

An aerial photograph of a town, likely Fareham, is shown in a monochromatic blue color scheme. The image is overlaid with several horizontal bars of varying shades of blue, which serve as a background for the text. The text is white and bold, providing a high contrast against the blue background.

FAREHAM

BOROUGH

COUNCIL

STATEMENT OF

ACCOUNTS

2017/2018

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.

CONTENTS

| | |
|-----------|-------------------------------------------------------------|
| 4 | 1. NARRATIVE REPORT AND WRITTEN STATEMENTS |
| 5 | Narrative Report |
| 22 | Explanation to Accounting Statements |
| 23 | Statement of Responsibilities for the Statement of Accounts |
| 24 | 2. CORE FINANCIAL STATEMENTS |
| 25 | Comprehensive Income and Expenditure Statement |
| 26 | Balance Sheet |
| 27 | Movement in Reserves Statement |
| 28 | Cash Flow Statement |
| 29 | 3. NOTES TO THE ACCOUNTS |
| 72 | 4. SUPPLEMENTARY ACCOUNTS AND EXPLANATORY NOTES |
| 73 | Housing Revenue Account and Explanatory Notes |
| 78 | Collection Fund Account and Explanatory Notes |
| 80 | 5. GLOSSARY OF TERMS |
| 85 | 6. INDEPENDENT AUDITOR'S REPORT |
| 90 | 7. CONTACTS |



NARRATIVE REPORT AND WRITTEN STATEMENTS

NARRATIVE REPORT

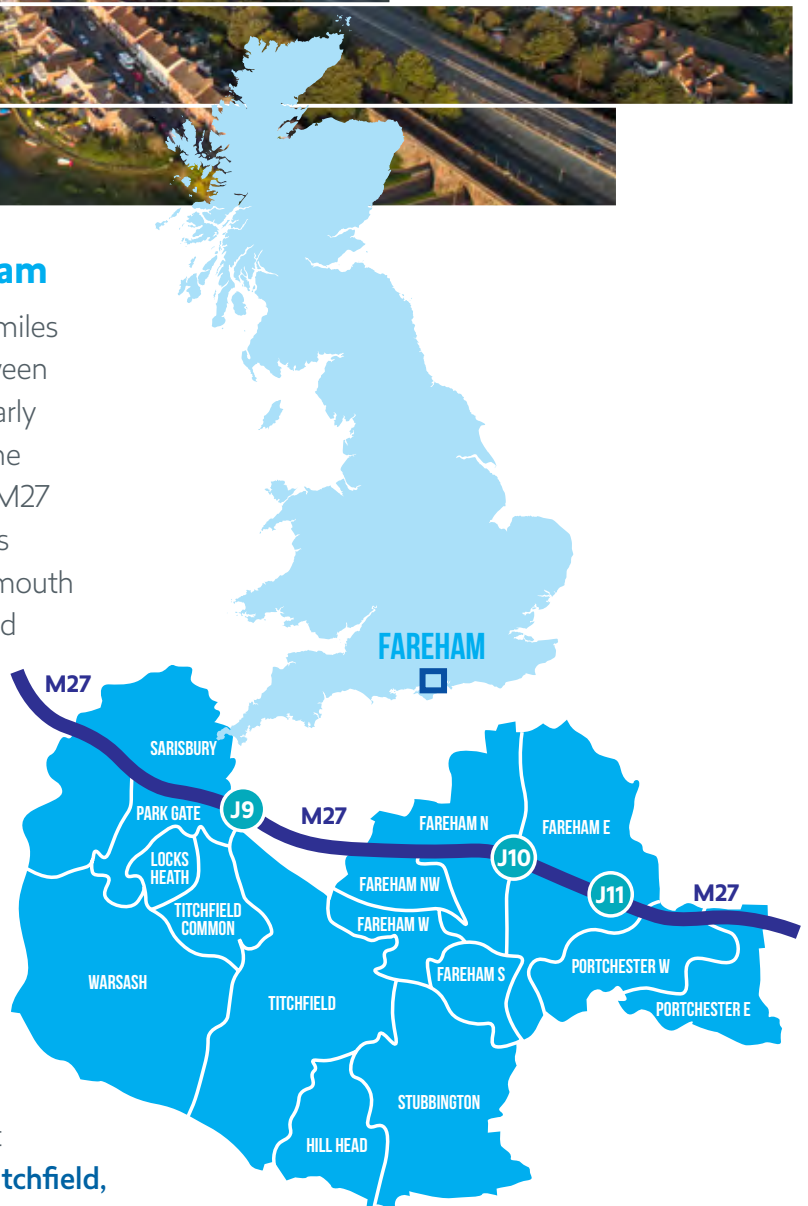


Introducing the Borough of Fareham

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

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

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




RESIDENTS


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

Approx. 50,000 households

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

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

 Approximately 25% of households are people living alone

 80% of homes are owner occupied

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

BUSINESSES

Approx. 3,200 businesses

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

Just 0.6% of residents were claiming Jobseeker's Allowance against a national average of 1.1%

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

Fareham is a growing Borough both in terms of residents and the local economy. To help meet the future housing need this trend will create, a new community, Welborne, is being developed in the Borough to provide up 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 easy for our customers to do business with us and easy for us to do the right thing for our customers. It also leads to a more cost-effective provision of services as we concentrate on what matters to customers and drive out costs associated with 'failure work' (where we have failed to address the customer's needs at the earliest opportunity).



OUR VISION

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

CORPORATE VALUES

Listening and being responsive to our customers

Recognising and protecting the identity of existing communities


Enhancing prosperity and conserving all that is good

Being efficient, effective and providing value for money

Leading our communities and achieving change for the better

PRIORITIES

Providing Housing Choices 

Protect and enhance the environment 

Strong, safe, inclusive and healthy communities 

Maintain and extend prosperity 

Leisure opportunities for health and fun 

Dynamic, prudent and progressive Council 

Preparing for the future

The Council's Vision, Values and Priorities are set out in the Corporate Strategy which can be viewed in full on the Council's website. In 2017, following public consultation, the Corporate Strategy was revised to ensure it is fit for purpose in terms of relevance, threats and opportunities. It recognises the constraint of continued reduction in Government funding and seeks to continue to deliver priorities but within a balanced and sustainable budget. It has now been adopted and covers the period up to 2023. The Council's Vision, Values and Priorities have been defined above.

The Council

Fareham Borough Council is a 'shire district' Council which means some services are provided

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

The day to day delivery of services is overseen by the Chief Executive's Management Team made up of the Chief Executive, three Directors and two Heads of Service.

MEMBERS

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

EMPLOYEES

Approximately 402 employees (326 full time & 76 part time)
7 employees undertaking apprentice training
3 Directors
12 Heads of Services

PARTNERSHIPS

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

ORGANISATION

4 Directorates:
Finance & Resources
Planning & Regulation
Street Scene
Fareham Housing

ORGANISATIONAL SUMMARY

Eight committee portfolios, led by Members, oversee more than 60 functions of the Council which deliver services such as Planning, Leisure, Environmental Health and Housing.

In October 2017 the Council approved changes to the senior management structure and the creation of the new department of Fareham Housing. Fareham Housing is responsible for the strategic direction of social housing in the Borough. Its purpose is to provide affordable and sustainable housing solutions for residents, prioritising those in greatest need. It will also focus on the long-term sustainability of the Housing Revenue Account against the pressures of increases in the cost of repairs and rent reductions.

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. The Council actively seeks shared service and partnership opportunities where they improve resilience, drive efficiency and improve service delivery. The performance of all partnerships is subject to a strict monitoring programme and constant review to ensure they remain beneficial to the Fareham community and financially robust.

Changes to partnership and shared service arrangements in 2017/18 included:

- **new partnerships with Portsmouth City Council to provide Internal Audit Services and a Disabled Facilities Grants Service;**
- **new partnership with Hampshire Cultural Trust to manage Westbury Manor Museum;**
- **extension of the Legal Services Partnership with Southampton City Council;**
- **termination of the agency arrangement with Hampshire County Council for Traffic Management;**
- **outsourcing of the management of Fareham's markets to a private provider.**

These changes resulted in a reduction of four posts from the establishment, and the creation of one additional post in the Legal Services Partnership.

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



2017/18 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 2017/18 including:

Implementing the Welborne Delivery Strategy to drive forward the delivery of more housing in the Borough.

Implementing the next phase of developments at the Solent Airport site at Daedalus.

Completion of the Hill Head Coastal Protection project.

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

The table below summarises the revenue outturn position¹ on the General Fund for the year compared to last year, which shows that there was a reduction in the Council's revenue spend compared to the previous year and the net cost of services came in below the revised budget.

The following risks and pressures were recognised when setting the original and revised 2017/18 budgets and Council Tax:

Reduction in non-specific Government Funding of £1,033,000 (35%)

Increase in payments to and on behalf of employees of £350,000

Contributions needed from revenue reserves to capital projects of over £2 million

£1.2 million to be returned to reserves, including £500,000 for future maintenance of assets

Projected reductions of income generated from commercial rents and the town centre of £300,000

Increase of £256,000 in the Minimum Revenue Provision (MRP) needed to cover the borrowing costs of recent purchases of investment properties and cottages as part of the Welborne plan

Increase in business rates on Council assets of £80,000

Continued reduction in interest earned on financial investments by £76,000

| | 2016/17 Actual | 2017/18 Budget | 2017/18 Actual |
|------------------------------------|-------------------|-------------------|-------------------|
| Gross Cost of Services | £48,043,612 | £46,851,800 | £47,909,965 |
| Net Cost of Services | £9,757,888 | £12,026,500 | £11,480,635 |
| Other Provisions | £1,473,011 | -£1,215,700 | -£1,234,456 |
| Non-Service Specific Income | -£2,748,482 | -£2,194,100 | -£2,141,406 |
| Net Underspend on Services | £420,579 | £0 | £512,213 |
| Net Budget | £8,902,996 | £8,616,700 | £8,616,986 |
| Core Funding Sources | | | |
| Revenue Support Grant | £827,826 | £288,274 | £288,274 |
| Business Rates | £1,765,033 | £1,799,749 | £1,799,749 |
| Council Tax | £6,100,068 | £6,365,062 | £6,365,062 |
| Other Funding Sources | £210,069 | £163,615 | £163,901 |
| | £8,902,996 | £8,616,700 | £8,616,986 |

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

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

Continued use of investment properties as a funding stream which generated income of £1,704,000

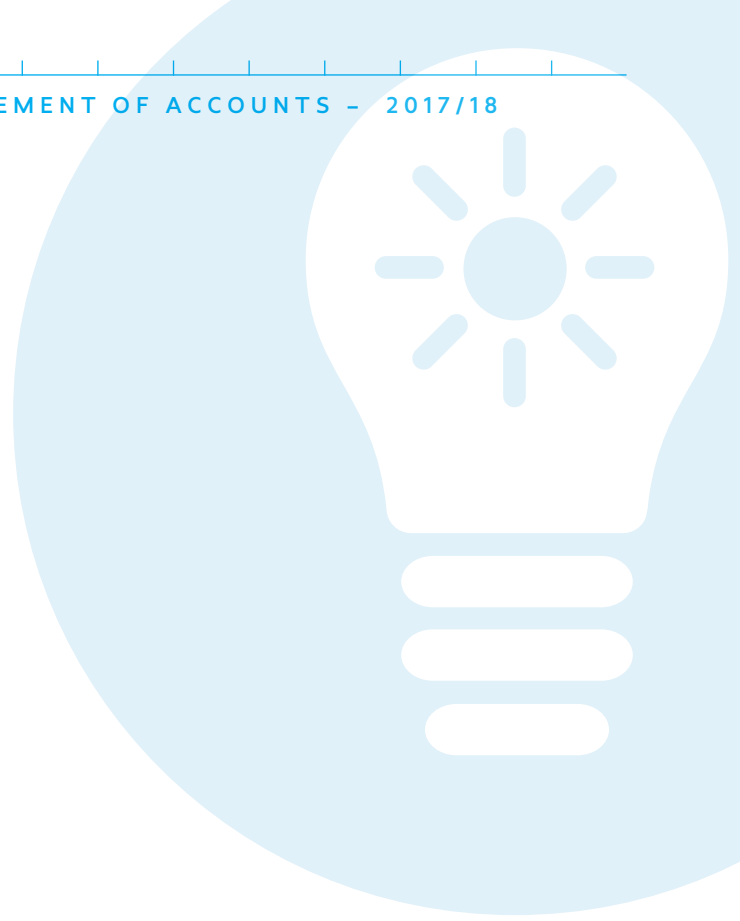
Building in efficiency savings of £800,000 identified from work carried out in 2016/17

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

Increasing Council Tax for the second year running by the maximum £5; this again represented 13% of the funding sources used

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

Use of low cost borrowing of £15,800,000 to fund capital works





The General Fund Reserve has increased in the year partly due to the net underspend on revenue income and expenditure. Total 'usable' reserves have increased by **£2 million** to a total of **£34 million**. This includes a provision of **£2.4 million** put aside in a Spending Reserve for unforeseen fluctuations in revenue expenditure and income which represents 5% of planned gross expenditure.

The Council raised **£1.5 million** from Community Infrastructure Levy (CIL) during 2017/18 (£2.5 million in 2016/17). This has been transferred to the Council's capital reserves. A total of **£773,000** CIL reserves were used in the year including £740,000 to fund the second phase of the Hill Head coastal protection scheme.

Unexpected pressures arising in the year included severance costs of £531,000 to bring some contracts

to an end which have been funded through vacancy savings and the Spending Reserve.

The overall value of Council's assets has increased in value by **£18 million**.

We are not, however, complacent as further challenges lie ahead including the continued reduction in government funding.

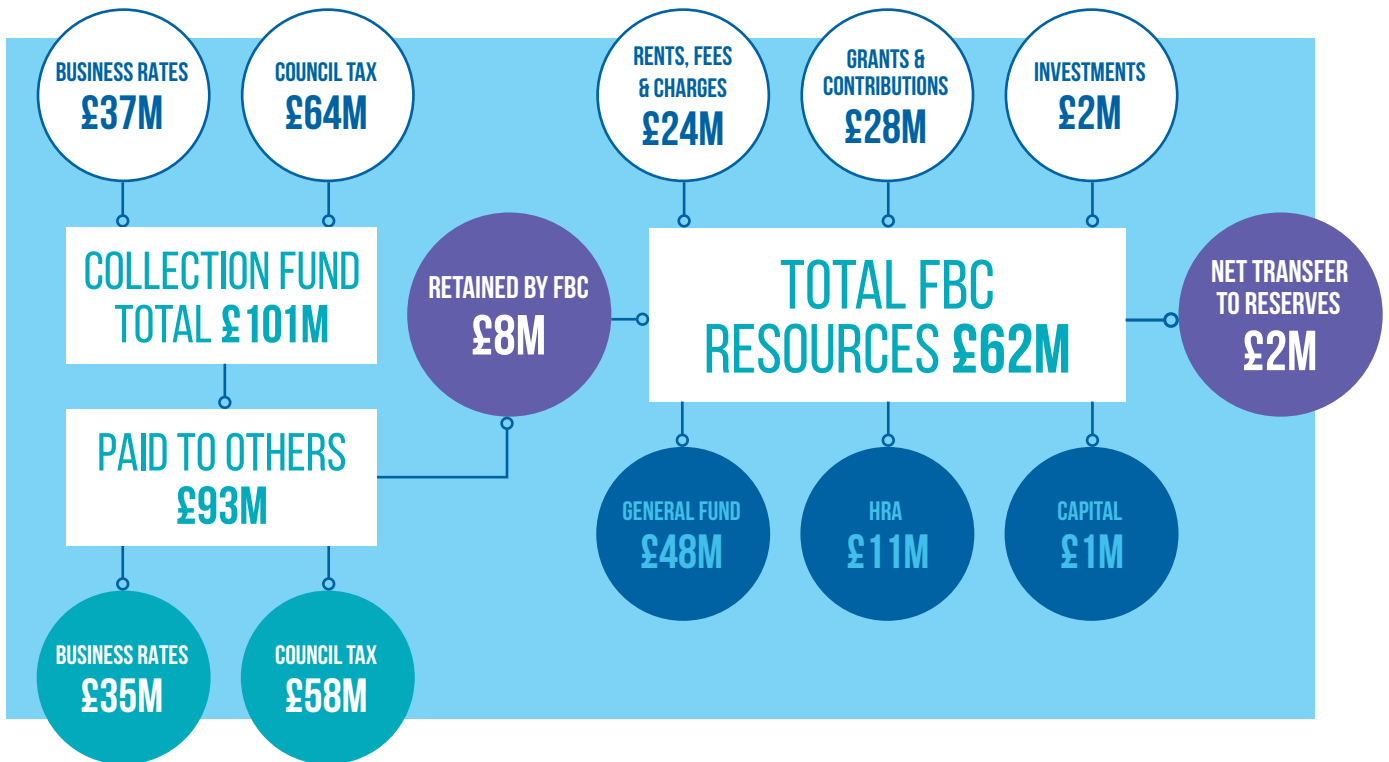
There has also been continued pressure on the Housing Revenue Account and the value of the Housing Revenue Account Reserve has again decreased this year by £546,000 to **£1.8 million**. The new department of Fareham of Housing has been tasked with turning this position around.

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

Sources of Revenue Funding in 2017/18

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

2017/18 was Year 2 of the Government’s finance settlement and the Council received the final element of Revenue Grant Support it is due. This was £288,000 compared to £828,000 in 2016/17.

Reduced levels of other Government Funding (New Homes Bonus and Transitional Grant) were also received, taking the total of non-specific Grant funding from the Ministry for Housing, Communities and Local Government for the year to £1,940,000. This represents a reduction of £1,033,000 (35%) in this funding compared to 2016/17.

Government Grants to Services

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

Funding to fully cover the cost of Disabled Facilities Grants of £506,000

Funding towards the Daedalus development of £265,000

Funding towards homelessness initiatives of £237,000

Funding towards Coastal Protection of £100,000

Funding towards the Local Plan of £50,000

Income from Services

Discretionary fees and charges were generally increased in 2017/8 where it was seemed feasible to do so. These changes, together with the targeted income streams shown, led to a total income of **£6.2 million** in the year which is a 3.3% increase on 2016/17.



Consolidating our investment portfolio generating **£1,704,000** in the year for the Council

Rented out more Civic Office space to other organisations generating **£323,000** in the year compared to **£202,000** in 2016/17

Introduced new charges for rodent control treatments, football tournaments, providing recycling bins to developers and for the hire of rooms

The Council had an increased number of planning applications in the year generating **£30,000** more income and the Government increase in charges from January 2018 has resulted in an additional **£18,000**.



Council Tax and Business Rates

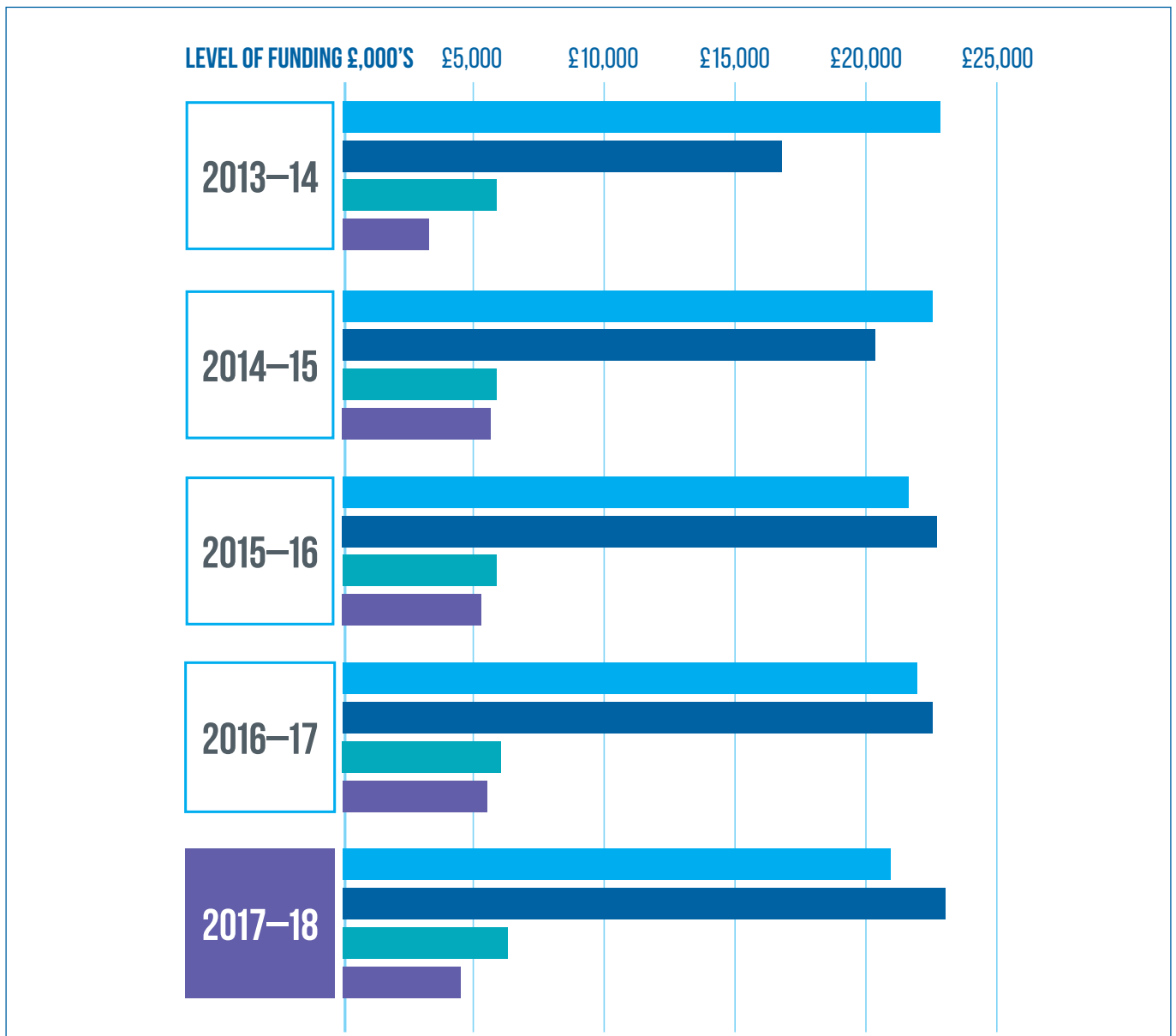
The Council used the available Collection Fund surplus in the year but also needed to increase the rate of Council Tax by £5. This was the second time we had needed to do this since this became permissible and the amount of the increase was kept within the Government referendum limits. The overall level for Council Tax for a band D

property in the Borough was £1,512.62 of which £150.22 related to Fareham Borough Council funding. This compared to £1,447.56 and £145.22 in 2016/17 at which point we were in the lower quartile of council taxes in the country.

As at the end of March 2018 we had collected 99.46% of Council Tax due and 99.62% of Business Rates due.

Trends in sources of funding

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

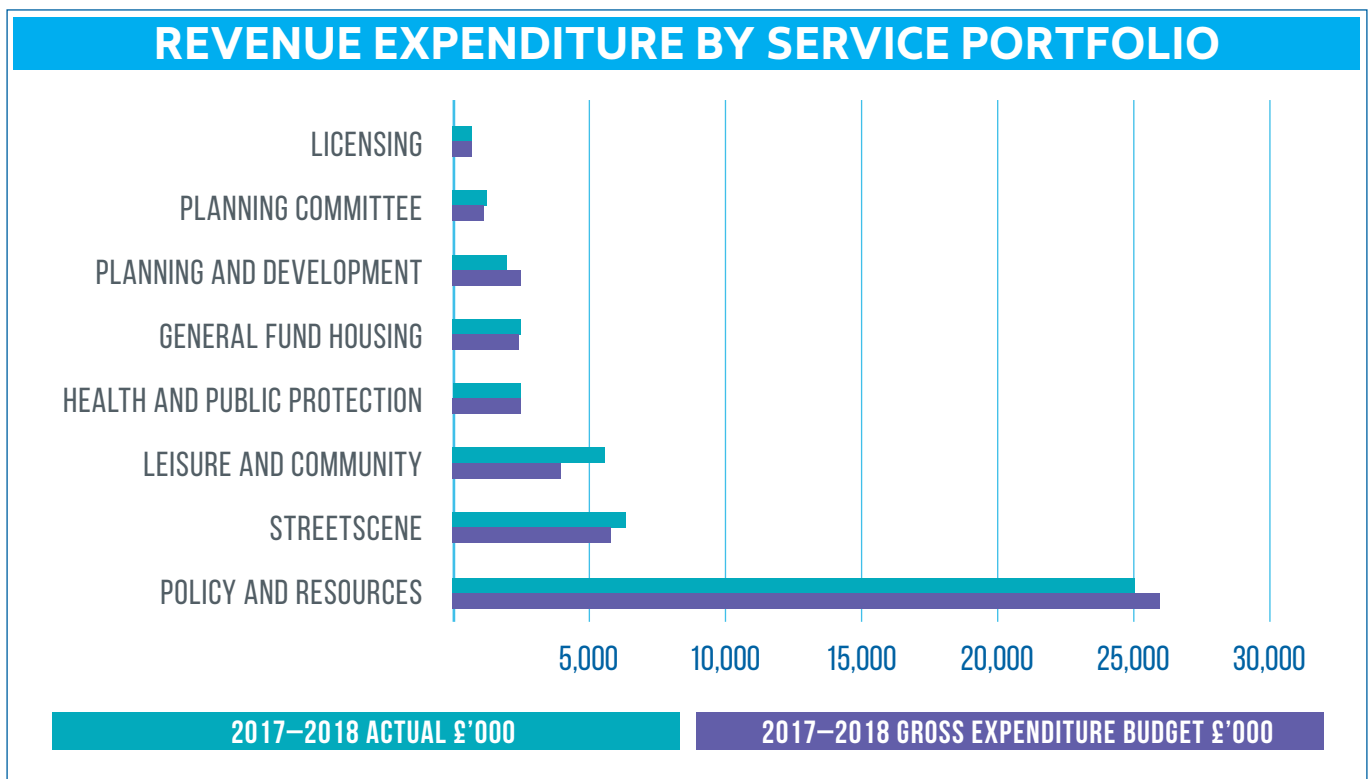




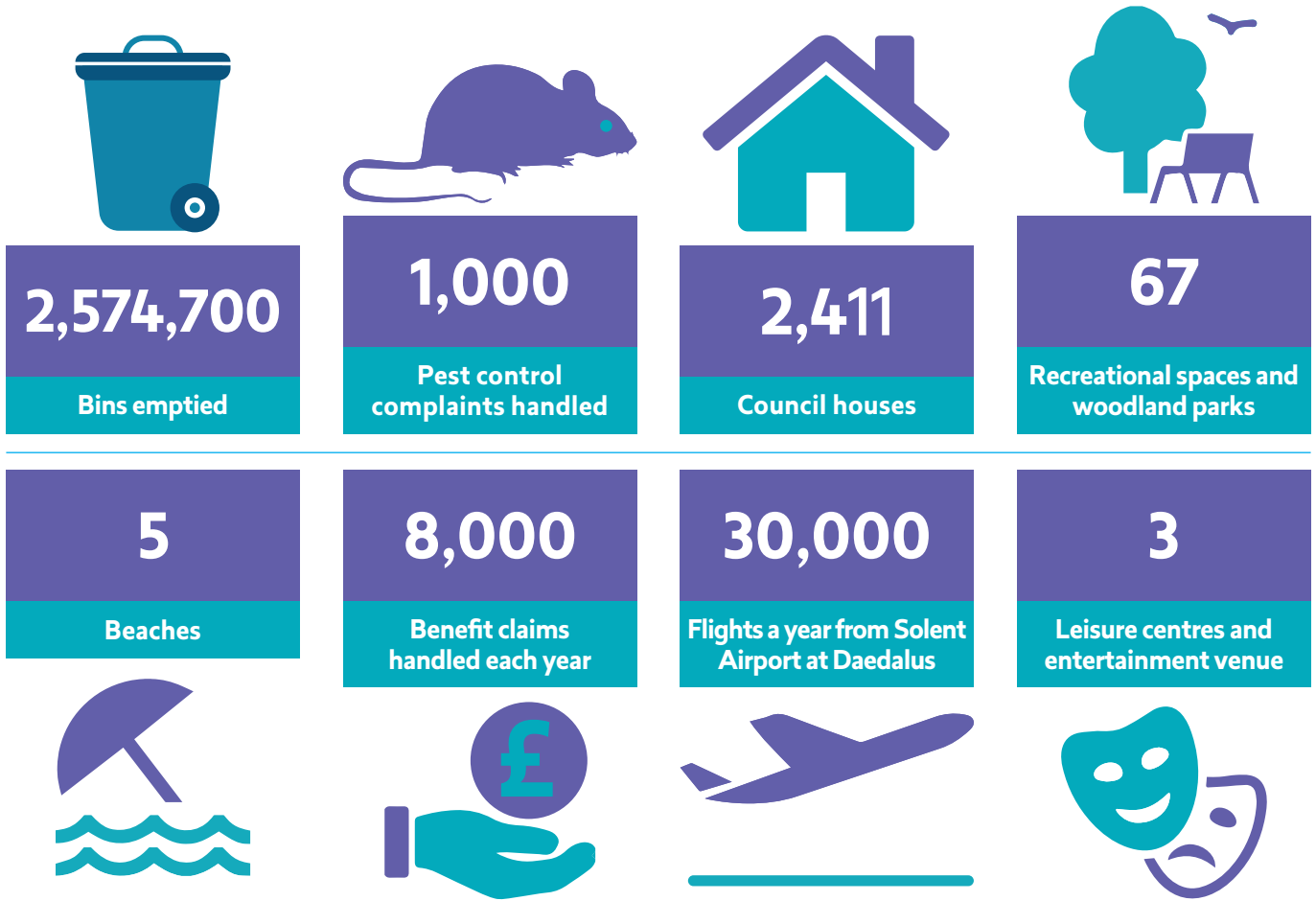
Revenue Spending on Services in 2017/18

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

Spend on employees was **24%** of the total spend compared to **21%** last year.



Snapshot of services provided in 2017/18



Service changes, challenges and successes

Service changes, challenges and success of note in 2017/18 (including non-financial performance) were:

- Publishing a draft Local Plan for consultation in October 2017. This sets out how we can meet the housing needs up to 2036. This has had a significant impact for the Council in terms of managing the consultation process, enquiries and complaints. In the meantime, there has been a significant increase in the number of planning applications received and the number that are going to appeal, leading to both increases in income and costs.
- It was the first full year of the new leisure complex at Holly Hill. Average visitor numbers of around 40,000 per month have already exceeded targets.
- During the year, 16 council homes were sold under the Right to Buy scheme (10 in 2016/17) and two were bought back.
- One of two new housing schemes, Sylvan Court, is now fully occupied. The £4.8m building in Sarisbury Green provides 36 flats for people aged 60 and over. Residents enjoy facilities such as a communal lounge area, mobility and bike store, hairdressing room and landscaped gardens. The site also includes parking, laundry room, CCTV and secure door entry system.
- The second new housing scheme, Stevenson Court, features 16 new flats, all of which are now occupied. All flats include a private balcony or terrace, bike storage, and convenient access to local shops and services. The units, which cost £1.9 million to build, are Lifetime Homes compliant and meet the Code of Sustainable Homes, Level 4.

- We used Government grants to increase our resources to prepare for the new Homeless Reduction Act responsibilities. We also continued to part-fund a 'Money Advisor' post at the local Citizen's Advice Office, and used a 'tenancy assistance' fund to help customers threatened with homelessness find their own alternative accommodation. During the winter months we also funded additional beds in a local hostel to help rough sleepers.
- The programme of 'Systems Thinking' interventions has continued and the Council Tax section is the latest to have transformed its service. The new approach has already led to

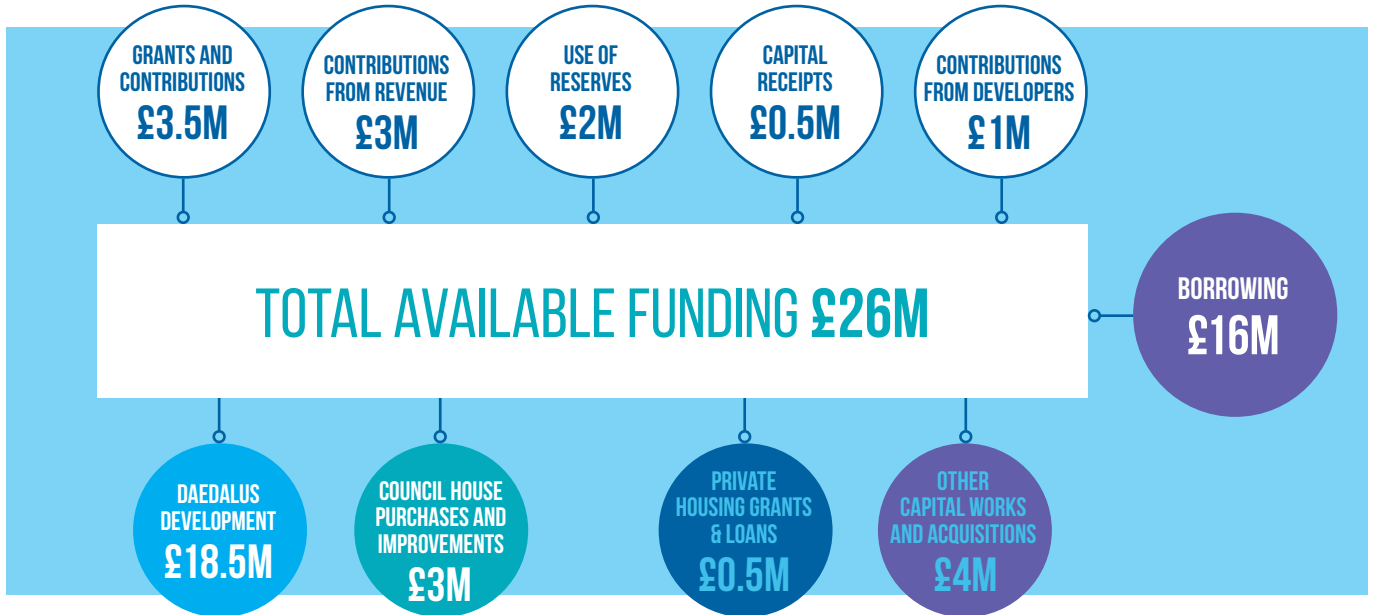
better understanding and flexibility so the team can meet customer individual need without incurring a noticeable drop in collection rates.

- Although the introduction of Universal credit for single people had commenced in March 2016, the Government halted the programme in December 2017. Changes are being made to the scheme which is expected to recommence in November 2018.
- It was another successful year for the Portchester Crematorium Joint Committee which generated a surplus leading to a contribution of £145,000 to the Council.



Capital finances 2017/18

The diagram below gives an overview of the Capital expenditure by the Council in the year and the sources of funding used:



Capital spending and significant projects

WELBORNE

In 2017/18 the Council finalised its Welborne Delivery Strategy. Over the last three years a working balance reserve of £720,000 had been made available to finance a number of initiatives targeted at resolving land ownership issues. Land ownership has now been successfully resolved and the project is moving forward.

Welborne has been designated a 'Garden Village' under the Government's new scheme and was one of the first fourteen announced. As part of this initiative the Council has successfully bid for:

- £495,000 garden village capacity funding (£8,000 of which was used in 2017/18)
- £9,000,000 contributions towards the motorway junctions works





SOLENT AIRPORT/DAEDALUS

The Council has continued to invest in Daedalus as it seeks to fulfil its commitment to preserve the future of the airfield. The Council's Vision is for Daedalus to become the premier location for marine, aviation, aerospace engineering and advanced manufacturing businesses in the south; contributing to 3,500 new local jobs over the next ten years.

During 2017/18 significant progress has been made:

- **Capital investment of £7 million, £2 million of which was provided by the Solent Local Enterprise Partnership, has funded the expansion of Fareham Innovation Centre, doubling its capacity. The Centre now benefits from 33 new offices, 5 new workshops and state-of-the-art conference facilities.**
- **Refurbishment of two industrial buildings and 11 hangars were completed at a cost of £10 million.**
- **Refurbishment of the air traffic control tower, the airport lounge, Café@05 and a new outdoor viewing area are nearing completion.**
- **The lease for land was granted to allow the National Grid's IFA2 development to proceed to construction stage. This will establish an electricity interconnector on the site, increasing clean energy security for the UK. The Borough will benefit from future land value income and the creation of Daedalus common.**
- **A funding agreement with the Solent Local Enterprise Partnership has been secured to retain business rate growth on Swordfish Business Park which will offset the borrowing costs of improved infrastructure on this part of the site.**
- **Provision of a fuel farm costing £400,000.**



Works have helped to put in place the building blocks necessary to achieve cost neutrality in 2018/19. The running costs of the airfield will be met by:

- **property rents and service charges (£322,000 in 2017/18)**
- **income from the Fareham Innovation Centre (£477,000 in 2017/18)**
- **flight movements have increased by 50%, generating ancillary income from fuel sales and parking charges**

At the same time, the costs recharged to airport tenants have remained relatively stable.

OTHER SIGNIFICANT CAPITAL

- **Completion of Hill Head Coastal Protection project. Funded through £740,000 of CIL contributions, the works undertaken at Hill Head will protect the coastline from the effects of extreme weather and sea level rise.**
- **Capital Funding of Westbury Manor Museum of £385,000 in partnership with the Hampshire Cultural Trust to improve the business plan for the museum in terms of being self-sustaining and reducing the Council's annual revenue contribution. The Museum reopened in summer 2017 as a vibrant new 'culture stop' and now features artist's studios together with a mix of interactive exhibits and digital media. The reception area and café experience has been transformed and now includes a shop selling local Hampshire produce.**
- **Holly Hill Play Area opened in 2017. Located next to Holly Hill Leisure Centre in Sarisbury, the park features a wide range of exciting facilities for children, young people and families to enjoy. The children's play area offers a variety of play equipment, suitable for all ages and abilities. It includes a zip wire, inclusive swing, huge climbing units and much more. For older children there is a multi-use games area (MUGA), which is a hard standing surface that can be used all year round to play outdoor sports. Items of outdoor gym equipment are also included within the site as well as a selection of seats, picnic tables and footpaths.**
- **The Council is investing in five fuel-efficient refuse trucks compliant with the Euro VI emissions regulations as part of the move to a cleaner greener vehicle fleet. These are being purchased over 2 years at a cost of £813,000.**
- **Negotiations were completed with a developer to secure a historic piece of land in the Borough for long term community benefit. Titchfield Park as it is currently called is due to open in the Summer of 2019.**
- **Detailed reviews of the Council's fire safety arrangements were undertaken in the wake of the Grenfell fire. Works to improve / update fire precautions in our housing properties have been carried out which were met from on-going works budgets.**

Outlook for the Future: risks and pressures

The medium-term Finance Strategy for 2018/19 recognises that the Council will continue to face financial pressures. Currently we are forecasting a **£500,000** deficit by 2020/21.

Particular risks and pressures include:

- There will be no Revenue Support Grant in the third year of the financial settlement and a potentially negative settlement in year four.
- The full impact of the Government's decision to reduce the number of years that New Homes Bonus grant is payable from six to four years will be felt in 2018/19 resulting in a possible additional loss of **£500,000**.
- Continued increase in Pension Fund liabilities.
- The need to carry out stock condition surveys of the Council's assets which are likely to lead to an increased spend to maintain our assets and meet future service needs. We have therefore been building up reserves to help cover this cost.
- Increases in national insurance premiums due to the change in limits for catastrophic injury settlements, and the increase in Insurance Premium Tax. We are also anticipating a local increase in our premiums for housing insurance cover following 2 fires in our properties.
- Future loss of land charges income (£118,000) when the service migrates to the national Local Land Charges (LLC) Service.
- Unknown financial impact of the increased risk of planning application appeals.
- Unknown impact of decisions being taken by Hampshire County Council to reduce their costs which may increase the costs for district councils.
- Unknown impact of any future economic uncertainty on income streams such as our investment properties and Building Control applications.

PREPARING FOR THE CHALLENGE

To mitigate these, the Council is implementing a series of finance strategy reviews across all Council services. The review will identify opportunities to reduce the funding gap by designing out costs or increasing income streams. This will include reviewing how we use technology to deliver services and embracing the savings that a cloud based ICT Strategy can offer. We will also continue our philosophy of using Systems Thinking to improve service efficiency and effectiveness.

Additional borrowing in 2018/19 will fund further development and investment in the borough and support delivery of the Corporate Strategy. This is likely to include enabling hotel provision in the town as well as new housing initiatives. Our Visions for the regeneration of Fareham and Portchester Town Centres were approved in 2017 which will allow these proposals also to be progressed.



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 2018. 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 2017/18, which in turn is underpinned by International Financial Reporting Standards.

The Core Financial Statements are:

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <h3>COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</h3> | <h3>BALANCE SHEET</h3> |
| <ul style="list-style-type: none"> • 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. | <ul style="list-style-type: none"> • A snapshot of the Council’s assets, liabilities, cash balances and reserves at the year-end date. |
| <h3>MOVEMENT IN RESERVES STATEMENT</h3> | <h3>CASH FLOW STATEMENT</h3> |
| <ul style="list-style-type: none"> • 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. | <ul style="list-style-type: none"> • 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:

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <h3>HOUSING REVENUE ACCOUNT</h3> | <h3>COLLECTION FUND</h3> |
| <ul style="list-style-type: none"> • Separately identifies the Council’s statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989. | <ul style="list-style-type: none"> • 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 Director of Finance and Resources;
- 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 Director of Finance and Resources' responsibilities

The Director of Finance and Resources is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA 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 Director of Finance and Resources 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 Director of Finance and Resources has also:

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

Andrew Wannell CPFA

Director of Finance and Resources

Date: 31 July 2018.



Approval of the Statement of Accounts

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

Councillor Jonathan Butts

Chairman of the Audit and Governance Committee

Date: 31 July 2018.





CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

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

| 2016/17 | | | 2017/18 | | | |
|--------------------------------------------------------|-----------------------|------------------|--------------------------------------------------------------------------|--------------------|-----------------------|------------------|
| Gross Exp £'000 | Gross Income £'000 | Net Exp £'000 | Note | Gross Exp £'000 | Gross Income £'000 | Net Exp £'000 |
| 959 | (430) | 529 | Licensing and Regulatory Affairs Committee | 847 | (451) | 396 |
| 1,136 | (613) | 523 | Planning Committee | 1,399 | (662) | 737 |
| 2,660 | (1,684) | 976 | Housing Portfolio* | 2,726 | (1,846) | 880 |
| (3,972) | (12,540) | (16,512) | Housing Revenue Account** | 10,433 | (12,421) | (1,988) |
| 4,223 | (1,533) | 2,690 | Leisure and Community Portfolio | 5,683 | (1,678) | 4,005 |
| 2,448 | (2,749) | (301) | Planning and Development Portfolio | 2,208 | (2,469) | (261) |
| 24,939 | (22,012) | 2,927 | Policy and Resources Portfolio | 27,270 | (21,382) | 5,888 |
| 2,488 | (521) | 1,967 | Health & Public Protection Portfolio* | 2,741 | (564) | 2,177 |
| 6,804 | (1,836) | 4,968 | Streetscene Portfolio | 6,880 | (1,892) | 4,988 |
| 41,685 | (43,918) | (2,233) | Cost of Services | 60,187 | (43,365) | 16,822 |
| Other Operating Expenditure | | | | | | |
| | (399) | | (Gain)/loss on disposal of assets | | | (596) |
| | 179 | | Housing capital receipts | | | 214 |
| Financing and Investment Income and Expenditure | | | | | | |
| | 1,405 | | Interest payable | | | 1,404 |
| | (272) | | Interest receivable | | | (79) |
| | 1,630 | | Pension net interest cost | 16 | | 1,420 |
| | | | Changes in fair value of investment properties | 18 | | (2,287) |
| | (3,283) | | Investment properties rental and expenses | 18 | | (3,279) |
| Taxation and Non-Specific Grant Income | | | | | | |
| | (6,121) | | Council tax income | | | (6,373) |
| | (2,494) | | Non-domestic rates income | | | (2,586) |
| | (7,075) | | Grants and contributions not distributable to services | 10 | | (7,239) |
| | (16,955) | | (Surplus)/Deficit on Provision of Services | | | (2,579) |
| | (20,730) | | (Surplus)/deficit on revaluation of property, plant and equipment assets | | | (606) |
| | - | | (Surplus)/deficit on revaluation of available-for-sale financial assets | | | 156 |
| | 7,346 | | Pension liability re-measurements | 16 | | 299 |
| | (13,384) | | Other Comprehensive Income and Expenditure | | | (151) |
| | (30,339) | | Total Comprehensive Income and Expenditure | | | (2,730) |

* In 2017/8 the Housing Portfolio was renamed from the Health & Housing Portfolio and the Health & Public Protection Portfolio was renamed from the Public Protection Portfolio. The services that report to each portfolio has not changed.

** A revaluation gain of £12.9 million in 2016/17 has been charged to the Housing Revenue Account under gross expenditure. See note 17 and the Housing Revenue Account note 7 for more details.

Balance Sheet

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

| 31 March 2017 | | | 31 March 2018 |
|------------------|--------------------------------------|------|------------------|
| £'000 | | Note | £'000 |
| | Property, Plant and Equipment | 17 | |
| 120,144 | - Council dwellings | | 117,780 |
| 81,554 | - Other land and buildings | | 92,915 |
| 835 | - Infrastructure | | 1,168 |
| 2,769 | - Vehicles, plant and equipment | | 3,441 |
| 345 | - Community assets | | 343 |
| 444 | - Assets under construction | | 3,944 |
| 198 | Heritage assets | | 189 |
| 54,413 | Investment properties | 18 | 58,973 |
| 34 | Intangible assets | | 27 |
| - | Long term investments | 29 | 1,844 |
| 69 | Long term debtors | | 133 |
| 260,805 | Total long term assets | | 280,757 |
| 9,068 | Short term investments | | 7,007 |
| 341 | Assets held for sale | 19 | - |
| 124 | Inventories | | 87 |
| 6,451 | Short term debtors | 22 | 8,474 |
| 236 | Payments in advance | | 230 |
| 6,006 | Cash and cash equivalents | 21 | 3,005 |
| 22,226 | Current assets | | 18,803 |
| (235) | Bank overdraft | 21 | (334) |
| (1,835) | Short term borrowing | 29 | (12,017) |
| (9,760) | Short term creditors | 23 | (12,158) |
| (39) | Depositors | | (45) |
| (3,008) | Provisions | 24 | (1,874) |
| (14,877) | Current liabilities | | (26,428) |
| (7,525) | Receipts in advance - capital grants | 25 | (4,468) |
| (334) | Receipts in advance - revenue grants | 25 | (2,210) |
| (40,000) | Long term borrowing | 29 | (40,000) |
| (3,200) | Long term creditors | | (3,735) |
| (58,271) | Pension scheme liability | 16 | (61,165) |
| (109,330) | Long term liabilities | | (111,578) |
| 158,824 | Net assets | | 161,554 |
| 31,853 | Usable reserves | | 33,924 |
| 126,971 | Unusable reserves | 28 | 127,630 |
| 158,824 | Total Reserves | | 161,554 |



Movement in Reserves Statement

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

| | General Fund Balance £'000 | Ear-marked Reserves £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Reserves £'000 |
|--------------------------------------------------------------------------|-------------------------------|------------------------------|----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|--------------------------------|----------------------------|-------------------------|
| Balance at 31 March 2017 | 6,950 | 15,335 | 2,370 | 7 | 3,677 | 3,514 | 31,853 | 126,971 | 158,824 |
| Movement in reserves in year | | | | | | | | | |
| Total Comprehensive Income and Expenditure | 2,209 | - | 370 | - | - | - | 2,579 | 151 | 2,730 |
| Adjustments between accounting basis and funding basis under regulations | (3,505) | - | 327 | 977 | 942 | 751 | (508) | 508 | - |
| Transfers to/(from) earmarked reserves | 3,010 | (1,754) | (1,243) | - | - | (13) | - | - | - |
| Increase/(decrease) in year | 1,714 | (1,754) | (546) | 977 | 942 | 738 | 2,071 | 659 | 2,730 |
| Balance at 31 March 2018 | 8,664 | 13,581 | 1,824 | 984 | 4,619 | 4,252 | 33,924 | 127,630 | 161,554 |

| | General Fund Balance £'000 | Ear-marked Reserves £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Reserves £'000 |
|--------------------------------------------------------------------------|-------------------------------|------------------------------|----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|--------------------------------|----------------------------|-------------------------|
| Balance at 31 March 2016 | 6,038 | 20,000 | 3,688 | - | 4,631 | 1,348 | 35,705 | 92,780 | 128,485 |
| Movement in reserves in year | | | | | | | | | |
| Total Comprehensive Income and Expenditure | 1,638 | - | 15,317 | - | - | - | 16,955 | 13,384 | 30,339 |
| Adjustments between accounting basis and funding basis under regulations | (3,966) | - | (18,059) | (17) | (931) | 2,166 | (20,807) | 20,807 | - |
| Transfers to/(from) earmarked reserves | 3,240 | (4,665) | 1,424 | 24 | (23) | - | - | - | - |
| Increase/(decrease) in year | 912 | (4,665) | (1,318) | 7 | (954) | 2,166 | (3,852) | 34,191 | 30,339 |
| Balance at 31 March 2017 | 6,950 | 15,335 | 2,370 | 7 | 3,677 | 3,514 | 31,853 | 126,971 | 158,824 |

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).

| 2016/17 £'000 | | Note | 2017/18 £'000 |
|------------------|--------------------------------------------------------------------------------------------------------------------------------------|------|------------------|
| 16,955 | Net surplus/(deficit) on the provision of services | | 2,579 |
| (6,733) | Adjustments to surplus/(deficit) on the provision of services for non-cash movements | 34 | 13,187 |
| 16,739 | Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities | 35 | (5,815) |
| 26,961 | Net Cash Flows from Operating Activities | | 9,951 |
| | Investing Activities | | |
| (26,315) | Purchase of property, plant and equipment, investment property and intangible assets | | (25,103) |
| - | - Purchase of short and long term investments | | - |
| 1,205 | Proceeds from property, plant and equipment, investment property and intangible assets | | 1,509 |
| - | - Proceeds from short and long term investments | | - |
| 3,299 | Other receipts from investing activities | | 850 |
| (21,811) | Net Cash Flows from Investing Activities | | (22,744) |
| | Financing Activities | | |
| 209 | Cash receipts of short and long term borrowing | | 15,478 |
| 1,421 | Other receipts from financing activities | | (490) |
| (3,201) | Repayments of short and long term borrowing | | (5,295) |
| (1,571) | Net Cash Flows from Financing Activities | | 9,693 |
| 3,579 | Net increase/(decrease) in cash and cash equivalents | | (3,100) |
| 2,192 | Cash and cash equivalents at the beginning of the reporting period | 21 | 5,771 |
| 5,771 | Cash and cash equivalents at the end of the reporting period | | 2,671 |



NOTES TO THE ACCOUNTS

Note 1 Expenditure and Funding Analysis

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

| 2016/17 | | | 2017/18 | | | |
|-----------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------|----------------|
| 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 | |
| 524 | 5 | 529 | Licensing and Regulatory Affairs Committee | 379 | 17 | 396 |
| 500 | 23 | 523 | Planning Committee | 653 | 84 | 737 |
| 261 | 715 | 976 | Housing Portfolio | 251 | 629 | 880 |
| 1,105 | (17,617) | (16,512) | Housing Revenue Account | (3,274) | 1,286 | (1,988) |
| 1,367 | 1,323 | 2,690 | Leisure and Community Portfolio | 1,382 | 2,623 | 4,005 |
| (354) | 53 | (301) | Planning and Development Portfolio | (446) | 185 | (261) |
| (398) | 3,325 | 2,927 | Policy and Resources Portfolio | 45 | 5,843 | 5,888 |
| 1,925 | 42 | 1,967 | Health and Public Protection Portfolio | 1,964 | 213 | 2,177 |
| 4,208 | 760 | 4,968 | Streetscene Portfolio | 4,173 | 815 | 4,988 |
| 9,138 | (11,371) | (2,233) | Cost of Services | 5,127 | 11,695 | 16,822 |
| (4,236) | (10,654) | (14,721) | Other Income and Expenditure | (4,543) | (14,858) | (19,401) |
| 4,902 | (22,025) | (16,954) | (Surplus)/Deficit | 584 | (3,163) | (2,579) |
| (29,726) | | | Opening General Fund and HRA Balance at 1 April | (24,653) | | |
| 410 | | | Less Surplus/(Deficit) on General Fund and HRA Balance in Year | (1,170) | | |
| 4,663 | | | Less Transfers (to)/from Earmarked Reserves | 1,754 | | |
| (24,653) | | | Closing General Fund and HRA Balance at 31 March | (24,069) | | |

Note 2 Note to the Expenditure and Funding Analysis

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

| 2017/18 | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------------|----------------------------------------|------------------------------------|
| Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes (1) £'000 | Net Changes for the Pension Adjustments (2) £'000 | Other Differences (3) £'000 | Total Adjustments £'000 |
| Licensing and Regulatory Affairs Committee | - | 17 | - | 17 |
| Planning Committee | - | 85 | (1) | 84 |
| Housing Portfolio | 564 | 66 | (1) | 629 |
| Housing Revenue Account | 3,447 | 303 | (2,464) | 1,286 |
| Leisure and Community Portfolio | 2,923 | 87 | (387) | 2,623 |
| Planning and Development Portfolio | 91 | 94 | - | 185 |
| Policy and Resources Portfolio | (518) | 310 | 6,051 | 5,843 |
| Health and Public Protection Portfolio | 131 | 81 | 1 | 213 |
| Streetscene Portfolio | 564 | 251 | - | 815 |
| Net Cost of Services | 7,202 | 1,294 | 3,199 | 11,695 |
| Other income and expenditure from the Expenditure and Funding Analysis | (2,960) | 1,420 | (13,318) | (14,858) |
| Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services | 4,242 | 2,714 | (10,119) | (3,163) |
| 2016/17 | | | | |
| Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes (1) £'000 | Net Changes for the Pension Adjustments (2) £'000 | Other Differences (3) £'000 | Total Adjustments £'000 |
| Licensing and Regulatory Affairs Committee | - | 5 | - | 5 |
| Planning Committee | - | 23 | - | 23 |
| Housing Portfolio | 695 | 20 | - | 715 |
| Housing Revenue Account | (15,897) | 42 | (1,762) | (17,617) |
| Leisure and Community Portfolio | 1,418 | 21 | (116) | 1,323 |
| Planning and Development Portfolio | 27 | 26 | - | 53 |
| Policy and Resources Portfolio | 1,532 | 122 | 1,671 | 3,325 |
| Health and Public Protection Portfolio | 19 | 23 | - | 42 |
| Streetscene Portfolio | 693 | 67 | - | 760 |
| Net Cost of Services | (11,513) | 349 | (207) | (11,371) |
| Other income and expenditure from the Expenditure and Funding Analysis | (9,736) | 1,382 | (2,300) | (10,654) |
| Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services | (21,249) | 1,731 | (2,507) | (22,025) |

Notes

1) Adjustments for Capital Purposes:

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

Other Income and Expenditure from the Expenditure and Funding Analysis

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

2) Net Changes for the Pension Adjustments:

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

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

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

3) Other Differences:

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

Note 3 Expenditure and Income Analysed by Nature

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

| Expenditure/Income | 2017/18 £'000 | 2016/17 £'000 |
|---------------------------------------------------|------------------|------------------|
| Expenditure | | |
| Employee benefits expenses | 14,517 | 13,102 |
| Other services expenses | 44,578 | 41,885 |
| Support service recharges | (582) | (1,523) |
| Interest payments | 1,795 | 1,795 |
| Depreciation, amortisation and impairment | 1,001 | (8,566) |
| Payments to housing receipts pool | 214 | 179 |
| Gain/loss on the disposal of assets | (596) | (399) |
| Total Expenditure | 60,927 | 46,473 |
| Income | | |
| Fees, charges and other service income | (26,302) | (26,487) |
| Interest and investment income | (419) | (551) |
| Income from council tax and non-domestic rates | (8,959) | (8,615) |
| Government grants and contributions | (27,826) | (27,775) |
| Total Income | (63,506) | (63,428) |
| (Surplus)/Deficit on Provision of Services | (2,579) | (16,955) |

Note 4 Segmental Income

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

| Services | 2017/18 £'000 | 2016/17 £'000 |
|---------------------------------------------------|------------------|------------------|
| Licensing and Regulatory Affairs Committee | 451 | 430 |
| Planning Committee | 662 | 613 |
| Housing Portfolio | 730 | 712 |
| Housing Revenue Account | 12,279 | 12,450 |
| Leisure and Community Portfolio | 1,678 | 1,533 |
| Planning and Development Portfolio | 2,330 | 3,213 |
| Policy and Resources Portfolio | 5,970 | 5,769 |
| Health and Public Protection Portfolio | 564 | 521 |
| Streetscene Portfolio | 1,892 | 1,836 |
| Total Income Analysed on a Segmental Basis | 26,556 | 27,077 |

Note 5 New Accounting Standards yet to be adopted

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2018/19 Code. New standards introduced in the 2018/19 Code that apply from 1 April 2018 are:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

IFRS 9 includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a forward looking 'expected loss' model for impairment rather than the current 'incurred loss' model. The full impact is still currently being assessed but it is anticipated that, due to the classification and security of the majority of the Council's financial instruments, it is unlikely to have a material impact on the financial statements.

IFRS 15 introduces a five-step process for recognising revenue based on the transfer of control rather than the current transfer of risk and rewards. This new approach is not expected to have a material impact on the financial statements.

Amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value and only apply to group accounts. Amendments to IAS 7 may require additional disclosures around changes in liabilities arising from financing activities. Neither of these amendments is considered to have a material impact on the financial statements.

Note 6 Critical Judgements in Applying Accounting Policies

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

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

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

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

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

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

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

Group Accounts - The Council has made a judgement not to produce Group Accounts. The Portchester Crematorium Joint Committee (PCJC) is classified as 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 7 Assumptions made about the future and other sources of estimation uncertainty

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

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

| Item | Uncertainties | Effect if actual results differ from assumptions |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the service being delivered by the asset and the level of repairs and maintenance that will be incurred in relation to individual assets. | If the useful life of assets is reduced, depreciation increases resulting in a fall in the carrying value of assets. It is estimated that the annual depreciation charge for all assets would increase by £287,200 for every year that useful lives had to be reduced. |
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | The effects on the net pensions liability of changes in individual assumptions can be measured. Note 16 provides details of the impact of changes to the key assumptions. |
| Financial Assets and Liabilities | Estimation of fair values for financial assets and liabilities are based on current lending rates for equivalent loans and investments. These are provided by the Council's treasury advisors. | Fair value estimates do not apply to instruments which mature within the next 12 months. The values are disclosed as a note to the accounts and do not impact on the primary statements. |
| Bad Debt Provision | The Council has made allowances for doubtful debts of £1.87 million in 2017/18 (2016/17 £1.66 million) based on what it believes to be a prudent but realistic level. | If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £93,500 (2016/17 £83,000). |
| Provisions | The Council has made provisions for outstanding insurance claims, accumulated absences and land charges. The calculation for accumulated absences is based on an average of annual leave accrued over 4 years and the total of flexi leave at year end. | A 10% increase or decrease in provisions would require an adjustment of £26,000 (2016/17 £29,600) |
| Business Rates Appeals Provision | Under the business rates retention scheme, which came into effect on 1 April 2013, the Council has assumed some liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. The estimate for the provision is based on software modelling and the latest list of outstanding rating list proposals provided by the Valuation Office Agency. The estimate looks at changes in comparable properties market trends and other valuation issues including the potential for certain proposals to be withdrawn. | The Council has made an allowance of £4 million (2016/17 £6.8 million) for these refunds within the Collection Fund. The Council's share of the provision is £1.6 million (2016/17 £2.7 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 £161,500 (2016/17 £271,000). |

Note 8 Adjustments between Accounting Basis and Funding Basis under Regulation

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

| 2017/18 | General Fund Balance £'000 | Earmarked Reserves £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | Unusable Reserves £'000 |
|------------------------------------------------------------------|-------------------------------|-----------------------------|----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Capital Adjustment Account Adjustments | | | | | | | |
| Depreciation and impairment of non-current assets | 2,628 | - | 2,578 | - | - | - | (5,206) |
| Revaluation losses on property, plant and equipment | 2,569 | - | 864 | - | - | - | (3,433) |
| Revaluation of investment properties | (2,287) | - | - | - | - | - | 2,287 |
| Amortisation of intangible assets | 2 | - | 5 | - | - | - | (7) |
| Capital grants and contributions applied | (4,293) | - | - | - | - | (760) | 5,053 |
| Revenue Expenditure funded from capital under statute | 520 | - | - | - | - | - | (520) |
| Property written out on disposal | 21 | - | 881 | - | - | - | (902) |
| Statutory provision for the financing of capital investment | (415) | - | - | - | - | - | 415 |
| Capital expenditure charged to the General Fund and HRA Balances | (1,722) | - | (461) | - | - | - | 2,183 |
| Capital Grants Unapplied Account Adjustments | | | | | | | |
| Capital grants and contributions unapplied | (1,511) | - | - | - | - | 1,511 | - |
| Capital Receipts Reserve Adjustments | | | | | | | |
| Proceeds from disposal of property | - | - | (1,497) | - | 1,497 | - | - |
| Capital receipts applied | - | - | - | - | (358) | - | 358 |
| Housing capital receipts | (6) | - | - | - | 17 | - | (11) |
| Payments to the Government housing capital receipts pool | 214 | - | - | - | (214) | - | - |
| Major Repairs Reserve Adjustments | | | | | | | |
| Depreciation re-credited to HRA | - | - | (2,577) | 2,577 | - | - | - |
| Major Repairs Reserve to finance new capital expenditure | - | - | - | (1,600) | - | - | 1,600 |
| Pension Reserve Adjustments | | | | | | | |
| Net charges for retirement benefits | 4,153 | - | 807 | - | - | - | (4,960) |
| Employer's contribution to Pension Fund/directly to pensioners | (2,092) | - | (273) | - | - | - | 2,365 |
| Collection Fund Adjustment Account | | | | | | | |
| Collection Fund adjustment | (1,286) | - | - | - | - | - | 1,286 |
| Total Adjustments | (3,505) | - | 327 | 977 | 942 | 751 | 508 |

| 2016/17 | General Fund Balance £'000 | Ear-marked Reserves £'000 | Housing Revenue Account £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | Unusable Reserves £'000 |
|------------------------------------------------------------------------------------------|-------------------------------|------------------------------|----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Capital Adjustment Account Adjustments | | | | | | | |
| Depreciation and impairment of non-current assets | 2,360 | - | 1,569 | - | - | - | (3,929) |
| Revaluation losses on property, plant and equipment | (660) | - | (12,932) | - | - | - | 13,592 |
| Revaluation of investment properties | 1,724 | - | (16) | - | - | - | (1,708) |
| Amortisation of intangible assets | 18 | - | 5 | - | - | - | (23) |
| Capital grants and contributions applied | (1,584) | - | (440) | - | - | (370) | 2,394 |
| Revenue Expenditure funded from capital under statute | 618 | - | - | - | - | - | (618) |
| Property written out on disposal | 55 | - | 594 | - | - | - | (649) |
| Statutory provision for the financing of capital investment | (159) | - | - | - | - | - | 159 |
| Capital expenditure charged to the General Fund and HRA Balances | (2,717) | - | (4,538) | - | - | - | 7,255 |
| Capital Grants Unapplied Account Adjustments | | | | | | | |
| Capital grants and contributions unapplied | (2,536) | - | - | - | - | 2,536 | - |
| Capital Receipts Reserve Adjustments | | | | | | | |
| Proceeds from disposal of property | - | - | (1,047) | - | 1,047 | - | - |
| Capital receipts applied | - | - | - | - | (1,986) | - | 1,986 |
| Housing capital receipts | (184) | - | - | - | 187 | - | (3) |
| Payments to the Government housing capital receipts pool | 179 | - | - | - | (179) | - | - |
| Major Repairs Reserve Adjustments | | | | | | | |
| Depreciation re-credited to HRA Major Repairs Reserve to finance new capital expenditure | - | - | (1,568) | 1,568 | - | - | - |
| | - | - | - | (1,585) | - | - | 1,585 |
| Pension Reserve Adjustments | | | | | | | |
| Net charges for retirement benefits | 3,441 | - | 689 | - | - | - | (4,130) |
| Employer's contribution to Pension Fund/directly to pensioners | (2,024) | - | (375) | - | - | - | 2,399 |
| Collection Fund Adjustment Account | | | | | | | |
| Collection Fund adjustment | (2,497) | - | - | - | - | - | 2,497 |
| Total Adjustments | (3,966) | - | (18,059) | (17) | (931) | 2,166 | 20,807 |

Note 9 Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Director of Finance and Resources on 31 July 2018. 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 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 10 Grant Income

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

| Service Specific Revenue Grants and Contributions (included in Cost of Services) | 2017/18 £'000 | 2016/17 £'000 |
|---------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| Department for Works and Pensions | | |
| Rent Allowances Subsidy | 12,146 | 12,809 |
| Rent Rebates | 6,638 | 6,717 |
| Housing and Council Tax Benefit Administration | 206 | 222 |
| Discretionary Housing Payments | 154 | 96 |
| New Burdens Grants | 80 | 49 |
| Ministry for Housing, Communities and Local Government | | |
| Disabled Facilities Grant | 506 | 568 |
| NNDR Collection Allowance | 138 | 142 |
| Preventing Homelessness Grants | 237 | - |
| Council Tax Support Administration | 77 | 80 |
| Local Plan Grants | 50 | - |
| Homes England | | |
| Welborne Capacity Funding | - | 229 |
| Daedalus Development | 265 | 637 |
| Department for Environment, Food and Rural Affairs | | |
| Air Quality Feasibility Study Grant | 100 | - |
| Environment Agency | | |
| Coast Monitoring Grant | 100 | 214 |
| Other | | |
| Portchester Crematorium | 145 | 130 |
| S106 Developer Contributions | 116 | 108 |
| Whiteley Joint Fund | 6 | 116 |
| Hampshire County Council One Public Estate Grant | 50 | 55 |
| Total | 21,014 | 22,172 |
| Credited to Taxation and Non-Specific Grant Income | | |
| | 2017/18 £'000 | 2016/17 £'000 |
| Ministry for Housing, Communities and Local Government | | |
| New Homes Bonus | 1,578 | 2,068 |
| Revenue Support Grant | 288 | 828 |
| Transition Grant | 74 | 74 |
| Homes England | | |
| Daedalus Development | 1,262 | - |
| National Affordable Housing Programme | - | 440 |
| Other | | |
| Solent Local Enterprise Partnership | 1,790 | 210 |
| Community Infrastructure Levy | 1,511 | 2,536 |
| Developer Contributions | 448 | 785 |
| Winifred Cocks Bequest | 288 | - |
| Public Health England | - | 134 |
| Total | 7,239 | 7,075 |

Note 11 Audit Fees Payable

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

| | 2017/18 £'000 | 2016/17 £'000 |
|-------------------------------------------|------------------|------------------|
| External audit services | 50 | 48 |
| Certification of grant claims and returns | 16 | 11 |
| Total | 66 | 59 |

Note 12 Members' Allowances

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

| | 2017/18 £'000 | 2016/17 £'000 |
|---------------------------------------|------------------|------------------|
| Basic Allowances | 211 | 209 |
| Special Responsibility Allowances | 159 | 156 |
| Superannuation and National Insurance | 18 | 18 |
| Travelling and Subsistence Allowances | 5 | 5 |
| Conference Expenses | 1 | 1 |
| Internet Rental Allowance | 2 | 2 |
| Total | 396 | 391 |

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

Note 13 Remuneration of Staff

The number of employees, including senior officers (see note 14), whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 are set out in the table below.

| Remuneration Band | 2017/18 Number of Employees | 2016/17 Number of Employees |
|---------------------|-----------------------------------|-----------------------------------|
| £50,000 - £54,999 | 3 | 3 |
| £55,000 - £59,999 | 2 | 1 |
| £60,000 - £64,999 | 2 | 4 |
| £65,000 - £69,999 | 5 | 4 |
| £70,000 - £74,999 | 2 | 3 |
| £75,000 - £79,999 | 3 | - |
| £80,000 - £84,999 | 1 | - |
| £85,000 - £89,999 | - | 1 |
| £90,000 - £94,999 | 2 | 2 |
| £95,000 - £99,999 | 2 | - |
| £140,000 - £144,999 | 1 | - |
| £145,000 - £149,999 | - | 1 |

Note 14 Senior Officer Emoluments

| Post Title | Salary inc fees and allowances £ | Expense Allowances £ | Compensation for loss of office £ | Total remuneration excl pension contributions £ | Pension contributions £ | Total remuneration incl pension contributions £ |
|------------------------------------------|-------------------------------------|-------------------------|--------------------------------------|----------------------------------------------------|----------------------------|----------------------------------------------------|
| 2017/18 | | | | | | |
| Chief Executive Officer (1) | 139,786 | 298 | - | 140,084 | 17,979 | 158,063 |
| Director of Planning and Regulation | 89,784 | 411 | - | 90,195 | 12,960 | 103,155 |
| Director of Finance and Resources | 97,617 | - | - | 97,617 | 13,895 | 111,512 |
| Managing Director of Fareham Housing (2) | 96,417 | 186 | - | 96,603 | 13,595 | 110,198 |
| | 423,604 | 895 | - | 424,499 | 58,429 | 482,928 |
| 2016/17 | | | | | | |
| Chief Executive Officer (1) | 144,577 | 604 | - | 145,181 | 16,539 | 161,720 |
| Director of Planning and Regulation | 88,895 | 145 | - | 89,040 | 11,645 | 100,685 |
| Director of Finance and Resources | 92,120 | 887 | - | 93,007 | 12,133 | 105,140 |
| Director of Operations | 92,120 | 309 | - | 92,429 | 12,068 | 104,497 |
| | 417,712 | 1,945 | - | 419,657 | 52,385 | 472,042 |

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 Directors. Roles and responsibilities can be found on the Council's website.

- (1) Includes pay in respect of the Returning Officer role in elections.
 (2) With effect from 1 November 2017.

Note 15 Termination Benefits

The Council terminated the contracts of a number of employees in 2017/18, incurring liabilities of £593,040 (£204,685 in 2016/17). 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 | |
|---------------------|-----------------------------------|----------|----------------------------|-----------|-------------------------------|-----------|-----------------------------|-----------------|
| | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
| £0 - £20,000 | - | - | 14 | 14 | 14 | 14 | £76,810 | £67,238 |
| £20,001 - £40,000 | 1 | 1 | 2 | 1 | 3 | 2 | £84,503 | £62,816 |
| £40,001 - £60,000 | 1 | - | - | - | 1 | - | £53,414 | - |
| £60,001 - £80,000 | 1 | 1 | - | - | 1 | 1 | £60,460 | £74,631 |
| £140,001 - £160,000 | 1 | - | - | - | 1 | - | £154,105 | - |
| £160,001 - £180,000 | 1 | - | - | - | 1 | - | £163,748 | - |
| Total | 5 | 2 | 16 | 15 | 21 | 17 | £593,040 | £204,685 |

Note 16 Pensions

Participation in Pension Schemes

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

The disclosures below relate to the following schemes:

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

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

Contributions for the Accounting Period Ending 31 March 2019

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2019 are estimated to be £2.62 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 2019, 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 | |
|-----------------------------------------------------------------------------------|-----------------|---------------|-------------------|------------|
| | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
| | £'000 | £'000 | £'000 | £'000 |
| Comprehensive Income and Expenditure Statement: | | | | |
| Cost of Services | | | | |
| - Current service cost | 3,480 | 2,450 | - | - |
| - Past service cost | 60 | 50 | - | - |
| Financing and Investment Income and Expenditure | | | | |
| - Interest net defined benefit liability | 1,350 | 1,530 | 70 | 100 |
| (Surplus)/deficit on the provision of services | 4,890 | 4,030 | 70 | 100 |
| Other Charges to the Comprehensive Income and Expenditure Statement: | | | | |
| Remeasurement of the net defined benefit liability comprising | | | | |
| - Return on plan assets (in excess of)/below that recognised in net interest | (560) | (20,108) | - | - |
| Actuarial (gains)/losses due to | | | | |
| - Changes in financial assumptions | (160) | 29,120 | - | 263 |
| - Changes in demographic assumptions | - | (2,080) | - | (80) |
| - Liability experience | 990 | 210 | 29 | 20 |
| Total amount recognised in Other Comprehensive Income and Expenditure | 270 | 7,142 | 29 | 203 |
| Total Amount Recognised | 5,160 | 11,172 | 99 | 303 |
| Movement in Reserves Statement: | | | | |
| Reversal of net charges made to the surplus/(deficit) in accordance with the Code | (4,890) | (4,030) | (70) | (100) |
| Actual amount charged against the General Fund | | | | |
| Balance for pensions in year: | | | | |
| Employers' contribution payable to scheme | (2,160) | (2,190) | - | - |
| Retirement benefits payable to pensioners | - | - | (205) | (209) |

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 | |
|--------------------------------------------------|-----------------|-----------------|-------------------|----------------|
| | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
| | £'000 | £'000 | £'000 | £'000 |
| Fair value of assets | 110,941 | 109,690 | - | - |
| Present value of defined benefit obligation | 169,150 | 164,900 | 2,955 | 3,061 |
| Funded status | (58,209) | (55,210) | - | - |
| Liability recognised on the Balance Sheet | (58,209) | (55,210) | (2,955) | (3,061) |

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

| | |
|---------------------|-----|
| Active members | 29% |
| Deferred Pensioners | 16% |
| Pensioners | 55% |

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

| | Funded Benefits | | Unfunded Benefits | |
|----------------------------------------------------------------------------|------------------|------------------|-------------------|------------------|
| | 2017/18 £'000 | 2016/17 £'000 | 2017/18 £'000 | 2016/17 £'000 |
| Opening balance at 1 April | 109,690 | 88,512 | - | - |
| Interest income | 2,720 | 2,980 | - | - |
| Remeasurement gains and (losses) | | | | |
| - Return on plan assets, excluding amount included in net interest expense | 560 | 20,108 | - | - |
| Contributions by the employer | 2,161 | 2,190 | 205 | 209 |
| Contributions by participants | 740 | 720 | - | - |
| Benefits paid | (4,930) | (4,820) | (205) | (209) |
| Closing balance at 31 March | 110,941 | 109,690 | - | - |

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

| | Funded Benefits | | Unfunded Benefits | |
|-------------------------------------------------|------------------|------------------|-------------------|------------------|
| | 2017/18 £'000 | 2016/17 £'000 | 2017/18 £'000 | 2016/17 £'000 |
| Opening balance at 1 April | 164,900 | 134,740 | 3,061 | 2,967 |
| Current service cost | 3,480 | 2,450 | - | - |
| Interest expense | 4,070 | 4,510 | 70 | 100 |
| Contribution by participants | 740 | 720 | - | - |
| Remeasurement gains and (losses) on liabilities | | | | |
| - Financial assumptions | (160) | 29,120 | - | 263 |
| - Demographic assumptions | - | (2,080) | - | (80) |
| - Experience | 990 | 210 | 29 | 20 |
| Benefits paid | (4,930) | (4,820) | (205) | (209) |
| Past service cost | 60 | 50 | - | - |
| Closing balance at 31 March | 169,150 | 164,900 | 2,955 | 3,061 |

Local Government Pension Scheme Assets Comprised

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

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

| | Asset split at 31 March 2018 | | | Asset split at 31 March 2017 |
|------------------|---------------------------------|---------------|--------------|---------------------------------|
| | % Quoted | % Unquoted | % Total | % Total |
| Equities | 58.5 | 4.1 | 62.6 | 60.3 |
| Property | 0.7 | 6.3 | 7.0 | 6.5 |
| Government Bonds | 23.5 | 0.2 | 23.7 | 25.2 |
| Corporate Bonds | 1.0 | - | 1.0 | 1.4 |
| Cash | 2.6 | - | 2.6 | 3.4 |
| Other | 0.2 | 2.9 | 3.1 | 3.2 |
| Total | 86.5 | 13.5 | 100.0 | 100.0 |

Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries. Estimates for the Hampshire County Council Fund are based on the latest full valuation of the scheme as at 31 March 2016 for funded benefits and 31 March 2018 for unfunded benefits.

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

| | Funded Benefits 31 March | | Unfunded Benefits 31 March | |
|----------------------------------------------------------|-----------------------------|---------------|-------------------------------|---------------|
| | 2018 % p.a | 2017 % p.a | 2018 % p.a | 2017 % p.a |
| Mortality assumptions: | | | | |
| Future lifetime from age 65 (aged 65 at accounting date) | | | | |
| Men | 24.1 | 24.0 | 24.1 | 24.0 |
| Women | 27.2 | 27.0 | 27.2 | 27.0 |
| Future lifetime from age 65 (aged 45 at accounting date) | | | | |
| Men | 26.2 | 26.0 | n/a | n/a |
| Women | 29.4 | 29.3 | n/a | n/a |
| Principal financial assumptions (% per annum) | | | | |
| Discount rate | 2.6 | 2.5 | 2.6 | 2.5 |
| RPI inflation | 3.2 | 3.1 | 3.2 | 3.1 |
| CPI inflation | 2.1 | 2.0 | 2.1 | 2.0 |
| Pension increases | 2.1 | 2.0 | 2.1 | 2.0 |
| Pension accounts revaluation rate | 2.1 | 2.0 | n/a | n/a |
| Salary increases | 3.6 | 3.5 | 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 2018 and the projected service cost for the year ending 31 March 2019 is set out in the table below.

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

Discount rate assumption

| | +0.1% p.a. | Base Figure | -0.1% p.a. |
|------------------------------------------------|-------------------|--------------------|-------------------|
| Adjustment to discount rate | | | |
| Present value of total obligation (£M) | 166.15 | 169.15 | 172.20 |
| % change in present value of total obligation | -1.80 | | 1.80 |
| Projected service cost (£M) | 3.50 | 3.61 | 3.72 |
| Approximate % change in projected service cost | -3.00 | | 3.10 |

Rate of general increase in salaries

| | +0.1% p.a. | Base Figure | -0.1% p.a. |
|------------------------------------------------|-------------------|--------------------|-------------------|
| Adjustment to salary increase rate | | | |
| Present value of total obligation (£M) | 169.69 | 169.15 | 168.61 |
| % change in present value of total obligation | 0.30 | | -0.30 |
| Projected service cost (£M) | 3.61 | 3.61 | 3.61 |
| Approximate % change in projected service cost | 0 | | 0 |

Rate of increase to pensions in payment and deferred pension assumptions

| | +0.1% p.a. | Base Figure | -0.1% p.a. |
|------------------------------------------------|-------------------|--------------------|-------------------|
| Adjustment to pension rate increase | | | |
| Present value of total obligation (£M) | 171.66 | 169.15 | 166.68 |
| % change in present value of total obligation | 1.50 | | -1.50 |
| Projected service cost (£M) | 3.72 | 3.61 | 3.50 |
| Approximate % change in projected service cost | 3.10 | | -3.00 |

Post retirement mortality assumption

| | -1 year | Base Figure | +1 year |
|------------------------------------------------|----------------|--------------------|----------------|
| Adjustment to mortality age rating assumption | | | |
| Present value of total obligation (£M) | 174.12 | 169.15 | 164.20 |
| % change in present value of total obligation | 2.90 | | -2.90 |
| Projected service cost (£M) | 3.74 | 3.61 | 3.48 |
| Approximate % change in projected service cost | 3.60 | | -3.60 |

Note 17 Property, Plant and Equipment

Valuation information

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

The portfolio is revalued on a rolling basis by the Council's own valuers K. Boothroyd MRICS, M. Newman MRICS and G. Hobday MRICS; except for Council dwellings which have been revalued as at 1st March 2018 by Hellier Langston, chartered surveyors.

The various sites at Daedalus were revalued by M. Newman MRICS to 31 March 2018.

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

| | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant and Equipment £'000 | Total £'000 |
|--------------|------------------------------------|-------------------------------------------|------------------------------------------------|------------------------|
| Historic | - | 8,855 | 10,666 | 19,521 |
| 2013/14 | - | 1,615 | - | 1,615 |
| 2014/15 | - | 15 | - | 15 |
| 2015/16 | - | 4,726 | - | 4,726 |
| 2016/17 | - | 12,781 | - | 12,781 |
| 2017/18 | 120,239 | 67,384 | - | 187,623 |
| Total | 120,239 | 95,376 | 10,666 | 226,281 |

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 1st March 2018. 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 2018, the Council had entered into a number of contracts for the construction, purchase or enhancement of Property, Plant and Equipment in 2018/19 and future years, budgeted to cost £1.6 million. Similar commitments at 31 March 2017 were £1.7 million. The major commitments are purchases of vehicles and refurbishment of bus shelters.

Movement in Non-Current Assets 2017/18

| | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant and Equipment £000 | Infrastructure Assets £'000 | Community Assets £'000 | Assets Under Construction £'000 | Total £'000 |
|-------------------------------------------|----------------------------|-----------------------------------|---------------------------------------|--------------------------------|---------------------------|------------------------------------|----------------|
| Cost or Valuation | | | | | | | |
| At 1 April 2017 | 121,604 | 82,808 | 9,673 | 1,731 | 377 | 444 | 216,637 |
| Additions | 1,859 | 15,554 | 1,475 | 375 | - | 3,845 | 23,108 |
| Revaluation increases/(decreases) to RR | - | (81) | - | - | - | - | (81) |
| Revaluation increases/(decreases) to SDPS | (2,325) | (2,569) | - | - | - | - | (4,894) |
| Derecognition – Disposals | (899) | - | (482) | - | - | - | (1,381) |
| Reclassified to/from Held for Sale | - | 341 | - | - | - | - | 341 |
| Other movements | - | (677) | - | - | - | (345) | (1,022) |
| At 31 March 2018 | 120,239 | 95,376 | 10,666 | 2,106 | 377 | 3,944 | 232,708 |
| Depreciation and impairment | | | | | | | |
| At 1 April 2017 | 1,460 | 1,254 | 6,905 | 896 | 32 | - | 10,547 |
| Depreciation Charge | 2,477 | 1,893 | 781 | 42 | 2 | - | 5,195 |
| Depreciation written out to RR | - | (686) | - | - | - | - | (686) |
| Depreciation written out to SDPS | (1,460) | - | - | - | - | - | (1,460) |
| Derecognition – Disposals | (18) | - | (461) | - | - | - | (479) |
| At 31 March 2018 | 2,459 | 2,461 | 7,225 | 938 | 34 | - | 13,117 |
| Net Book Value | | | | | | | |
| At 31 March 2018 | 117,780 | 92,915 | 3,441 | 1,168 | 343 | 3,944 | 219,591 |
| At 31 March 2017 | 120,144 | 81,554 | 2,768 | 835 | 345 | 444 | 206,090 |

Movement in Non-Current Assets 2016/17

| | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant and Equipment £000 | Infrastructure Assets £'000 | Community Assets £'000 | Assets Under Construction £'000 | Total £'000 |
|-------------------------------------------|----------------------------|-----------------------------------|---------------------------------------|--------------------------------|---------------------------|------------------------------------|----------------|
| Cost or Valuation | | | | | | | |
| At 1 April 2016 | 100,695 | 52,686 | 9,192 | 1,281 | 377 | 7,999 | 172,230 |
| Additions | 2,755 | 1,670 | 691 | 450 | - | 8,724 | 14,290 |
| Revaluation increases/(decreases) to RR | - | 18,588 | - | - | - | - | 18,588 |
| Revaluation increases/(decreases) to SDPS | 11,624 | 716 | - | - | - | - | 12,340 |
| Derecognition – Disposals | (601) | - | (210) | - | - | - | (811) |
| Reclassified to/from Held for Sale | - | - | - | - | - | - | - |
| Other movements | 7,131 | 9,148 | - | - | - | (16,279) | - |
| At 31 March 2017 | 121,604 | 82,808 | 9,673 | 1,731 | 377 | 444 | 216,637 |
| Depreciation and impairment | | | | | | | |
| At 1 April 2016 | 1,309 | 1,748 | 6,250 | 846 | 29 | - | 10,182 |
| Depreciation Charge | 1,468 | 1,590 | 810 | 50 | 3 | - | 3,921 |
| Depreciation written out to RR | - | (2,084) | - | - | - | - | (2,084) |
| Depreciation written out to SDPS | (1,309) | - | - | - | - | - | (1,309) |
| Derecognition – Disposals | (8) | - | (155) | - | - | - | (163) |
| At 31 March 2017 | 1,460 | 1,254 | 6,905 | 896 | 32 | - | 10,547 |
| Net Book Value | | | | | | | |
| At 31 March 2017 | 120,144 | 81,554 | 2,768 | 835 | 345 | 444 | 206,090 |
| At 31 March 2016 | 99,386 | 50,938 | 2,942 | 435 | 348 | 7,999 | 162,048 |

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 page 75 note 2.

Note 18 Investment Properties

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

| | 2017/18 £'000 | 2016/17 £'000 |
|------------------------------------------|------------------|------------------|
| Rental, sales income and service charges | (3,964) | (4,073) |
| Direct operating expenses | 684 | 790 |
| Net (gain)/loss | (3,279) | (3,283) |

Movement in Fair Value of Investment Properties

| | Value at 31 March 2017 £'000 | Acquisitions £'000 | Change in Value £'000 | Re- classifications £'000 | Value at 31 March 2018 £'000 |
|--------------|------------------------------------|-----------------------|-----------------------------|---------------------------------|------------------------------------|
| Commercial | 8,156 | - | 1,619 | - | 9,775 |
| Leisure | 1,095 | 385 | (342) | - | 1,138 |
| Office | 3,375 | - | 291 | - | 3,666 |
| Other | 2,619 | 866 | 145 | 1,023 | 4,652 |
| Retail | 39,168 | - | 574 | - | 39,741 |
| Total | 54,413 | 1,251 | 2,287 | 1,023 | 58,973 |

| | Value at 31 March 2016 £'000 | Acquisitions £'000 | Change in Value £'000 | Re- classifications £'000 | Value at 31 March 2017 £'000 |
|--------------|------------------------------------|-----------------------|-----------------------------|---------------------------------|------------------------------------|
| Commercial | 8,113 | - | 43 | - | 8,156 |
| Leisure | 1,024 | - | 71 | - | 1,095 |
| Office | 3,252 | - | 123 | - | 3,375 |
| Other | 2,623 | - | (4) | - | 2,619 |
| Retail | 29,323 | 11,786 | (1,941) | - | 39,168 |
| Total | 44,335 | 11,786 | (1,708) | - | 54,413 |

Fair Value Measurement of Investment Properties

| | Quoted prices in active markets Level 1 £'000 | Other significant observable inputs Level 2 £'000 | Significant unobservable inputs Level 3 £'000 | Fair Value at 31 March 2018 £'000 |
|--------------|-----------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------|
| Commercial | 5,970 | 3,734 | 70 | 9,775 |
| Leisure | - | 18 | 1,120 | 1,138 |
| Office | 2,066 | 964 | 636 | 3,666 |
| Other | 2,964 | 1,437 | 252 | 4,652 |
| Retail | 39,374 | 367 | - | 39,741 |
| Total | 50,374 | 6,520 | 2,078 | 58,973 |

Note 19 Assets Held for Sale

| | 2017/18 £'000 | 2016/17 £'000 |
|-------------------------------------------|------------------|------------------|
| Balance at 1 April | 341 | 341 |
| Assets newly classified as held for sale: | | |
| - Property, Plant and Equipment | - | - |
| Assets declassified as held for sale: | | |
| - Property, Plant and Equipment | (341) | - |
| Assets sold | - | - |
| Balance at 31 March | - | 341 |

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 2018 £'000 | 31 March 2017 £'000 |
|-------------------------------|---------------------------|---------------------------|
| Property, Plant and Equipment | 10,511 | 10,075 |
| Investment Property | 5,840 | 5,228 |
| Total | 16,351 | 15,303 |

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 2018 £'000 | 31 March 2017 £'000 |
|---------------------------------------------------|---------------------------|---------------------------|
| Not later than one year | 4,151 | 3,462 |
| Later than one year and not later than five years | 12,816 | 10,686 |
| Later than five years | 45,124 | 38,684 |
| Total | 62,091 | 52,832 |

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 2017/18, contingent rents of £0.56 million were received by the Council (2016/17 £0.63 million).

Note 21 Cash and Cash Equivalents

| | 31 March 2018 £'000 | 31 March 2017 £'000 |
|---------------------------------------|---------------------------|---------------------------|
| Cash held by the Council | 5 | 5 |
| Bank current accounts | - | - |
| Short-term deposits with banks | 3,000 | 6,001 |
| Total cash and cash equivalent | 3,005 | 6,006 |
| Bank overdraft | (334) | (235) |
| Net cash and cash equivalent | 2,671 | 5,771 |

Note 22 Short Term Debtors

| | 31 March 2018 £'000 | 31 March 2017 £'000 |
|--------------------------------|---------------------------|---------------------------|
| Central government bodies | 1,944 | 658 |
| Other local authorities | 2,229 | 1,011 |
| Other entities and individuals | 6,168 | 6,437 |
| Total | 10,341 | 8,106 |
| Provision for doubtful debts | (1,867) | (1,655) |
| Total | 8,474 | 6,451 |

Note 23 Short Term Creditors

| | 31 March 2018 £'000 | 31 March 2017 £'000 |
|--------------------------------|---------------------------|---------------------------|
| Central government bodies | 6,070 | 4,760 |
| Other local authorities | 2,406 | 1,601 |
| Other entities and individuals | 3,682 | 3,398 |
| Total | 12,158 | 9,759 |

Note 24 Provisions

| | Balance at 1 April £'000 | Provision in year £'000 | Applied in year £'000 | Balance at 31 March £'000 |
|-----------------------|--------------------------------|-------------------------------|-----------------------------|---------------------------------|
| Business rate appeals | 2,712 | 32 | (1,130) | 1,614 |
| Insurance | 104 | 57 | (89) | 72 |
| Employee related | 188 | 188 | (188) | 188 |
| Land charges | 4 | - | (4) | - |
| Total 2017/18 | 3,008 | 277 | (1,411) | 1,874 |
| Total 2016/17 | 4,057 | 125 | (1,174) | 3,008 |

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 and the land charges provision is for personal searches litigation.

Note 25 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 2018 £'000 | 31 March 2017 £'000 |
|-------------------------------------------------------------|---------------------------|---------------------------|
| Balance at 1 April | 7,859 | 7,680 |
| Movements in year: | | |
| Amounts received (with conditions) | 3,793 | 3,236 |
| Amounts recognised as income (conditions subsequently met): | | |
| - Within Cost of Services | (1,187) | (1,488) |
| - Within Taxation and Non-Specific Grants | (3,787) | (1,569) |
| Balance at 31 March | 6,678 | 7,859 |
| Receipts in Advance (Capital Grants) | | |
| Leisure developer contributions | 1,939 | 2,394 |
| Homes England | 1,413 | 2,674 |
| Affordable housing developer contributions | 450 | 253 |
| Other developer contributions | 435 | 366 |
| Other capital contributions | 231 | 48 |
| Solent Local Enterprise Partnership | - | 1,790 |
| | 4,468 | 7,525 |
| Receipts in Advance (Revenue Grants) | | |
| Air quality grants | 650 | - |
| Titchfield Country Park developer contribution | 571 | - |
| Welborne Garden Village contribution | 488 | - |
| National Grid IFA2 developer contribution | 457 | - |
| Other developer contributions | 44 | 69 |
| Homes England | - | 265 |
| | 2,210 | 334 |
| Total Receipts in Advance | 6,678 | 7,859 |

Note 26 Transfers to/from Earmarked Reserves

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

| | 1 April 2016 £'000 | Transfers Out £'000 | Transfers In £'000 | 31 March 2017 £'000 | Transfers Out £'000 | Transfers In £'000 | 31 March 2018 £'000 |
|----------------------------|--------------------------|---------------------------|--------------------------|---------------------------|---------------------------|--------------------------|---------------------------|
| General Fund | | | | | | | |
| Major Repairs and Renewals | 1,302 | - | - | 1,302 | - | - | 1,302 |
| Other Earmarked Reserves | 6,495 | (3,135) | 458 | 3,818 | (2,291) | 286 | 1,813 |
| Earmarked Capital Reserves | 5,597 | (3,587) | 3,026 | 5,036 | (2,192) | 1,200 | 4,044 |
| | 13,394 | (6,722) | 3,484 | 10,156 | (4,483) | 1,486 | 7,159 |
| HRA | | | | | | | |
| Housing Repairs Account | 1,500 | - | - | 1,500 | - | - | 1,500 |
| Capital Development Fund | 4,900 | (3,544) | 2,164 | 3,520 | - | - | 3,520 |
| Debt Repayment Fund | - | - | - | - | - | 1,140 | 1,140 |
| Leaseholder Repairs | 203 | (44) | - | 159 | - | 103 | 262 |
| | 6,603 | (3,588) | 2,164 | 5,179 | - | 1,243 | 6,422 |
| Total | 19,997 | (10,310) | 5,648 | 15,335 | (4,483) | 2,729 | 13,581 |

Note 27 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:

| 2016/17 £'000 | | 2017/18 £'000 |
|-----------------------------------------|-------------------------------------------------------|------------------|
| 61,878 | Opening Capital Finance Requirement | 75,211 |
| Capital Investment | | |
| 14,309 | Property, Plant and Equipment | 23,107 |
| 11,786 | Investment Properties | 1,251 |
| 617 | Revenue Expenditure Funded from Capital under Statute | 520 |
| - | Long Term Capital Debtors | 76 |
| Sources of Finance | | |
| (1,986) | Capital Receipts | (358) |
| (2,394) | Government Grants and Other Contributions | (5,053) |
| Sums set aside from revenue: | | |
| (1,585) | HRA Major Repairs Reserve | (1,600) |
| (7,255) | Direct Revenue Contributions | (2,183) |
| (159) | Minimum Revenue Provision | (415) |
| 75,211 | Closing Capital Finance Requirement | 90,556 |
| Explanation of movements in year | | |
| 13,333 | Increase in underlying need to borrow | 15,345 |

Note 28 Unusable Reserves

| | 31 March | |
|--------------------------------------------------|----------------|----------------|
| | 2018 £'000 | 2017 £'000 |
| Revaluation Reserve | 36,842 | 36,677 |
| Capital Adjustment Account | 151,428 | 149,170 |
| Pensions Reserve | (61,165) | (58,271) |
| Collection Fund Adjustment Account | 869 | (417) |
| Accumulated Absences Account | (188) | (188) |
| Available for Sale Financial Instruments Reserve | (156) | - |
| | 127,630 | 126,971 |

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.

| 2016/17 £'000 | | 2017/18 £'000 |
|------------------|------------------------------------------------------------------------------------------------------------------|------------------|
| 15,990 | Balance at 1 April | 36,677 |
| 21,406 | Upward revaluation of assets | 5,430 |
| (676) | Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services | (4,824) |
| 20,730 | | 606 |
| (43) | Difference between fair value depreciation and historical cost depreciation | (441) |
| - | Accumulated gains on assets disposed or reclassified to Investment Properties | - |
| (43) | Amount written off to the Capital Adjustment Account | (441) |
| 36,677 | Balance at 31 March | 36,842 |

b) Capital Adjustment Account

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

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2016/17 £'000 | | 2017/18 £'000 |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 129,086 | Balance at 1 April | 149,170 |
| | Reversal of items relating to capital expenditure in the Comprehensive Income and Expenditure Statement | |
| (3,929) | Charges for depreciation and impairment of non-current assets | (5,206) |
| 13,592 | Revaluation losses on property, plant and equipment | (3,434) |
| (23) | Amortisation of intangible assets | (7) |
| (618) | Revenue expenditure funded from capital under statute | (520) |
| (649) | 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 | (901) |
| 137,459 | | 139,102 |
| (3) | Amount credited to Capital Receipts Reserve relating to part repayment of principal on long term debtor | (11) |
| 43 | Adjustment amounts written out of the Revaluation Reserve | 441 |
| 137,499 | Net written out amount of the cost of non-current assets consumed in the year | 139,532 |
| | Capital financing applied in the year | |
| 1,986 | Use of the Capital Receipts Reserve to finance new capital expenditure | 358 |
| 1,585 | Use of the Major Repairs Reserve to finance new capital expenditure | 1,600 |
| 2,394 | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 5,053 |
| 159 | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | 415 |
| 7,255 | Capital expenditure charged against the General Fund and HRA balances | 2,183 |
| 150,878 | | 149,141 |
| (1,708) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | 2,287 |
| 149,170 | Balance at 31 March | 151,428 |

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.

| 2016/17 £'000 | | 2017/18 £'000 |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| (49,194) | Balance at 1 April | (58,271) |
| (7,346) | Actuarial gains or losses on pension assets and liabilities | (299) |
| (4,130) | 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 | (4,960) |
| 2,399 | Employers' pension contributions and direct payments to pensioners payable in the year | 2,365 |
| (58,271) | Balance at 31 March | (61,165) |

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.

| 2016/17 £'000 | | 2017/18 £'000 |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| (2,914) | Balance at 1 April | (417) |
| (115) | 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 | 82 |
| 2,612 | 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 | 1,204 |
| (417) | Balance at 31 March | 869 |

Note 29 Financial Instruments

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

| | Long Term | | Current | |
|--------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 31 March 2018 £'000 | 31 March 2017 £'000 | 31 March 2018 £'000 | 31 March 2017 £'000 |
| Borrowing at amortised cost | 40,000 | 40,000 | 12,017 | 1,835 |
| Trade creditors | - | - | 4,296 | 5,808 |
| Financial Liabilities | 40,000 | 40,000 | 16,313 | 7,643 |
| Loans and receivables | - | - | 9,678 | 14,838 |
| Available-for-sale investments | 1,844 | - | - | - |
| Long term debtors | 133 | 69 | - | - |
| Trade debtors | - | - | 4,361 | 6,608 |
| Financial Assets | 1,977 | 69 | 14,039 | 21,446 |

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

All investments and cash and cash equivalents are classified as Loans and Receivables carried in the Balance Sheet at amortised cost. The accrued interest at 31 March 2018 of £7,675 is included within the current total investment outstanding of £9,678,000.

Available-for-sale investments are carried in the Balance Sheet at fair value.

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.

Fair Values of Assets and Liabilities

The fair value of each class of financial instrument, except available-for-sale, is carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments.

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

| | 31 March 2018 | | 31 March 2017 | |
|-----------|------------------------|---------------------|------------------------|---------------------|
| | Balance Sheet £'000 | Fair Value £'000 | Balance Sheet £'000 | Fair Value £'000 |
| Borrowing | 40,000 | 52,356 | 40,000 | 54,321 |

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 prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

Movements in the fair value during the life of long term debtors 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 24 February 2017) 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 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 2018 | | As at 31 March 2017 | |
|--------------------|----------------------|-----------------|----------------------|-----------------|
| | Liabilities £'000 | Assets £'000 | Liabilities £'000 | Assets £'000 |
| Less than 3 months | 4,017 | 9,678 | 1,835 | 8,797 |
| 3 to 6 months | 8,000 | - | - | 6,041 |
| 6 months to 1 year | - | - | - | - |
| 1 to 5 years | - | 1,844 | - | - |
| Over 35 years | 40,000 | - | 40,000 | - |
| Total | 52,017 | 11,522 | 41,835 | 14,838 |

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 2018.

| Rating Category | £'000 |
|-------------------|--------------|
| AAA or equivalent | 3,001 |
| AA or equivalent | 2,000 |
| A or equivalent | 4,006 |
| BBB or equivalent | (330) |
| Not rated | 1,001 |
| Total | 9,678 |

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 £9.7 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 2018 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 (£456,288 as at 31 March 2018, £285,078 as at 31 March 2017). Trade debtors include outstanding sundry debts and other trade debts. Based on the age of outstanding sundry debts, the bad debt provision is as shown in the following table.

| Sundry Debtors Age Analysis | Amount Outstanding as at 31 March 2018 | Bad Debt Provision | | Amount Outstanding as at 31 March 2017 | Bad Debt Provision | |
|-----------------------------|----------------------------------------|--------------------|------------|----------------------------------------|--------------------|------------|
| | £'000 | % | £'000 | £'000 | % | £'000 |
| Less than 1 year old | 2,180 | 5 | 117 | 2,176 | 2 | 47 |
| 1 and 2 years old | 176 | 67 | 117 | 33 | 45 | 15 |
| 2 and 3 years old | 26 | 84 | 22 | 53 | 64 | 34 |
| More than 3 years old | 210 | 95 | 200 | 199 | 95 | 189 |
| Total | 2,592 | | 456 | 2,461 | | 285 |

Market Risk

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

Price Risk

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments. As at 31 March 2018 the Council had £2m invested in the Local Authority Property Fund. A 5% fall in share price would result in a £100,000 charge to Other Comprehensive Income and Expenditure. This would have no impact on the Surplus or Deficit on the Provision of Services until the investment was sold.

Note 30 Trust Funds

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

The fund is invested with the Council. It does not represent assets of the Council and is not included in the Balance Sheet. The capital value of the fund was £287,244 at 31 March 2017. During 2017/18, the fund's income was £686 and the total balance in the fund of £287,930 was used towards the funding of the Westbury Manor Museum remodelling scheme from the Council's capital programme, as approved by the Executive on 6 June 2016. As at 31 March 2018 the fund balance was £0.

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

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

| | Income £'000 | Expenditure £'000 | Assets |
|---------------------------------|-----------------|----------------------|--------|
| Sarisbury Recreation Ground | 12 | 12 | Land |
| Swanwick Lane Recreation Ground | 3 | 3 | Land |
| King George V Playing Fields | 3 | 3 | Land |
| Crofton Recreation Ground | 20 | 20 | Land |
| Titchfield Recreation Ground | 18 | 18 | Land |
| Hook and Warsash Allotments | - | - | Land |

The Reporting Accountant for the Cocks Bequest and Sarisbury, Crofton and Titchfield recreation grounds is Mr N R Wood ACMA CGMA.

Note 31 Related Party Transactions

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

Central Government

Central Government has effective control over the general operations of the Council as it is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are shown in note 10.

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2017/18, 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 2017/18 is shown in note 12.

Chief Officers

Chief Officers have the ability to influence the Council. During 2017/18, there were no material related party transactions between the Council and Chief Officers.

Portchester Crematorium Joint Committee

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

Fareham Borough Council's share of the net assets of PCJC is £1,990,339 (2016/17 £1,960,408). In 2017/18, PCJC paid a contribution of £145,000 to the Council (£130,000 in 2016/17). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2018, £2,016,539 was invested with the Council (£1,541,000 at 31 March 2017).

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 2017/18, the Partnership charged Gosport Borough Council £100,498 (2016/17 £108,086) and Portsmouth City Council £100,985 (2016/17 £110,786) 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 2018, the balance of retained surpluses for future investment in the service was £162,202 for Fareham Borough Council, £97,244 for Gosport Borough Council and £60,015 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 2017/18, the Partnership charged Gosport Borough Council £745,852 (2016/17 £677,837) 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 32 Contingent Liabilities

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

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 £50k, 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%. To date a total sum of £39,000 has been paid to MMI in respect of the levy payments made by Fareham Borough Council. The current value of outstanding claims is £157,000 with a contingent liability of £118,000. 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 33 Cash Flow Statement - Operating Activities (Interest)

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

| 2016/17 £'000 | | 2017/18 £'000 |
|------------------|-----------------------|------------------|
| | 433 Interest received | 61 |
| (1,405) | Interest paid | (1,404) |
| (972) | | (1,343) |

Note 34 Cash Flow Statement – Adjustment to net surplus or deficit on the provision of services for non-cash movements

| 2016/17 £'000 | | 2017/18 £'000 |
|------------------|---------------------------------------------------------------------------------------------------|------------------|
| 3,929 | Depreciation and impairment | 5,186 |
| (13,592) | Downward valuations | 3,433 |
| 23 | Amortisation of intangible assets | 7 |
| 1,517 | Increase/decrease in creditors | 5,407 |
| 161 | Increase/decrease in interest debtors | 61 |
| (1,761) | Increase/decrease in debtors | (1,041) |
| (49) | Increase/decrease in inventories | 37 |
| 1,731 | Movement in pension liability | 2,597 |
| 649 | Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised | 921 |
| 659 | Other non-cash items charged to the net surplus/deficit on provision of services | (3,421) |
| (6,733) | | 13,187 |

Note 35 Cash Flow Statement - Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities

| 2016/17 £'000 | | 2017/18 £'000 |
|------------------|---------------------------------------------------------------------------------------------------|------------------|
| (3,056) | Capital grants credited to surplus/deficit on the provision of services | (4,306) |
| 21,000 | Net adjustment from the sale of short and long term investments | - |
| (1,205) | Proceeds from the sale of property plant and equipment, investment property and intangible assets | (1,509) |
| 16,739 | | (5,815) |

Note 36 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 2017/18 financial year and its position at the year-end of 31 March 2018. 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 2017/18 and the Service Reporting Code of Practice 2017/18, 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 are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

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

Termination Benefits

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

Post-Employment Benefits (Retirement Pensions)

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

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation. Full details of the valuation method are shown in note 16 to the core financial statements.

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

Service cost comprising:

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

Re-measurement comprising:

- **The return on plan assets:** Excluding amounts included in net interest on the net defined benefit liability charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Actuarial gains and losses:** Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- **Contributions paid to the Hampshire County Council pension fund:** Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

FINANCIAL INSTRUMENTS

Financial Liabilities

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

Financial Assets

Financial assets are classified into two types:

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

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

interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

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

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

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

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

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

GRANTS AND CONTRIBUTIONS

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

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

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

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

Business Improvement District

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

Community Infrastructure Levy

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

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

HERITAGE ASSETS

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

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

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

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

INTANGIBLE ASSETS

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in

Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

INVENTORIES AND LONG TERM CONTRACTS

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

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

INVESTMENT PROPERTIES

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

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

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

LEASES

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

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

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

The Council as Lessee – Finance Leases

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

Lease payments are apportioned between:

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

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

The Council 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.

| | 2017/18 £'000 | 2016/17 £'000 |
|-----------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Income | | |
| Gross rent income | | |
| - Dwellings | (10,989) | (11,233) |
| - Other | (329) | (318) |
| Charges for services and facilities | (1,084) | (964) |
| Contributions towards expenditure | (19) | (25) |
| Total income from service | (12,421) | (12,540) |
| Expenditure | | |
| Repairs and maintenance | 4,160 | 4,541 |
| Supervision and management | 2,756 | 2,645 |
| Rents, rates, taxes and other charges | 47 | 44 |
| Depreciation and impairment of non-current assets (note 7) | 3,447 | (11,359) |
| Debt management expenses | 36 | 27 |
| Provision for doubtful debts | (13) | 130 |
| Total expenditure on service | 10,433 | (3,972) |
| Net Expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement | (1,988) | (16,512) |
| HRA service share of corporate and democratic core | 261 | 147 |
| Net Expenditure for HRA Services | (1,727) | (16,365) |
| Gain on sale of HRA non-current assets | (616) | (453) |
| Change in fair value of Investment Properties | - | (16) |
| Interest payable | 1,795 | 1,795 |
| Interest receivable | (53) | (110) |
| Pension interest cost | 231 | 272 |
| Capital grants and contributions receivable | - | (440) |
| (Surplus) or Deficit for Year on HRA Services | (370) | (15,317) |

Movement on the HRA Statement

| | 2017/18 £'000 | 2016/17 £'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Balance on the HRA at the end of previous year | (2,370) | (3,688) |
| (Surplus) or Deficit for year on HRA Income and Expenditure Statement | (370) | (15,317) |
| Remove gain on sale of HRA non-current assets | 616 | 453 |
| Pension reserve contributions | (534) | (314) |
| Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements | - | - |
| Capital expenditure charged to revenue | 461 | 4,537 |
| Transfers to/from Major Repairs Reserve | 2,577 | 1,569 |
| Transfers to/from Capital Adjustment Account | (3,447) | 11,814 |
| Adjustments between accounting basis and funding basis under statute | (327) | 18,059 |
| Net (increase) or decrease before transfers to or from the reserves | (696) | 2,742 |
| Transfer to/(from) reserves | 1,243 | (1,424) |
| (Increase) or decrease in year on the HRA | 546 | 1,318 |
| Surplus Carried Forward | (1,824) | (2,370) |

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 2018 | 31 March 2017 |
|-----------|------------------|------------------|
| Houses | 784.25 | 794.75 |
| Flats | 1,461.00 | 1,465.00 |
| Bungalows | 166.00 | 166.00 |
| | 2,411.25 | 2,425.75 |

During the year 16 homes were sold under the right to buy scheme and 2.5 shared-owner properties were fully acquired by their owners.

Note 2 Value of Housing Revenue Account Property

Council dwellings have been valued in their current use with an allowance for the right to buy. The vacant possession value at 1 March 2018 and indexed to 31 March 2018 is £325 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 2017/18 | Council Dwellings £'000 | Other Land and Buildings £'000 | Plant and Equipment £'000 | Assets Under Construction £'000 | Total £'000 |
|-------------------------------------------|-------------------------------|--------------------------------------|---------------------------------|---------------------------------------|----------------|
| Cost or Valuation | | | | | |
| At 1 April 2017 | 121,604 | 4,657 | 87 | - | 126,348 |
| Additions | 1,859 | 400 | - | - | 2,259 |
| Revaluation Increases/(decreases) to RR | - | 299 | - | - | 299 |
| Revaluation Increases/(decreases) to SDPS | (2,325) | - | - | - | (2,325) |
| Derecognition - Disposals | (899) | - | - | - | (899) |
| Other reclassifications | - | - | - | - | - |
| At 31 March 2018 | 120,239 | 5,356 | 87 | - | 125,682 |
| Depreciation and Impairment | | | | | |
| At 1 April 2017 | 1,460 | 93 | 12 | - | 1,565 |
| Depreciation Charge | 2,477 | 93 | 8 | - | 2,578 |
| Depreciation written out to RR | - | (93) | - | - | (93) |
| Depreciation written out to SDPS | (1,460) | - | - | - | (1,460) |
| Derecognition - Disposals | (18) | - | - | - | (18) |
| At 31 March 2018 | 2,459 | 93 | 21 | - | 2,572 |
| Net Book Value | | | | | |
| At 31 March 2018 | 117,780 | 5,263 | 66 | - | 123,110 |
| At 31 March 2017 | 120,144 | 4,564 | 75 | - | 124,783 |

| | Council Dwellings £'000 | Other Land and Buildings £'000 | Plant and Equipment £'000 | Assets Under Construction £'000 | Total £'000 |
|-------------------------------------------|-------------------------------|--------------------------------------|---------------------------------|---------------------------------------|----------------|
| Movement in Values 2016/17 | | | | | |
| Cost or Valuation | | | | | |
| At 1 April 2016 | 100,695 | 4,760 | 87 | 2,792 | 108,334 |
| Additions | 2,755 | - | - | 3,984 | 6,739 |
| Revaluation Increases/(decreases) to RR | - | 252 | - | - | 252 |
| Revaluation Increases/(decreases) to SDPS | 11,624 | - | - | - | 11,624 |
| Derecognition - Disposals | (601) | - | - | - | (601) |
| Other reclassifications | 7,131 | (355) | - | (6,776) | - |
| At 31 March 2017 | 121,604 | 4,657 | 87 | - | 126,348 |
| Depreciation and Impairment | | | | | |
| At 1 April 2016 | 1,309 | 87 | 4 | - | 1,400 |
| Depreciation Charge | 1,468 | 93 | 8 | - | 1,569 |
| Depreciation written out to RR | - | (87) | - | - | (87) |
| Depreciation written out to SDPS | (1,309) | - | - | - | (1,309) |
| Derecognition - Disposals | (8) | - | - | - | (8) |
| At 31 March 2017 | 1,460 | 93 | 12 | - | 1,565 |
| Net Book Value | | | | | |
| At 31 March 2017 | 120,144 | 4,564 | 75 | - | 124,783 |
| At 31 March 2016 | 99,386 | 4,673 | 83 | 2,792 | 106,934 |

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

Note 3 Major Repairs Reserve

| | 2017/18 £'000 | 2016/17 £'000 |
|----------------------------|------------------|------------------|
| Balance at 1 April | 7 | - |
| Receipts in year | 2,577 | 1,592 |
| Used in year | (1,600) | (1,585) |
| Balance at 31 March | 984 | 7 |

Note 4 Housing Repairs Account

| | 2017/18 £'000 | 2016/17 £'000 |
|----------------------------|------------------|------------------|
| Balance at 1 April | 1,500 | 1,500 |
| Contribution from HRA | 4,079 | 4,454 |
| Other Income | 81 | 87 |
| Expenditure | (4,213) | (4,585) |
| Transfer to Reserve | 53 | 44 |
| Balance at 31 March | 1,500 | 1,500 |

Note 5 Capital Financing

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

| | Houses and Flats £'000 |
|-------------------------------|------------------------------|
| Capital Receipts | 198 |
| Government Grants | - |
| Major Repairs Reserve | 1,600 |
| Revenue Contributions | 461 |
| Expenditure in 2017/18 | 2,259 |

Note 6 Capital Receipts

Capital receipts from the sale of HRA property in 2017/18 were £1.497 million (£1.047 million in 2016/17).

Note 7 Depreciation and Impairment

| | | 2017/18 £'000 | 2016/17 £'000 |
|-------------------------|---------------------|------------------|------------------|
| Depreciation | Dwellings | 2,477 | 1,468 |
| | Garages | 93 | 93 |
| | Plant and Equipment | 8 | 8 |
| | Total | 2,578 | 1,569 |
| Amortisation | Intangible Asset | 5 | 5 |
| Revaluation (Gain)/Loss | Dwellings | 864 | (12,933) |
| Total Charge | | 3,447 | (11,359) |

For 2017/18 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 2018, arrears were 4.39% of the gross income due in the year. 2017/18 and 2016/17 were both 52 week rent years. The arrears figures are as follows:

| | 2017/18 £'000 | 2016/17 £'000 |
|-----------------------------------------|------------------|------------------|
| Arrears as at 31 March | 559 | 473 |
| Gross Income | 12,738 | 12,905 |
| Provision for Uncollectable Rents | 450 | 369 |
| Arrears as a percentage of gross income | 4.39% | 3.66% |

Collection Fund

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

| | Council Tax £'000 | Business Rates £'000 | 2017/18 Total £'000 | 2016/17 Total £'000 |
|----------------------------------------------------|----------------------------------|-------------------------------------|------------------------------------|------------------------------------|
| Income | | | | |
| Council Tax (notes 1 and 2) | | | | |
| Billed to Taxpayers | 64,213 | - | 64,213 | 61,064 |
| Non-Domestic Rates - Due (note 3) | - | 39,111 | 39,617 | 40,770 |
| Transitional Protection Payments | - | (1,731) | (1,731) | (34) |
| Total Income | 64,213 | 37,380 | 102,099 | 101,800 |
| Expenditure | | | | |
| Collection Fund Surplus/(Deficit) in Previous Year | | | | |
| Central Government | - | (921) | (921) | (1,867) |
| Fareham Borough Council | 90 | (737) | (647) | (1,358) |
| Hampshire County Council | 671 | (166) | 505 | 672 |
| Police and Crime Commissioner for Hampshire | 100 | - | 100 | 153 |
| Hampshire Fire and Rescue | 39 | (18) | 21 | 22 |
| | 900 | (1,842) | (942) | (2,378) |
| Precepts, Demands and Shares | | | | |
| Central Government | - | 18,592 | 18,592 | 20,150 |
| Fareham Borough Council | 6,365 | 14,873 | 21,238 | 22,221 |
| Hampshire County Council | 48,011 | 3,346 | 51,357 | 48,963 |
| Police and Crime Commissioner for Hampshire | 7,011 | - | 7,011 | 6,740 |
| Hampshire Fire and Rescue | 2,705 | 372 | 3,077 | 3,032 |
| | 64,092 | 37,183 | 101,275 | 101,106 |
| Charges to the Collection Fund | | | | |
| Cost of Collection Allowance | - | 138 | 138 | 142 |
| Increase/(Decrease) in Appeals Provision | - | (2,745) | (2,745) | (2,627) |
| Increase/(Decrease) in Bad Debt Provision | 59 | 229 | 794 | 261 |
| | 59 | (2,378) | (1,813) | (2,224) |
| Total Expenditure | 65,051 | 32,963 | 98,520 | 96,504 |
| Fund balance brought forward at 1 April | (257) | (1,057) | (1,314) | (6,611) |
| Surplus/(Deficit) for the Year | (838) | 4,417 | 3,579 | 5,296 |
| Fund balance carried forward at 31 March | (1,095) | 3,360 | 2,265 | (1,315) |

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 42,372 for 2017/18 (42,005 for 2016/17). 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:

| | 2017/18 £'000 | 2016/17 £'000 |
|---------------------------------------------|------------------|------------------|
| Fareham Borough Council | 150.22 | 145.22 |
| Police and Crime Commissioner for Hampshire | 165.46 | 160.46 |
| Hampshire Fire and Rescue | 63.84 | 62.60 |
| Hampshire County Council | 1,133.10 | 1,079.28 |
| Total | 1,512.62 | 1,447.56 |

Note 2 Non-Domestic Rates (NDR)

NDR is organised on a national basis. The Government specifies a rate in the £ (in 2017/18, 46.6p for small businesses and 47.9p for large; in 2016/17, 48.4p for small businesses and 49.7p 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 2018 was £101,931,713 (£100,614,701 as at 31 March 2017). This rateable value is based on the valuation list effective from 1 April 2017.

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 2017/18, the Business Rates Baseline was £15,831,543 (2016/17 £17,039,769) and the Baseline funding level was £1,801,068 (2016/17 £1,765,033).

Note 3 Collection Fund Balance

The Collection Fund balance for 2017/18 was a surplus of £2.3 million (a deficit of £1.3 million in 2016/17) 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.



GLOSSARY OF TERMS

GLOSSARY OF TERMS

Accruals

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

Actuarial Gains and Losses

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

Amortised Cost

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

Carrying Amount

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

Cash and Cash Equivalents

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

Community Assets

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

Contingency

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

Corporate and Democratic Core

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

Current Service Costs (Pensions)

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

Defined Benefit Scheme

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

Depreciation

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

Depreciated Replacement Cost (DRC)

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

Discretionary Benefits

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

Exceptional Items

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

Expected rate of return on pensions assets

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

Fair Value

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

Finance Lease

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

Government Grants

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

Heritage Assets

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

Historical Cost

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

Infrastructure Assets

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

Interest Cost (Pensions)

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

Investments (Non Pensions Fund)

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

Investments (Pensions Fund)

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

Investment Properties

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

Material

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

Net Book Value

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

Net Current Replacement Cost

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

Non-Current Assets

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

Non-Operational Asset

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

Operating Leases

A lease other than a finance lease.

Operational Assets

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

Past Service Costs

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

Post Balance Sheet Events

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

Prior Year Adjustments

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

Projected Unit Method

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

Property, Plant and Equipment

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

Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

Related Parties

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

Retirement Benefits

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

Scheme Liabilities

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

Useful Life

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



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 2018 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,
- related notes 1 to 36
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes 1 to 8, and
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2018 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 2017/18.

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 Financial Reporting Council's Ethical Standard and the Comptroller and Auditor General's 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 Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Resources 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 2017/2018, other than the financial statements and our auditor's report thereon. The Director of Finance and Resources 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 in November 2017, we are satisfied that, in all significant respects, Fareham Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 Director of Finance and Resources

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 23 the Director and Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director and Finance and Resources 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 in November 2017, as to whether Fareham Borough 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 Fareham Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 Fareham Borough 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Kevin Suter -
Ernst & Young LLP*

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
31 July 2018

The maintenance and integrity of Fareham Borough Council's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



7

CONTACTS

HOW TO CONTACT US

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

For more information please contact us at:

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

www.fareham.gov.uk

customerservices@fareham.gov.uk





FAREHAM

BOROUGH

COUNCIL

STATEMENTS OF

ACCOUNTS

2017/2018

FAREHAM
BOROUGH COUNCIL