium. The Joint Committee is represented equally by the four constituent authorities, Fareham Borough Council, Havant Borough Council, Gosport 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 £1,353,000 (2010/11 £1,337,000). In 2011/12, PCJC paid a contribution of £140,000 to the Council (£135,000 in 2010/11). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2012 £1,370,000 was invested with the Council (£2,430,000 at 31 March 2011).

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 2011/12 the Partnership charged Gosport Borough Council £163,040 (2010/11 £154,000) 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 2012 the balance of retained surplus for

future investment in the service held by Fareham Borough Council was £90,962 and £62,356 held by Gosport Borough Council.

40. Contingent Liabilities

During 1992/93, the Council's insurers MMI Limited ceased taking new business. At 31 March 2012 there were no outstanding third party and employers' liability claims. There is a contingent liability of £148,000 under the scheme of arrangement as a proportion of claims paid may be clawed back at some future date if there is an adverse change in MMI's financial position. As at 31 March 2012 the scheme of arrangement had not been triggered however, a Supreme Court judgement in March 2012 on Employers Liability Policy Trigger Litigation has made it more likely that the scheme will be triggered in the near future. This will be kept under review and will consider providing for the liability based on information received in the future.

41. Cash Flow Statement - Operating Activities (Interest)

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

2010/11 £'000	2011/12 £'000
682 Interest received	836
<u>(5) Interest paid</u>	<u>(8)</u>
<u>677</u>	<u>828</u>

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

2010/11 £'000	2011/12 £'000
3,231 Depreciation and impairment	4,040
28,164 Downward valuations	(2,371)
39 Amortisation of intangible assets	38
Increase/decrease in interest creditors	15
(334) Increase/decrease in creditors	(718)
(15) Increase/decrease in interest debtors	62
323 Increase/decrease in debtors	390
2 Increase/decrease in inventories	1
(11,450) Movement in pension liability	1,045
185 Contributions to/(from) provisions	44
249 Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised	1,291
<u>(22) Movement in investment property values</u>	<u>1,036</u>
<u>20,372</u>	<u>4,873</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

2010/11 £'000	2011/12 £'000
(984) Capital grants credited to surplus/deficit on the provision of services	(1,092)
Proceeds from the sale of property plant and equipment, investment	
<u>(519) property and intangible assets</u>	<u>(992)</u>
<u>(1,503)</u>	<u>(2,084)</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.

	2011/12	2010/11
	£'000	£'000
Income		
Gross rent income		
- Dwellings	(9,388)	(8,890)
- Other	(239)	(284)
Charges for services and facilities	(677)	(672)
Contributions towards expenditure	(338)	(332)
Total income from service	<u>(10,642)</u>	<u>(10,178)</u>
Expenditure		
Repairs and maintenance	2,563	1,578
Supervision and management	2,544	2,596
Rents, rates, taxes and other charges	34	25
Payment of negative subsidy to Government (Note 10)	3,032	2,680
Depreciation and impairment of non-current assets (Note 8)	(193)	30,313
Debt management expenses	48	31
Provision for doubtful debts	170	(46)
Exceptional expenditure (Note 13)	49,268	0
Total expenditure on service	<u>57,466</u>	<u>37,177</u>
Net cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	46,824	26,999
HRA service share of corporate and democratic core	173	(1,692)
Net (Income)/Cost for HRA Services	<u>46,997</u>	<u>25,307</u>
Gain on sale of HRA non-current assets	(138)	(269)
Change in fair value of Investment Properties	90	0
Interest payable	43	18
Interest receivable	(124)	(103)
Pension interest cost and expected return on pension assets	20	0
Capital grants and contributions receivable	(149)	(150)
(Surplus)/Deficit for year on HRA Services	<u><u>46,739</u></u>	<u><u>24,803</u></u>

MOVEMENT ON THE HRA STATEMENT

	2011/12	2010/11
	£'000	£'000
Balance on the HRA at the end of previous year	(4,647)	(3,599)
(Surplus) or Deficit for year on HRA I&E Statement	46,739	24,803
Remove gain on sale of HRA non-current assets	138	269
Pension reserve contributions	(17)	1,977
Amortisation of premiums and discounts	168	171
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(13)	(13)
Capital expenditure charged to revenue	0	0
Transfers to/from Major Repairs Reserve	1,815	1,765
Transfers to/from Capital Adjustment Account	<u>(49,016)</u>	<u>(30,163)</u>
Adjustments between accounting basis and funding basis under statute	<u>(46,925)</u>	<u>(25,994)</u>
Net (increase) or decrease before transfers to or from the reserves	<u>(186)</u>	<u>(1,191)</u>
Transfer to/(from) reserves	<u>19</u>	<u>144</u>
Increase or (decrease) in year on the HRA	<u>(167)</u>	<u>(1,047)</u>
Surplus Carried Forward	<u><u>(4,814)</u></u>	<u><u>(4,646)</u></u>

The total surplus carried forward excludes balances of:

- Repairs Account;
- Leaseholders Reserve Account; and
- HRA Capital Grants Unapplied,

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 2012	31 March 2011
Houses	820.25	820.25
Flats	1,417.00	1,419.00
Bungalows	166.00	164.00
	2,403.25	2,403.25

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 2011 is £258,658,516. 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 2011/12					
Cost or Valuation					
At 1 April 2011	106,261	3,206		143	109,610
Additions	1,428		38	421	1,887
Revaluation Increases/(decreases) to RR					0
Revaluation Increases/(decreases) to SDPS	637				637
Reclassifications	513	12		(513)	12
Derecognition - Disposals	(141)				(141)
At 31 March 2012	108,698	3,218	38	51	112,005
Depreciation and Impairment					
At 1 April 2011	25,889	64		0	25,953
Depreciation Charge	1,815	64			1,879
Depreciation written out to RR	(27)	(64)			(91)
Depreciation written out to SDPS	(1,735)				(1,735)
Impairment losses/(reversals) to SDPS	299				299
Derecognition - Disposals	(3)				(3)
At 31 March 2012	26,238	64	0	0	26,302
Net Book Value					
At 31 March 2012	82,460	3,154	38	51	85,703
At 31 March 2011	80,372	3,142	0	143	83,657

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

Movement in Values 2010/11	Council Dwellings £'000	Other Land & Buildings £'000	Plant & Equipment £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation					
At 1 April 2010	136,985	2,915		0	139,900
Additions	1,092			143	1,235
Revaluation Increases/(decreases) to RR	(3,506)	291			(3,215)
Revaluation Increases/(decreases) to SDPS	(28,106)				(28,106)
Derecognition - Disposals	(204)				(204)
At 31 March 2011	106,261	3,206	0	143	109,610
Depreciation and Impairment					
At 1 April 2010	25,482	58		0	25,540
Depreciation Charge	1,765	64			1,829
Depreciation written out to RR		(58)			(58)
Depreciation written out to SDPS	(1,732)				(1,732)
Impairment losses/(reversals) to SDPS	377				377
Derecognition - Disposals	(3)				(3)
At 31 March 2011	25,889	64	0	0	25,953
Net Book Value					
At 31 March 2011	80,372	3,142	0	143	83,657
At 31 March 2010	111,503	2,857	0	0	114,360

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

3. Investment Properties

Movement in Fair Value of HRA Investment Properties

	2011/12 £'000	2010/11 £'000
Balance at start of year	140	140
Net gains/losses from fair value adjustments	(90)	0
Transfer to Non Current Assets	(12)	0
Balance at end of year	<u>38</u>	<u>140</u>

4. Major Repairs Reserve

The Major Repairs Reserve was set up in 2001/02 to account for the new government subsidy for major repairs to Council dwellings.

	2011/12 £'000	2010/11 £'000
Balance at 1 April	1,011	215
Receipts in year	1,815	1,765
Transferred to HRA	0	0
Used in year:		
- Houses and flats	(1,537)	(968)
- Parking and environmental improvements	0	(1)
- Solar Panels	(38)	0
Balance at 31 March	<u>1,251</u>	<u>1,011</u>

5. Housing Repairs Account

	2011/12 £'000	2010/11 £'000
Balance at 1 April	1,800	1,676
Contribution from Housing Revenue Account	2,604	1,700
Other Income	54	134
Expenditure	<u>(2,658)</u>	<u>(1,710)</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	Plant & Equipment £'000	Assets under Construction £'000	Total £'000
Government grants	416	38	110	564
Other grants	0	0	124	124
Other contributions	0	0	32	32
Major Repairs reserve	1,012	0	0	1,012
Usable capital receipts	<u>0</u>	<u>0</u>	<u>155</u>	<u>155</u>
Expenditure in 2011/12	<u>1,428</u>	<u>38</u>	<u>421</u>	<u>1,887</u>

7. Capital Receipts

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

	2011/12 £'000	2010/11 £'000
Right to buy sales of houses and flats	279	238
Sale of shares of shared ownership housing	0	220
Sale of land	0	0
Repayment of discount on earlier sale	<u>0</u>	<u>16</u>
	<u>279</u>	<u>474</u>

8. Depreciation and Impairment

		2011/12 £'000	2010/11 £'000
Depreciation	Dwellings	1,815	1,765
	Garages	64	64
	Total	<u>1,879</u>	<u>1,829</u>
Impairment	Dwellings	299	378
	Garages	0	0
	Total	<u>299</u>	<u>378</u>
Revaluation gain	Dwellings	(2,371)	0
	Garages	0	0
	Total	<u>(2,371)</u>	<u>0</u>
Revaluation loss	Dwellings	0	28,106
	Garages	0	0
	Total	<u>0</u>	<u>28,106</u>
Total charge		<u>(193)</u>	<u>30,313</u>

The impairment charge in 2011/12 relates to the difference between the historic cost of four new built council dwellings and their Existing Use-Social Housing Valuation.

For 2011/12, 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 which is in effect a reversal of previous years' impairment losses.

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. Subsidy

The amount of HRA subsidy payable for the financial year is as follows:

	2011/12 £'000	2010/11 £'000
Management and maintenance	3,948	3,892
Major repairs allowance	1,815	1,765
Charges for capital and interest	271	241
Rent income	<u>(9,066)</u>	<u>(8,578)</u>
Total subsidy payable to the Government under the 1989 Act	<u>(3,032)</u>	<u>(2,680)</u>

11. Arrears

At 31 March 2012 arrears were 3.65% of the gross income due in the year. 2011/12 and 2010/11 were 52 week rent years. The arrears figures are as follows:

	2011/12 £'000	2010/11 £'000
Arrears at 31 March	377	763
Gross incomes	10,345	10,074
Provision for uncollectable rents	293	477
Arrears as a percentage of gross income	3.65%	7.58%

12. Pensions (see also note 17 to the core financial statements)

The service cost of pensions under IAS19 is included in Housing Revenue Account expenditure and a contribution is made either to or from the pensions reserve to bring the amount charged in the account to that actually paid in the year, so there is no effect on rents. No adjustments are made to expenditure for the expected return on pension fund assets or interest on pension scheme liabilities.

13. Exceptional Expenditure

In 2011/12, £49.268 million was paid to the Department for Communities and Local Government (DCLG) to leave the HRA Subsidy System. From 2012/13, negative subsidy will no longer be paid to DCLG but will be replaced by interest payments on debt owed to the PWLB and for providing future payments of the principal borrowed.

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.

	2011/12 £'000	£'000	2010/11 £'000
Income			
Income from Council tax (note 1)			
Billed to taxpayers	55,662		55,360
Council tax benefits	<u>4,233</u>		<u>4,465</u>
		59,895	<u>59,825</u>
Income from business ratepayers (note 2)		38,196	36,966
		<u>98,091</u>	<u>96,791</u>
Expenditure			
Distribution of previous year's Collection Fund surplus			
From Fareham Borough Council	61		0
From Hampshire County Council	455		0
From Hampshire Police Authority	64		0
From Hampshire Fire and Rescue	<u>27</u>	607	<u>0</u>
Precepts and demands from County and District			
Fareham Borough Council	6,001		5,980
Hampshire County Council	44,417		44,266
Hampshire Police Authority	6,259		6,238
Hampshire Fire and Rescue	<u>2,627</u>	59,304	<u>2,618</u>
Business rate (note 2)			
Payment to national pool	38,052		36,821
Costs of collection	<u>144</u>	38,196	<u>145</u>
Provision for doubtful Council Tax debts:			
Increase/(Reduction) in Provision	160		187
Written Off in Year	77		51
Council Tax Benefit 2010/11 Final Claim Adjustment	<u>78</u>	315	<u>0</u>
		<u>98,422</u>	<u>96,306</u>
Surplus/(deficit) for the year: movement on fund balance		(331)	485
Fund balance brought forward at 1 April		<u>1,092</u>	<u>607</u>
Fund balance carried forward at 31 March		<u>761</u>	<u>1,092</u>

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, Hampshire Police Authority, Hampshire Fire and Rescue Authority and the Council for the forthcoming year and dividing this by the council tax base. The council tax base is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts; 42,796 for 2011/12 (42,650 for 2010/11). 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:

	2011/12	2010/11
	£	£
Fareham Borough Council	140.22	140.22
Hampshire Police Authority	146.25	146.25
Hampshire Fire and Rescue Authority	61.38	61.38
Hampshire County Council	1,037.88	1,037.88
Total	<u>1,385.73</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. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies an amount (in 2011/12, 42.6p for small businesses and 43.3p for large, in 2010/11, 40.7p for small businesses and 41.4p 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 but pays the proceeds into an NNDR pool administered by the Government. The Government re-distributes the sums paid into the pool back to local authorities' general funds on the basis of a fixed amount per head of population.

The rateable value at 31 March 2012 was £102,230,459 (£102,179,646 as at 31 March 2011). This rateable value is based on the valuation list effective from 1 April 2010.

3. Collection Fund Balance

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

	2011/12 £'000	2010/11 £'000
Fareham Borough Council	77	110
Precepting Authorities - Local Authorities	684	982
Total	<u>761</u>	<u>1,092</u>

4. Collection Fund - Balance Sheet Items (Council Tax)

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 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:

- In the Balance Sheet at 31 March 2012, a debtor of £99,998 (£115,143 in 2010/11) has been shown within debtors as Council Tax payers' arrears and a creditor of £44,028 (£47,841 for 2010/11) has been shown within creditors as Council Tax payers in advance.
- There is also a creditor totalling £186,895 (creditor of £384,028 for 2010/11) included within creditors as Local Authorities. This represents the balance of the Collection Fund surplus and Balance Sheet items which is attributable to the major preceptors.

5. Collection Fund - Balance Sheet Items (NNDR)

The accounting code reflects the view that billing authorities in England collect NNDR under what is in substance an agency arrangement with the Government. This means that any NNDR debtor and creditor balances with taxpayers at year end are not assets or liabilities of the billing Council and should not be recognised in the Council's Balance Sheet.

The Council has accounted for the NNDR balances in the statement by showing the net total of the NNDR balance sheet items and the amount due to the Government as at 31 March 2012 as a creditor of £220,468 (creditor of £441,413 for 2010/11) within Government Departments.

6. 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 £33,526 (-£48,000 in 2010/11). 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.

Carrying Amount

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

Cash

This comprises of cash on hand and demand deposits.

Cash Equivalents

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 historic buildings.

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 comprises all activities which local authorities engage in specifically because they are elected, multi purpose authorities. The cost of these activities is thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services.

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 all physical deterioration and all 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.

Direct Service Organisation

The term Direct Service Organisation (DSO) is used to cover both Direct Labour Organisations (DLOs) established under the Local Government, Planning, and Land Act 1980 and DSOs established under the Local Government Act 1988.

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 (i.e. b/f from 31 March 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

Those 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. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners and their dependants, allowing where appropriate for future increases
- the accrued benefits for members in service on the valuation date, i.e. benefits for service up to a given date.

Property, Plant and Equipment

Tangible 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

Central government, Hampshire County Council and Police Council, elected Members of the Council, and certain senior officers are deemed to be related parties of the Council. 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 FAREHAM BOROUGH COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Fareham Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Fareham Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and Resources and Auditor

As explained more fully in the Statement of the Director of Finance and Resources responsibilities, the Director of Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if:

- in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;

- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Fareham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Stephen Taylor
District Auditor

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27 September 2012

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