



**FAREHAM**

**BOROUGH**

**COUNCIL**

**STATEMENT OF**

**ACCOUNTS**

**2019/2020**

**FAREHAM**  
BOROUGH COUNCIL



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

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

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# NARRATIVE REPORT AND WRITTEN STATEMENTS

# NARRATIVE REPORT

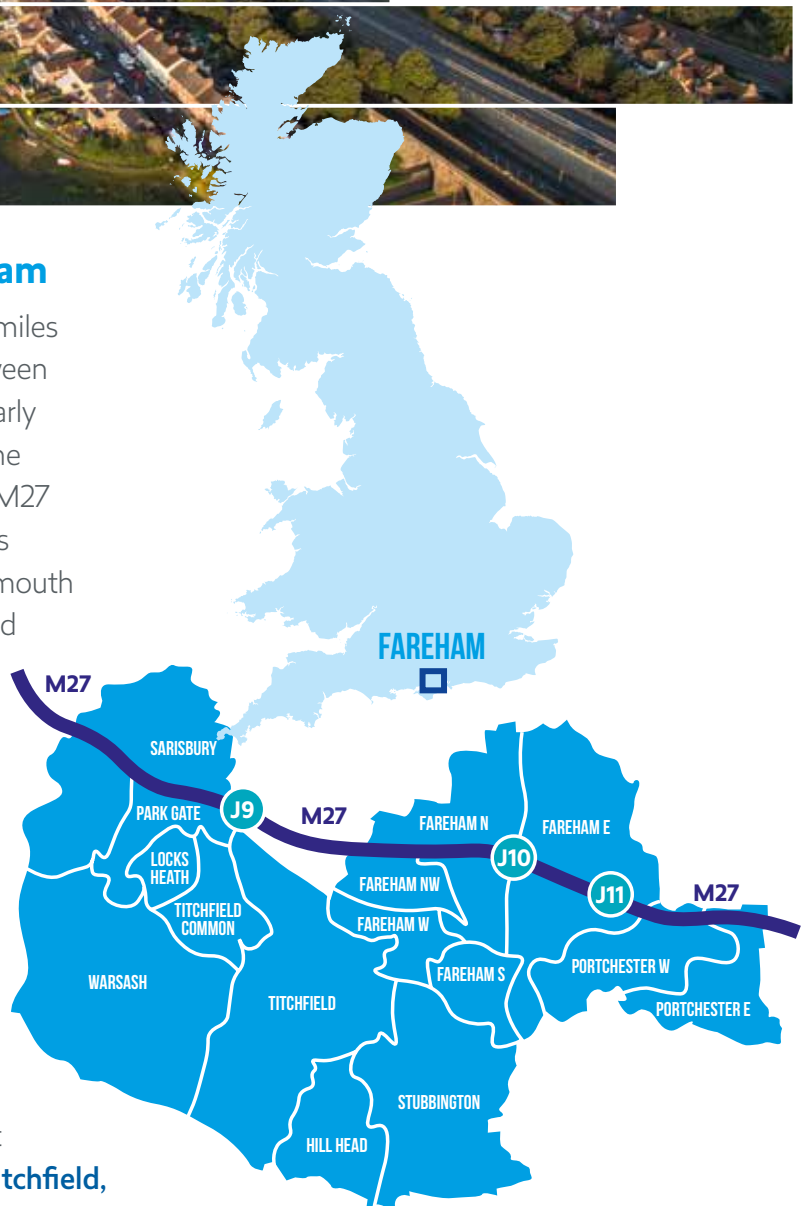


## Introducing the Borough of Fareham

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

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

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



## RESIDENTS


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

Approx. 50,000 households.

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

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

 Approximately 25% of households are people living alone.

 80% of homes are owner occupied.

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

## BUSINESSES

Approx. 3,200 businesses.

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

Just 0.4% of residents were claiming Jobseeker's Allowance against a national average of 0.7%.

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

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

### Putting customers at the heart of our organisation

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

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

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



# OUR VISION

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

## CORPORATE VALUES

Listening and being responsive to our customers.

Recognising and protecting the identity of existing communities.


Enhancing prosperity and conserving all that is good.

Being efficient, effective and providing value for money.

Leading our communities and achieving change for the better.

## PRIORITIES

Providing Housing Choices. 

Protect and enhance the environment. 

Strong, safe, inclusive and healthy communities. 

Maintain and extend prosperity. 

Leisure opportunities for health and fun. 

Dynamic, prudent and progressive Council. 

## Preparing for the future

The Council's Vision, Values and Priorities are set out in the Corporate Strategy which can be viewed in full on the Council's website. In 2017, following public consultation, the Corporate Strategy was revised to ensure it is fit for purpose for the next six years in terms of relevance, threats and opportunities. It recognises the constraint of continued reduction in Government funding and seeks to continue to deliver priorities but within a balanced and sustainable budget. The Council's Vision, Values and Priorities have been defined above. A series of actions are set for the coming years under each priority heading and these are refreshed each year. For example, in 2019/20 new actions were added to mitigate and adapt to the impacts of climate change in Fareham.

## The Council

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

### MEMBERS

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

### PARTNERSHIPS

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

### EMPLOYEES

Approximately 433 employees (333 full time & 100 part time)  
8 employees undertaking apprentice training  
3 Directors and 1 Deputy CX  
9 Heads of Services  
3 Strategic Lead Officers

### ORGANISATION

5 Directorates:  
Deputy Chief Executive (encompassing Finance and Resources and Fareham Housing)  
Planning & Regulation  
Street Scene  
Leisure & Community  
Support Services

## ORGANISATIONAL SUMMARY

Eight committee portfolios, led by Members, oversee more than 60 functions of the Council which deliver services such as Planning, Leisure, Environmental Health and Housing. Scrutiny Panels are in place for each of the six Executive Portfolios, which lead on the delivery of the Corporate Priorities.

The day to day delivery of services is overseen by the Chief Executive's Management Team. In 2019/20 this was made up of the Chief Executive Officer, the Deputy Chief Executive Officer and three Directors. This was a change from the previous year (three Directors and two Heads of Service) in response to the retirement of the Managing Director of Fareham Housing who was not replaced. This resulted in an overall increase in Senior Officer emoluments which was offset by reducing the number of Heads of Service from 12 to 9.

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

Highlights for partnerships, shared services and outsourced services in 2019/20 include:

- a new operator was appointed in 2019/20 to work with the Council to deliver a new vision for the primary community, arts and entertainment venue in the Borough;
- a notification was received from Hampshire County Council to end the agreement to provide on-street parking services to them from April 2020. This would have led to a potential shortfall of £130,000 of income to the Council. The parking team has therefore been reduced and alternative sources of parking income are being reviewed to address the shortfall;
- a proposal was received from Hampshire County Council to change the Waste Management arrangements under the Project Integra partnership from April 2021. These changes would potentially lead to additional costs of £0.5 million falling on the Council. The Council is therefore working with all members of Project Integra to see how the impact can be reduced;
- a new contractor was appointed to deliver Void Property Maintenance and Component Improvements from April 2019 for a period of three years. This is yielding savings for the Housing Revenue Account;
- the partnership between councils and Dial-A-Ride was renewed which included provision of a new bus;
- the legal services partnership with Southampton City Council was again nominated in 2019/20 as the Legal Team of the Year in the Local Government Legal Awards.



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



## 2019/20 Financial Position: overview

Despite reductions in funding and other pressures, the Council has continued to perform well, improve services and deliver capital projects and priorities for the Borough during 2019/20 including:

**Driving forward the Welborne Plan to deliver more housing in the Borough, including achieving outline planning permission for the development in October 2019.**

**Working with the new operator to develop a new vision for its community, arts and entertainment venue.**

**Investing in the infrastructure and assets at the Solent Airport.**

**New social housing developments progressed at Bridge Road and Highlands Road, which will open in 2020/21 providing five new houses and 18 new flats.**

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

The table below summarises the revenue outturn position<sup>1</sup> on the General Fund for the year compared to last year. Although there has been a slight decrease

in gross spend compared to last year, spend again exceeded the revised budget. This has been partially offset by an increase in business rates collections, resulting in a net overspend of £178,000 for the year.

The following risks and pressures were recognised when setting the original and revised 2019/20 budgets and Council Tax:

**Reduction in non-specific Government Funding of £141,000 (14%).**

**Reduction in income from the Council's interest in Fareham shopping centre by £250,000, to reflect the current lease arrangements and occupancy levels.**

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

**Increase in payments to and on behalf of employees of £355,000.**

**Projected reductions of income generated from car parks of £104,000.**

**Increase of £206,000 in the Minimum Revenue Provisions (MRP) to cover the borrowing costs of recent purchases of investment properties and construction at the Solent Airport.**

|                                                     | 2018/19<br>Actual  | 2019/20<br>Budget  | 2019/20<br>Actual   |
|-----------------------------------------------------|--------------------|--------------------|---------------------|
| <b>Gross Cost of Services</b>                       | <b>£56,159,000</b> | <b>£45,917,000</b> | <b>£55,616,000</b>  |
| <b>Net Cost of Services</b>                         | <b>£20,765,500</b> | <b>£15,591,000</b> | <b>£25,486,000</b>  |
| <b>Other Provisions</b>                             | <b>-£9,336,500</b> | <b>-£993,000</b>   | <b>-£10,147,000</b> |
| <b>Non-Service Specific Income</b>                  | <b>-£2,467,000</b> | <b>-£5,279,000</b> | <b>-£5,400,000</b>  |
| <b>Net Underspend (+)/Overspend (-) on Services</b> | <b>£349,000</b>    | <b>-</b>           | <b>-£178,000</b>    |
| <b>Net Budget</b>                                   | <b>£9,311,000</b>  | <b>£9,319,000</b>  | <b>£9,761,000</b>   |
| <b>Core Funding Sources</b>                         |                    |                    |                     |
| <b>Revenue Support Grant</b>                        | <b>£0</b>          | <b>£0</b>          | <b>£0</b>           |
| <b>Business Rates</b>                               | <b>£2,664,500</b>  | <b>£2,550,000</b>  | <b>£2,992,000</b>   |
| <b>Council Tax</b>                                  | <b>£6,672,000</b>  | <b>£6,875,000</b>  | <b>£6,875,000</b>   |
| <b>Other Funding Sources</b>                        | <b>-£25,500</b>    | <b>-£106,000</b>   | <b>-£106,000</b>    |
|                                                     | <b>£9,311,000</b>  | <b>£9,319,000</b>  | <b>£9,761,000</b>   |

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

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

**Development of an Opportunities Plan in 2018/19, in partnership with all Heads of Service in the Council, which identified projects which could generate income or reduce costs by £1.5 million over the next two years. Members approved the use of reserves to fund a Project team for two years to drive the delivery of the plan. £587,700 of savings from the first parts of the plan were applied to the budget for 2019/20.**

**Continued use of investment properties as a funding stream to generate income of £2,150,000.**

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

**Increasing Council Tax for the fourth year running by the maximum £5; this represented 14% of the funding sources used.**

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

**Use of prudent low cost borrowing.**

However, during the year, budget monitoring identified that the Council was struggling to keep to the budget set and a significant overspend was forecast. A “Living within our Means” Strategy was therefore implemented and monitored monthly by the Chief Executive’s Management Team to turn the financial position around by the end of the year, resulting in a significantly reduced overspend of only £178,000.





The General Fund Reserve has decreased in the year by £375,000. Total 'useable' reserves overall have increased by **£3.1 million** to a total of **£45 million**. This includes a provision of **£2.4 million** put aside in the Spending Reserve for unforeseen fluctuations in revenue expenditure and income which represents 5% of planned gross expenditure.

The Council raised **£1.3 million** from Community Infrastructure Levy (CIL) during 2019/20 (£1.5 million in 2018/19). This has been transferred to the Council's capital reserves and is one of the main funding sources earmarked for the new community, arts and entertainment venue. A total of **£870,000** CIL reserves were used in the year including £427,000 towards delivering the new community, arts and entertainment venue, £11,000 to fund the bus shelter improvement programme, £221,000 on the extension to the Holly Hill cemetery and £211,000 on play area upgrades at Portchester, Titchfield, Sarisbury and Fareham.

The overall value of Council long term assets has increased in value by **£27.8 million**.

We are aware that further challenges lie ahead including the continued reduction in Government funding and the impact of the Coronavirus pandemic on the Council's income streams for 2020/21 and the long-term impact on the economy and the finances of the government. We are therefore refreshing the Medium-Term Finance Strategy earlier to take account of these new challenges.

This was the second year of the new department of Fareham Housing which has continued to make changes to maintain the robustness of the Housing Revenue Account. Although the value of the Housing Revenue Account Reserve has again decreased, the total of all the Housing Reserves has increased by **£0.7 million**.

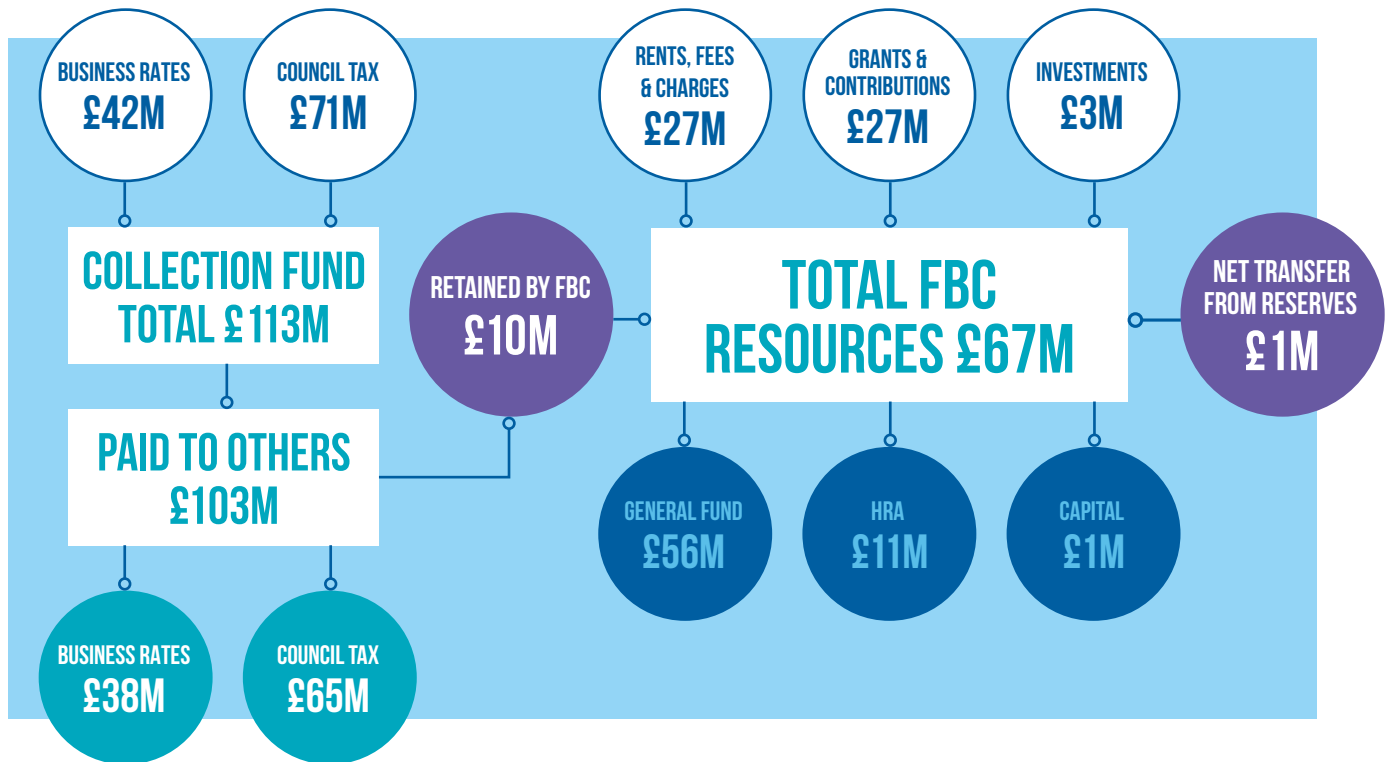
**The following sections provide further details of the financial and non-financial performance of the Council.**

## Revenue Income & Expenditure 2019/20

### Sources of Revenue Funding

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

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



### Central Government Funding

2019/20 was Year 4 of the Government's finance settlement. This meant the Council did not receive Revenue Grant Support (RSG) as the final payment of £288,000 was received in 2017/18. Although the RSG settlement for 2019/20 was set at -£400,000 the government did not require this amount to be paid over.

The only non-specific Grant funding received from the Ministry for Housing, Communities and Local Government for the year was a New Homes Bonus of £821,000. This had again reduced by another £141,000 (14%) under the revised 2017 scheme and was the lowest payment received for nine years, due to two high years of new home builds dropping out of the calculation.

### Government Grants to Services

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

**Funding to fully cover the cost of Disabled Facilities Grants awarded in the year of £453,000**

**Funding towards homelessness initiatives of £294,000**

**Funding towards coastal protection initiatives of £69,000**

**Further funding of £53,000 towards the Air Quality improvement Plan for the A27 in the town centre, which has included 30 taxi drivers replacing their older diesel vehicles with Ultra Low Emission vehicles (ULEVS) or hybrid vehicles.**

## Income from Services

Discretionary fees and charges were generally increased in 2019/20 where it was deemed feasible to do so. However, whilst some income streams increased in the year, a number of others fell. These changes led to a total income of **£6.6 million** in the year which is a 14% decrease on 2018/19.

This was partially offset by an increase in rental and sales income, giving an overall income from services of **£16.1 million**; a decrease of 4% on 2018/19.

**Gross income from the trade waste service increased by £58,000.**

**Planning application income fell by £53,000 (9%) compared to 2018/19. This is due to Natural England requiring all further development on the Solent coastline to be nitrogen neutral leading to a cessation of planning permission being granted for new residential and overnight accommodation.**

**Our investment portfolio was expanded and generated a net income of £3 million in the year for the Council – an increase of 30%.**

**Parking income fell by £62,000 (3%) compared to 2018/19.**



## Council Tax and Business Rates

The Council increased the rate of Council Tax by £5 for the fourth time since 2016/17. The increase was kept within Government referendum limits. The overall level for Council Tax for a band D property in the Borough was £1,599.38 of which £160.22 related to Fareham Borough Council funding. This compared to £1,512.62 and £155.22 in 2018/19 at which point we had

one of the lowest council taxes for a district council when parish precepts are taken into account.

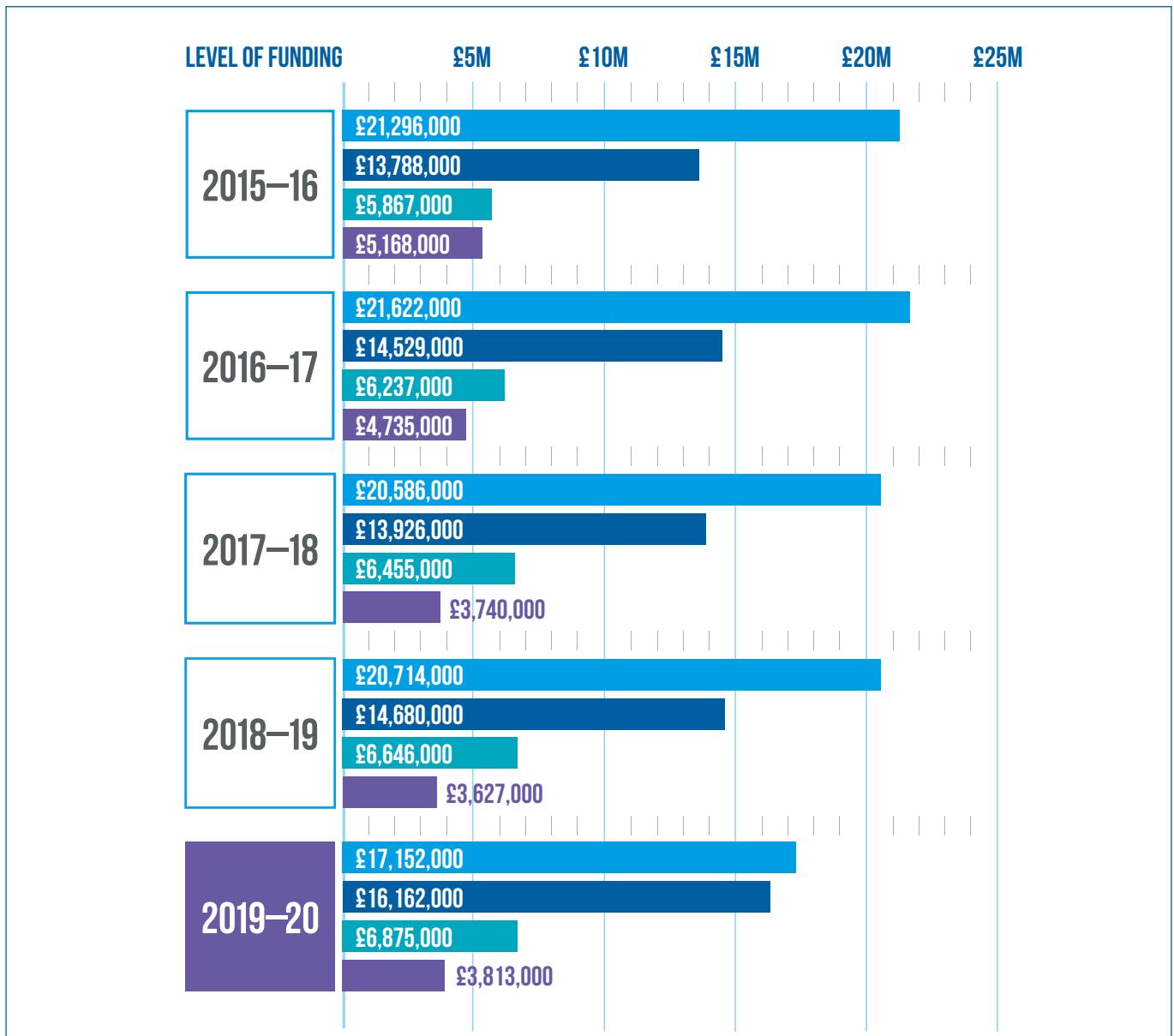
Business rates income due increased in the year by £330,000 (12%).

As at the end of March 2020 we had collected 99.44% of Council Tax due and 98.9% of Business Rates due.

## Trends in sources of funding

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

|                                                          |
|----------------------------------------------------------|
| SPECIFIC GOVERNMENT GRANTS TO SERVICES                   |
| INCOME FROM SERVICES (INCLUDING RENTS, FEES AND CHARGES) |
| COUNCIL TAX PAYERS                                       |
| CORE GOVERNMENT FUNDING (INCLUDING BUSINESS RATES)       |

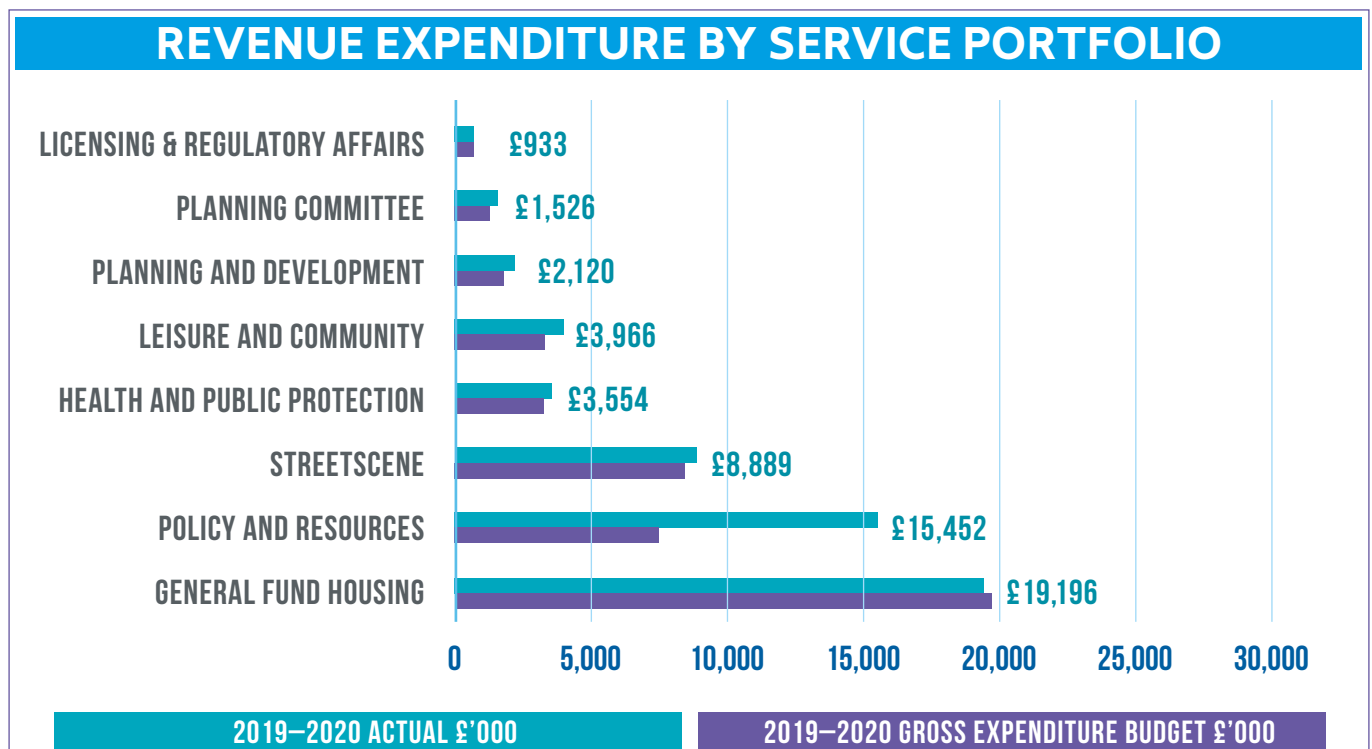




## Revenue Spending on Services in 2019/20

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

Spend on employees was **27%** of the total spend compared to **25%** last year.



## Snapshot of services provided in 2019/20



### Service changes, challenges and successes

It was a year with a number of challenges, not least the need to deliver a European Parliamentary Election in May and a UK Parliamentary Election in December leading to the country leaving the European Union. There was also a gathering momentum behind the climate change agenda leading to the Council formally announcing its ambition to achieve carbon neutrality and to work with the community to understand and implement actions to increase climate change resilience and adaptations.

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

- the Council has committed to a review of its Local Plan to reflect emerging housing and employment needs until 2036. Work has therefore been carried out to develop a new plan for submission to the inspectors in the autumn

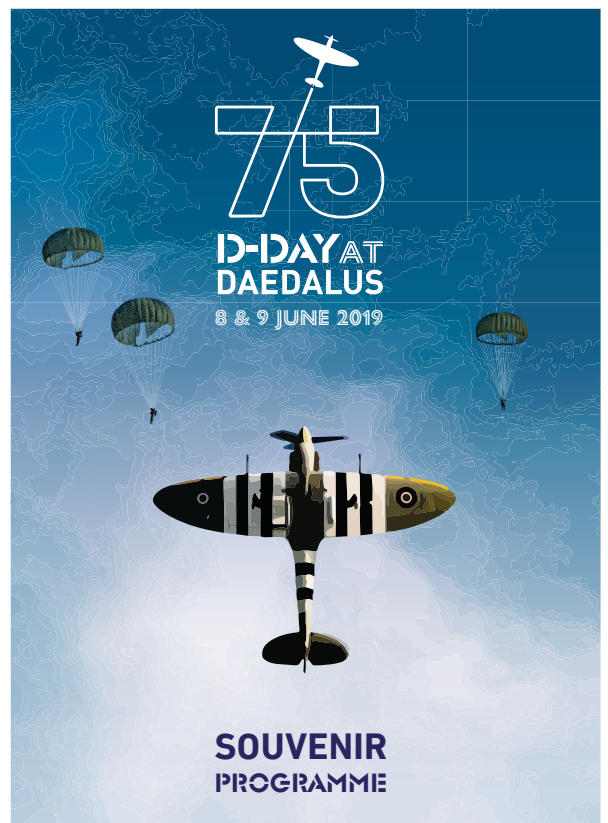
of 2020. A financial strategy behind the plan has also been developed to tackle the funding needs of the peaks and troughs in this work;

- the Council has been working with other bodies in the Solent area, including the Hampshire and Isle of Wight Wildlife Trust, to identify how the Natural England judgement on nitrogen neutrality can be addressed to allow residential developments to recommence;
- the programme of ‘Systems Thinking’ interventions has continued with reviews concluding in the Building Control Partnership and commencing for the Freedom of Information process;
- we have seen a decrease in the amount of housing benefit paid and reclaimed through the Department for Works and Pensions in line with projections as claimants move to Universal Credit;





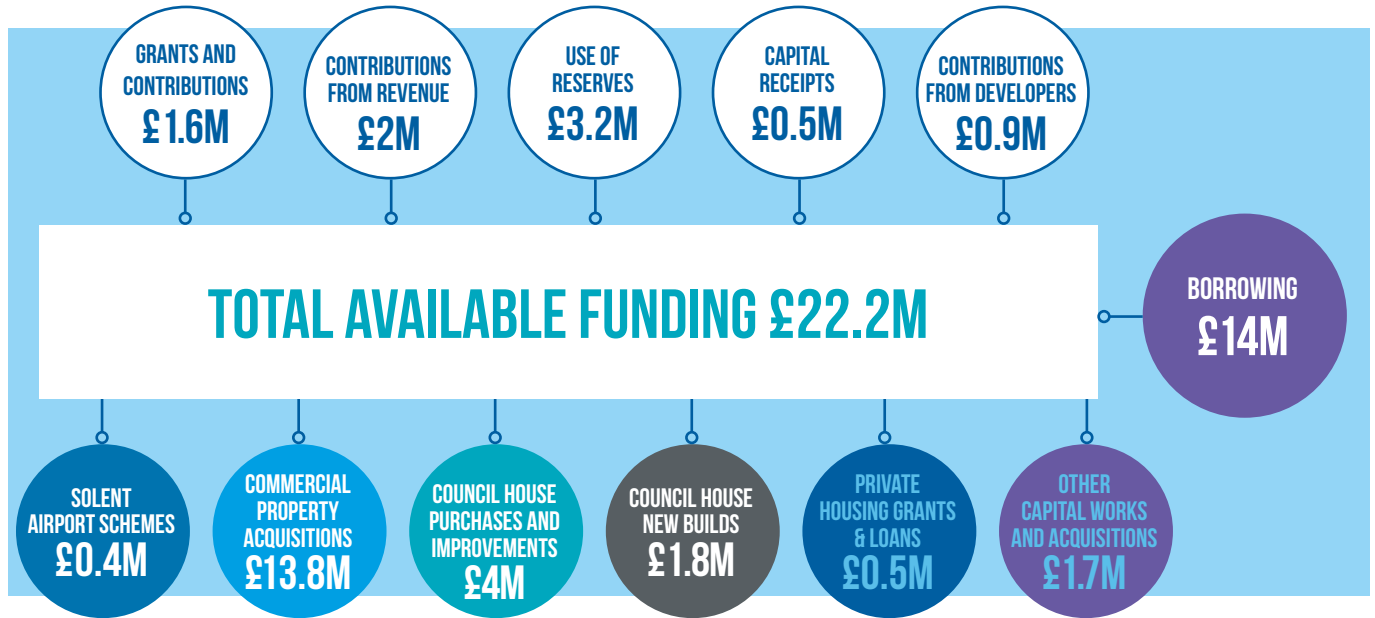
- the Council delivered a successful event at Solent Airport in commemoration of the 75th Anniversary of the D Day Landings;
- it was another successful year for the Portchester Crematorium which generated a surplus leading to a £160,000 contribution to the Council;
- during the year, 16 council homes and no shared ownership property were sold under the Right to Buy scheme (13 in 2018/19). Eight other properties were bought back;
- there were high levels of public engagement throughout the year. Almost 7,000 people responded to 20 consultations and events including responses to the Local Plan, Gate Guardian at the Solent Airport and to the Warsash and Titchfield Forum proposals.



## Major projects and Capital finances 2019/20

2019/20 was a significant year for the Capital programme with spend rising to over **£22 million** compared to **£7 million** in the previous year.

A high proportion of this, 62%, related to further investment in two Commercial Property acquisitions in Fareham and Havant to provide an on-going source of income for the General Fund.



## Significant projects

### WELBORNE

In 2019/20 the Council continued to resource activities to support the development of the site north of the Borough to deliver up to 6,000 more homes. The new community of Welborne has been given 'Garden Village' status by the Government. As part of this initiative there have been specific funding opportunities including:

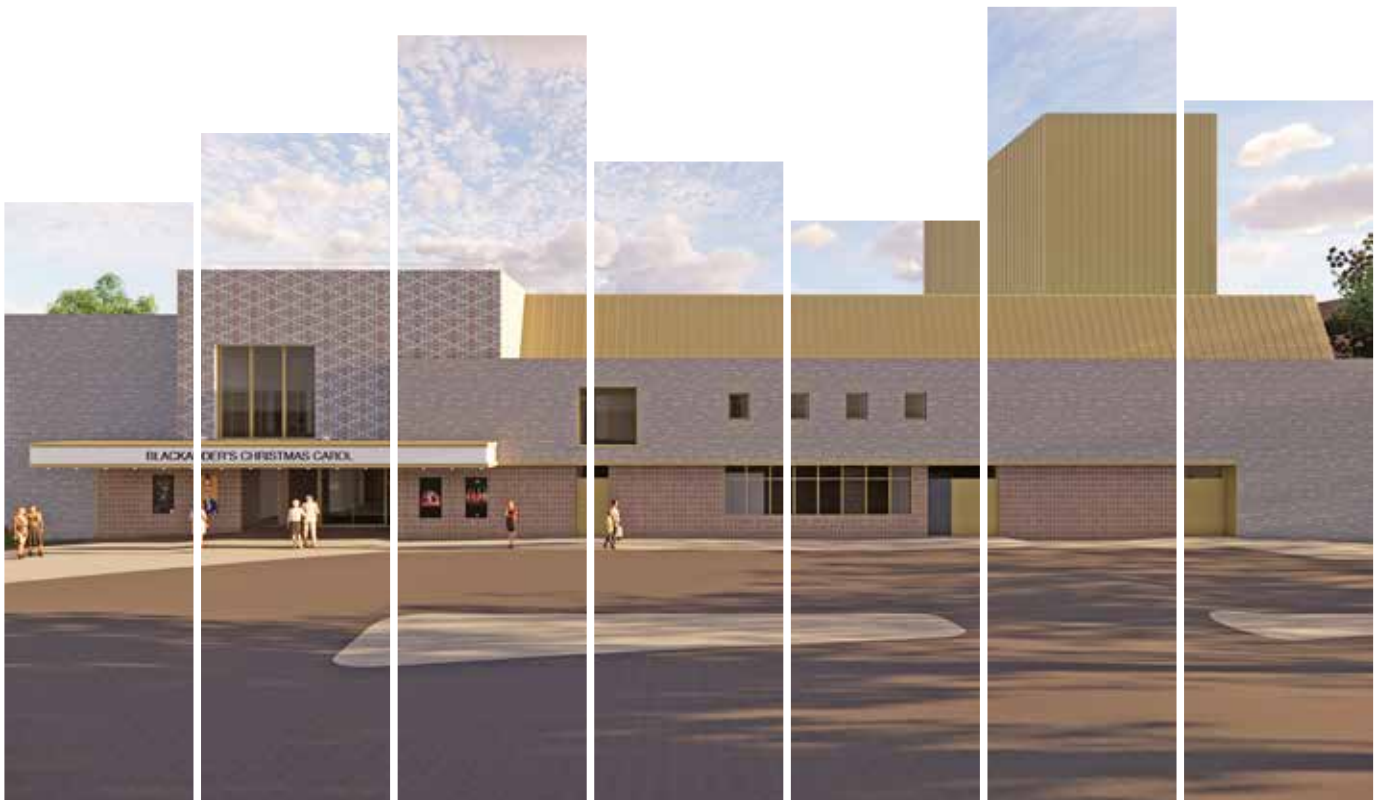
- **£1,173,570 Capacity Funding and Garden Towns and Village funding received (including £150,000 for 2019/20);**
- **potential recoverable grant of up to £9.9 million, towards the motorway junction works.**

£622,145 of grant funding has now been used to progress the work streams involved with the development including:

- **working with the master developer to achieve outline planning permission for the Scheme from the Planning Committee in October 2019;**

- **working with consultees and the master developer to resolve the remaining delivery issues for the Section 106 agreement and the reserved matters application;**
- **assisting with developing and refreshing accompanying strategies for the community development, placemaking and housing mix for the new community, including a Strategic Design Code for the development.**





## NEW COMMUNITY, ARTS AND ENTERTAINMENT VENUE

Ferneham Hall, in the Borough, is being remodelled to deliver the vision of a new community, arts and entertainment facility for Fareham. 2019/20 has been a significant year in realising this ambition, and capital spending of £427,000 has been utilised to:

- tender and appoint a long-term operator for the venue and agree an operating model which will reduce the level of subsidy needed to support the facility;
- work with the operator to design the new venue within an approved budget of over £12 million;
- submit and gain planning permission for the remodelled building;
- decommission the previous building in January 2020 with the employees being redeployed where possible.

## SOLENT AIRPORT/DAEDALUS

Developments at the former naval airfield at Daedalus have continued in 2019/20 and there was a further fall in the net cost of the site (£213,000).

Contributions to the running costs of the airfield in 2019/20 included:

- hangar and property rents (£883,000);
- site fees and charges, including landing fees and hangarage (£228,000);
- Fareham Innovation Centre gross fees and charges (£952,000);
- Service Charges (£94,000);
- net income from fuel sales (£67,000).

Activity in the year included:

- further investment in the assets and infrastructure across the site of £361,000;
- maintaining 70% occupancy throughout most of the year of the Fareham Innovation Centre and extension;
- progressed construction of the IFA2 electricity converter station under an agreement with the National Grid to increase clean energy security for the UK by 2020/21. In exchange they are making a significant contribution to the provision of Daedalus Common;

- attainment of an ANSP (aeronautical navigation service provider) licence, leading to the FISO (flight information safety officer) air traffic control going live;
- major lease completed on a business hangar;
- building lease entered into for a self-build industrial unit (approx. 31,000 sq ft);
- planning consent obtained (by third party) for self build unit (approx. 31,000 sq ft).

#### OTHER SIGNIFICANT CAPITAL PROJECTS

- £1.8 million has been spent on new housing developments, with the help from funding from Homes England. The scheme at Bridge Road is nearing completion and will be ready for occupancy in 2020/21;
- a further £212,000 has been spent as part of the five-year play area refurbishment programme;
- £237,000 has been spent modernising and improving the workspace at the Council's depot;
- a further £338,000 has been spent on the ICT development programme upgrading servers, computers and phones across the organisation;
- the extension to Holly Hill cemetery has been completed at an additional cost of £220,000 in 2019/20. This will provide an extra 350 burial spaces.



## Outlook for the Future: risks and pressures

The Medium-Term Finance Strategy for 2020/21 recognised that the Council will continue to face financial pressures. At that time, we were forecasting a £489,000 deficit by 2021/22 even if council tax continued to rise by £5 a year.

### Particular risks and pressures include:

- the full impact of the Fair Funding Review on the Council's core funding sources is not known. However, the New Homes Bonus payments are expected to carry on reducing and end by 2023/24;
- the funding needs of the Council's corporate priorities have not been fully costed and built into the budgets;
- demand for Council services remains volatile in some services, and this may be heightened due to economic changes;
- while the Council's capital resources are expected to exceed planned capital expenditure at the end of the programme period, future spending requirements could give rise to a shortfall. It is therefore imperative that capital reserves are replenished whenever possible in order to meet the future spending needs;
- Hampshire County Council is also having funding pressures, and some of the decisions they may need to take may impact on Fareham Borough Council's finances;
- there are also significant future pressures that have not yet been built into the forecasts such as the impact of future population increases in the Borough on Council services.



## Covid 19-Pandemic

At the end of 2019/20 it was clear that the Covid-19 pandemic would have a significant impact, both globally and nationally, and would therefore also have an impact upon Council services including

the way it operates, its resources and financial sustainability. The Council's initial focus in response to the pandemic included the following areas:

|                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p><b>PROVISION OF SERVICES</b></p>                    | <ul style="list-style-type: none"> <li>• Services were reviewed to identify those which should be suspended during lockdown.</li> <li>• New services that were required in the response phase were identified, including measures to support the most vulnerable in the community, as well as distributing <b>£19 million</b> of grants to local businesses, most under pressure due to lockdown.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|  <p><b>COUNCIL'S HUMAN AND FINANCIAL RESOURCES</b></p> | <ul style="list-style-type: none"> <li>• Upon lockdown, the Council's office-based workforce was mobilised to work from home, while those most at risk were shielded. To achieve continuity of service, new technology was deployed, but there has inevitably been an impact of service performance as teams managed the conflicting requirements of remote technology and home circumstances such as childcare/schooling responsibilities.</li> <li>• The Council's resources were rapidly redeployed to respond to the emerging pressures of the pandemic, reprioritising capacity to assist front line services (eg refuse collection and bereavement) and to deliver the new services identified above.</li> <li>• Special measures were instigated, to ensure that front-line employees were able to work safely during the lockdown period, in providing key public services (such as refuse collection and property maintenance).</li> </ul> |
|  <p><b>SUPPLY CHAINS</b></p>                          | <ul style="list-style-type: none"> <li>• Special arrangements were put in place for the Council's suppliers to ensure that appropriate support was available to the supply chain.</li> <li>• Detailed dialogue about supporting the Council's key partners during lockdown and beyond (such as maintenance contractors and Leisure Operators) were established (in accordance with PPN / 02/20).</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|  <p><b>DECISION MAKING</b></p>                        | <ul style="list-style-type: none"> <li>• Arrangements were established using emergency powers to ensure that a high standard of governance could be maintained in relation to decision-making throughout the response period.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

## Long Term Risks to the Council

As the Council transitions from Covid-19 response to recovery, a number of medium/longer term issues have been recognised, that could have a significant bearing on the Council's financial position.

The greatest impact of the pandemic has undoubtedly been on local communities, and the Council has a key role to play, as a community leader, in supporting the community back to normality.

The economic uncertainty also presents a significant financial challenge as demand for welfare services increases and income-generating services may decline, particularly in those areas that are more susceptible to economic fluctuations (such as building regulations applications and commercial property). It is also possible that this could have a long term impact on availability of broader funding streams, such as Government support and business rates.

## Reserves, Financial Performance and Reporting

The 2020/21 budget was set in February 2020 and was set to break even for the year. However, since the budget was set, the emergence of Covid-19 fundamentally changed the financial position for a period of at least three months until the end of June 2020. During this period, the Council has incurred approximately £260,000 of additional expenditure and has seen income fall by approximately **£1.6 million** in the areas of car parking, trade waste collection, commercial income, planning and business rate collection.



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FAREHAM BOROUGH COUNCIL

The impact of measures taken to support individuals and businesses were also evident in the Council's cash flow position, with relaxed payment terms, immediate payments to suppliers, suspended debt collection activities, etc all reducing the net cash available on a daily basis.

A wide range of measures have been introduced across Government to help alleviate the financial

impact upon local authorities, including general and specific grants, an income compensation scheme and relaxing financial controls on use of resources. However, it is clear that there will still be a requirement to meet some of the shortfall from the Council's revenue reserves in 2020/21 and beyond.

In recognition of the potential scale of the impact, the financial management and governance arrangements have been strengthened, particularly in relation to:

**CASHFLOW MONITORING**

**SERVICE FINANCIAL PERFORMANCE**

**COVID-19 RESPONSE EXPENDITURE**

**INCOME COLLECTION AND ARREARS PERFORMANCE**

**GOVERNMENT FUNDING OPPORTUNITIES**

Weekly monitoring and reporting to the S.151 Officer was instigated, together with a regular reporting structure to the corporate Covid-19 response group, led by the Chief Executive. These measures ensured a high degree of awareness and enabled the corporate team to closely manage the financial risks.



## Financial Outlook and Action in Recovery Stage

In the next phase of the pandemic, the Council has developed clear overarching objectives for recovery, accompanied by more detailed thematic plans for recovery within each of the following topics; the Community, Council Services, Public Spaces, the Economy, Democracy and Finance.

These plans will guide the Council's activities, in relation to the pandemic, over the forthcoming period.

While a gradual return of most income streams is anticipated, and as costs return to normal operational levels, the Council is not anticipating that this will necessarily be to the levels previously observed or budgeted. For example, the current projected impact on general fund balances in 2020/21 is set to exceed **£1 million** and will continue into the following financial year. However, the established approach to maintaining a healthy level of reserves will ensure that this can be contained without a detrimental impact on services.

Going forward, the approach to Financial Recovery will be to assess the immediate financial impact and predict the longer term implications using the thematic Recovery Plans as the basis for this.

An "Emergency" revenue budget is being prepared for the General Fund and Housing Revenue Account, to reflect the immediate impact in 2020/21, which will be considered by the Council's Executive in September.

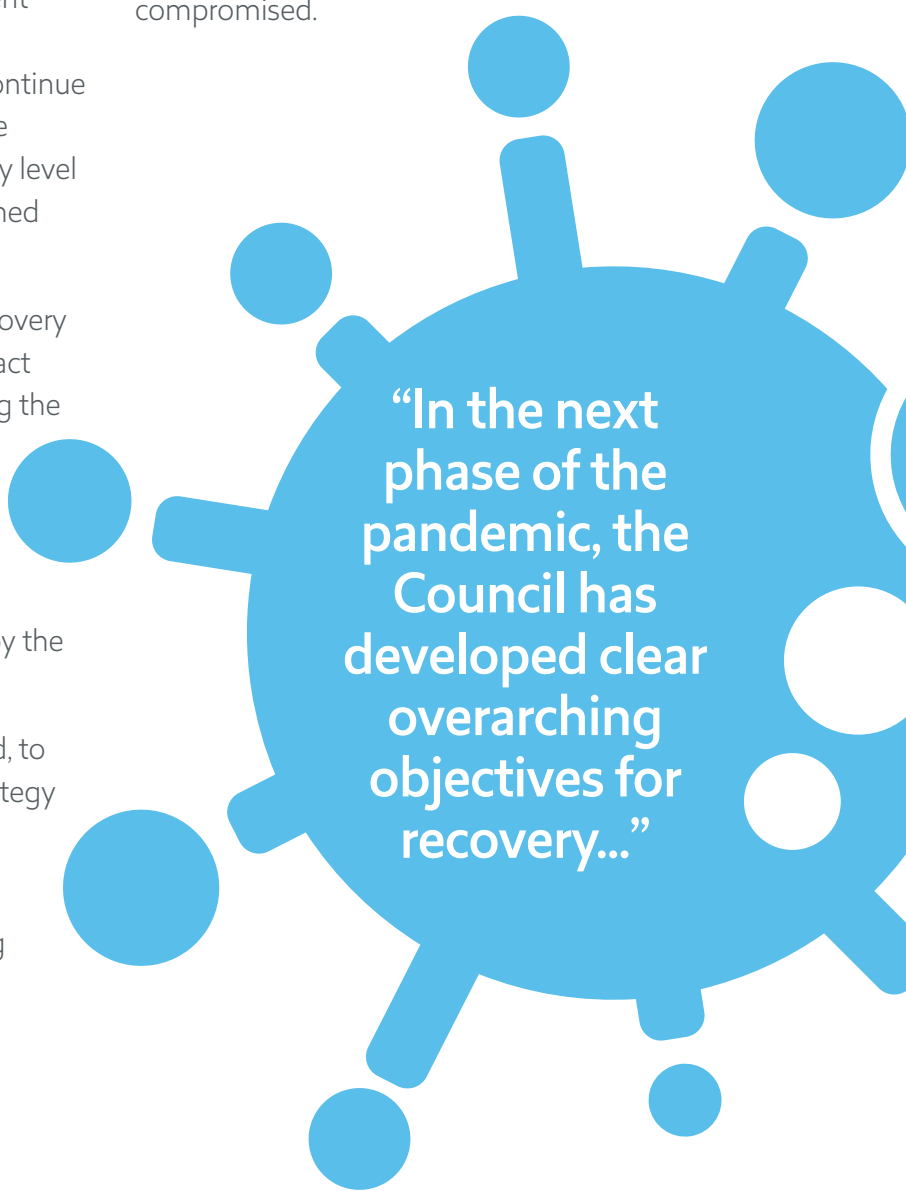
The longer-term impact will then be assessed, to inform a revised Medium Term Financial Strategy in October 2020.

The Financial Strategy will also take account of mitigating measures that are actively being considered, including revisiting the Council's Opportunities Plan for reducing costs and generating revenue.

Furthermore, the Council is reviewing the business cases for significant capital programme schemes in 2020/21, in light of the potential changes in the economy, to ensure that capital investment is appropriately prioritised and remains affordable.

The steps that have been taken during the response phase have ensured there is clarity about the scale of the financial exposure, together with the opportunities to minimise costs and secure Government funding support.

As we transition into Recovery, a robust and comprehensive approach to predicting the longer term financial impact has been established. This will ensure that measures can be taken, where necessary, to protect the Council's financial standing and ensure its position as a going concern is not compromised.



**“In the next phase of the pandemic, the Council has developed clear overarching objectives for recovery...”**



## Explanation to accounting statements

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2020. It comprises core supplementary statements, together with disclosure notes. The format and content of the financial

statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is in turn underpinned by International Financial Reporting Standards.

### The Core Financial Statements are:

#### COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

#### BALANCE SHEET

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

#### MOVEMENT IN RESERVES STATEMENT

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

#### CASH FLOW STATEMENT

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

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

### The Supplementary Financial Statements are:

#### HOUSING REVENUE ACCOUNT

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

#### COLLECTION FUND

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

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

# Statement of Responsibilities for the Statement of Accounts

## The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. This is the Deputy Chief Executive Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts. Responsibility for this has been delegated to the Audit and Governance Committee.

## The Deputy Chief Executive Officer's responsibilities

The Deputy Chief Executive Officer is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), are required respectively to present fairly the financial position of the Council at the accounting date and the income and expenditure for the year then ended.

In preparing this Statement of Accounts, the Deputy Chief Executive Officer has:

- selected suitable accounting policies and then applied them consistently except where policy changes have been noted in these accounts;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Deputy Chief Executive Officer has also:

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

**Andrew Wannell CPFA**  
Deputy Chief Executive Officer

Date: 23 November 2020.



## Approval of the Statement of Accounts

The Statement of Accounts was approved by Fareham Borough Council's Audit and Governance Committee.

**Councillor Jonathan Butts**  
Chairman of the Audit  
and Governance Committee

Date: 23 November 2020.





# CORE FINANCIAL STATEMENTS

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement in note 10.

| 2018/19            |                       |                  | 2019/20                                                                     |                    |                       |                  |
|--------------------|-----------------------|------------------|-----------------------------------------------------------------------------|--------------------|-----------------------|------------------|
| Gross Exp<br>£'000 | Gross Income<br>£'000 | Net Exp<br>£'000 | Note                                                                        | Gross Exp<br>£'000 | Gross Income<br>£'000 | Net Exp<br>£'000 |
| 732                | (246)                 | 486              |                                                                             | 933                | (504)                 | 429              |
| 1,585              | (612)                 | 973              | Licensing and Regulatory Affairs Committee                                  | 1,526              | (573)                 | 953              |
| 21,493             | (20,453)              | 1,040            | Planning Committee                                                          | 19,065             | (17,597)              | 1,468            |
| 4,325              | (12,333)              | (8,008)          | Housing Portfolio                                                           | 6,353              | (12,268)              | (5,915)          |
| 3,654              | (1,660)               | 1,994            | Housing Revenue Account                                                     | 3,692              | (1,456)               | 2,236            |
| 1,905              | (2,440)               | (535)            | Leisure and Community Portfolio                                             | 2,120              | (239)                 | 1,881            |
| 13,265             | (4,710)               | 8,555            | Planning and Development Portfolio                                          | 8,632              | (3,636)               | 4,996            |
| 3,728              | (926)                 | 2,802            | Policy and Resources Portfolio                                              | 3,555              | (2,413)               | 1,142            |
| 8,814              | (2,487)               | 6,327            | Health and Public Protection Portfolio                                      | 8,889              | (2,307)               | 6,582            |
| 59,501             | (45,867)              | 13,634           | Streetscene Portfolio                                                       | 54,765             | (40,993)              | 13,772           |
|                    |                       |                  | <b>Cost of Services</b>                                                     |                    |                       |                  |
|                    |                       |                  | <b>Other Operating Expenditure</b>                                          |                    |                       |                  |
|                    | (1,434)               |                  | (Gain)/loss on disposal of assets                                           |                    |                       | (543)            |
|                    | 196                   |                  | Housing capital receipts                                                    |                    |                       | 196              |
|                    |                       |                  | <b>Financing and Investment Income and Expenditure</b>                      |                    |                       |                  |
|                    | 1,447                 |                  | Interest payable                                                            |                    |                       | 1,489            |
|                    | (206)                 |                  | Interest receivable                                                         |                    |                       | (415)            |
|                    | -                     |                  | Changes in impairment loss allowance                                        |                    |                       | 225              |
|                    | (29)                  |                  | Net (gain)/losses on financial assets at fair value through profit and loss |                    |                       | 1,334            |
|                    | 1,540                 |                  | Pension net interest cost                                                   | 17                 |                       | 1,377            |
|                    | 2,346                 |                  | Changes in fair value of investment properties                              | 19                 |                       | 6,216            |
|                    | (3,394)               |                  | Investment properties rental and expenses                                   | 19                 |                       | (4,018)          |
|                    |                       |                  | <b>Taxation and Non-Specific Grant Income</b>                               |                    |                       |                  |
|                    | (6,646)               |                  | Council tax income                                                          |                    |                       | (6,908)          |
|                    | (2,665)               |                  | Non-domestic rates income                                                   |                    |                       | (3,228)          |
|                    | (3,009)               |                  | Grants and contributions not distributable to services                      | 11                 |                       | (3,434)          |
|                    | 1,780                 |                  | <b>(Surplus)/Deficit on Provision of Services</b>                           |                    |                       | <b>6,063</b>     |
|                    | 4,995                 |                  | (Surplus)/deficit on revaluation of property, plant and equipment assets    |                    |                       | (9,672)          |
|                    | (5,946)               |                  | Pension liability re-measurements                                           | 17                 |                       | 549              |
|                    | 7                     |                  | Other                                                                       |                    |                       | -                |
|                    | (944)                 |                  | <b>Other Comprehensive Income and Expenditure</b>                           |                    |                       | <b>(9,123)</b>   |
|                    | 836                   |                  | <b>Total Comprehensive Income and Expenditure</b>                           |                    |                       | <b>(3,060)</b>   |

## Balance Sheet

The Balance Sheet shows the values of assets and liabilities held by the Council. The net assets are matched by the reserves. The reserves are presented within two categories, usable and unusable reserves. Usable reserves may be used to provide services subject to statutory limitations on their use and the need to maintain prudent level of reserves for financial stability. Unusable reserves cannot be used to fund services.

| 31 March 2019    |                                      |      | 31 March 2020    |
|------------------|--------------------------------------|------|------------------|
| £'000            |                                      | Note | £'000            |
|                  | Property, Plant and Equipment        | 18   |                  |
| 121,645          | - Council dwellings                  |      | 124,377          |
| 84,732           | - Other land and buildings           |      | 91,497           |
| 3,606            | - Vehicles, plant and equipment      |      | 3,688            |
| 1,169            | - Infrastructure                     |      | 1,159            |
| 340              | - Community assets                   |      | 337              |
| 366              | - Assets under construction          |      | 2,244            |
| 56,662           | Investment properties                | 19   | 64,265           |
| 181              | Heritage assets                      |      | 172              |
| 19               | Intangible assets                    |      | 91               |
| 1,873            | Long term investments                | 28   | 10,539           |
| 117              | Long term debtors                    |      | 101              |
| <b>270,710</b>   | <b>Total long term assets</b>        |      | <b>298,471</b>   |
|                  | Short term investments               | 28   | 88               |
| 262              | Assets held for sale                 |      | -                |
| 111              | Inventories                          |      | 110              |
| 7,851            | Short term debtors                   | 21   | 5,195            |
| 286              | Payments in advance                  |      | 478              |
| 2,106            | Cash and cash equivalents            | 28   | 5,297            |
| <b>19,659</b>    | <b>Current assets</b>                |      | <b>11,168</b>    |
|                  | Bank overdraft                       | 28   | -                |
| (5,511)          | Short term borrowing                 | 28   | (17,659)         |
| (12,423)         | Short term creditors                 | 22   | (11,405)         |
| (97)             | Depositors                           |      | (99)             |
| (2,711)          | Provisions                           | 23   | (2,973)          |
| <b>(21,204)</b>  | <b>Current liabilities</b>           |      | <b>(32,136)</b>  |
|                  | Receipts in advance - capital grants | 24   | (4,728)          |
| (1,772)          | Receipts in advance - revenue grants | 24   | (2,226)          |
| (40,000)         | Long term borrowing                  | 28   | (40,000)         |
| (3,390)          | Long term creditors                  |      | (4,421)          |
| (59,224)         | Pension scheme liability             | 17   | (62,349)         |
| <b>(108,447)</b> | <b>Long term liabilities</b>         |      | <b>(113,724)</b> |
| <b>160,718</b>   | <b>Net assets</b>                    |      | <b>163,779</b>   |
|                  | Usable reserves                      |      | 45,148           |
| 118,984          | Unusable reserves                    | 27   | 118,631          |
| <b>160,718</b>   | <b>Total Reserves</b>                |      | <b>163,779</b>   |

### Certification by the Chief Financial Officer

I certify that the Statement of Accounts presents a true and fair view of the financial position as at 31 March 2020 and its income and expenditure for the year then ended.



Andrew Wannell CPFA, Deputy Chief Executive Officer, 23rd November 2020

## Movement in Reserves Statement

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

|                                                                          | General Fund Balance<br>£'000 | Ear-marked Reserves<br>£'000 | Housing Revenue Account<br>£'000 | Major Repairs Reserve<br>£'000 | Capital Receipts Reserve<br>£'000 | Capital Grants Unapplied<br>£'000 | Total Usable Reserves<br>£'000 | Unusable Reserves<br>£'000 | Total Reserves<br>£'000 |
|--------------------------------------------------------------------------|-------------------------------|------------------------------|----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|--------------------------------|----------------------------|-------------------------|
| <b>Balance at 31 March 2019</b>                                          | <b>8,853</b>                  | <b>16,567</b>                | <b>1,301</b>                     | <b>1,838</b>                   | <b>7,507</b>                      | <b>5,668</b>                      | <b>41,734</b>                  | <b>118,984</b>             | <b>160,718</b>          |
| <b>Movement in reserves in year</b>                                      |                               |                              |                                  |                                |                                   |                                   |                                |                            |                         |
| Total Comprehensive Income and Expenditure                               | (11,478)                      | -                            | 5,416                            | -                              | -                                 | -                                 | (6,062)                        | 9,123                      | 3,061                   |
| Adjustments between accounting basis and funding basis under regulations | 12,770                        | -                            | (5,487)                          | 479                            | 1,228                             | 486                               | 9,476                          | (9,476)                    | -                       |
| Transfers to/(from) earmarked reserves                                   | (1,924)                       | 2,367                        | (432)                            | -                              | -                                 | (11)                              | -                              | -                          | -                       |
| <b>Increase/(decrease) in year</b>                                       | <b>(632)</b>                  | <b>2,367</b>                 | <b>(503)</b>                     | <b>479</b>                     | <b>1,228</b>                      | <b>475</b>                        | <b>3,414</b>                   | <b>(353)</b>               | <b>3,061</b>            |
| <b>Balance at 31 March 2020</b>                                          | <b>8,221</b>                  | <b>18,934</b>                | <b>798</b>                       | <b>2,317</b>                   | <b>8,735</b>                      | <b>6,143</b>                      | <b>45,148</b>                  | <b>118,631</b>             | <b>163,779</b>          |

|                                                                          | General Fund Balance<br>£'000 | Ear-marked Reserves<br>£'000 | Housing Revenue Account<br>£'000 | Major Repairs Reserve<br>£'000 | Capital Receipts Reserve<br>£'000 | Capital Grants Unapplied<br>£'000 | Total Usable Reserves<br>£'000 | Unusable Reserves<br>£'000 | Total Reserves<br>£'000 |
|--------------------------------------------------------------------------|-------------------------------|------------------------------|----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|--------------------------------|----------------------------|-------------------------|
| <b>Balance at 31 March 2018</b>                                          | <b>8,664</b>                  | <b>13,581</b>                | <b>1,824</b>                     | <b>984</b>                     | <b>4,619</b>                      | <b>4,252</b>                      | <b>33,924</b>                  | <b>127,630</b>             | <b>161,554</b>          |
| <b>Movement in reserves in year</b>                                      |                               |                              |                                  |                                |                                   |                                   |                                |                            |                         |
| Total Comprehensive Income and Expenditure                               | (8,804)                       | -                            | 7,018                            | -                              | -                                 | -                                 | (1,786)                        | 950                        | (836)                   |
| Adjustments between accounting basis and funding basis under regulations | 10,939                        | -                            | (6,512)                          | 854                            | 2,888                             | 1,427                             | 9,596                          | (9,596)                    | -                       |
| Transfers to/(from) earmarked reserves                                   | (1,946)                       | 2,986                        | (1,029)                          | -                              | -                                 | (11)                              | -                              | -                          | -                       |
| <b>Increase/(decrease) in year</b>                                       | <b>189</b>                    | <b>2,986</b>                 | <b>(523)</b>                     | <b>854</b>                     | <b>2,888</b>                      | <b>1,416</b>                      | <b>7,810</b>                   | <b>(8,646)</b>             | <b>(836)</b>            |
| <b>Balance at 31 March 2019</b>                                          | <b>8,853</b>                  | <b>16,567</b>                | <b>1,301</b>                     | <b>1,838</b>                   | <b>7,507</b>                      | <b>5,668</b>                      | <b>41,734</b>                  | <b>118,984</b>             | <b>160,718</b>          |

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The Statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing or financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing by the Council).

| 2018/19<br>£'000 |                                                                                                                                      | Note | 2019/20<br>£'000 |
|------------------|--------------------------------------------------------------------------------------------------------------------------------------|------|------------------|
| (1,780)          | <b>Net surplus/(deficit) on the provision of services</b>                                                                            |      | (6,063)          |
| 14,699           | Adjustments to surplus/(deficit) on the provision of services for non-cash movements                                                 | 32   | 21,165           |
| (4,926)          | Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities | 33   | (3,555)          |
| <b>7,993</b>     | <b>Net Cash Flows from Operating Activities</b>                                                                                      |      | <b>11,547</b>    |
|                  | <b>Investing Activities</b>                                                                                                          |      |                  |
| (5,734)          | Purchase of property, plant and equipment, investment property and intangible assets                                                 |      | (21,695)         |
| (2,000)          | Purchase of short and long term investments                                                                                          |      | (1,000)          |
| 3,720            | Proceeds from property, plant and equipment, investment property and intangible assets                                               |      | 1,918            |
| 824              | Other receipts from investing activities                                                                                             |      | 2,319            |
| <b>(3,190)</b>   | <b>Net Cash Flows from Investing Activities</b>                                                                                      |      | <b>(18,458)</b>  |
|                  | <b>Financing Activities</b>                                                                                                          |      |                  |
| 7,493            | Cash receipts of short and long term borrowing                                                                                       |      | 15,118           |
| 677              | Other receipts from financing activities                                                                                             |      | (1,554)          |
| (14,000)         | Repayments of short and long term borrowing                                                                                          |      | (3,000)          |
| <b>(5,830)</b>   | <b>Net Cash Flows from Financing Activities</b>                                                                                      |      | <b>10,564</b>    |
| <b>(1,027)</b>   | <b>Net increase/(decrease) in cash and cash equivalents</b>                                                                          |      | <b>3,653</b>     |
| 2,671            | Cash and cash equivalents at the beginning of the reporting period                                                                   |      | 1,644            |
| <b>1,644</b>     | <b>Cash and cash equivalents at the end of the reporting period</b>                                                                  |      | <b>5,297</b>     |



# 3

## NOTES TO THE ACCOUNTS



## Note 1 Going Concern

The CIPFA Code of Practice confirms that local authority accounts must be prepared on a going concern basis. The Covid-19 restrictions have created significant issues for many businesses and residents and as a result from 1 April 2020, Council income was affected detrimentally as payers sought to defer payments or were unable to pay at all.

The Covid-19 pandemic impacted at the very end of the year and therefore the full impact of this is not reflected in this Statement of Accounts. However, the Council is expecting significant challenges in the year ahead as it deals with the on-going crisis.

We have carried out an assessment of the impact of Covid-19 on our future finances and we are satisfied that there is no material uncertainty relating to going concern. Through our assessment we have identified that we expect in 2020/21 reductions in revenue relating to:

- Car Parking – there has been a 95% reduction in income in the first 3 months of the year and we have assumed a 50% reduction for the whole of the year, a reduction in income of £960,000.
- Trade Waste – assumed a reduction of 35% for the first 6 months of the year, a reduction of £81,000.
- Commercial Income – a 10% fall relating to lost rent on commercial investments of £476,900 and lost revenue from the Council's treasury investments of £136,000 for the financial year.
- Business Rates – we have assumed a loss of £2 million for the year.

The Council has incurred £260,000 of one-off additional expenditure, as remote working arrangements were mobilised, and social distancing/control measures were put in place and enhanced cleaning regimes.

An additional bad debt provision of £950,000 covering a 3-year period from 2020/21 will provide some cover for reduced rental income from commercial properties and loss of business rates and council tax payments.

At the August 2020 Executive, a package of measures was approved to support the reopening of the two leisure centres in the Borough. This could amount to £1.2 million in 2020/21 and 2021/22. This is a reasonable worst-case position, but it is hoped that the required support will be below these sums.

The Government committed to support local authorities financially, recognising the key role they play in responding to the crisis and the impact that it has had on local service delivery. To date, the Council has received £1.3 million of Covid-19 support grants and expects to receive an additional £1.2 million in specific grants and the reimbursement of lost income, bringing the total Government support to £2.5 million.

An Emergency Revised 2020/21 Budget and Financial Recovery Plan was presented to the September 2020 Executive. The financial impact for 2020/21 is estimated to be £3.6 million. With Government funding support, the impact reduces to £1.14 million and will need to be met from the General Fund reserve.

The Council's revised 5-year financial forecast for the Medium-Term Finance Strategy (MTFS) was presented to the October 2020 Executive taking into account the future impacts of the pandemic and other operational changes. With no indication that further Government funding will be available beyond 2020/21, the Council will either use reserves to stabilise the budget next year or look at alternative measures through further cost savings or revenue generation.

The effects of this going forward over the Strategy period is shown in the table below along with the impact on the General Fund reserve balance:

| £'000                                  | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|----------------------------------------|---------|---------|---------|---------|---------|
| Approved MTFS Deficit Position         | 0       | 489     | 512     | 440     | n/a     |
| Revised MTFS Forecast Deficit Position | 1,145   | 2,282   | 706     | 594     | 452     |
| General Fund Reserve Balance           | 7,076   | 4,794   | 4,088   | 3,494   | 3,042   |

The estimated balance of £3 million in 2024/25 will still be above our minimum level of General Fund balances as set by our Chief Financial Officer of £2.5 million.

There has been a less significant impact of Covid-19 on the Housing Revenue Account which is now expected to breakeven against an original budgeted surplus of £166,000 for 2020/21.

As the economy has changed significantly since the Covid-19 pandemic, capital investment plans have been revisited to determine if the original business cases remain sound. Budget phasing has also been reviewed and the updated programme for 2021/22 is £18.6 million compared to the original programme of £32.7 million.

The Council has undertaken cash flow modelling through to March 2022 which demonstrates the Council's ability to work within its authorised borrowing limit of £122 million in 2020/21 and £151 million in 2021/22. Based on its cash flow forecasting and the resultant liquidity position, the Council expects to have short-term borrowings of approximately £19 million at 31 March 2021, an increase of £4m on last year with no further planned borrowing. The Council's short-term borrowing continues to be for financing capital expenditure and is not expecting to borrow specifically for Covid-19. The Council will actively manage the cash position through daily treasury management controls and has access to short-term borrowing from other local authorities and the Public Loans Work Board to meet its liquidity needs.

As we transition into Recovery, a robust and comprehensive approach to predicting the longer-term financial impact has been established. This will ensure that measures can be taken, where necessary, to protect the Council's financial standing and ensure its position as a going concern is not compromised.

## Note 2 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Deputy Chief Executive Officer (Section 151 Officer) on 23 November 2020. 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 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## Note 3 Expenditure and Funding Analysis

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

| 2018/19                                                               |                                                            |                                                                             | 2019/20                                                               |                                                            |                                                                             |
|-----------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------|
| Net Expenditure Chargeable to the General Fund and HRA Balances £'000 | Adjustments between the Funding and Accounting Basis £'000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 | Net Expenditure Chargeable to the General Fund and HRA Balances £'000 | Adjustments between the Funding and Accounting Basis £'000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 |
| 469                                                                   | 17                                                         | 486                                                                         | 404                                                                   | 25                                                         | 429                                                                         |
| 890                                                                   | 83                                                         | 973                                                                         | 832                                                                   | 121                                                        | 953                                                                         |
| 3                                                                     | 1,037                                                      | 1,040                                                                       | 1,257                                                                 | 211                                                        | 1,468                                                                       |
| (736)                                                                 | (7,272)                                                    | (8,008)                                                                     | (3)                                                                   | (5,912)                                                    | (5,915)                                                                     |
| 603                                                                   | 1,391                                                      | 1,994                                                                       | 1,036                                                                 | 1,200                                                      | 2,236                                                                       |
| (719)                                                                 | 184                                                        | (535)                                                                       | 1,684                                                                 | 197                                                        | 1,881                                                                       |
| (1,065)                                                               | 9,620                                                      | 8,555                                                                       | (1,167)                                                               | 6,163                                                      | 4,996                                                                       |
| 2,081                                                                 | 721                                                        | 2,802                                                                       | 462                                                                   | 680                                                        | 1,142                                                                       |
| 5,156                                                                 | 1,171                                                      | 6,327                                                                       | 5,140                                                                 | 1,442                                                      | 6,582                                                                       |
| 6,682                                                                 | 6,952                                                      | 13,634                                                                      | 9,645                                                                 | 4,127                                                      | 13,772                                                                      |
|                                                                       |                                                            |                                                                             | <b>Cost of Services</b>                                               |                                                            |                                                                             |
| (9,564)                                                               | (2,304)                                                    | (11,868)                                                                    | (10,677)                                                              | 2,968                                                      | (7,709)                                                                     |
| (2,882)                                                               | (4,648)                                                    | 1,766                                                                       | <b>(1,032)</b>                                                        | <b>7,095</b>                                               | <b>6,063</b>                                                                |
|                                                                       |                                                            |                                                                             |                                                                       |                                                            |                                                                             |
| (24,069)                                                              |                                                            |                                                                             | Opening General Fund and HRA Balance at 1 April                       |                                                            | (26,722)                                                                    |
| 333                                                                   |                                                            |                                                                             | Less Surplus/(Deficit) on General Fund and HRA Balance in Year        |                                                            | 1,135                                                                       |
| (2,986)                                                               |                                                            |                                                                             | Less Transfers (to)/from Earmarked Reserves                           |                                                            | (2,365)                                                                     |
| (26,722)                                                              |                                                            |                                                                             | <b>Closing General Fund and HRA Balance at 31 March</b>               |                                                            | <b>(27,952)</b>                                                             |

## Note 4 Note to the Expenditure and Funding Analysis

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

| <b>2019/20</b>                                                                                                                                                       |                                                       |                                                              |                                        |                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------------|----------------------------------------|------------------------------------|
| <b>Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts</b>                                                 | <b>Adjustments for Capital Purposes (1)<br/>£'000</b> | <b>Net Changes for the Pension Adjustments (2)<br/>£'000</b> | <b>Other Differences (3)<br/>£'000</b> | <b>Total Adjustments<br/>£'000</b> |
| Licensing and Regulatory Affairs Committee                                                                                                                           | -                                                     | 25                                                           | -                                      | 25                                 |
| Planning Committee                                                                                                                                                   | -                                                     | 121                                                          | -                                      | 121                                |
| Housing Portfolio                                                                                                                                                    | 27                                                    | 184                                                          | -                                      | 211                                |
| Housing Revenue Account                                                                                                                                              | (4,435)                                               | 528                                                          | (2,005)                                | (5,912)                            |
| Leisure and Community Portfolio                                                                                                                                      | 1,165                                                 | 75                                                           | (40)                                   | 1,200                              |
| Planning and Development Portfolio                                                                                                                                   | 88                                                    | 109                                                          | -                                      | 197                                |
| Policy and Resources Portfolio                                                                                                                                       | 8,221                                                 | 314                                                          | (2,372)                                | 6,163                              |
| Health and Public Protection Portfolio                                                                                                                               | 584                                                   | 96                                                           | -                                      | 680                                |
| Streetscene Portfolio                                                                                                                                                | 1,057                                                 | 385                                                          | -                                      | 1,442                              |
| <b>Net Cost of Services</b>                                                                                                                                          | <b>6,707</b>                                          | <b>1,837</b>                                                 | <b>(4,417)</b>                         | <b>4,127</b>                       |
| Other income and expenditure from the Expenditure and Funding Analysis                                                                                               | (1,384)                                               | 1,377                                                        | 2,976                                  | 2,969                              |
| <b>Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b> | <b>5,323</b>                                          | <b>3,214</b>                                                 | <b>(1,441)</b>                         | <b>7,096</b>                       |
| <b>2018/19</b>                                                                                                                                                       |                                                       |                                                              |                                        |                                    |
| <b>Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts</b>                                                 | <b>Adjustments for Capital Purposes (1)<br/>£'000</b> | <b>Net Changes for the Pension Adjustments (2)<br/>£'000</b> | <b>Other Differences (3)<br/>£'000</b> | <b>Total Adjustments<br/>£'000</b> |
| Licensing and Regulatory Affairs Committee                                                                                                                           | -                                                     | 17                                                           | -                                      | 17                                 |
| Planning Committee                                                                                                                                                   | -                                                     | 83                                                           | -                                      | 83                                 |
| Housing Portfolio                                                                                                                                                    | 911                                                   | 126                                                          | -                                      | 1,037                              |
| Housing Revenue Account                                                                                                                                              | (5,689)                                               | (357)                                                        | (1,226)                                | (7,272)                            |
| Leisure and Community Portfolio                                                                                                                                      | 1,426                                                 | 67                                                           | (102)                                  | 1,391                              |
| Planning and Development Portfolio                                                                                                                                   | 84                                                    | 100                                                          | -                                      | 184                                |
| Policy and Resources Portfolio                                                                                                                                       | 7,389                                                 | 2,075                                                        | 156                                    | 9,620                              |
| Health and Public Protection Portfolio                                                                                                                               | 662                                                   | 59                                                           | -                                      | 721                                |
| Streetscene Portfolio                                                                                                                                                | 1,165                                                 | 266                                                          | (260)                                  | 1,171                              |
| <b>Net Cost of Services</b>                                                                                                                                          | <b>5,948</b>                                          | <b>2,436</b>                                                 | <b>(1,432)</b>                         | <b>6,952</b>                       |
| Other income and expenditure from the Expenditure and Funding Analysis                                                                                               | (1,238)                                               | 1,540                                                        | (2,592)                                | (2,290)                            |
| <b>Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b> | <b>4,710</b>                                          | <b>3,976</b>                                                 | <b>(4,024)</b>                         | <b>4,662</b>                       |

**Notes**

**1) Adjustments for Capital Purposes:**

**Net Cost of Services** - Adjusts for depreciation, impairment charges and revaluation gains and losses in the service lines along with adjustments for non-capitalised expenditure and associated contributions from the Council's capital programme.

**Other Income and Expenditure from the Expenditure and Funding Analysis**

- Capital disposals with a transfer of income on disposal of assets and the amounts written off.
- Housing capital receipts which have been pooled to Central Government.
- Statutory charges for capital financing i.e. minimum revenue provision and other revenue contributions deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Capital grants adjusted for income not chargeable under generally accepted accounting practise. Revenue and capital grants adjusted from those received in the year to those received without conditions or for which conditions were satisfied throughout the year.

**2) Net Changes for the Pension Adjustments:**

The removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income are reflected as follows:

**Net Cost of Services** - the removal of the employer pension contributions made by the Council as determined by statute and their replacement with current service costs and past service costs.

**Other Income and Expenditure from the Expenditure and Funding Analysis** - the net interest on the defined benefit liability is charge to the Comprehensive Income and Expenditure Statement.

**3) Other Differences:**

For reporting to management, the Council includes rental income from investment properties in the Policy and Resources Portfolio. However, this is reported in the Comprehensive Income and Expenditure Statement below the net cost of service line.

## Note 5 Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows.

| Expenditure/Income                                | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---------------------------------------------------|------------------|------------------|
| <b>Expenditure</b>                                |                  |                  |
| Employee benefits expenses                        | 16,923           | 15,630           |
| Other services expenses                           | 45,266           | 50,833           |
| Support service recharges                         | (749)            | (879)            |
| Interest payments                                 | 1,819            | 1,795            |
| Depreciation, amortisation and impairment         | 948              | (2,116)          |
| Gain/loss on financial assets                     | 1,334            | (29)             |
| Payments to housing receipts pool                 | 196              | 196              |
| Gain/loss on the disposal of assets               | 13               | (1,434)          |
| <b>Total Expenditure</b>                          | <b>65,750</b>    | <b>63,996</b>    |
| <b>Income</b>                                     |                  |                  |
| Fees, charges and other service income            | (28,242)         | (28,626)         |
| Interest and investment income                    | (721)            | (555)            |
| Income from council tax and non-domestic rates    | (10,136)         | (9,311)          |
| Government grants and contributions               | (20,588)         | (23,724)         |
| <b>Total Income</b>                               | <b>(59,687)</b>  | <b>(62,216)</b>  |
| <b>(Surplus)/Deficit on Provision of Services</b> | <b>6,063</b>     | <b>1,780</b>     |

## Note 6 Segmental Income

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

| Services                                          | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---------------------------------------------------|------------------|------------------|
| Licensing and Regulatory Affairs Committee        | 504              | 246              |
| Planning Committee                                | 573              | 612              |
| Housing Portfolio                                 | 871              | 868              |
| Housing Revenue Account                           | 12,268           | 12,333           |
| Leisure and Community Portfolio                   | 1,456            | 1,660            |
| Planning and Development Portfolio                | 63               | 2,101            |
| Policy and Resources Portfolio                    | 3,440            | 4,222            |
| Health and Public Protection Portfolio            | 2,359            | 926              |
| Streetscene Portfolio                             | 2,307            | 2,487            |
| <b>Total Income Analysed on a Segmental Basis</b> | <b>23,841</b>    | <b>25,455</b>    |

## Note 7 New Accounting Standards yet to be adopted

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

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their Balance Sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.
- IAS 19 Employee Benefits will require the remeasurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1 April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.
- Amendments to IAS28 Investments in Associates and Joint Ventures. These amendments are minor and not expected to have a material impact on the Statement of Accounts.

## Note 8 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 34, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

**Asset Reclassifications** - The Council has made judgements on whether assets are classified as Investment Property, Heritage Asset or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be Property, Plant and Equipment assets. If the asset has historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture it is deemed to be a Heritage Asset. If there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

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

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

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

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

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

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

## Note 9 Assumptions made about the future and other sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

| Item                                 | Uncertainties                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Effect if actual results differ from assumptions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Property, Plant and Equipment</b> | <p>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.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported based on 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation immediately prior to Covid-19, on the assumption that values will be confirmed when the real estate market becomes more fluid and empirical evidence becomes available. When income was known to be lost as at the balance sheet date, rather than deferred, then asset values have been reviewed and adjusted accordingly.</p> | <p>If the useful life of assets is reduced, depreciation increases resulting in a fall in the carrying value of assets. It is estimated that the annual depreciation charge for all assets would increase by £337,000 (2018/19 £387,700) for every year that useful lives had to be reduced.</p> <p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's land and buildings were to reduce by 10%, this would result in a charge to the Comprehensive Income and Expenditure Statement of approximately £3 million.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and/or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and/or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> |
| <b>Investment Property</b>           | <p>The Council's valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available.</p> <p>At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, it has been difficult to value property assets. Values have been based on the situation prior to Covid-19, on the assumption</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date.</p> <p>If the value of the Council's investment properties were to reduce by 10% this would lead to a reduction in value of £6.4 million.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |



|                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                         | <p>that values will be restored when the real estate market becomes more fluid. However, where observable data has changed in the weeks following 31 March 2020 asset values have been reviewed and adjusted accordingly.</p>                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Council Dwellings</b>                | <p>Council dwellings are valued based on a beacon methodology. Each beacon property is considered individually using comparable properties to give evidence of value, utilising sales figures from the Land Registry, marketing details from local estate agents and regional and national indices.</p> <p>As at 31 March 2020 there was no evidence to suggest that Covid-19 has impacted upon local house prices in Fareham.</p>                                                                                                                                                  | <p>A reduction in the estimate value of Council dwellings would be a reduction in the revaluation reserve or a loss in the Comprehensive Income and Expenditure Statement. If the value of dwellings were to reduce by 10% this would lead to a reduction in value of £12.4 million.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> |
| <b>Pensions Liability</b>               | <p>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.</p>                                                                                                                                                                        | <p>The effects on the net pensions liability of changes in individual assumptions can be measured. Note 17 provides details of the impact of changes to the key assumptions.</p>                                                                                                                                                                                                                                                                                                       |
| <b>Financial Assets and Liabilities</b> | <p>Estimation of fair values for financial assets and liabilities are based on current lending rates for equivalent loans and investments. These are provided by the Council's treasury advisors.</p>                                                                                                                                                                                                                                                                                                                                                                               | <p>Fair value estimates do not apply to instruments which mature within the next 12 months. The values are disclosed as a note to the accounts and do not impact on the primary statements.</p>                                                                                                                                                                                                                                                                                        |
| <b>Bad Debt Provision</b>               | <p>The Council has made allowances for doubtful debts of £2 million (2018/19 £1.58 million) based on what it believes to be a prudent but realistic level. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.</p>                                                                                                                                                                                           | <p>If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £100,000 (2018/19 £79,000).</p>                                                                                                                                                                                                                                                                                                                                     |
| <b>Provisions</b>                       | <p>The Council has made provisions for outstanding insurance claims, accumulated absences and land charges. The calculation for accumulated absences is based on an average of annual leave accrued over 4 years and the total of flexi leave at year end.</p>                                                                                                                                                                                                                                                                                                                      | <p>A 10% increase or decrease in provisions would require an adjustment of £26,600 (2018/19 £26,300).</p>                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Business Rates Appeals Provision</b> | <p>Under the business rates retention scheme, which came into effect on 1 April 2013, the Council has assumed some liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. The estimate for the provision is based on software modelling and the latest list of outstanding rating list proposals provided by the Valuation Office Agency. The estimate looks at changes in comparable properties market trends and other valuation issues including the potential for certain proposals to be withdrawn.</p> | <p>The Council has made an allowance of £6.8 million (2018/19 £6.1 million) for these refunds within the Collection Fund. The Council's share of the provision is £2.7 million (2018/19 £2.4 million) which has reduced the amount of income that is distributed from the Collection Fund to the Council's General Fund. A 10% increase or decrease in the Council's share of the provision would require an adjustment of £270,800 (2018/19 £244,800).</p>                            |

## Note 10 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.

| 2019/20                                                          | General Fund Balance<br>£'000 | Ear-marked Reserves<br>£'000 | Housing Revenue Account<br>£'000 | Major Repairs Reserve<br>£'000 | Capital Receipts Reserve<br>£'000 | Capital Grants Unapplied<br>£'000 | Unusable Reserves<br>£'000 |
|------------------------------------------------------------------|-------------------------------|------------------------------|----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|----------------------------|
| <b>Capital Adjustment Account</b>                                |                               |                              |                                  |                                |                                   |                                   |                            |
| Depreciation and impairment of non-current assets                | 3,059                         | -                            | 2,635                            | -                              | -                                 | -                                 | (5,694)                    |
| Revaluation losses on property, plant and equipment              | 1,753                         | -                            | (2,424)                          | -                              | -                                 | -                                 | 671                        |
| Revaluation of investment properties                             | 6,214                         | -                            | -                                | -                              | -                                 | -                                 | (6,214)                    |
| Amortisation of intangible assets                                | -                             | -                            | 5                                | -                              | -                                 | -                                 | (5)                        |
| Capital grants and contributions applied                         | (607)                         | -                            | (1,037)                          | -                              | -                                 | (860)                             | 2,504                      |
| Revenue Expenditure funded from capital under statute            | 454                           | -                            | -                                | -                              | -                                 | -                                 | (454)                      |
| Property written out on disposal                                 | 278                           | -                            | 999                              | -                              | -                                 | -                                 | (1,277)                    |
| Statutory provision for the financing of capital investment      | (759)                         | -                            | -                                | -                              | -                                 | -                                 | 759                        |
| Capital expenditure charged to the General Fund and HRA Balances | (935)                         | -                            | (2,006)                          | -                              | -                                 | -                                 | 2,941                      |
| <b>Capital Grants Unapplied Account</b>                          |                               |                              |                                  |                                |                                   |                                   |                            |
| Capital grants and contributions unapplied                       | (1,346)                       | -                            | -                                | -                              | -                                 | 1,346                             | -                          |
| <b>Capital Receipts Reserve</b>                                  |                               |                              |                                  |                                |                                   |                                   |                            |
| Proceeds from disposal of property                               | (265)                         | -                            | (1,553)                          | -                              | 1,818                             | -                                 | -                          |
| Capital receipts applied                                         | -                             | -                            | -                                | -                              | (525)                             | -                                 | 525                        |
| Housing and other capital receipts                               | (114)                         | -                            | -                                | -                              | 131                               | -                                 | (17)                       |
| Payments to the Government housing capital receipts pool         | 196                           | -                            | -                                | -                              | (196)                             | -                                 | -                          |
| <b>Major Repairs Reserve</b>                                     |                               |                              |                                  |                                |                                   |                                   |                            |
| Depreciation re-credited to HRA                                  | -                             | -                            | (2,634)                          | 2,634                          | -                                 | -                                 | -                          |
| Major Repairs Reserve to finance new capital expenditure         | -                             | -                            | -                                | (2,155)                        | -                                 | -                                 | 2,155                      |
| <b>Pension Reserve</b>                                           |                               |                              |                                  |                                |                                   |                                   |                            |
| Net charges for retirement benefits                              | 4,817                         | -                            | 1,073                            | -                              | -                                 | -                                 | (5,890)                    |
| Employer's contribution to Pension Fund/ to pensioners           | (2,769)                       | -                            | (545)                            | -                              | -                                 | -                                 | 3,314                      |
| <b>Collection Fund Adjustment Account</b>                        |                               |                              |                                  |                                |                                   |                                   |                            |
| Collection Fund adjustment                                       | 1,460                         | -                            | -                                | -                              | -                                 | -                                 | (1,460)                    |
| <b>Accumulated Absences Account</b>                              |                               |                              |                                  |                                |                                   |                                   |                            |
| Accumulated Absences                                             | -                             | -                            | -                                | -                              | -                                 | -                                 | -                          |
| <b>Pooled Fund Adjustment Account</b>                            |                               |                              |                                  |                                |                                   |                                   |                            |
| Financial Assets                                                 | 1,334                         | -                            | -                                | -                              | -                                 | -                                 | (1,334)                    |
| <b>Total Adjustments</b>                                         | <b>12,770</b>                 | <b>-</b>                     | <b>(5,487)</b>                   | <b>479</b>                     | <b>1,228</b>                      | <b>486</b>                        | <b>(9,476)</b>             |

| 2018/19                                                          | General<br>Fund<br>Balance<br>£'000 | Ear-<br>marked<br>Reserves<br>£'000 | Housing<br>Revenue<br>Account<br>£'000 | Major<br>Repairs<br>Reserve<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Capital<br>Grants<br>Unapplied<br>£'000 | Unusable<br>Reserves<br>£'000 |
|------------------------------------------------------------------|-------------------------------------|-------------------------------------|----------------------------------------|--------------------------------------|-----------------------------------------|-----------------------------------------|-------------------------------|
| <b>Capital Adjustment Account</b>                                |                                     |                                     |                                        |                                      |                                         |                                         |                               |
| Depreciation and impairment of non-current assets                | 3,269                               | -                                   | 2,543                                  | -                                    | -                                       | -                                       | (5,812)                       |
| Revaluation losses on property, plant and equipment              | 5,110                               | -                                   | (4,456)                                | -                                    | -                                       | -                                       | (654)                         |
| Revaluation of investment properties                             | 2,361                               | -                                   | (15)                                   | -                                    | -                                       | -                                       | (2,346)                       |
| Amortisation of intangible assets                                | 2                                   | -                                   | 5                                      | -                                    | -                                       | -                                       | (7)                           |
| Capital grants and contributions applied                         | (1,206)                             | -                                   | -                                      | -                                    | -                                       | (71)                                    | 1,277                         |
| Revenue Expenditure funded from capital under statute            | 855                                 | -                                   | -                                      | -                                    | -                                       | -                                       | (855)                         |
| Property written out on disposal                                 | 337                                 | -                                   | 1,415                                  | -                                    | -                                       | -                                       | (1,752)                       |
| Statutory provision for the financing of capital investment      | (698)                               | -                                   | -                                      | -                                    | -                                       | -                                       | 698                           |
| Capital expenditure charged to the General Fund and HRA Balances | (1,109)                             | -                                   | (1,228)                                | -                                    | -                                       | -                                       | 2,337                         |
| <b>Capital Grants Unapplied Account</b>                          |                                     |                                     |                                        |                                      |                                         |                                         |                               |
| Capital grants and contributions unapplied                       | (1,498)                             | -                                   | -                                      | -                                    | -                                       | 1,498                                   | -                             |
| <b>Capital Receipts Reserve</b>                                  |                                     |                                     |                                        |                                      |                                         |                                         |                               |
| Proceeds from disposal of property                               | (331)                               | -                                   | (2,854)                                | -                                    | 3,186                                   | -                                       | -                             |
| Capital receipts applied                                         | -                                   | -                                   | -                                      | -                                    | (655)                                   | -                                       | 655                           |
| Housing and other capital receipts                               | (518)                               | -                                   | (18)                                   | -                                    | 552                                     | -                                       | (16)                          |
| Payments to the Government housing capital receipts pool         | 195                                 | -                                   | -                                      | -                                    | (195)                                   | -                                       | -                             |
| <b>Major Repairs Reserve</b>                                     |                                     |                                     |                                        |                                      |                                         |                                         |                               |
| Depreciation re-credited to HRA                                  | -                                   | -                                   | (2,544)                                | 2,544                                | -                                       | -                                       | -                             |
| Major Repairs Reserve to finance new capital expenditure         | -                                   | -                                   | -                                      | (1,690)                              | -                                       | -                                       | 1,690                         |
| <b>Pension Reserve</b>                                           |                                     |                                     |                                        |                                      |                                         |                                         |                               |
| Net charges for retirement benefits                              | 5,886                               | -                                   | 1,234                                  | -                                    | -                                       | -                                       | (7,120)                       |
| Employer's contribution to Pension Fund/ to pensioners           | (2,521)                             | -                                   | (594)                                  | -                                    | -                                       | -                                       | 3,115                         |
| <b>Collection Fund Adjustment Account</b>                        |                                     |                                     |                                        |                                      |                                         |                                         |                               |
| Collection Fund adjustment                                       | 814                                 | -                                   | -                                      | -                                    | -                                       | -                                       | (814)                         |
| <b>Accumulated Absences Account</b>                              |                                     |                                     |                                        |                                      |                                         |                                         |                               |
| Accumulated Absences                                             | 19                                  | -                                   | 1                                      | -                                    | -                                       | -                                       | (20)                          |
| <b>Pooled Fund Adjustment Account</b>                            |                                     |                                     |                                        |                                      |                                         |                                         |                               |
| Financial Assets                                                 | (29)                                | -                                   | -                                      | -                                    | -                                       | -                                       | 29                            |
| <b>Total Adjustments</b>                                         | <b>10,938</b>                       | <b>-</b>                            | <b>(6,511)</b>                         | <b>854</b>                           | <b>2,888</b>                            | <b>1,427</b>                            | <b>(9,595)</b>                |

## Note 11 Grant Income

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

| Service Specific Revenue Grants and Contributions<br>(included in Cost of Services) | 2019/20<br>£'000         | 2018/19<br>£'000         |
|-------------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>Department for Works and Pensions</b>                                            |                          |                          |
| Rent Allowances Subsidy                                                             | 9,919                    | 11,864                   |
| Rent Rebates                                                                        | 5,818                    | 6,442                    |
| Housing and Council Tax Benefit Administration                                      | 173                      | 194                      |
| Discretionary Housing Payments                                                      | 111                      | 119                      |
| <b>Ministry for Housing, Communities and Local Government</b>                       |                          |                          |
| Disabled Facilities Grant                                                           | 454                      | 683                      |
| Preventing Homelessness Grants                                                      | 294                      | 304                      |
| NNDR Collection Allowance                                                           | 138                      | 138                      |
| Council Tax Support Administration                                                  | 68                       | 73                       |
| <b>Homes England</b>                                                                |                          |                          |
| Welborne Capacity Funding                                                           | 86                       | 300                      |
| <b>Department for Environment, Food and Rural Affairs</b>                           |                          |                          |
| Air Quality Feasibility Study Grant                                                 | 53                       | 546                      |
| <b>Environment Agency</b>                                                           |                          |                          |
| Coast Monitoring Grant                                                              | 69                       | -                        |
| <b>Other</b>                                                                        |                          |                          |
| Portchester Crematorium                                                             | 160                      | 150                      |
| S106 Developer Contributions                                                        | 49                       | 54                       |
| <b>Total</b>                                                                        | <b>17,392</b>            | <b>20,867</b>            |
| <b>Credited to Taxation and Non-Specific Grant Income</b>                           |                          |                          |
|                                                                                     | <b>2019/20<br/>£'000</b> | <b>2018/19<br/>£'000</b> |
| <b>Ministry for Housing, Communities and Local Government</b>                       |                          |                          |
| New Homes Bonus                                                                     | 821                      | 962                      |
| New Burdens Grants                                                                  | 43                       | 26                       |
| Covid-19 Support Grant                                                              | 34                       | -                        |
| <b>Homes England</b>                                                                |                          |                          |
| Daedalus Development                                                                | 109                      | 427                      |
| Affordable Homes Programme                                                          | 1,037                    | -                        |
| <b>Other</b>                                                                        |                          |                          |
| Community Infrastructure Levy                                                       | 1,346                    | 1,498                    |
| Developer Contributions                                                             | 44                       | 96                       |
| <b>Total</b>                                                                        | <b>3,434</b>             | <b>3,009</b>             |

## Note 12 Audit Fees Payable

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

|                                           | 2019/20<br>£'000 | 2018/19<br>£'000 |
|-------------------------------------------|------------------|------------------|
| External audit services                   | 37               | 37               |
| Certification of grant claims and returns | 10               | 10               |
| <b>Total</b>                              | <b>47</b>        | <b>47</b>        |

## Note 13 Members' Allowances

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

|                                       | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---------------------------------------|------------------|------------------|
| Basic Allowances                      | 220              | 216              |
| Special Responsibility Allowances     | 162              | 159              |
| Superannuation and National Insurance | 18               | 18               |
| Travelling and Subsistence Allowances | 4                | 4                |
| Conference Expenses                   | 1                | 1                |
| Internet Rental Allowance             | 1                | 1                |
| <b>Total</b>                          | <b>406</b>       | <b>399</b>       |

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

## Note 14 Remuneration of Staff

The number of employees, including senior officers (see note 15), whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 are set out in the table below.

| Remuneration Band   | 2019/20<br>Number of<br>Employees | 2018/19<br>Number of<br>Employees |
|---------------------|-----------------------------------|-----------------------------------|
| £50,000 - £54,999   | 7                                 | 3                                 |
| £55,000 - £59,999   | 4                                 | -                                 |
| £60,000 - £64,999   | 3                                 | 4                                 |
| £65,000 - £69,999   | 1                                 | 3                                 |
| £70,000 - £74,999   | 7                                 | 6                                 |
| £75,000 - £79,999   | 1                                 | 2                                 |
| £80,000 - £84,999   | 1                                 | 1                                 |
| £85,000 - £89,999   | 1                                 | -                                 |
| £90,000 - £94,999   | 3                                 | 1                                 |
| £95,000 - £99,999   | -                                 | 2                                 |
| £110,000 - £119,999 | 1                                 | -                                 |
| £135,000 - £139,999 | -                                 | 1                                 |
| £140,000 - £144,999 | 1                                 | -                                 |

## Note 15 Senior Officer Emoluments

| Post Title                            | Salary inc fees and allowances<br>£ | Expense Allowances<br>£ | Total remuneration excl pension contributions<br>£ | Pension contributions<br>£ | Total remuneration incl pension contributions<br>£ |
|---------------------------------------|-------------------------------------|-------------------------|----------------------------------------------------|----------------------------|----------------------------------------------------|
| <b>2019/20 (1)</b>                    |                                     |                         |                                                    |                            |                                                    |
| Chief Executive Officer (2)           | 139,950                             | 263                     | 140,213                                            | 21,359                     | 161,572                                            |
| Deputy Chief Executive Officer (2)    | 110,699                             | -                       | 110,699                                            | 17,340                     | 128,039                                            |
| Director of Planning and Regulation   | 93,412                              | 441                     | 93,853                                             | 15,039                     | 108,892                                            |
| Director of Support Services          | 90,205                              | -                       | 90,205                                             | 14,513                     | 104,718                                            |
| Director of Leisure and Community (2) | 87,196                              | 143                     | 87,339                                             | 13,556                     | 100,895                                            |
|                                       | <b>521,462</b>                      | <b>847</b>              | <b>522,309</b>                                     | <b>81,807</b>              | <b>604,116</b>                                     |
| <b>2018/19</b>                        |                                     |                         |                                                    |                            |                                                    |
| Chief Executive Officer (2)           | 138,266                             | 527                     | 138,793                                            | 19,640                     | 158,433                                            |
| Director of Planning and Regulation   | 91,580                              | 430                     | 92,010                                             | 13,829                     | 105,839                                            |
| Director of Finance and Resources     | 98,469                              | 725                     | 99,194                                             | 14,850                     | 114,044                                            |
| Managing Director of Fareham Housing  | 98,345                              | 405                     | 98,750                                             | 14,850                     | 113,600                                            |
|                                       | <b>426,660</b>                      | <b>2,087</b>            | <b>428,747</b>                                     | <b>63,169</b>              | <b>491,916</b>                                     |

**Notes:**

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

- (1) There was a restructure of the management team that took effect from 1 April 2019.
- (2) Includes pay in respect of the Returning and Deputy Officer role in elections.

## Note 16 Termination Benefits

The Council terminated the contracts of a number of employees in 2019/20, incurring liabilities of £635,693 (£283,075 in 2018/19). The number of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below.

|                     | Number of compulsory redundancies |          | Number of other departures |          | Total number of exit packages |           | Total cost of exit packages |                 |
|---------------------|-----------------------------------|----------|----------------------------|----------|-------------------------------|-----------|-----------------------------|-----------------|
|                     | 2019/20                           | 2018/19  | 2019/20                    | 2018/19  | 2019/20                       | 2018/19   | 2019/20                     | 2018/19         |
| £0 - £20,000        | 22                                | 2        | 11                         | 7        | 33                            | 9         | £120,462                    | £51,617         |
| £20,001 - £40,000   | 5                                 | 3        | 1                          | 1        | 6                             | 4         | £184,139                    | £131,484        |
| £40,001 - £60,000   | 1                                 | 1        | 1                          | 1        | 2                             | 2         | £99,087                     | £99,974         |
| £60,001 - £80,000   | -                                 | -        | -                          | -        | -                             | -         | -                           | -               |
| £80,001 - £100,000  | 1                                 | -        | -                          | -        | 1                             | -         | £84,305                     | -               |
| £140,001 - £160,000 | 1                                 | -        | -                          | -        | 1                             | -         | £147,700                    | -               |
| <b>Total</b>        | <b>30</b>                         | <b>6</b> | <b>13</b>                  | <b>9</b> | <b>43</b>                     | <b>15</b> | <b>£635,693</b>             | <b>£283,075</b> |

## Note 17 Pensions

### Participation in Pension Schemes

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

The disclosures below relate to the following schemes:

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

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

### Contributions for the Accounting Period Ending 31 March 2021

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2021 are estimated to be £2.31 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period. For the unfunded benefits scheme, for the accounting period ending 31 March 2021, the Employer expects to pay £0.21 million directly to beneficiaries.

### Transactions Relating to Post-Employment Benefits

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

|                                                                                   | Funded Benefits |                | Unfunded Benefits |             |
|-----------------------------------------------------------------------------------|-----------------|----------------|-------------------|-------------|
|                                                                                   | 2019/20         | 2018/19        | 2019/20           | 2018/19     |
|                                                                                   | £'000           | £'000          | £'000             | £'000       |
| <b>Comprehensive Income and Expenditure Statement:</b>                            |                 |                |                   |             |
| Cost of Services                                                                  |                 |                |                   |             |
| - Current service cost                                                            | 4,441           | 3,690          | -                 | -           |
| - Past service cost                                                               | 72              | 1,890          | -                 | -           |
| Financing and Investment Income and Expenditure                                   |                 |                |                   |             |
| - Interest net defined benefit liability                                          | 1,313           | 1,470          | 64                | 70          |
| <b>(Surplus)/deficit on the provision of services</b>                             | <b>5,826</b>    | <b>7,050</b>   | <b>64</b>         | <b>70</b>   |
| <b>Other Charges to the Comprehensive Income and Expenditure Statement:</b>       |                 |                |                   |             |
| Remeasurement of the net defined benefit liability comprising                     |                 |                |                   |             |
| - Return on plan assets (in excess of)/below that recognised in net interest      | 5,923           | (8,239)        | -                 | -           |
| Actuarial (gains)/losses due to:                                                  |                 |                |                   |             |
| - Changes in financial assumptions                                                | (4,324)         | 8,960          | (21)              | -           |
| - Changes in demographic assumptions                                              | (4,519)         | (7,200)        | (43)              | -           |
| - Liability experience                                                            | 3,438           | 310            | 95                | (45)        |
| <b>Total amount recognised in Other Comprehensive Income and Expenditure</b>      | <b>518</b>      | <b>(6,169)</b> | <b>31</b>         | <b>(45)</b> |
| <b>Total Amount Recognised</b>                                                    | <b>6,344</b>    | <b>881</b>     | <b>95</b>         | <b>25</b>   |
| Movement in Reserves Statement:                                                   |                 |                |                   |             |
| Reversal of net charges made to the surplus/(deficit) in accordance with the Code | (5,826)         | (7,050)        | (64)              | (70)        |
| Actual amount charged against the General Fund                                    |                 |                |                   |             |
| Balance for pensions in year:                                                     |                 |                |                   |             |
| Employers' contribution payable to scheme                                         | (3,109)         | (2,640)        | -                 | -           |
| Retirement benefits payable to pensioners                                         | -               | -              | (205)             | (206)       |

### Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

|                                                  | Funded Benefits |                 | Unfunded Benefits |                |
|--------------------------------------------------|-----------------|-----------------|-------------------|----------------|
|                                                  | 2019/20         | 2018/19         | 2019/20           | 2018/19        |
|                                                  | £'000           | £'000           | £'000             | £'000          |
| Fair value of assets                             | 117,287         | 120,690         | -                 | -              |
| Present value of defined benefit obligation      | 176,972         | 177,140         | 2,664             | 2,774          |
| Funded status                                    | (59,685)        | (56,450)        | -                 | -              |
| <b>Liability recognised on the Balance Sheet</b> | <b>(59,685)</b> | <b>(56,450)</b> | <b>(2,664)</b>    | <b>(2,774)</b> |

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

|                     |     |
|---------------------|-----|
| Active members      | 35% |
| Deferred Pensioners | 18% |
| Pensioners          | 47% |



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

|                                                                            | Funded Benefits  |                  | Unfunded Benefits |                  |
|----------------------------------------------------------------------------|------------------|------------------|-------------------|------------------|
|                                                                            | 2019/20<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000  | 2018/19<br>£'000 |
| Opening balance at 1 April                                                 | 120,690          | 110,941          | -                 | -                |
| Interest income                                                            | 2,897            | 2,880            | -                 | -                |
| Remeasurement gains and (losses)                                           |                  |                  |                   |                  |
| - Return on plan assets, excluding amount included in net interest expense | (5,923)          | 8,239            | -                 | -                |
| Contributions by the employer                                              | 3,109            | 2,640            | 205               | 206              |
| Contributions by participants                                              | 805              | 750              | -                 | -                |
| Benefits paid                                                              | (4,291)          | (4,760)          | (205)             | (206)            |
| <b>Closing balance at 31 March</b>                                         | <b>117,287</b>   | <b>120,690</b>   | <b>-</b>          | <b>-</b>         |

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

|                                                 | Funded Benefits  |                  | Unfunded Benefits |                  |
|-------------------------------------------------|------------------|------------------|-------------------|------------------|
|                                                 | 2019/20<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000  | 2018/19<br>£'000 |
| Opening balance at 1 April                      | 177,140          | 169,150          | 2,774             | 2,955            |
| Current service cost                            | 4,441            | 3,690            | -                 | -                |
| Interest expense                                | 4,210            | 4,350            | 64                | 70               |
| Contribution by participants                    | 805              | 750              | -                 | -                |
| Remeasurement gains and (losses) on liabilities |                  |                  |                   |                  |
| - Financial assumptions                         | (4,324)          | 8,960            | -                 | -                |
| - Demographic assumptions                       | (4,519)          | (7,200)          | -                 | -                |
| - Experience                                    | 3,438            | 310              | 31                | (45)             |
| Benefits paid                                   | (4,291)          | (4,760)          | (205)             | (206)            |
| Past service cost                               | 72               | 1,890            | -                 | -                |
| <b>Closing balance at 31 March</b>              | <b>176,972</b>   | <b>177,140</b>   | <b>2,664</b>      | <b>2,774</b>     |

### Local Government Pension Scheme Assets

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

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

|                  | Asset split at<br>31 March 2020 |               |              | Asset split at<br>31 March 2019 |
|------------------|---------------------------------|---------------|--------------|---------------------------------|
|                  | %<br>Quoted                     | %<br>Unquoted | %<br>Total   | %<br>Total                      |
| Equities         | 44.1                            | 8.6           | 52.7         | 60.4                            |
| Property         | 0.8                             | 6.5           | 7.3          | 7.6                             |
| Government Bonds | 21.8                            | -             | 21.8         | 22.7                            |
| Corporate Bonds  | -                               | -             | -            | 5.2                             |
| Cash             | 2.0                             | -             | 2.0          | 2.3                             |
| Other            | 14.1                            | 2.1           | 16.2         | 1.8                             |
| <b>Total</b>     | <b>82.8</b>                     | <b>17.2</b>   | <b>100.0</b> | <b>100.0</b>                    |

### Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries. Estimates for the Hampshire County Council Fund are based on the latest full valuation of the scheme as at 31 March 2019 for funded benefits and 31 March 2020 for unfunded benefits.

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

|                                                          | Funded Benefits<br>31 March |               | Unfunded Benefits<br>31 March |               |
|----------------------------------------------------------|-----------------------------|---------------|-------------------------------|---------------|
|                                                          | 2020<br>% p.a               | 2019<br>% p.a | 2020<br>% p.a                 | 2019<br>% p.a |
| <b>Mortality assumptions:</b>                            |                             |               |                               |               |
| Future lifetime from age 65 (aged 65 at accounting date) |                             |               |                               |               |
| Men                                                      | 23.0                        | 23.3          | 23.0                          | 23.3          |
| Women                                                    | 24.7                        | 26.1          | 25.5                          | 26.1          |
| Future lifetime from age 65 (aged 45 at accounting date) |                             |               |                               |               |
| Men                                                      | 25.5                        | 24.9          | n/a                           | n/a           |
| Women                                                    | 27.2                        | 27.8          | n/a                           | n/a           |
| <b>Principal financial assumptions (% per annum)</b>     |                             |               |                               |               |
| Discount rate                                            | 2.3                         | 2.4           | 2.3                           | 2.4           |
| CPI inflation                                            | 2.0                         | 2.2           | 2.0                           | 2.2           |
| Pension increases                                        | 2.0                         | 2.2           | 2.0                           | 2.2           |
| Pension accounts revaluation rate                        | 2.0                         | 2.2           | n/a                           | n/a           |
| Salary increases                                         | 3.0                         | 3.7           | n/a                           | n/a           |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2020 and the projected service cost for the year ending 31 March 2021 is set out in the table below.

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

| <b>Discount rate assumption</b>                |                   |                    |                   |
|------------------------------------------------|-------------------|--------------------|-------------------|
|                                                | <b>+0.1% p.a.</b> | <b>Base Figure</b> | <b>-0.1% p.a.</b> |
| Adjustment to discount rate                    |                   |                    |                   |
| Present value of total obligation (£M)         | 173.556           | 176.972            | 180.455           |
| % change in present value of total obligation  | -1.9%             |                    | 2.0%              |
| Projected service cost (£M)                    | 4.177             | 4.319              | 4.465             |
| Approximate % change in projected service cost | -3.3%             |                    | 3.4%              |
| <b>Rate of general increase in salaries</b>    |                   |                    |                   |
|                                                | <b>+0.1% p.a.</b> | <b>Base Figure</b> | <b>-0.1% p.a.</b> |
| Adjustment to salary increase rate             |                   |                    |                   |
| Present value of total obligation (£M)         | 177.335           | 176.972            | 176.613           |
| % change in present value of total obligation  | 0.2%              |                    | -0.2%             |
| Projected service cost (£M)                    | 4.319             | 4.319              | 4.319             |
| Approximate % change in projected service cost | 0.0%              |                    | 0.0%              |

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

|                                                | <b>+0.1% p.a.</b> | <b>Base Figure</b> | <b>-0.1% p.a.</b> |
|------------------------------------------------|-------------------|--------------------|-------------------|
| Adjustment to pension rate increase            |                   |                    |                   |
| Present value of total obligation (£M)         | 180.105           | 176.972            | 173.903           |
| % change in present value of total obligation  | 1.8%              |                    | -1.7%             |
| Projected service cost (£M)                    | 4.465             | 4.319              | 4.177             |
| Approximate % change in projected service cost | 3.4%              |                    | -3.3%             |

**Post retirement mortality assumption**

|                                                | <b>-1 year</b> | <b>Base Figure</b> | <b>+1 year</b> |
|------------------------------------------------|----------------|--------------------|----------------|
| Adjustment to mortality age rating assumption  |                |                    |                |
| Present value of total obligation (£M)         | 182.550        | 176.972            | 171.439        |
| % change in present value of total obligation  | 3.2%           |                    | -3.1%          |
| Projected service cost (£M)                    | 4.481          | 4.319              | 4.158          |
| Approximate % change in projected service cost | 3.8%           |                    | -3.7%          |

## Note 18 Property, Plant and Equipment

### Valuation information

The Council's property portfolio has been revalued in accordance with the statement of accounting policies and to reflect the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

The portfolio is revalued on a rolling basis by the Council's own valuers K. Boothroyd MRICS and M. Newman MRICS.

The various sites at Daedalus were revalued by M. Newman MRICS to 31 March 2020.

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

|              | Council<br>Dwellings<br>£'000 | Other Land<br>and Buildings<br>£'000 | Vehicles, Plant<br>and Equipment<br>£'000 | Total<br>£'000 |
|--------------|-------------------------------|--------------------------------------|-------------------------------------------|----------------|
| Historic     | -                             | 2,678                                | 11,791                                    | 14,469         |
| 2015/16      | -                             | 1,453                                | -                                         | 1,453          |
| 2016/17      | -                             | 224                                  | -                                         | 224            |
| 2017/18      | -                             | 1,658                                | -                                         | 1,658          |
| 2018/19      | -                             | 1,500                                | -                                         | 1,500          |
| 2019/20      | 126,866                       | 87,562                               | -                                         | 214,418        |
| <b>Total</b> | <b>126,866</b>                | <b>95,075</b>                        | <b>11,791</b>                             | <b>233,752</b> |

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

Council dwellings were re-valued as at 31 March 2020. The valuation takes into account the use for social housing and assumes social housing tenanted value is 33% of vacant possession value.

### Depreciation

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

|                          |                |
|--------------------------|----------------|
| Council Dwellings        | 20 to 50 years |
| Other Land and Buildings | 3 to 60 years  |
| Vehicles and Plant       | 2 to 10 years  |
| Furniture and Equipment  | 3 to 20 years  |
| Infrastructure           | 5 to 50 years  |

The Council calculates depreciation for dwellings by basing the calculation on the Existing Use Value for Social Housing and writing down the value of the buildings on a straight-line basis over the useful life of the major components of between 20 and 50 years.

### Capital Commitments

At 31 March 2020, the Council had entered into a number of contracts for the construction, purchase or enhancement of Property, Plant and Equipment in 2020/21 and future years, budgeted to cost £2.3 million. Similar commitments at 31 March 2019 were £16.8 million. The major commitment is a Fareham Housing development.

## Movement in Non-Current Assets 2019/20

|                                           | Council Dwellings<br>£'000 | Other Land and Buildings<br>£'000 | Vehicles, Plant and Equipment<br>£000 | Infrastructure Assets<br>£'000 | Community Assets<br>£'000 | Assets Under Construction<br>£'000 | Total<br>£'000 |
|-------------------------------------------|----------------------------|-----------------------------------|---------------------------------------|--------------------------------|---------------------------|------------------------------------|----------------|
| <b>Cost or Valuation</b>                  |                            |                                   |                                       |                                |                           |                                    |                |
| At 1 April 2019                           | 124,055                    | 87,966                            | 10,953                                | 2,135                          | 377                       | 366                                | 225,852        |
| Additions                                 | 3,838                      | 1,175                             | 902                                   | 8                              | -                         | 1,878                              | 7,801          |
| Revaluation increases/(decreases) to RR   | -                          | 7,695                             | -                                     | -                              | -                         | -                                  | 7,695          |
| Revaluation increases/(decreases) to SDPS | 14                         | (1,753)                           | -                                     | -                              | -                         | -                                  | (1,739)        |
| Derecognition – Disposals                 | (1,021)                    | (8)                               | (64)                                  | -                              | -                         | -                                  | (1,093)        |
| Reclassified to/from Held for Sale        | -                          | -                                 | -                                     | -                              | -                         | -                                  | -              |
| Other movements                           | -                          | -                                 | -                                     | -                              | -                         | -                                  | -              |
| <b>At 31 March 2020</b>                   | <b>126,886</b>             | <b>95,075</b>                     | <b>11,791</b>                         | <b>2,143</b>                   | <b>377</b>                | <b>2,244</b>                       | <b>238,516</b> |
| <b>Depreciation and impairment</b>        |                            |                                   |                                       |                                |                           |                                    |                |
| At 1 April 2019                           | 2,410                      | 3,234                             | 7,347                                 | 966                            | 37                        | -                                  | 13,994         |
| Depreciation Charge                       | 2,530                      | 2,331                             | 804                                   | 18                             | 3                         | -                                  | 5,686          |
| Depreciation written out to RR            | -                          | (1,888)                           | -                                     | -                              | -                         | -                                  | (1,888)        |
| Depreciation written out to SDPS          | (2,410)                    | (99)                              | -                                     | -                              | -                         | -                                  | (2,509)        |
| Derecognition – Disposals                 | (21)                       | -                                 | (48)                                  | -                              | -                         | -                                  | (69)           |
| <b>At 31 March 2020</b>                   | <b>2,509</b>               | <b>3,578</b>                      | <b>8,103</b>                          | <b>984</b>                     | <b>40</b>                 |                                    | <b>15,214</b>  |
| <b>Net Book Value</b>                     |                            |                                   |                                       |                                |                           |                                    |                |
| At 31 March 2020                          | 124,377                    | 91,497                            | 3,688                                 | 1,159                          | 337                       | 2,244                              | 223,302        |
| At 31 March 2019                          | 121,645                    | 84,732                            | 3,606                                 | 1,169                          | 340                       | 366                                | 211,858        |

## Movement in Non-Current Assets 2018/19

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

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

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

## Note 19 Investment Properties

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The Council's Investment Property portfolio has been re-valued in accordance with the statement of accounting policies by K. Boothroyd MRICS.

|                                          | 2019/20<br>£'000 | 2018/19<br>£'000 |
|------------------------------------------|------------------|------------------|
| Rental, sales income and service charges | (4,750)          | (4,127)          |
| Direct operating expenses                | 732              | 733              |
| <b>Net (gain)/loss</b>                   | <b>(4,018)</b>   | <b>(3,394)</b>   |

### Movement in Fair Value of Investment Properties

|              | Value at 31<br>March 2019<br>£'000 | Acquisitions<br>£'000 | Change in<br>Value<br>£'000 | Re-<br>classifications<br>£'000 | Value at 31<br>March 2020<br>£'000 |
|--------------|------------------------------------|-----------------------|-----------------------------|---------------------------------|------------------------------------|
| Commercial   | 10,011                             | 8,798                 | (13)                        | -                               | 18,796                             |
| Leisure      | 1,167                              | -                     | 35                          | -                               | 1,202                              |
| Office       | 3,759                              | -                     | 27                          | -                               | 3,786                              |
| Other        | 4,373                              | -                     | 30                          | -                               | 4,403                              |
| Retail       | 37,352                             | 5,020                 | (6,295)                     | -                               | 36,077                             |
| <b>Total</b> | <b>56,662</b>                      | <b>13,818</b>         | <b>(6,216)</b>              | <b>-</b>                        | <b>64,264</b>                      |

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

### Fair Value Measurement of Investment Properties

|              | Quoted prices<br>in active<br>markets<br>Level 1<br>£'000 | Other significant<br>observable<br>inputs<br>Level 2<br>£'000 | Significant<br>unobservable<br>inputs<br>Level 3<br>£'000 | Fair Value at 31<br>March 2020<br>£'000 |
|--------------|-----------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------|
| Commercial   | 17,215                                                    | 1,511                                                         | 70                                                        | 18,796                                  |
| Leisure      | -                                                         | 23                                                            | 1,179                                                     | 1,202                                   |
| Office       | 2,200                                                     | 1,586                                                         | -                                                         | 3,786                                   |
| Other        | 2,177                                                     | 1,951                                                         | 275                                                       | 4,403                                   |
| Retail       | 35,638                                                    | 439                                                           | -                                                         | 36,077                                  |
| <b>Total</b> | <b>57,230</b>                                             | <b>5,510</b>                                                  | <b>1,524</b>                                              | <b>64,264</b>                           |

## Note 20 Leases

### Council as Lessee – Finance Leases

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

|                               | 31 March<br>2020<br>£'000 | 31 March<br>2019<br>£'000 |
|-------------------------------|---------------------------|---------------------------|
| Property, Plant and Equipment | 9,651                     | 10,158                    |
| Investment Property           | 5,673                     | 6,128                     |
| <b>Total</b>                  | <b>15,324</b>             | <b>16,286</b>             |

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

### Council as Lessor – Operating Leases

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

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

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

|                                                   | 31 March<br>2020<br>£'000 | 31 March<br>2019<br>£'000 |
|---------------------------------------------------|---------------------------|---------------------------|
| Not later than one year                           | 5,260                     | 4,528                     |
| Later than one year and not later than five years | 14,659                    | 12,635                    |
| Later than five years                             | 45,807                    | 45,229                    |
| <b>Total</b>                                      | <b>65,726</b>             | <b>62,392</b>             |

The minimum lease payments receivable does not include rents that are contingent rents on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20, contingent rents of £0.61 million were received by the Council (2018/19 £0.63 million).

## Note 21 Short Term Debtors

|                                | 31 March<br>2020<br>£'000 | 31 March<br>2019<br>£'000 |
|--------------------------------|---------------------------|---------------------------|
| Central government bodies      | 190                       | 1,315                     |
| Other local authorities        | 711                       | 1,885                     |
| Community Infrastructure Levy  | 1,346                     | 1,096                     |
| Other entities and individuals | 1,937                     | 2,249                     |
| Housing benefits overpaid      | 1,641                     | 1,761                     |
| Council tenants arrears        | 668                       | 580                       |
| Council Tax and NNDR arrears   | 709                       | 542                       |
| Provision for doubtful debts   | (2,008)                   | (1,577)                   |
| <b>Total</b>                   | <b>5,195</b>              | <b>7,851</b>              |

## Note 22 Short Term Creditors

|                                | 31 March<br>2020<br>£'000 | 31 March<br>2019<br>£'000 |
|--------------------------------|---------------------------|---------------------------|
| Central government bodies      | 3,951                     | 5,204                     |
| Other local authorities        | 3,352                     | 4,151                     |
| Receipts in advance            | 1,138                     | 786                       |
| Other entities and individuals | 2,964                     | 2,282                     |
| <b>Total</b>                   | <b>11,405</b>             | <b>12,423</b>             |

## Note 23 Provisions

|                       | Balance at<br>1 April<br>£'000 | Provision in<br>year<br>£'000 | Applied in<br>year<br>£'000 | Balance at<br>31 March<br>£'000 |
|-----------------------|--------------------------------|-------------------------------|-----------------------------|---------------------------------|
| Business rate appeals | 2,448                          | 388                           | (128)                       | 2,708                           |
| Insurance             | 54                             | 94                            | (91)                        | 57                              |
| Employee related      | 209                            | 209                           | (209)                       | 209                             |
| <b>Total 2019/20</b>  | <b>2,711</b>                   | <b>691</b>                    | <b>(428)</b>                | <b>2,974</b>                    |
| <b>Total 2018/19</b>  | <b>1,874</b>                   | <b>1,128</b>                  | <b>(291)</b>                | <b>2,711</b>                    |

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



## Note 24 Receipts in Advance

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

|                                                             | 31 March<br>2020<br>£'000 | 31 March<br>2019<br>£'000 |
|-------------------------------------------------------------|---------------------------|---------------------------|
| <b>Balance at 1 April</b>                                   | <b>5,833</b>              | <b>6,678</b>              |
| Movements in year:                                          |                           |                           |
| Amounts received (with conditions)                          | 2,897                     | 813                       |
| Amounts recognised as income (conditions subsequently met): |                           |                           |
| - Within Cost of Services                                   | (132)                     | (1,134)                   |
| - Within Taxation and Non-Specific Grants                   | (1,644)                   | (524)                     |
| <b>Balance at 31 March</b>                                  | <b>6,954</b>              | <b>5,833</b>              |
| <b>Receipts in Advance (Capital Grants)</b>                 |                           |                           |
| Leisure developer contributions                             | 1,855                     | 1,861                     |
| Affordable housing developer contributions                  | 442                       | 442                       |
| Other developer contributions                               | 540                       | 440                       |
| Homes England                                               | 1,256                     | 986                       |
| Other capital contributions                                 | 635                       | 332                       |
|                                                             | <b>4,728</b>              | <b>4,061</b>              |
| <b>Receipts in Advance (Revenue Grants)</b>                 |                           |                           |
| Air quality grants                                          | 454                       | 254                       |
| Titchfield Country Park developer contribution              | 477                       | 518                       |
| Welborne Garden Village contribution                        | 552                       | 488                       |
| National Grid IFA2 developer contribution                   | 432                       | 457                       |
| Environment Agency – Hook Lake Habitat Creation             | 256                       | -                         |
| Other revenue contributions                                 | 55                        | 55                        |
|                                                             | <b>2,226</b>              | <b>1,772</b>              |
| <b>Total Receipts in Advance</b>                            | <b>6,954</b>              | <b>5,833</b>              |

## Note 25 Transfers to/from Earmarked Reserves

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

|                            | 31 March<br>2018<br>£'000 | Transfers<br>Out<br>£'000 | Transfers<br>In<br>£'000 | 31 March<br>2019<br>£'000 | Transfers<br>Out<br>£'000 | Transfers<br>In<br>£'000 | 31 March<br>2020<br>£'000 |
|----------------------------|---------------------------|---------------------------|--------------------------|---------------------------|---------------------------|--------------------------|---------------------------|
| <b>General Fund</b>        |                           |                           |                          |                           |                           |                          |                           |
| Major Repairs and Renewals | 1,302                     | -                         | -                        | 1,302                     | -                         | -                        | 1,302                     |
| Other Earmarked Reserves   | 1,813                     | (303)                     | 2,409                    | 3,919                     | (142)                     | 1,930                    | 5,707                     |
| Earmarked Capital Reserves | 4,044                     | (1,274)                   | 1,125                    | 3,895                     | (979)                     | 1,125                    | 4,041                     |
|                            | <b>7,159</b>              | <b>(1,577)</b>            | <b>3,534</b>             | <b>9,116</b>              | <b>(1,121)</b>            | <b>3,055</b>             | <b>11,050</b>             |
| <b>HRA</b>                 |                           |                           |                          |                           |                           |                          |                           |
| Housing Repairs Account    | 1,500                     | -                         | -                        | 1,500                     | -                         | -                        | 1,500                     |
| Capital Development Fund   | 3,520                     | (129)                     | -                        | 3,391                     | (714)                     | -                        | 2,677                     |
| Debt Repayment Fund        | 1,140                     | -                         | 1,140                    | 2,280                     | -                         | 1,140                    | 3,420                     |
| Leaseholder Repairs        | 262                       | -                         | 18                       | 280                       | -                         | 7                        | 287                       |
|                            | <b>6,422</b>              | <b>(129)</b>              | <b>1,158</b>             | <b>7,451</b>              | <b>(714)</b>              | <b>1,147</b>             | <b>7,884</b>              |
| <b>Total</b>               | <b>13,581</b>             | <b>(1,706)</b>            | <b>4,692</b>             | <b>16,567</b>             | <b>(1,835)</b>            | <b>4,202</b>             | <b>18,934</b>             |

## Note 26 Capital Expenditure and Capital Financing

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

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

| 2018/19<br>£'000                        |                                                       | 2019/20<br>£'000 |
|-----------------------------------------|-------------------------------------------------------|------------------|
| <b>90,556</b>                           | Opening Capital Finance Requirement                   | <b>90,523</b>    |
| <b>Capital Investment</b>               |                                                       |                  |
| 5,734                                   | Property, Plant and Equipment                         | 7,877            |
| 35                                      | Investment Properties                                 | 13,818           |
| 855                                     | Revenue Expenditure Funded from Capital under Statute | 454              |
| <b>Sources of Finance</b>               |                                                       |                  |
| (655)                                   | Capital Receipts                                      | (525)            |
| (1,277)                                 | Government Grants and Other Contributions             | (2,503)          |
| Sums set aside from revenue:            |                                                       |                  |
| (1,690)                                 | HRA Major Repairs Reserve                             | (2,155)          |
| (2,337)                                 | Direct Revenue Contributions                          | (2,941)          |
| (698)                                   | Minimum Revenue Provision                             | (758)            |
| <b>90,523</b>                           | Closing Capital Finance Requirement                   | <b>103,790</b>   |
| <b>Explanation of movements in year</b> |                                                       |                  |
| (33)                                    | Increase/(decrease) in underlying need to borrow      | 13,267           |

## Note 27 Unusable Reserves

|                                    | 31 March       |                |
|------------------------------------|----------------|----------------|
|                                    | 2020<br>£'000  | 2019<br>£'000  |
| Revaluation Reserve                | 39,834         | 30,979         |
| Capital Adjustment Account         | 144,222        | 147,511        |
| Pensions Reserve                   | (62,349)       | (59,224)       |
| Collection Fund Adjustment Account | (1,405)        | 54             |
| Accumulated Absences Account       | (209)          | (209)          |
| Pooled Fund Adjustment Account     | (1,461)        | (127)          |
|                                    | <b>118,631</b> | <b>118,984</b> |

### a) Revaluation Reserve

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

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

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

| 2018/19<br>£'000 |                                                                                                                  | 2019/20<br>£'000 |
|------------------|------------------------------------------------------------------------------------------------------------------|------------------|
| <b>36,842</b>    | Balance at 1 April                                                                                               | <b>30,979</b>    |
| 3,056            | Upward revaluation of assets                                                                                     | 12,129           |
| (8,051)          | Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services | (2,457)          |
| <b>(4,995)</b>   |                                                                                                                  | <b>9,672</b>     |
| (543)            | Difference between current value depreciation and historical cost depreciation                                   | (557)            |
| (325)            | Accumulated gains on assets disposed or reclassified to Investment Properties                                    | (261)            |
| <b>(868)</b>     | <b>Amount written off to the Capital Adjustment Account</b>                                                      | <b>(818)</b>     |
| <b>30,979</b>    | <b>Balance at 31 March</b>                                                                                       | <b>39,834</b>    |

#### b) Capital Adjustment Account

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

Note 10 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2018/19<br>£'000 |                                                                                                                                                      | 2019/20<br>£'000 |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| <b>151,428</b>   | Balance at 1 April                                                                                                                                   | <b>147,511</b>   |
|                  | <b>Reversal of items relating to capital expenditure in the Comprehensive Income and Expenditure Statement</b>                                       |                  |
| (5,812)          | Charges for depreciation and impairment of non-current assets                                                                                        | (5,694)          |
| (654)            | Revaluation losses on property, plant and equipment                                                                                                  | 671              |
| (7)              | Amortisation of intangible assets                                                                                                                    | (5)              |
| (855)            | Revenue expenditure funded from capital under statute                                                                                                | (454)            |
| (1,752)          | Amounts of non-current assets written off on disposal or sale as part of gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (1,277)          |
| <b>142,348</b>   |                                                                                                                                                      | <b>140,752</b>   |
| (16)             | Amount credited to Capital Receipts Reserve relating to part repayment of principal on long term debtor                                              | (17)             |
| 325              | Cumulative (gains)/losses on assets sold or reclassified as Investment Properties                                                                    | 261              |
| 543              | Adjustment amounts written out of the Revaluation Reserve                                                                                            | 557              |
| <b>143,200</b>   | <b>Net written out amount of the cost of non-current assets consumed in the year</b>                                                                 | <b>141,553</b>   |
|                  | <b>Capital financing applied in the year</b>                                                                                                         |                  |
| 655              | Use of the Capital Receipts Reserve to finance new capital expenditure                                                                               | 525              |
| 1,690            | Use of the Major Repairs Reserve to finance new capital expenditure                                                                                  | 2,155            |
| 1,277            | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing          | 2,504            |
| 698              | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances                                        | 759              |
| 2,337            | Capital expenditure charged against the General Fund and HRA balances                                                                                | 2,941            |
| <b>149,857</b>   |                                                                                                                                                      | <b>150,437</b>   |
| <b>(2,346)</b>   | <b>Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement</b>              | <b>(6,215)</b>   |
| <b>147,511</b>   | <b>Balance at 31 March</b>                                                                                                                           | <b>144,222</b>   |

**c) Pensions Reserve**

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

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

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

| 2018/19<br>£'000 |                                                                                                                                                                                    | 2019/20<br>£'000 |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| <b>(61,165)</b>  | Balance at 1 April                                                                                                                                                                 | <b>(59,224)</b>  |
| 5,946            | Actuarial gains or losses on pension assets and liabilities                                                                                                                        | (549)            |
| (7,120)          | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (5,890)          |
| 3,115            | Employers' pension contributions and direct payments to pensioners payable in the year                                                                                             | 3,314            |
| <b>(59,224)</b>  | <b>Balance at 31 March</b>                                                                                                                                                         | <b>(62,349)</b>  |

**d) Collection Fund Adjustment Account**

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

| 2018/19<br>£'000 |                                                                                                                                                                                                   | 2019/20<br>£'000 |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| <b>869</b>       | Balance at 1 April                                                                                                                                                                                | <b>55</b>        |
| 59               | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax calculated for the year in accordance with statutory requirements | 139              |
| (873)            | Amount by which NDR income credited to the Comprehensive Income and Expenditure Statement is different from NDR calculated for the year in accordance with statutory requirements                 | (1,599)          |
| <b>55</b>        | <b>Balance at 31 March</b>                                                                                                                                                                        | <b>(1,405)</b>   |

## Note 28 Financial Instruments

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

|                                    | Fair Value Level | Long Term              |                        | Short Term             |                        |
|------------------------------------|------------------|------------------------|------------------------|------------------------|------------------------|
|                                    |                  | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
| - Borrowing                        | 2                | 40,000                 | 40,000                 | 17,659                 | 5,511                  |
| - Bank overdraft                   |                  | -                      | -                      | -                      | 462                    |
| <b>Total Borrowing</b>             |                  | <b>40,000</b>          | <b>40,000</b>          | <b>17,659</b>          | <b>5,973</b>           |
| <b>Long Term Creditors</b>         |                  | <b>4,421</b>           | <b>3,390</b>           | <b>-</b>               | <b>-</b>               |
| <b>Trade Creditors</b>             |                  | <b>-</b>               | <b>-</b>               | <b>6,083</b>           | <b>4,401</b>           |
| <b>Total Financial Liabilities</b> |                  | <b>44,421</b>          | <b>43,390</b>          | <b>23,742</b>          | <b>10,374</b>          |

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

|                                       | Fair Value Level | Long Term              |                        | Short Term             |                        |
|---------------------------------------|------------------|------------------------|------------------------|------------------------|------------------------|
|                                       |                  | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
| - Investments at amortised cost       |                  | -                      | -                      | 88                     | 9,043                  |
| - Fair value through profit or loss:  |                  |                        |                        |                        |                        |
| Property funds                        | 2                | 2,709                  | 1,873                  | -                      | -                      |
| Multi-asset funds                     | 1                | 7,830                  | -                      | -                      | -                      |
| <b>Total Investments</b>              |                  | <b>10,539</b>          | <b>1,873</b>           | <b>88</b>              | <b>9,043</b>           |
| - Cash at amortised cost              |                  | -                      | -                      | 994                    | 4                      |
| - Fair value through profit or loss:  |                  |                        |                        |                        |                        |
| Money market funds                    | 1                | -                      | -                      | 4,303                  | 2,102                  |
| <b>Total Cash and Cash Equivalent</b> |                  | <b>-</b>               | <b>-</b>               | <b>5,297</b>           | <b>2,106</b>           |
| <b>Long Term Debtors</b>              |                  | <b>101</b>             | <b>117</b>             | <b>-</b>               | <b>-</b>               |
| <b>Trade Debtors</b>                  |                  | <b>-</b>               | <b>-</b>               | <b>3,631</b>           | <b>4,070</b>           |
| <b>Total Financial Assets</b>         |                  | <b>10,640</b>          | <b>1,990</b>           | <b>9,016</b>           | <b>15,219</b>          |

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

### Financial Instruments - Fair Values

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

Fair values are shown in the tables above, split by their level in the fair value hierarchy:

Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.

Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.

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

The fair values of long term borrowing are:

|           | 31 March 2020          |                     | 31 March 2019          |                     |
|-----------|------------------------|---------------------|------------------------|---------------------|
|           | Balance Sheet<br>£'000 | Fair Value<br>£'000 | Balance Sheet<br>£'000 | Fair Value<br>£'000 |
| Borrowing | 40,000                 | 53,542              | 40,000                 | 51,620              |

The fair value of the borrowing is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the current rates available for similar borrowing as at the Balance Sheet date.

The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment. Movements in the fair value during the life of long term debtors and creditors are not recognised.

## Nature and Extent of Risks Arising from Financial Instruments

### Liquidity Risk

The Council manages its liquidity position through the setting and approval of prudential indicators and the treasury and investment strategy (approved by Full Council on 22 February 2019) and through cash flow management which seeks to ensure that cash is available when needed.

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

The maturity analysis of financial instruments is as follows:

| Time to Maturity   | As at 31 March 2020  |                 | As at 31 March 2019  |                 |
|--------------------|----------------------|-----------------|----------------------|-----------------|
|                    | Liabilities<br>£'000 | Assets<br>£'000 | Liabilities<br>£'000 | Assets<br>£'000 |
| Less than 3 months | 7,640                | 4,392           | 5,973                | 7,149           |
| 3 to 6 months      | -                    | -               | -                    | 4,000           |
| 6 months to 1 year | 10,019               | -               | -                    | -               |
| 1 to 5 years       | -                    | 10,539          | -                    | 1,873           |
| Over 35 years      | 40,000               | -               | 40,000               | -               |
| <b>Total</b>       | <b>57,659</b>        | <b>14,931</b>   | <b>45,973</b>        | <b>13,022</b>   |

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

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. It also considers maximum amounts and time limits in respect of each financial institution.

The following analysis shows the gross credit exposure by credit rating of the Council's investments as at 31 March 2020.

| Rating Category   | 31 March<br>2020<br>£'000 | 31 March<br>2019<br>£'000 |
|-------------------|---------------------------|---------------------------|
| AAA or equivalent | 10,623                    | 3,995                     |
| AA or equivalent  | 4,302                     | -                         |
| A or equivalent   | 6                         | 6,020                     |
| Not rated         | -                         | 3,007                     |
| <b>Total</b>      | <b>14,931</b>             | <b>13,022</b>             |

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

The Council's maximum exposure to credit risk in relation to its £14.9 million (2018/19 £13 million) investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence as at the 31 March 2020 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 (£423,000 as at 31 March 2020, £197,000 as at 31 March 2019). Trade debtors include outstanding sundry debts and other trade debts. Loss allowances have been calculated by reference to the Council's historic experience of default, multiplied by 365% to adjust for current and forecast economic conditions due to the Covid-19 pandemic.

| Sundry Debtors Age Analysis | Amount<br>Outstanding as at<br>31 March 2020<br>£'000 | Expected<br>Credit<br>Loss<br>£'000 |
|-----------------------------|-------------------------------------------------------|-------------------------------------|
| On time                     | 836                                                   | 10                                  |
| Up to 1 month late          | 296                                                   | 7                                   |
| 1-2 months late             | 114                                                   | 9                                   |
| 2-3 months late             | 280                                                   | 43                                  |
| 3-6 months late             | 105                                                   | 29                                  |
| 6-12 months late            | 103                                                   | 40                                  |
| 1-2 years late              | 101                                                   | 87                                  |
| 2-3 years late              | 44                                                    | 43                                  |
| Over 3 years late           | 158                                                   | 155                                 |
| <b>Total</b>                | <b>2,037</b>                                          | <b>423</b>                          |

### Market Risk

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

### Price Risk

The Council's investment in long term pooled funds is subject to the risk of falling commercial property prices and share prices. This risk is limited by the Council's maximum exposure to property and multi-asset investments. As at 31 March 2020 the Council had £12 million invested in long term pooled funds. A 5% fall in share price would result in a £600,000 charge to Other Comprehensive Income and Expenditure. This would have no impact on the Surplus or Deficit on the Provision of Services until the investment was sold.

## Note 29 Related Party Transactions

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

### Central Government

Central Government has effective control over the general operations of the Council as it is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are shown in note 11.

### Members

Members of the Council have direct control over the Council's financial and operating policies. During 2019/20, 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 2019/20 is shown in note 13.

### Chief Officers

Chief Officers have the ability to influence the Council. During 2019/20, there were no material related party transactions between the Council and Chief Officers.

### Portchester Crematorium Joint Committee

The Portchester Crematorium Joint Committee (PCJC) is a jointly controlled operation of the Council which manages the operations of Portchester Crematorium. The Joint Committee is represented equally by four constituent authorities, Fareham Borough Council, Gosport Borough Council, Havant Borough Council and Portsmouth City Council.

Fareham Borough Council's share of the net assets of PCJC is £2,458,943 (2018/19 £1,974,614). In 2019/20, PCJC paid a contribution of £160,000 to the Council (£150,000 in 2018/19). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2020, £2,627,969 was invested with the Council (£2,509,988 at 31 March 2019).

### Building Control Partnership

The Building Control Partnership provides building control services to Fareham Borough Council, Gosport Borough Council and Portsmouth City Council. The Partnership between Fareham and Gosport has been in operation since 2003, with Portsmouth coming into the Partnership in 2015/16.

During 2019/20, the Partnership charged Gosport Borough Council £146,377 (2018/19 £113,594) and Portsmouth City Council £126,689 (2018/19 £100,844) for statutory building control services. The Partnership has a policy of dividing generated surpluses between the authorities based on fee generating work in each authority area. At 31 March 2020, the balance of retained surpluses for future investment in the service was £167,236 for Fareham Borough Council, £100,629 for Gosport Borough Council and £64,287 for Portsmouth City Council.

### Fareham and Gosport Environmental Health Partnership

The Fareham and Gosport Environmental Health Partnership provides environmental health services to Fareham Borough Council and Gosport Borough Council. The Partnership came into operation in 2014/15. During 2019/20, the Partnership charged Gosport Borough Council £641,939 (2018/19 £616,629) for statutory environmental health services. The Partnership has a policy of sharing expenditure (excluding internal recharges) on a 50/50 basis. All income is retained by the relevant authority.



## Note 30 Contingent Liabilities

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

### Municipal Mutual Insurance – Scheme of Arrangement

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

An initial levy of 15% of previously paid claims, less the first £50,000 was collected by MMI from scheme members in February 2014. In April 2016, following a further review by the scheme administrator, the levy was increased by a further 10% to 25%. The current value of outstanding claims is £169,000 with a contingent liability of £127,000. Under the terms of the SoA, the Council also has to meet 25% of any new insurance claim settlements made by MMI. An annual review of the levy rate is required under the terms of the SoA and this could lead to the rate being further amended in future.

## Note 31 Cash Flow Statement - Operating Activities (Interest)

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

| 2018/19<br>£'000 |                   | 2019/20<br>£'000 |
|------------------|-------------------|------------------|
| (36)             | Interest received | (45)             |
| (1,446)          | Interest paid     | (1,459)          |
| <b>(1,482)</b>   |                   | <b>(1,504)</b>   |

## Note 32 Cash Flow Statement – Adjustment to net surplus or deficit on the provision of services for non-cash movements

| 2018/19<br>£'000 |                                                                                                   | 2019/20<br>£'000 |
|------------------|---------------------------------------------------------------------------------------------------|------------------|
| 5,812            | Depreciation and impairment                                                                       | 5,694            |
| 654              | Downward valuations                                                                               | (671)            |
| 7                | Amortisation of intangible assets                                                                 | 5                |
| (889)            | Increase/decrease in creditors                                                                    | (3,173)          |
| 284              | Increase/decrease in debtors                                                                      | 1,299            |
| (24)             | Increase/decrease in inventories                                                                  | 1                |
| 4,274            | Movement in pension liability                                                                     | 2,576            |
| 1,427            | Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised | 1,277            |
| 3,154            | Other non-cash items charged to the net surplus/deficit on provision of services                  | 7,811            |
| <b>14,699</b>    |                                                                                                   | <b>21,165</b>    |

## Note 33 Cash Flow Statement - Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities

| 2018/19<br>£'000 |                                                                                                   | 2019/20<br>£'000 |
|------------------|---------------------------------------------------------------------------------------------------|------------------|
| (1,206)          | Capital grants credited to surplus/deficit on the provision of services                           | (1,637)          |
| (3,720)          | Proceeds from the sale of property plant and equipment, investment property and intangible assets | (1,918)          |
| <b>(4,926)</b>   |                                                                                                   | <b>(3,555)</b>   |

## Note 34 Accounting Policies

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

### GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice 2019/20, supported by International Financial Reporting Standards (IFRS).

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

### ACCRUALS OF INCOME AND EXPENDITURE

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

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

### CASH AND CASH EQUIVALENTS

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

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

## EXCEPTIONAL ITEMS

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

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

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

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

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

## CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

## COUNCIL TAX AND NON-DOMESTIC RATES

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

### Accounting for Council Tax and NDR

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

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

## EMPLOYEE BENEFITS

### Benefits Payable during Employment

Short-term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and charges on an accruals basis to the relevant service line of the Comprehensive Income and Expenditure Statement.

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

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

### Termination Benefits

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

### Post-Employment Benefits (Retirement Pensions)

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

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

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

#### Service cost comprising:

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

#### Re-measurement comprising:

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

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

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

### Discretionary Benefits

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

## EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

## FINANCIAL INSTRUMENTS

### Financial Liabilities

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

### Financial Assets

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

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

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

#### Financial Assets Measured at Amortised Cost

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

#### Expected Credit Loss Model

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

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

#### Financial Assets Measured at Fair Value through Profit or Loss

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

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

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

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

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

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

Level 3 inputs – unobservable inputs for the asset.

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

## GRANTS AND CONTRIBUTIONS

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

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

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

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

### Business Improvement District

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

### Community Infrastructure Levy

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

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

## HERITAGE ASSETS

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

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

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

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

## INTANGIBLE ASSETS

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

Intangible assets are measured initially at cost. Amounts are not re-valued, as the fair value (i.e. estimated market value) of the assets cannot be determined by reference to an active market. The depreciable



amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

## INVENTORIES AND LONG TERM CONTRACTS

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

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

## INVESTMENT PROPERTIES

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

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

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

## LEASES

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

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

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

### The Council as Lessee – Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

#### The Council as Lessee – Operating Leases

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

#### The Council as Lessor – Finance Leases

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

#### The Council as Lessor – Operating Leases

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

### OVERHEADS AND SUPPORT SERVICES

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

### PROPERTY, PLANT AND EQUIPMENT

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

#### Recognition

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

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

#### Measurement

Assets are initially measured at cost, comprising:

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

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

- Land and buildings are measured at current value. This means Existing Use Value (EUV) for non-specialised properties or Depreciated Replacement Cost (DRC) for specialised properties.
- Infrastructure assets are measured at depreciated historical cost.
- Community assets and assets under construction are measured at historical cost.

- Council dwellings are measured at current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH).

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

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

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

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

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

### Impairment

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

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

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

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

### Depreciation

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

Depreciation is calculated on the following bases:

- council dwellings – calculated on a straight-line basis over the useful life of the major components of the property (excluding land value) as estimated by a suitable qualified officer
- other buildings - straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment - straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer
- infrastructure - straight-line allocation over individually assessed life for each asset.

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

Componentisation of an asset will be considered where:

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

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

### Disposals and Non-current Assets Held for Sale

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

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

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

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

## PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are made where an event has taken place that gives the Council a financial obligation that probably requires settlement but where the timing and amount of settlement is uncertain. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would

otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## RESERVES

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

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

## REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

## VAT

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



# 4

## SUPPLEMENTARY ACCOUNTS AND EXPLANATORY NOTES

## Housing Revenue Account - Income and Expenditure Statement

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

|                                                                                                                       | 2019/20<br>£'000 | 2018/19<br>£'000 |
|-----------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Income</b>                                                                                                         |                  |                  |
| Gross rent income                                                                                                     |                  |                  |
| - Dwellings                                                                                                           | (10,720)         | (10,791)         |
| - Other                                                                                                               | (350)            | (340)            |
| Charges for services and facilities                                                                                   | (1,177)          | (1,164)          |
| Contributions towards expenditure                                                                                     | (21)             | (37)             |
| <b>Total income from service</b>                                                                                      | <b>(12,268)</b>  | <b>(12,332)</b>  |
| <b>Expenditure</b>                                                                                                    |                  |                  |
| Repairs and maintenance                                                                                               | 2,759            | 3,158            |
| Supervision and management                                                                                            | 3,097            | 2,841            |
| Rents, rates, taxes and other charges                                                                                 | 137              | 78               |
| Depreciation and impairment of non-current assets (note 7)                                                            | 215              | (1,907)          |
| Debt management expenses                                                                                              | 27               | 31               |
| Provision for doubtful debts                                                                                          | 118              | 124              |
| <b>Total expenditure on service</b>                                                                                   | <b>6,353</b>     | <b>4,325</b>     |
| Net Expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement | (5,915)          | (8,007)          |
| HRA service share of corporate and democratic core                                                                    | 140              | 449              |
| <b>Net Expenditure for HRA Services</b>                                                                               | <b>(5,775)</b>   | <b>(7,558)</b>   |
| Gain on sale of HRA non-current assets                                                                                | (556)            | (1,439)          |
| Change in fair value of Investment Properties                                                                         | (1)              | (15)             |
| Interest payable and similar charges                                                                                  | 1,818            | 1,795            |
| Interest receivable                                                                                                   | (118)            | (67)             |
| Pension interest cost                                                                                                 | 251              | 267              |
| Capital Grants and contributions receivable                                                                           | (1,037)          | 0                |
| <b>(Surplus) or Deficit for Year on HRA Services</b>                                                                  | <b>(5,418)</b>   | <b>(7,017)</b>   |

## Movement on the HRA Statement

|                                                                                                                                                                 | 2019/20<br>£'000 | 2018/19<br>£'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Balance on the HRA at the end of previous year</b>                                                                                                           | <b>(1,302)</b>   | <b>(1,824)</b>   |
| <b>(Surplus) or Deficit for year on HRA Income and Expenditure Statement</b>                                                                                    | <b>(5,418)</b>   | <b>(7,017)</b>   |
| Remove gain on sale of HRA non-current assets                                                                                                                   | 555              | 1,456            |
| Pension reserve contributions                                                                                                                                   | (528)            | (640)            |
| Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements | -                | (1)              |
| Capital expenditure charged to HRA Balances                                                                                                                     | 2,006            | 1,228            |
| Transfers to/from Major Repairs Reserve                                                                                                                         | 2,635            | 2,544            |
| Transfers to/from Capital Adjustment Account                                                                                                                    | 822              | 1,923            |
| <b>Adjustments between accounting basis and funding basis under statute</b>                                                                                     | <b>5,490</b>     | <b>6,510</b>     |
| <b>Net (increase) or decrease before transfers to or from the reserves</b>                                                                                      | <b>72</b>        | <b>(507)</b>     |
| Transfer to/(from) reserves                                                                                                                                     | 432              | 1,029            |
| <b>(Increase) or decrease in year on the HRA</b>                                                                                                                | <b>504</b>       | <b>522</b>       |
| <b>Surplus Carried Forward</b>                                                                                                                                  | <b>(798)</b>     | <b>(1,302)</b>   |

The total surplus carried forward excludes balances of:

- Major Repairs Reserve
- Housing Repairs Account
- Leaseholder Repairs Reserve
- Capital Development Fund
- Debt Repayment Fund

These are included within the Movement in Reserves Statement.



## Notes to the Housing Revenue Account

### Note 1 Housing Stock

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

|           | 31 March<br>2020 | 31 March<br>2019 |
|-----------|------------------|------------------|
| Houses    | 773.25           | 778.75           |
| Flats     | 1,445.00         | 1,449.00         |
| Bungalows | 166.00           | 166.00           |
|           | <b>2,384.25</b>  | <b>2,393.75</b>  |

During the year 16 homes were sold under the right to buy scheme (13 in 2018/19) and no shared-owner properties were fully acquired by their owners (0.5 in 2018/19). The Council bought 8 homes that were 100% in private ownership and fully acquired 1 shared-owner home (8 in private ownership and 3 shared-owner homes in 2018/19), no homes were sold for private development (14 in 2018/19). One flat included in 2018/19 had been sold under the right to buy scheme in March 2017.

### Note 2 Value of Housing Revenue Account Property

Council dwellings have been valued in their current use with an allowance for occupation by a secure social tenant including the right to buy where applicable. The vacant possession value at 31 March 2020 is £385 million. The difference in valuation is the economic cost to the government of providing council housing at less than open market rents.

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

| Movement in Values 2019/20                | Council<br>Dwellings<br>£'000 | Other Land<br>and Buildings<br>£'000 | Plant and<br>Equipment<br>£'000 | Assets Under<br>Construction<br>£'000 | Total<br>£'000 |
|-------------------------------------------|-------------------------------|--------------------------------------|---------------------------------|---------------------------------------|----------------|
| Cost or Valuation                         |                               |                                      |                                 |                                       |                |
| At 1 April 2019                           | 124,055                       | 5,254                                | 87                              | 129                                   | 129,525        |
| Additions                                 | 3,838                         | -                                    | 37                              | 1,772                                 | 5,647          |
| Revaluation Increases/(decreases) to RR   | -                             | -                                    | -                               | -                                     | -              |
| Revaluation Increases/(decreases) to SDPS | 14                            | -                                    | -                               | -                                     | 14             |
| Derecognition - Disposals                 | (1,021)                       | (8)                                  | -                               | -                                     | (1,029)        |
| Other reclassifications                   | -                             | -                                    | -                               | -                                     | -              |
| <b>At 31 March 2020</b>                   | <b>126,886</b>                | <b>5,246</b>                         | <b>124</b>                      | <b>1,901</b>                          | <b>134,157</b> |
| Depreciation and Impairment               |                               |                                      |                                 |                                       |                |
| At 1 April 2019                           | 2,410                         | 99                                   | 29                              | -                                     | 2,538          |
| Depreciation Charge                       | 2,530                         | 97                                   | 7                               | -                                     | 2,634          |
| Depreciation written out to RR            | -                             | -                                    | -                               | -                                     | -              |
| Depreciation written out to SDPS          | (2,410)                       | (99)                                 | -                               | -                                     | (2,509)        |
| Derecognition – Disposals                 | (21)                          | -                                    | -                               | -                                     | (21)           |
| <b>At 31 March 2020</b>                   | <b>2,509</b>                  | <b>97</b>                            | <b>36</b>                       | <b>-</b>                              | <b>2,642</b>   |
| Net Book Value                            |                               |                                      |                                 |                                       |                |
| <b>At 31 March 2020</b>                   | <b>124,377</b>                | <b>5,149</b>                         | <b>88</b>                       | <b>1,901</b>                          | <b>131,515</b> |
| <b>At 31 March 2019</b>                   | <b>121,645</b>                | <b>5,155</b>                         | <b>58</b>                       | <b>129</b>                            | <b>126,987</b> |

| Movement in Values 2018/19                | Council Dwellings<br>£'000 | Other Land and Buildings<br>£'000 | Plant and Equipment<br>£'000 | Assets Under Construction<br>£'000 | Total<br>£'000 |
|-------------------------------------------|----------------------------|-----------------------------------|------------------------------|------------------------------------|----------------|
| Cost or Valuation                         |                            |                                   |                              |                                    |                |
| At 1 April 2018                           | 120,239                    | 5,356                             | 87                           | -                                  | 125,682        |
| Additions                                 | 3,261                      | -                                 | -                            | 129                                | 3,390          |
| Revaluation Increases/(decreases) to RR   | -                          | (17)                              | -                            | -                                  | (17)           |
| Revaluation Increases/(decreases) to SDPS | 1,997                      | -                                 | -                            | -                                  | 1,997          |
| Derecognition - Disposals                 | (1,442)                    | (85)                              | -                            | -                                  | (1,527)        |
| Other reclassifications                   | -                          | -                                 | -                            | -                                  | -              |
| <b>At 31 March 2019</b>                   | <b>124,055</b>             | <b>5,254</b>                      | <b>87</b>                    | <b>129</b>                         | <b>129,525</b> |
| Depreciation and Impairment               |                            |                                   |                              |                                    |                |
| At 1 April 2018                           | 2,459                      | 93                                | 21                           | -                                  | 2,572          |
| Depreciation Charge                       | 2,437                      | 99                                | 8                            | -                                  | 2,544          |
| Depreciation written out to RR            | -                          | -                                 | -                            | -                                  | -              |
| Depreciation written out to SDPS          | (2,459)                    | (93)                              | -                            | -                                  | (2,552)        |
| Derecognition - Disposals                 | (27)                       | -                                 | -                            | -                                  | (27)           |
| <b>At 31 March 2019</b>                   | <b>2,410</b>               | <b>99</b>                         | <b>29</b>                    | <b>-</b>                           | <b>2,538</b>   |
| Net Book Value                            |                            |                                   |                              |                                    |                |
| <b>At 31 March 2019</b>                   | <b>121,645</b>             | <b>5,155</b>                      | <b>58</b>                    | <b>129</b>                         | <b>126,987</b> |
| <b>At 31 March 2018</b>                   | <b>117,780</b>             | <b>5,263</b>                      | <b>66</b>                    | <b>-</b>                           | <b>123,110</b> |

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

### Note 3 Major Repairs Reserve

|                            | 2019/20<br>£'000 | 2018/19<br>£'000 |
|----------------------------|------------------|------------------|
| Balance at 1 April         | 1,838            | 984              |
| Receipts in year           | 2,634            | 2,544            |
| Used in year               | (2,155)          | (1,690)          |
| <b>Balance at 31 March</b> | <b>2,317</b>     | <b>1,838</b>     |

### Note 4 Housing Repairs Account

|                            | 2019/20<br>£'000 | 2018/19<br>£'000 |
|----------------------------|------------------|------------------|
| Balance at 1 April         | 1,500            | 1,500            |
| Contribution from HRA      | 1,907            | 2,981            |
| Other Income               | 147              | 171              |
| Expenditure                | (2,762)          | (3,170)          |
| Transfer to Reserve        | 708              | 18               |
| <b>Balance at 31 March</b> | <b>1,500</b>     | <b>1,500</b>     |

## Note 5 Capital Financing

The financing of capital expenditure on HRA property during the year is shown below. A proportion of this expenditure led to an increase in the value of current housing stock, the remainder increases the stock through acquisition and housing developments that are underway.

|                               | <b>Houses<br/>and Flats<br/>£'000</b> |
|-------------------------------|---------------------------------------|
| Capital Receipts              | 525                                   |
| Capital Development Fund      | 715                                   |
| Major Repairs Reserve         | 2,155                                 |
| Revenue Contributions         | 1,291                                 |
| Housing Grants                | 1,037                                 |
| <b>Expenditure in 2019/20</b> | <b>5,723</b>                          |

## Note 6 Capital Receipts

Capital receipts from the Right to Buy sales of HRA property in 2019/20 were £1.576 million (£1.472 million in 2018/19).

## Note 7 Depreciation and Impairment

|                         |                     | <b>2019/20<br/>£'000</b> | <b>2018/19<br/>£'000</b> |
|-------------------------|---------------------|--------------------------|--------------------------|
| Depreciation            | Dwellings           | 2,530                    | 2,437                    |
|                         | Garages             | 97                       | 99                       |
|                         | Plant and Equipment | 7                        | 8                        |
|                         | <b>Total</b>        | <b>2,634</b>             | <b>2,544</b>             |
| Amortisation            | Intangible Asset    | 5                        | 5                        |
| Revaluation (Gain)/Loss | Dwellings           | (2,424)                  | (4,456)                  |
| <b>Total Charge</b>     |                     | <b>215</b>               | <b>(1,907)</b>           |

For 2019/20 the adjustment factor applied to the market value of properties to derive the Existing Use-Social Housing Valuation has remained constant at 33%.

## Note 8 Arrears

At 31 March 2020, arrears were 5.41% of the gross income due in the year. 2019/20 was a 53 week rent year (2018/19 was a 52 week rent year). The arrears figures are as follows:

|                                         | <b>2019/20<br/>£'000</b> | <b>2018/19<br/>£'000</b> |
|-----------------------------------------|--------------------------|--------------------------|
| Arrears as at 31 March                  | 691                      | 606                      |
| Gross Income                            | 12,782                   | 12,674                   |
| Provision for Uncollectable Rents       | 580                      | 515                      |
| Arrears as a percentage of gross income | 5.41%                    | 4.78%                    |

## Collection Fund

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

|                                                    | <b>Council<br/>Tax<br/>£'000</b> | <b>Business<br/>Rates<br/>£'000</b> | <b>2019/20<br/>Total<br/>£'000</b> | <b>2018/19<br/>Total<br/>£'000</b> |
|----------------------------------------------------|----------------------------------|-------------------------------------|------------------------------------|------------------------------------|
| <b>Income</b>                                      |                                  |                                     |                                    |                                    |
| Council Tax                                        |                                  |                                     |                                    |                                    |
| Billed to Taxpayers                                | 71,992                           | -                                   | 71,992                             | 68,603                             |
| Non-Domestic Rates - Due                           | -                                | 41,814                              | 41,814                             | 42,179                             |
| Transitional Protection Payments                   | -                                | (554)                               | (554)                              | (998)                              |
| <b>Total Income</b>                                | <b>71,992</b>                    | <b>41,260</b>                       | <b>113,252</b>                     | <b>109,784</b>                     |
| <b>Expenditure</b>                                 |                                  |                                     |                                    |                                    |
| Collection Fund Surplus/(Deficit) in Previous Year |                                  |                                     |                                    |                                    |
| Central Government                                 | -                                | 3,113                               | 3,113                              | 2,049                              |
| Fareham Borough Council                            | (106)                            | 2,491                               | 2,385                              | 1,615                              |
| Hampshire County Council                           | (822)                            | 560                                 | (262)                              | 176                                |
| Police and Crime Commissioner for Hampshire        | (121)                            | -                                   | (121)                              | (28)                               |
| Hampshire Fire and Rescue                          | (45)                             | 62                                  | 17                                 | 30                                 |
|                                                    | <b>(1,094)</b>                   | <b>6,226</b>                        | <b>5,132</b>                       | <b>3,842</b>                       |
| Precepts, Demands and Shares                       |                                  |                                     |                                    |                                    |
| Central Government                                 | -                                | 19,659                              | 19,659                             | 18,589                             |
| Fareham Borough Council                            | 6,875                            | 15,728                              | 22,603                             | 21,484                             |
| Hampshire County Council                           | 53,074                           | 3,539                               | 56,613                             | 54,513                             |
| Police and Crime Commissioner for Hampshire        | 8,645                            | -                                   | 8,645                              | 7,561                              |
| Hampshire Fire and Rescue                          | 2,905                            | 393                                 | 3,298                              | 3,173                              |
|                                                    | <b>71,499</b>                    | <b>39,319</b>                       | <b>110,818</b>                     | <b>105,320</b>                     |
| Charges to the Collection Fund                     |                                  |                                     |                                    |                                    |
| Cost of Collection Allowance                       | -                                | 138                                 | 138                                | 138                                |
| Increase/(Decrease) in Appeals Provision           | -                                | 651                                 | 651                                | 2,083                              |
| Increase/(Decrease) in Bad Debt Provision          | 138                              | 154                                 | 292                                | (146)                              |
|                                                    | <b>138</b>                       | <b>943</b>                          | <b>1,081</b>                       | <b>2,075</b>                       |
| <b>Total Expenditure</b>                           | <b>70,543</b>                    | <b>46,488</b>                       | <b>117,031</b>                     | <b>111,237</b>                     |
| Fund balance brought forward at 1 April            | (489)                            | 1,301                               | 812                                | 2,265                              |
| Surplus/(Deficit) for the Year                     | 1,449                            | (5,228)                             | (3,779)                            | (1,453)                            |
| <b>Fund balance carried forward at 31 March</b>    | <b>960</b>                       | <b>(3,927)</b>                      | <b>(2,967)</b>                     | <b>812</b>                         |

## NOTES TO THE COLLECTION FUND

### Note 1 Council Tax

Council Tax income derives from the charges raised according to the value of residential properties, classified into eight valuation bands estimating 1 April 1991 values for this purpose. Individual charges are calculated by estimating the amount of income required from the Collection Fund by Hampshire County Council, the Police and Crime Commissioner for Hampshire, Hampshire Fire and Rescue Authority and the Council for the forthcoming year and dividing this by the council tax base. The council tax base is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts 42,910 for 2019/20 (42,605 for 2018/19). 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:

|                                             | 2019/20<br>£'000 | 2018/19<br>£'000 |
|---------------------------------------------|------------------|------------------|
| Fareham Borough Council                     | 160.22           | 155.22           |
| Police and Crime Commissioner for Hampshire | 201.46           | 177.46           |
| Hampshire Fire and Rescue                   | 67.71            | 65.74            |
| Hampshire County Council                    | 1,236.87         | 1,200.96         |
| <b>Total</b>                                | <b>1,666.26</b>  | <b>1,599.38</b>  |

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

NDR is organised on a national basis. The Government specifies a rate in the £ (in 2019/20, 49.1p for small businesses and 50.4p for large; in 2018/19, 48.0p for small businesses and 49.3p for large) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the ratepayers in its area. The rateable value at 31 March 2020 was £102,502,408 (£102,725,606 as at 31 March 2019). This rateable value is based on the valuation list effective from 25 March 2020.

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

In 2013/14 a new system of Retained Business Rates was introduced, changing the way in which this funding stream is received. The Council collects business rates due in the usual way, but instead of paying it all over to the national pool, 50% is paid to Central Government, 9% to Hampshire County Council, 1% to Hampshire Fire and Rescue Authority and 40% is retained by the Council.

At the end of the year the Council compares its 40% retained rates income with the Business Rates Baseline set at the start of the system (based on rates collected up to 2011/12) and the Baseline funding level for the financial year. For 2019/20, the Business Rates Baseline was £16,745,632 (2018/19 £15,893,003) and the Baseline funding level was £1,897,692 (2018/19 £1,855,178).

### Note 3 Collection Fund Balance

The Collection Fund balance for 2019/20 was a deficit of £3 million (a deficit of £0.8 million in 2018/19) which is included within the Balance Sheet. The amounts in respect of Fareham Borough Council are contained within the reserves section of the Balance Sheet and amounts due to the other major preceptors are shown within creditors.



# 5

## GLOSSARY OF TERMS

## GLOSSARY OF TERMS

### Accruals

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

### Actuarial Gains and Losses

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

### Amortised Cost

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

### Carrying Amount

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

### Cash and Cash Equivalents

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

### Community Assets

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

### Contingency

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

### Corporate and Democratic Core

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

### Current Service Costs (Pensions)

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

### Defined Benefit Scheme

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

### Depreciation

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

### Depreciated Replacement Cost (DRC)

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

### Discretionary Benefits

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

### Exceptional Items

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

### Expected rate of return on pensions assets

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

### Fair Value

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

### Finance Lease

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

### Government Grants

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

### Heritage Assets

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

### Historical Cost

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

### Infrastructure Assets

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

### Interest Cost (Pensions)

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

### Investments (Non Pensions Fund)

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



### Investments (Pensions Fund)

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

### Investment Properties

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

### Material

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

### Net Book Value

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

### Net Current Replacement Cost

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

### Non-Current Assets

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

### Non-Operational Asset

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

### Operating Leases

A lease other than a finance lease.

### Operational Assets

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

### Past Service Costs

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

### Post Balance Sheet Events

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

### Prior Year Adjustments

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

### Projected Unit Method

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

### Property, Plant and Equipment

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

### Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

### Related Parties

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

### Retirement Benefits

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

### Scheme Liabilities

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

### Useful Life

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



# 6

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the financial statements of Fareham Borough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

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

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2020 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 2019/20.

### Basis for opinion

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

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

### Conclusions relating to going concern

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

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

**Other information**

The other information comprises the information included in the Statement of Accounts for the year 2019/20, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive Officer is responsible for the other information.

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

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

We have nothing to report in this regard.

**Opinion on other matters prescribed by the Local Audit and Accountability Act 2014****Arrangements to secure economy, efficiency and effectiveness in the use of resources**

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Fareham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

**Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects

**Responsibility of the Deputy Chief Executive Officer**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 26, the Deputy Chief Executive Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

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

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

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

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

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


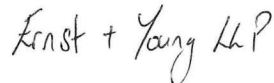
We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects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

### **Certificate**

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

### **Use of our report**

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

Kevin Suter (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Southampton  
25 November 2020



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## CONTACTS



## HOW TO CONTACT US

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

For more information please contact us at:

Deputy Chief Executive Officer

Fareham Borough Council  
Civic Offices  
Civic Way  
Hampshire  
PO16 7AZ

Tel: 01329 236100

Fax: 01329 550576

Monday to Thursday - 8.45am to 5.15pm

Friday - 8.45am to 4.45pm

[www.fareham.gov.uk](http://www.fareham.gov.uk)

[customerservices@fareham.gov.uk](mailto:customerservices@fareham.gov.uk)





**FAREHAM**

**BOROUGH**

**COUNCIL**

**STATEMENTS OF**

**ACCOUNTS**

**2019/2020**

**FAREHAM**  
BOROUGH COUNCIL