



FAREHAM

BOROUGH

COUNCIL

STATEMENT OF

ACCOUNTS

2020/21

FAREHAM
BOROUGH COUNCIL



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

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

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NARRATIVE REPORT AND WRITTEN STATEMENTS

NARRATIVE REPORT

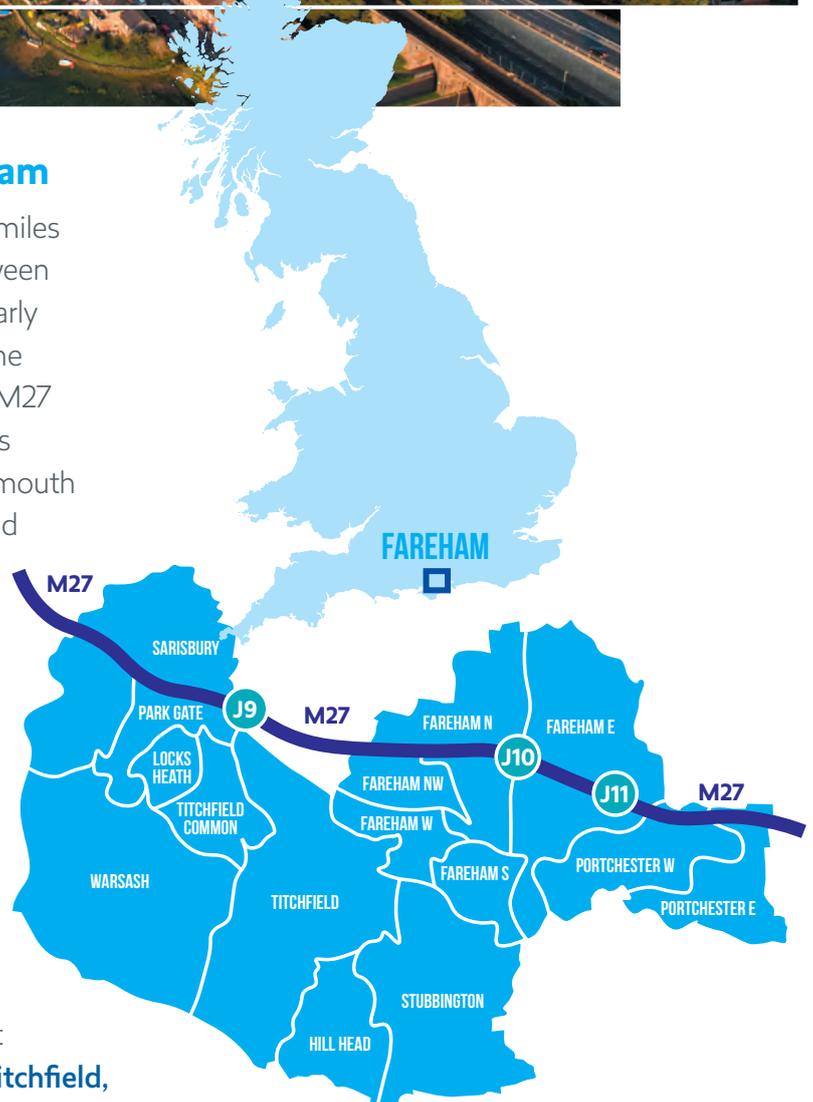


Introducing the Borough of Fareham

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

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

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



RESIDENTS

Population of 117,000 expecting to rise to 122,000 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 business rate payers and at least 600 working out of residential or shared officers.

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

Just 0.3% of residents were claiming Jobseeker's Allowance against a national average of 0.7%.

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

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

Putting customers at the heart of our organisation

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

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

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



OUR VISION

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

CORPORATE VALUES

Listening and being responsive to our customers.

Recognising and protecting the identity of existing communities.

Enhancing prosperity and conserving all that is good.

Being efficient, effective and providing value for money.

Leading our communities and achieving change for the better.

PRIORITIES

Providing Housing Choices. 

Protect and enhance the environment. 

Strong, safe, inclusive and healthy communities. 

Maintain and extend prosperity. 

Leisure opportunities for health and fun. 

Dynamic, prudent and progressive Council. 

Preparing for the future

The Council's Vision, Values and Priorities are set out in the Corporate Strategy which can be viewed in full on the Council's website. It recognises the constraint of continued reduction in Government funding and seeks to continue to deliver priorities but within a balanced and sustainable budget. The Council's Vision, Values and Priorities have been defined above. A series of actions are set for the coming years under each priority heading and these are refreshed each year. In 2020/21, due to the pandemic worsening the Council's financial position, a new action was added to "deliver a programme of work under the Opportunities Plan, to enable the Council to generate additional revenue, reduce costs and respond to service pressures and opportunities".

The Council

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

MEMBERS

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

PARTNERSHIPS

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

EMPLOYEES

Approximately 426 employees (333 full time & 93 part time)
2 employees undertaking apprentice training
3 Directors and 1 Deputy CX
9 Heads of Service
2 Strategic Lead Officers

ORGANISATION

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

ORGANISATIONAL SUMMARY

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

The day to day delivery of services is overseen by the Chief Executive's Management Team. In 2020/21 this was made up of the Chief Executive Officer, the Deputy Chief Executive Officer and three Directors, as in 2019/20.

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

Highlights for partnerships, shared services and outsourced services in 2020/21 include:

- **Covid-support package worth £1.8 million negotiated with the Leisure Centre's operator and implemented and monitored to secure their survival as a critical supplier for the Council;**



- **a new agreement and Memorandum of Understanding was introduced for the Building Control Partnership which included a revised financial and operating model; this change was the result of the Opportunities Plan review of the financial impact of the partnership to the Council's accounts;**
- **the appointed operator continued to work with the Council to deliver a new vision for the primary community, arts and entertainment venue in the Borough; however, this project was put on hold for part of the year to allow for the effect of the pandemic to be understood in the context of the vision being developed;**
- **a proposal was received last year from Hampshire County Council to change the Waste Management arrangements under the Project Integra partnership. These changes would potentially lead to additional costs of £0.5 million falling on the Council. The Council is working with other members of Project Integra to see how the impact can be reduced and also to address the changes arising from the draft Environment Bill. To date only part of the changes have been implemented, in relation to glass and textile recycling credits, resulting in a loss of approximately £50,000 of income;**
- **the Building Control Partnership contract which provides building regulations services to Hampshire County Council was renewed, securing that revenue stream for another year;**
- **the award-winning legal services partnership with Southampton City Council was extended for two years to allow a full review of the partnership for implementation by March 2023.**

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

Covid Pandemic

The Covid pandemic started at the end of 2019/20 and had a significant impact, both globally and nationally throughout 2020/21 and into 2021/22. At a local level the pandemic

resulted in wide-reaching implications on Council services with regard to delivery, resources and financial sustainability. The Council’s response to the pandemic included the following areas:

 <p>PROVISION OF SERVICES</p>	<ul style="list-style-type: none"> • Services were reviewed to identify those which should be suspended during the periods of lockdown. • New services that were required in the response phase were identified, including measures to support the most vulnerable in the community, supporting the Test and Trace process and making the support payments, advise and enforcement of local business lockdown and social distancing measures; and distributing £28 million of grants to local businesses, which were under pressure due to the periods of lockdown.
 <p>COUNCIL'S HUMAN AND FINANCIAL RESOURCES</p>	<ul style="list-style-type: none"> • Upon lockdown, the Council’s office-based workforce was mobilised to work from home, while those most at risk were shielded. To achieve continuity of service, new technology was deployed, but there has inevitably been an impact on service performance as teams managed the conflicting requirements of remote technology and home circumstances such as childcare/schooling responsibilities. • The Council’s resources were rapidly redeployed to respond to the emerging pressures of the pandemic, reprioritising capacity to assist front line services (eg refuse collection and bereavement) and to deliver the new services identified above. • Special measures were instigated to ensure that front-line employees were able to work safely during the lockdown period, and continue to provide key public services (such as refuse collection and property maintenance).
 <p>SUPPLY CHAINS</p>	<ul style="list-style-type: none"> • Special arrangements were put in place for the Council’s suppliers to ensure that appropriate support was available to the supply chain. • Detailed dialogue about supporting the Council’s key partners during lockdown and beyond (such as maintenance contractors and Leisure Operators) were established (in accordance with PPN / 02/20).
 <p>DECISION MAKING</p>	<ul style="list-style-type: none"> • Arrangements were established using emergency powers to ensure that a high standard of governance could be maintained in relation to decision-making throughout the response period.



Financial Impact

The 2020/21 budget was set in February 2020 and was set to break even for the year. However, since the budget was set, the emergence of Covid fundamentally changed the financial position as the Council incurred approximately £350,000 of additional expenditure and saw income dramatically fall in the areas of car parking, trade waste collection, commercial income, planning and business rate collection.



The impact of measures taken to support individuals and businesses were also evident in the Council's cash flow position, with relaxed payment terms, immediate payments to suppliers, suspended debt collection activities, etc all reducing the net cash available on a daily basis. However, the cash flow position was aided by the influx of upfront payments of grant monies by the Government which were then distributed to businesses in the Borough.

A wide range of measures were introduced across Government to help alleviate the financial impact upon local authorities, including general and specific grants, an income compensation scheme and relaxing financial controls on the use of resources. However, these came in waves which made it difficult to predict the funding shortfall and the potential impact on the Council's revenue reserves in 2020/21 and beyond.

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

- CASH FLOW MONITORING
- SERVICE FINANCIAL PERFORMANCE
- COVID RESPONSE EXPENDITURE
- INCOME COLLECTION AND ARREARS PERFORMANCE
- GOVERNMENT FUNDING OPPORTUNITIES

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

Emergency Budget

As a result of the increased monitoring the financial impact of Covid was estimated to total £3.6 million. A replacement emergency budget was therefore developed which was adopted by the Council in September 2020. This forecast the potential need to use £1.1 million of the Council's reserves to plug the funding gap for its services in 2020/21. At the same time the Council introduced a Financial Recovery Plan to mitigate the impacts arising where it could.

Financial forecasts were updated as the Government implemented further periods of lockdown and announced support packages for local authority services. The Council has benefitted from Government Covid grants totalling £3.8 million during the year; £0.8 million of these were not anticipated and therefore not incorporated into the emergency and revised budgets.



2020/21 Financial Position: overview

The table below summarises the revenue outturn position¹ on the General Fund for the year compared to last year.

The General Fund actual net revenue expenditure for 2020/21 totalled £12,182,435 which is **£2,575,935** more than was originally budgeted for the year.

The final net budget outturn position is **£1,211,254** less than the final revised budget agreed by the Executive in February 2021. This has meant that the

potential need to draw from reserves, forecast in the emergency budget, has not materialised. This is partly due to some services, such as planning application income, starting to recover towards the end of the year, and also due to the corporate efforts in reducing spend where possible. However, the largest contributing factor has been the unplanned additional Government support.

	2019/20 Actual	2020/21 Original Budget	2020/21 Actual
Gross Cost of Services	£55,616,000	£44,180,400	£54,044,198
Net Cost of Services	£25,486,000	£14,425,200	£25,976,217
Other Provisions	-£10,147,000	-£283,400	-£9,383,844
Non-Service Specific Income	-£5,400,000	-£4,535,300	-£4,409,938
Net revenue expenditure	£9,939,000	£9,606,500	£12,182,435
Covid Funding	-	-	-£3,787,189
Net Underspend (+)/Overspend (-) on Services	-£178,000	-	£1,211,254
Net Budget	£9,761,000	£9,606,500	£9,606,500
Core Funding Sources			
Revenue Support Grant	£0	£0	£0
Business Rates	£2,992,000	£2,456,700	£2,456,700
Council Tax	£6,875,000	£7,196,900	£7,196,900
Other Funding Sources	-£106,000	-£47,100	-£47,100
	£9,761,000	£9,606,500	£9,606,500

¹These 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.

Delivering the Covid Response

Despite the pressures in the year, the Council has risen to the challenge of the pandemic to help support the community through the crisis including:

Design and/or delivery of 15 Business Grant Support schemes and 3 Business Rates Relief schemes totalling £46.8 million

Working with local charitable organisations to provide food to hard hit and vulnerable residents and families

Working with housing partners to provide accommodation to rough sleepers to keep them safe and socially distanced

Working with local businesses to help them adhere to the Government guidelines through the periods of lockdown and reopening including launching the Shop Local and Eat Local Campaign

Supporting the Test and Trace Schemes both in terms of tracing and making the support payments

Delivery on Key Priorities

In addition to the Covid response, the Council has continued to deliver capital projects and priorities for the Borough during 2020/21 including:

Driving forward the Welborne Plan to deliver more housing in the Borough, including working with the interested bodies to agree a funding model for Junction 10 of the M27 motorway, and the linkages to affordable housing targets

Further investing in the infrastructure and assets at the Daedalus site including the opening of a new play area at Daedalus Common

New social housing development at Bridge Road was completed along with 6 of 18 units of Rose Court (Highlands Road) with the remaining units to be completed in 2021/22

Financial Management: Non-Covid pressures

The ability to deliver on the Covid response and key priorities 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 following risks and pressures were recognised when setting the original 2020/21 budgets and Council Tax:

Reduction in non-specific Government Funding of £119,000 (14%)

Reduction in income from the Council's interest in Fareham Shopping Centre by £374,000, to reflect the current lease arrangements and occupancy levels

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

Projected reductions of income generated from car parks of £962,500

Increase of £228,600 in the Minimum Revenue Provisions (MRP) to cover the borrowing costs of recent purchases of investment properties and construction at Solent Airport



Prudent planning had originally been used to produce a balanced budget which addressed these risks, which included:

Development of an Opportunities Plan in 2018/19, in partnership with all Heads of Service in the Council, which identified projects which could generate income or reduce costs. Members approved the use of reserves to fund a Project team for two years to drive the delivery of the plan. Savings of £1.6 million have been achieved to date, including £307,900 from new projects applied to the budget for 2020/21

Continued use of investment properties as a funding stream to generate income of £2,922,400

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

Increasing Council Tax for the fifth year running by the maximum £5; this represented 15% of the funding sources used

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

Use of prudent low cost borrowing

Financial Management: Covid Pandemic

As mentioned in the previous section, an enhanced financial monitoring regime was introduced in response to the impacts of Covid which resulted in the adoption of an emergency budget in September. This was supported by a number of financial measures to help secure the out-turn position, which included:

Resourcing applications for Government Covid Support for local authorities and new burdens funding

Capital investment plans revisited in light of post-Covid economic and social circumstances, to determine if the business cases remain sound

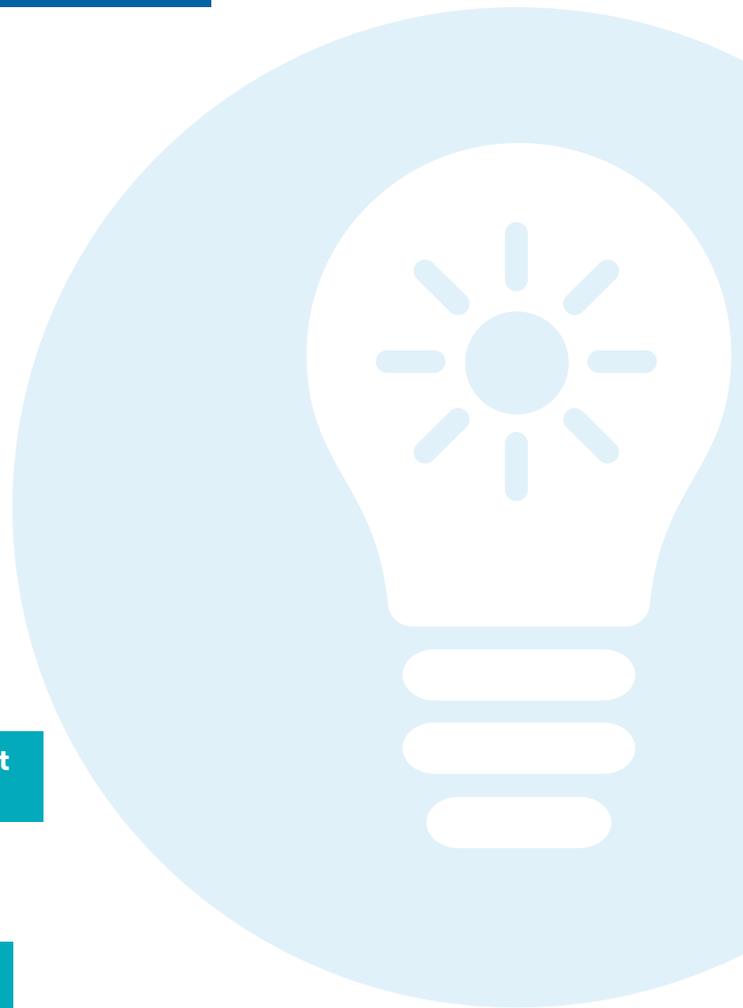
Rolling out a “Living Below our Means” strategy aimed at tightening control over all but essential expenditure

Itemising and monitoring the value of Covid-specific expenditure and working with services to promote the continued use of value for money principles in purchasing

Identification of potential savings arising from the pandemic response such as working from home and reduced service delivery

Use of Business Support grant pre-payments to help with short-term cash flow management and reduce the cost of borrowing

Increasing the bad debt provision





Balance Sheet Position

The General Fund Reserve has increased in the year by £1.7 million. Total 'useable' reserves overall have increased by £7.6 million to a total of £53 million. This includes the Spending Reserve provision for unforeseen fluctuations in revenue expenditure and income which is still held at 5% of planned gross expenditure. It also includes some unutilised Government Covid Support grants. The balance sheet also shows a significant increase in Revenue receipts in advance which includes £1.8 million of funding received for covid grants to pay to businesses under the discretionary schemes which were not paid out until 2021/22.

The Council had reduced funds (£173,000) from the Community Infrastructure Levy (CIL) during 2020/21 (£1.3 million in 2019/20). This has been transferred to the Council's capital reserves and is one of the main funding sources earmarked for the new community, arts and entertainment venue. A total of £259,000 CIL reserves were used in the year including £248,000 towards delivering the new community, arts and entertainment venue and £11,000 on the extension to the Holly Hill cemetery.

The overall value of Council long term assets again increased in value by £2.8 million.

Overall General Fund Position

The underspend for 2020/21 has been transferred to reserves to help protect the Council's financial position

going forward. Some trends in increased expenditure and reduced income have continued into 2021/22 and some income streams may never recover, whilst the Government's financial support schemes may start to disappear. The Council's underlying financial position has therefore worsened. We are reviewing this in more detail as part of the Medium-Term Finance Strategy forecasting in 2021/22.

Housing Revenue Account (HRA)

The pandemic impacts on the HRA were also recognised for the emergency budget. However, the outturn showed that:

Overall, the value of the Housing Revenue Account

Actual rent income was higher than the revised budget figure. Although the number of void properties remained at a higher than usual level, rent arrears have not increased to the level that had been allowed for. This is as a result of work by the Rent Arrears Officer combined with increased Universal Credit receipts

Revenue repairs expenditure was higher than the revised budget as the services were able to complete more work as restrictions eased and experienced an increased cost of materials

Reserve has decreased by £218,844 to fund the net expenditure for the year.

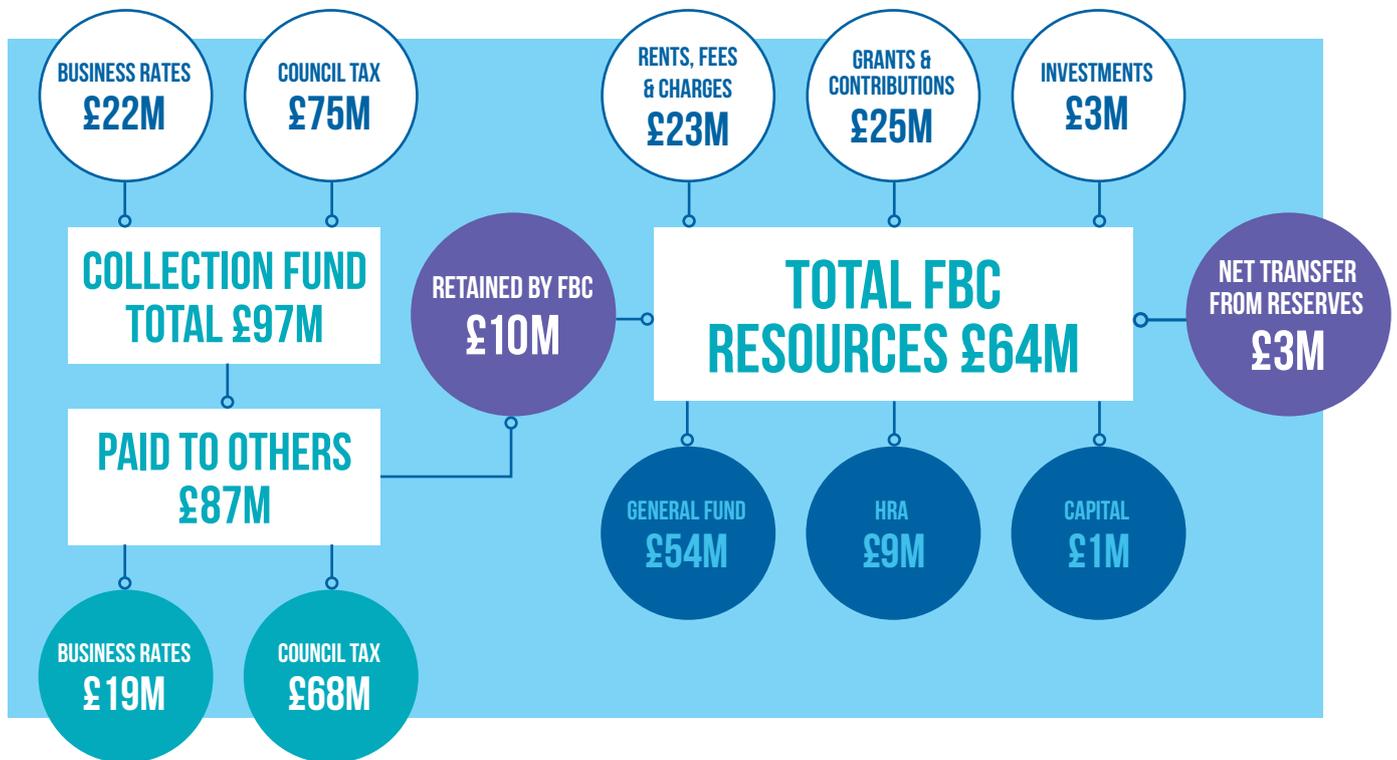
The following sections provide further details of the financial and non-financial performance of the Council.

Detailed Revenue Income & Expenditure 2020/21

Sources of Revenue Funding

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

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



Central Government Funding

2020/21 was Year 5 of the Government's finance settlement. This meant the Council did not receive Revenue Grant Support (RSG) as the final payment of £288,000 was received in 2017/18. Although the RSG settlement for 2020/21 was set at -£397,000 the Government did not require this amount to be paid over.

The non-specific Grant funding received from the Ministry for Housing, Communities and Local Government for the year was a New Homes Bonus of £702,000. This had again reduced by another £119,000 (14%) under the revised 2017 scheme, particularly due to the high value year of 2016/17 dropping out of the calculation.

However, the Council did receive Covid Support Funding in the year which included:

- £2 million Sales, Fees & Charges Compensation Grant
- £1.4 million Local Government Support Grant
- £0.4 million of new burdens grants

Government Grants to Services

It was another successful year in terms of securing other specific service grant funding. Examples are shown below.

Funding to fully cover the cost of Disabled Facilities Grants awarded in the year of £451,000

Funding towards homelessness initiatives of £408,000

Funding towards Council Tax Hardship caused by the pandemic of £423,000

Funding towards coastal protection initiatives of £136,000

Income from Services

Discretionary fees and charges were generally increased in 2020/21 where it was deemed feasible to do so. However, whilst some income streams increased in the year, a number of others fell. These changes led to a total income of **£5.1 million** in the year which is a 23% decrease on 2019/20.

Overall income from services, including rental and sales income, was **£13.6 million**; a decrease of 16% on 2019/20.

INCOME SOURCES DECREASING

Parking income fell by **£1.4 million** (63%) compared to 2019/20

Gross income from the trade waste service decreased by **£60,000**

Loss of On-street Parking enforcement income by **£204,000** - this was due to the service returning to Hampshire County Council and is partially offset by reduced costs for the service

Reduction in Recycling income of **£54,000** - this is partly due to the change in the Project Integra arrangements with Hampshire County Council and also the market for recycling of clothing collapsing at the start of the pandemic

INCOME SOURCES INCREASING

Planning application income increased by **£110,000** (20%) compared to 2019/20 - this is due in part to measures being introduced to meet the directives from Natural England to be nitrogen neutral and allowing new residential and overnight accommodation developments to commence

Cemeteries income increased by **£60,000** (30%) due to the sad impact of the pandemic

The effect of the loss of income from services has been offset by Government grant through the sales, fees and charges reduction funding. However, this funding did not apply to commercial activities such as tenants in the investment properties, commercial or industrial estates or tenants at Daedalus. Work was carried out during the year with the tenants to balance protecting the Council's position against

allowing tenants some breathing space to defer rent where necessary.

As part of the emergency budget setting provision was therefore included for over £950,000 for bad debts over a 3-year period to help with the potential loss of income from rents as well as losses through Council Tax and non-payment of Business Rates. At the end of 2020/21 less than half of this provision was required and it is considered that the current bad debt provision is adequate to meet the risks of default currently identified.



Council Tax and Business Rates

The Council increased the rate of Council Tax by £5 for the fifth time since 2016/17. The increase was kept within Government referendum limits. The overall level for Council Tax for a band D property in the Borough was £1,732.02 of which £165.22 related to Fareham Borough Council funding. This compared to £1,599.38 and £160.22 in 2019/20 at which point we had one of the lowest Council Taxes for a District Council when parish precepts are taken into account.

Income due from Business Rates significantly decreased in the year by £18.7 million (41%) due to the Business Rates Discount schemes

introduced by the Government to help businesses through the pandemic. The Council was reimbursed for this loss of income through S31 grants.

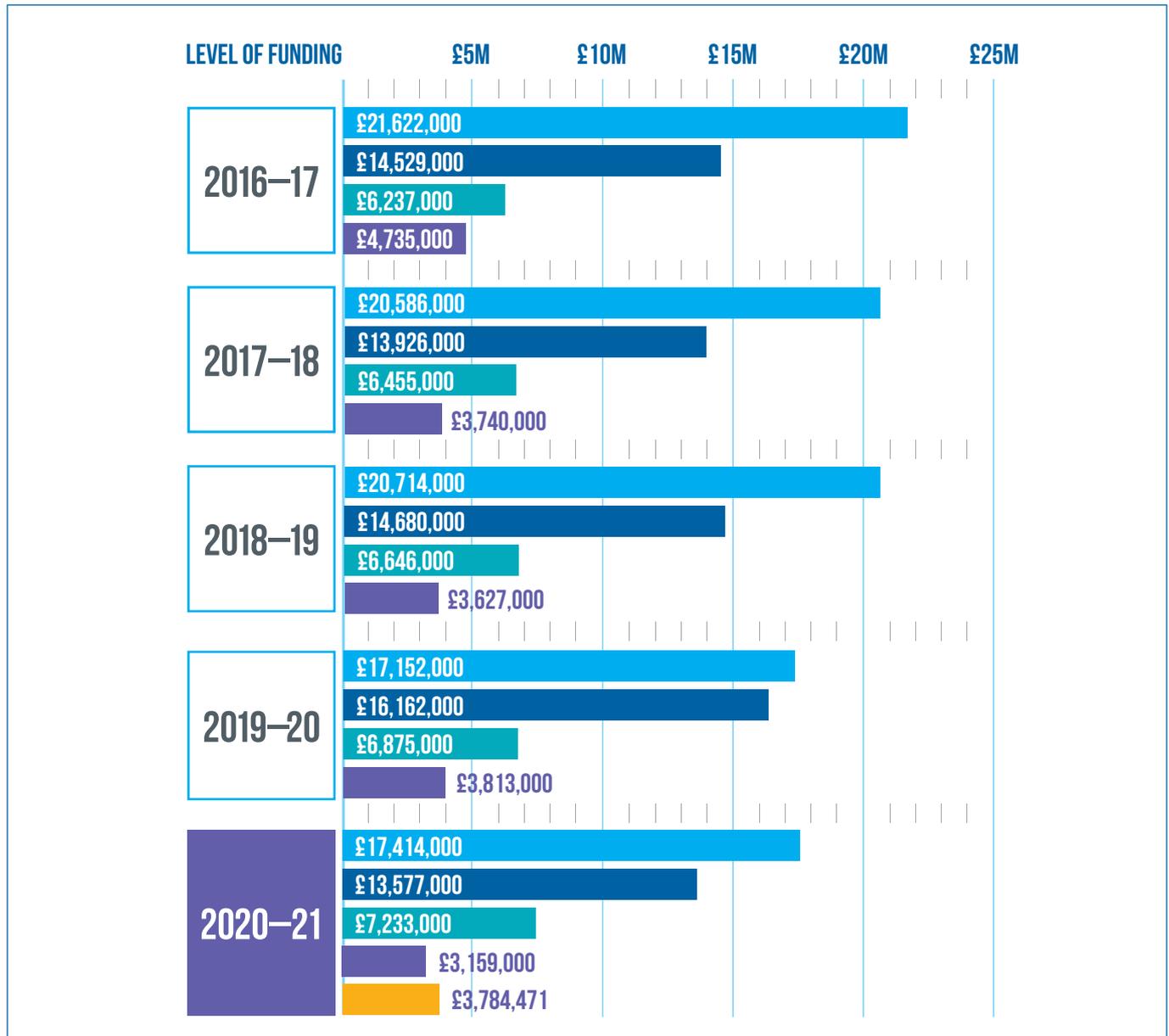
As at the end of March 2021 we had collected 99.4% of Council Tax due and 92.5% of Business Rates due. This compares to 98.4% (Council Tax) and 98.9% (Business Rates) in 2019/20 and seems to show that the pandemic has had a greater impact on the ability of businesses to pay than the residents. The Council was also unable to pursue debts through the courts until the end of 2020/21 due to the impact of lockdown on the judicial system, which is ongoing.



Trends in sources of funding

The diagram below summarises the reduction in general funding from the Government and the greater reliance now placed on local sources of income. It also shows the significance of the Covid support funding in 2020/21.

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

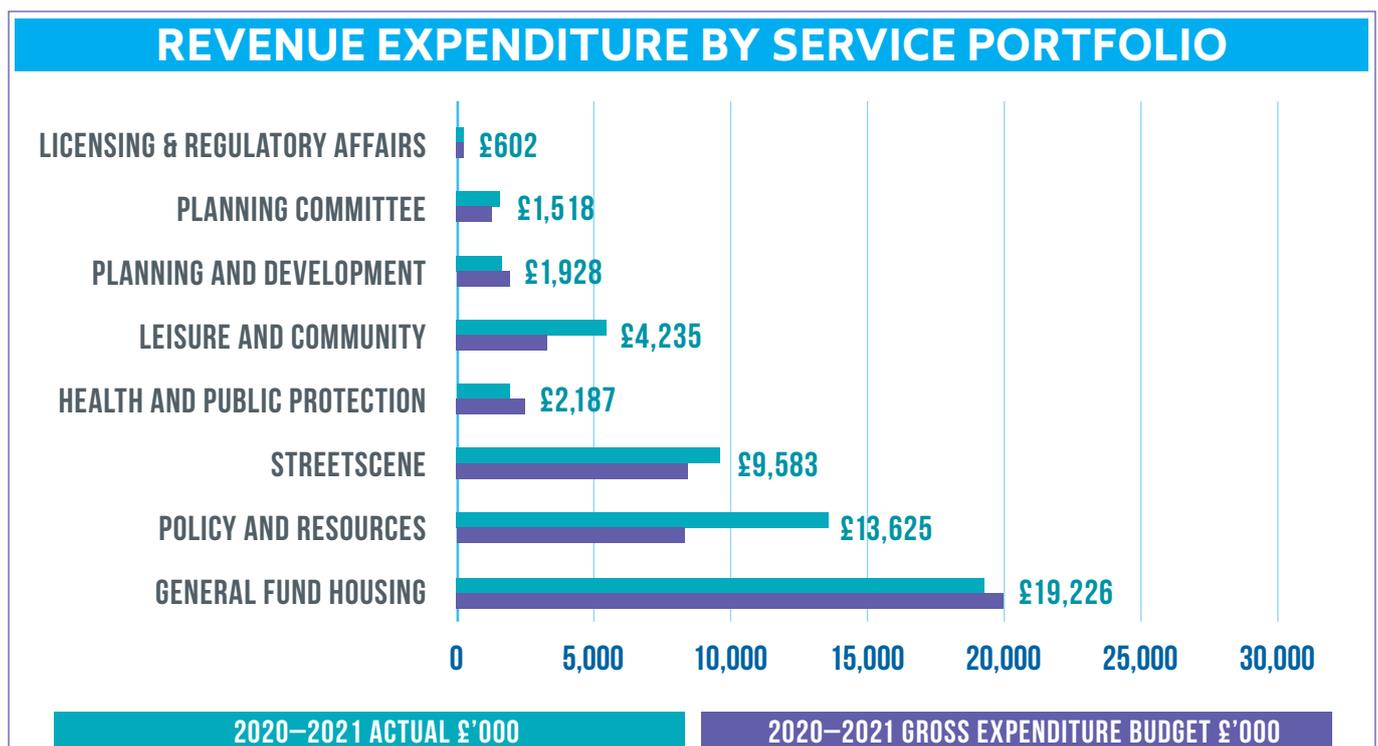




Revenue Spending on Services in 2020/21

The following chart shows how money has been spent across the Council's services. Spend on employees dropped to 21% of the total spend

spent across the Council's services, compared to 27% last year.



Snapshot of services provided in 2020/21



Service changes, challenges and successes

It was a year with a considerable number of challenges.

As well as the Covid-specific responses mentioned earlier, other financial and non-financial service changes, challenges and successes included:

- the Council developed a carbon reduction action plan to mitigate and adapt to the impacts of climate change. Delivery of the plan will be overseen by a member Scrutiny Panel;
- the Council continued to work with other bodies in the Solent area, including the Hampshire and Isle of Wight Wildlife Trust, to address the Natural England judgement on nitrogen neutrality and allow residential developments to recommence;
- the CCTV and Community Safety review was completed which resulted in more focused CCTV provision and enforcement, whilst saving the Council approximately £45,000 each year;
- additional spend was needed to maintain the Waste and Recycling services due to the need to introduce social distancing measures, such as extra vehicles to keep personnel separated;
- there have been a number of high-profile planning appeals during the year which, as they were undertaken virtually, took longer than they would face-to-face leading to an increase in costs;
- there was an increased demand on the homelessness service mainly as a result of the pandemic. Some costs have been offset by grant received from Government but there was still a high impact on the Bed and Breakfast budget;
- it was another successful year for the Portchester Crematorium which generated a surplus leading to an increased contribution of £200,000 to the Council;



- during the year, six Council homes were sold under the Right to Buy scheme (16 in 2019/20) and a further two sold on the open market. One shared ownership property was fully acquired by its owner. Seven other properties that were 100% in private ownership were bought back along with three shared ownership homes;
- there were still high levels of public engagement throughout the year. Over 2,500 people responded to nine consultations and virtual events including responses to the Local Plan, naming of Fareham Live and the Balancing the Books consultation about the way forward for funding the Council in future years.

HAVE YOUR SAY ON REVISIONS TO OUR LOCAL PLAN

The Local Plan sets the framework for housing, employment, retail and green spaces across the Borough until 2037. Once adopted it will be used to approve or refuse planning applications

The Council has sought your views throughout the preparation of this Local Plan. This new consultation provides an opportunity to comment on specific questions or tests

LEGAL COMPLIANCE Does the Plan meet the legal requirements, or is an amendment set out by planning and environmental laws?

SOUNDNESS Has the Plan been positively prepared? Is it justified, effective and consistent with national policy?

DUTY TO COOPERATE Has the Council engaged and worked actively with neighbouring authorities and statutory bodies?

For more information, including details of the proposals and links to the supporting evidence, visit our virtual exhibition at:
www.fareham.gov.uk/localplanconsultation

**DEADLINE
30 JULY**

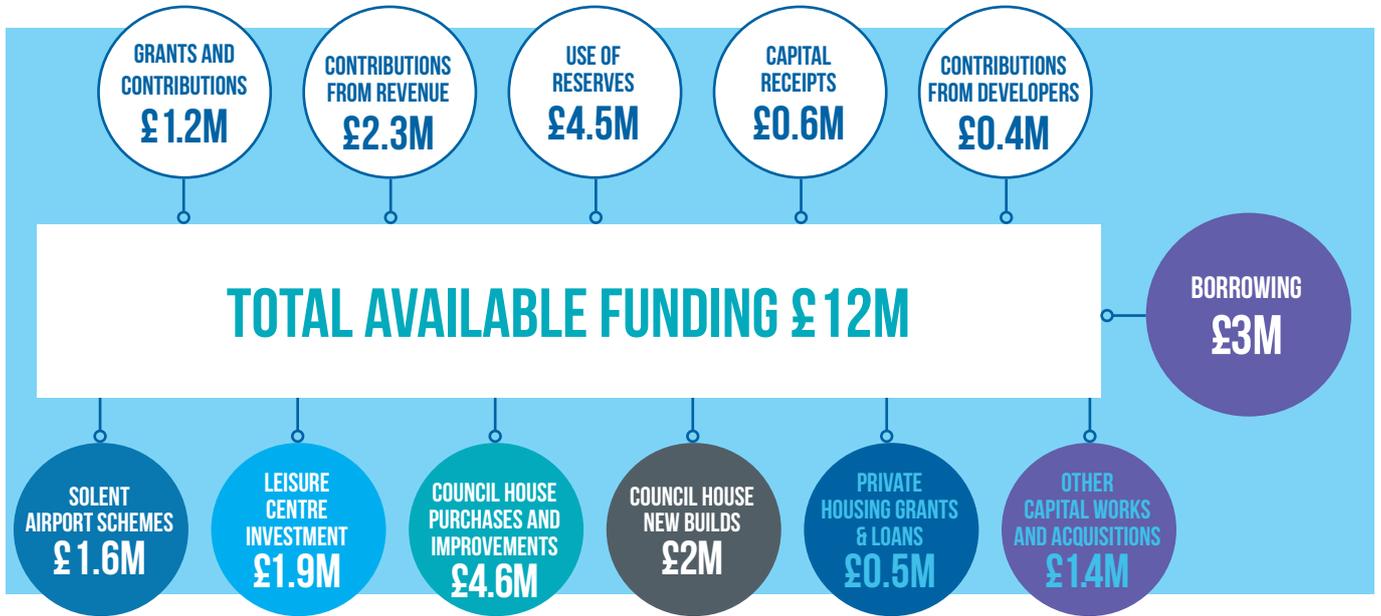
Dependent on the latest Covid-19 restrictions, we are also hoping to hold physical meetings and exhibitions about the Plan. Details of these meetings will be published on our website and social media pages as soon as it is confirmed that they can go ahead. [Facebook](https://www.facebook.com/farehambc) [Instagram](https://www.instagram.com/farehambc) [TikTok](https://www.tiktok.com/@farehambc) [YouTube](https://www.youtube.com/farehambc)

FAREHAM
BOROUGH COUNCIL

Major projects and Capital finances 2020/21

There was a reduced spend on the Capital programme in 2020/21 totalling just over £12 million compared to £22 million in the previous year.

There was no further investment in Commercial Property acquisitions in the year, and the most significant area of spend was for Council House purchases and improvements.



Significant projects

WELBORNE

In 2020/21 the Council continued to resource activities to support the development of the site in the north of the Borough to deliver up to 6,000 more homes. The new community of Welborne has been given ‘Garden Village’ status by the Government. As part of this initiative there have been specific funding opportunities including:

- **£1,304,000 Capacity Funding and Garden Towns and Village funding received (including £130,000 for 2020/21);**
- **potential recoverable grant of up to £42 million, towards the motorway junction works;**
- **£36,850 from the Heat Network Delivery Unit for a technical feasibility study into a heat network at Welborne.**

£725,281 of grant funding has now been used to progress the work streams involved with the development including:

- **working with the master developer to achieve outline planning permission for the Scheme from the Planning Committee in October 2019 which was further updated in January 2021;**
- **working with consultees and the master developer to resolve the remaining delivery issues for the Section 106 agreement and the reserved matters application;**





- working with the master developer, Government and the Highways authority to agree the funding model for the recoverable grant and the investment model for affordable housing in the Borough;
- assisting with developing and refreshing accompanying strategies for the community development, placemaking and housing mix for the new community, including a Strategic Design Code for the development.

NEW COMMUNITY, ARTS AND ENTERTAINMENT VENUE

Ferneham Hall, in the Borough, is being remodelled to deliver the vision of a new community, arts and entertainment facility for Fareham. During 2020/21 the venue was renamed “Fareham Live” following a public vote. However, in November 2020 members paused the project, and put spending on hold, to allow for the implications of the pandemic to be assessed. Prior to this, spend in year was £248k for ongoing consultancy fees.

In recent months, detailed negotiations have recommenced with the future operator regarding a sustainable model of operation going forward.

Capital costs for the design of the new venue, originally estimated to be £12 million, have also been reviewed following an increase in raw material costs and building resources.

The Council has also spent time making a Government Funding Application which, if successful, will release the CIL contributions put aside for the build for other projects.

DAEDALUS

Developments at the former naval airfield at Daedalus, now comprised of Solent Airport, Faraday Business Park, Daedalus Common and an adjacent play area, have continued in 2020/21. Activity in the year included:

- further investment in the assets and infrastructure across the site of over £1.5 million including:
 - £1.1 million investment in Faraday Business Park
 - £227,000 site wide investment; and
 - £216,000 spend on the improvement to the West Gate
- Daedalus Common play area opened;
- maintaining 70% occupancy throughout most of the year at Fareham Innovation Centre;

- progressing construction of the IFA2 electricity converter station under an agreement with the National Grid to increase clean energy provision for the UK by 2020/21. In exchange they are making a significant contribution to the provision of Daedalus Common;
- FISO (flight information safety officer) air traffic control system going live;
- on-site development of speculative commercial units, being supported by an active marketing campaign.

There was a net underspend for the year mainly due to one-off income receipts for IFA2 and cost recovery from Hampshire County Council. Contributions to the running costs of the airfield in 2020/21 included:

- hangar and property rents (£911,000);
- site fees and charges, including landing fees and hangarage (£185,100);
- Fareham Innovation Centre gross fees and charges (£823,600);
- Service Charges (£66,800);
- net income from fuel sales (£87,900).

However, the Covid pandemic did impact on the ability to collect all this income due and there were additional legal restrictions imposed in the year by the Government which restricted what debt recovery action was possible. Increased debt monitoring and working with businesses was carried out throughout the year. However, there are still some significant debts outstanding which are being covered by the increased bad debt provision in the year.



OTHER SIGNIFICANT CAPITAL PROJECTS

- £6.5 million has been spent on new housing developments, with help from funding from Homes England. The housing development at Oak Tree Close was completed along with six of 18 units at Rose Court (Highlands Road). The former single house dwelling at 123 Bridge Road was converted to provide five units for temporary accommodation;
- £1.9 million has been invested in the Council's two Leisure Centres;
- a further £114,000 has been spent on the ICT development programme including updating the sound systems in the committee rooms and upgrading servers and the network.

Outlook for the Future: risks and pressures

The Medium-Term Finance Strategy (MTFS) for 2021/22, developed in January 2021, incorporated the work being achieved through the Opportunities Plan to date, with projects such as the introduction of charges for coastal parking and Green Waste collection feeding through to the 2021/22 budgets.

However, despite such initiatives, the MTFS recognised that the Council will continue to face financial pressures and forecast a projected shortfall of £1.7m in the final three years of the strategy, even if Council Tax continues to rise by £5 a year.

General risks and pressures recognised in the MTFS include:

The full impact of the Fair Funding Review on the Council's core funding sources is not known. However, the New Homes Bonus payments are expected to carry on reducing and end by 2023/24

The funding needs of the Council's corporate priorities have not been fully costed and built into the budgets

While the Council's capital resources are expected to exceed planned capital expenditure at the end of the programme period, future spending requirements could give rise to a shortfall. It is therefore imperative that capital reserves are replenished whenever possible in order to meet the future spending needs

Hampshire County Council is also having funding pressures, and some of the decisions they may need to take may impact on Fareham Borough Council's finances

There are also significant future pressures that have not yet been built into the forecasts such as the impact of future population increases in the Borough on Council services; the continued migration of the benefits process to Universal Credit and the centralisation of the Land Charges service

Continued Covid Impact 2021/22

The trends in Covid-related increased expenditure and reduced income have continued into 2021/22 and income streams such as car parking may never recover. In the first three months of the year car parking is already showing a 30% reduction in income.

The Local Government Finance Settlement was announced on 17 December 2020 and included some details of how Covid support would be available into 2021/22 as follows:

The basic level of Covid support will continue and it is anticipated that the Council will receive a further £451,000 in 2021/22

The Sales, Fees and Charges Support scheme will continue through into the first quarter of 2021/22 and will be based on the 2020/21 budget figures for income. This has been estimated to deliver a further £300,000 for 2021/22

A one-off Lower Tier Services Grant will be offered to ensure a minimum amount of funding is provided. Fareham as a lower tier authority will receive a sum of just over £150,000 in 2021/22

However, this support will not be sufficient to bridge the funding gap forecast for 2021/22 and the Council is anticipating the need to use nearly £2 million of its reserves to balance the budget. This is primarily earmarked to come from the Spending Reserve.

Long Term Risks to the Council

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

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

During 2021/22, the success of these plans will be reviewed and any further work streams needed will

be identified along with the financial implications. In particular activity has been continuing in relation to Financial Recovery, Economic Recovery, workforce planning, capital projects that are still on hold and social distancing measures for democratic meetings.

While a gradual return of most income streams is anticipated, and as costs return to normal operational levels, the Council is not anticipating that this will necessarily be to the levels previously observed or budgeted.

The Council obtains regular updates from its Treasury Advisers to update the forecasts for the general economy to feed into the Medium-Term Finance Strategy.

The economic uncertainty presents a significant financial challenge as demand for welfare services increases and income-generating services may decline, particularly in those areas that are more susceptible to economic fluctuations (such as building regulations applications and commercial property).

It is also possible that this could have a long-term impact on availability of broader funding streams, such as Government support and Business Rates.



Financial Outlook, Reserves, Financial Performance and Reporting

Going forward, the approach to Financial Recovery will be to continue to assess the financial impact of Covid and non-Covid pressures and take measures, to protect the Council's financial standing and ensure its position as a going concern is not compromised.

The Council will also continue to strive to maximise the benefit achievable from any residual reserves it has to deliver the corporate priorities and support the overall Council's financial position in the longer term.

The forecasts in the Medium-Term Finance Strategy (MTFS) are being regularly updated and discussed to ensure there is clarity about the scale of the financial exposure, together with the opportunities available to minimise costs and secure funding support.

They will also monitor the likelihood that the Council's reserves will continue to be needed to maintain a balanced budget over the coming years and any risk to being able to maintain a healthy level of reserves.

The predictions are being shared with the Senior Management Team and members to agree action as appropriate.

The current predictions show that, despite all the actions taken to date, there is likely to be a funding shortfall starting in 2022/23, if no action is taken. Whilst there are General Fund reserves in place to meet this shortfall, a prudent financial management approach will be taken to address this position.

In particular, the Opportunities Plan work has been extended to continue to find further ways to reduce costs and increase income from the Council's services.

Actions are also being taken to continually improve financial forecasting processes including:

Investment in a modern financial management system which is to be implemented by March 2022. This includes integrated budgeting and forecasting tools to assist the finance teams in providing timely and accurate financial predictions

Improved quality of financial reporting to budget holders to assist them in knowing and understanding their spend, and identifying where timely action is needed to prevent budget spending pressures

Integrated financial reporting and drill downs for finance team to quickly review areas of spend and income trends

Looking for opportunities to learn from others (eg other councils and software suppliers) on ways to maximise the effectiveness of our budgeting and forecasting processes

“The current predictions show that, despite all the actions taken to date, there is likely to be a funding shortfall starting in 2022/23...”

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 2021. 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 2020/21, which in turn is underpinned by International Financial Reporting Standards.

The Core Financial Statements are:

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

BALANCE SHEET

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

MOVEMENT IN RESERVES STATEMENT

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

CASH FLOW STATEMENT

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

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

The Supplementary Financial Statements are:

HOUSING REVENUE ACCOUNT

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

COLLECTION FUND

- Summarises the collection of Council Tax and Business Rates, and the redistribution of some of that money to central Government, Hampshire County Council, Hampshire Fire and Rescue Authority and the Police and Crime Commissioner for Hampshire.

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

Statement of Responsibilities for the Statement of Accounts

The Council's responsibilities

The Council is required to:

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

The Deputy Chief Executive Officer's responsibilities

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

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

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

The Deputy Chief Executive Officer has also:

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

Andrew Wannell CPFA
Deputy Chief Executive Officer

Date: 14 March 2022.

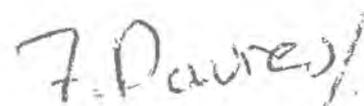


Approval of the Statement of Accounts

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

Councillor Tom Davies
Chairman of the Audit
and Governance Committee

Date: 14 March 2022.





2 CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

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

Gross Exp £'000	2019/20		Note	2020/21		Net Exp £'000
	Gross Income £'000	Net Exp £'000		Gross Exp £'000	Gross Income £'000	
933	(504)	429	Licensing and Regulatory Affairs Committee	602	(184)	418
1,526	(573)	953	Planning Committee	1,518	(669)	849
19,065	(17,597)	1,468	Housing Portfolio	19,226	(17,180)	2,046
6,353	(12,268)	(5,915)	Housing Revenue Account	9,466	(12,573)	(3,107)
3,692	(1,456)	2,236	Leisure and Community Portfolio	4,235	(143)	4,092
2,120	(239)	1,881	Planning and Development Portfolio	1,928	(301)	1,627
8,632	(3,636)	4,996	Policy and Resources Portfolio	13,625	(7,649)	5,976
3,555	(2,413)	1,142	Health and Public Protection Portfolio	2,187	(939)	1,248
8,889	(2,307)	6,582	Streetscene Portfolio	9,583	(2,261)	7,322
54,765	(40,993)	13,772	Cost of Services	62,370	(41,899)	20,471
			Other Operating Expenditure			
		(543)	(Gain)/loss on disposal of assets			(521)
		196	Housing capital receipts			196
			Financing and Investment Income and Expenditure			
		1,489	Interest payable			1,495
		(415)	Interest receivable			(472)
		225	Changes in impairment loss allowance			248
		1,334	Net (gain)/losses on financial assets at fair value through profit and loss			(936)
		1,377	Pension net interest cost	17		1,409
		6,216	Changes in fair value of investment properties	19		3,437
		(4,018)	Investment properties rental and expenses	19		(3,975)
			Taxation and Non-Specific Grant Income			
		(6,908)	Council tax income			(7,186)
		(3,228)	Non-domestic rates income			(2,880)
		(3,434)	Grants and contributions not distributable to services	11		(5,511)
		6,063	(Surplus)/Deficit on Provision of Services			5,775
		(9,672)	(Surplus)/deficit on revaluation of property, plant and equipment assets			(6,007)
		549	Pension liability re-measurements	17		5,309
		(9,123)	Other Comprehensive Income and Expenditure			(698)
		(3,060)	Total Comprehensive Income and Expenditure			5,077

Balance Sheet

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

31 March 2020		31 March 2021
£'000	Note	£'000
	Property, Plant and Equipment	
124,377	- Council dwellings	127,639
91,497	- Other land and buildings	92,714
3,688	- Vehicles, plant and equipment	3,764
1,159	- Infrastructure	1,148
337	- Community assets	335
2,244	- Assets under construction	3,343
64,265	Investment properties	60,301
172	Heritage assets	163
91	Intangible assets	275
10,539	Long term investments	11,475
101	Long term debtors	85
298,471	Total long term assets	301,242
88	Short term investments	83
-	Assets held for sale	280
110	Inventories	102
5,195	Short term debtors	16,953
478	Payments in advance	408
5,297	Cash and cash equivalents	7,151
11,168	Current assets	24,977
-	Bank Overdraft	(625)
(17,659)	Short term borrowing	(15,985)
(11,405)	Short term creditors	(24,993)
(99)	Depositors	(109)
(2,973)	Provisions	(2,743)
(32,136)	Current liabilities	(44,455)
(4,728)	Receipts in advance - capital grants	(4,497)
(2,226)	Receipts in advance - revenue grants	(4,352)
(40,000)	Long term borrowing	(40,000)
(4,421)	Long term creditors	(3,137)
(62,349)	Pension scheme liability	(71,076)
(113,724)	Long term liabilities	(123,062)
163,779	Net assets	158,702
45,148	Usable reserves	52,758
118,631	Unusable reserves	105,944
163,779	Total Reserves	158,702

Certification by the Chief Financial Officer

I certify that the Statement of Accounts presents a true and fair view of the financial position as at 31 March 2021 and its income and expenditure for the year then ended.



Andrew Wannell CPFA, Deputy Chief Executive Officer, 14 March 2022

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 2020	8,221	18,934	798	2,317	8,735	6,143	45,148	118,631	163,779
Movement in reserves in year									
Total Comprehensive Income and Expenditure	(7,760)	-	1,985	-	-	-	(5,775)	698	(5,077)
Adjustments between accounting basis and funding basis under regulations	16,468	-	(2,382)	1	(615)	(87)	13,385	(13,385)	-
Transfers to/(from) earmarked reserves	(7,039)	6,861	178	-	-	-	-	-	-
Increase/(decrease) in year	1,669	6,861	(219)	1	(615)	(87)	7,610	(12,687)	(5,077)
Balance at 31 March 2021	9,890	25,795	579	2,318	8,120	6,056	52,758	105,945	158,702

	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 2019	8,853	16,567	1,301	1,838	7,507	5,668	41,734	118,984	160,718
Movement in reserves in year									
Total Comprehensive Income and Expenditure	(11,478)	-	5,416	-	-	-	(6,062)	9,123	3,061
Adjustments between accounting basis and funding basis under regulations	12,770	-	(5,487)	479	1,228	486	9,476	(9,476)	-
Transfers to/(from) earmarked reserves	(1,924)	2,367	(432)	-	-	(11)	-	-	-
Increase/(decrease) in year	(632)	2,367	(503)	479	1,228	475	3,414	-353	3,061
Balance at 31 March 2020	8,221	18,934	798	2,317	8,735	6,143	45,148	118,631	163,779

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).

2019/20 £'000		Note	2020/21 £'000
(6,063)	Net surplus/(deficit) on the provision of services		(5,775)
21,165	Adjustments to surplus/(deficit) on the provision of services for non-cash movements	32	31,351
(3,555)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	33	(2,974)
11,547	Net Cash Flows from Operating Activities		22,602
	Investing Activities		
(21,695)	Purchase of property, plant and equipment, investment property and intangible assets		(11,506)
(1,000)	Purchase of short and long term investments		-
1,918	Proceeds from property, plant and equipment, investment property and intangible assets		1,781
2,319	Other receipts from investing activities		985
(18,458)	Net Cash Flows from Investing Activities		(8,740)
	Financing Activities		
15,118	Cash receipts of short and long term borrowing		3,339
(1,554)	Other receipts from financing activities		(10,972)
(3,000)	Repayments of short and long term borrowing		(5,000)
10,564	Net Cash Flows from Financing Activities		(12,633)
3,653	Net increase/(decrease) in cash and cash equivalents		1,229
1,644	Cash and cash equivalents at the beginning of the reporting period		5,297
5,297	Cash and cash equivalents at the end of the reporting period		6,526



NOTES TO THE ACCOUNTS

Note 1 Going Concern

The Statement of Accounts has been prepared on a going concern basis with no material uncertainties identified. The Covid-19 restrictions have created significant issues for many businesses and residents and as a result from 1 April 2020 and into the 2021/22 financial year, Council income was affected detrimentally as payers sought to defer payments or were unable to pay at all.

Some of our income losses were offset through grant income and almost £2 million was received to cover income shortfalls. Through our assessment we have identified areas that we expected income losses in 2020/21 and the impact of those losses is detailed below:

- Car Parking – there has been a 63% reduction in income over the year which in cash terms was a £1.4 million reduction. This has continued into 2021/22 with the first 3 months of the year showing a 30% reduction in income although this is almost £200,000 higher than at the same point in 2020/21.
- Trade Waste – this service saw a smaller reduction of 7% of budgeted income lost at a value of £60,000.
- Commercial Income – The loss on commercial income was not as big as expected although many businesses had revised payment arrangements some of which will continue into 2021/22 and beyond. Lost revenue from the Council's treasury investments of £136,000 for the financial year was predicted but due to additional cash sums being received during the year from Government this loss was only £35,000.

The Council has incurred £350,000 of one-off additional expenditure, as remote working arrangements were mobilised, and social distancing/control measures were put in place and enhanced cleaning regimes.

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

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

The Government committed to support local authorities financially, recognising the key role they play in responding to the crisis and the impact that it has had on local service delivery. During 2020/21, the Council received £1.8 million of Covid-19 support grants and received an additional £2 million in specific grants and the reimbursement of lost income, bringing the total Government support to £3.8 million.

An Emergency Revised 2020/21 Budget and Financial Recovery Plan was presented to the September 2020 Executive. The financial impact for 2020/21 was estimated to be £3.6 million. With Government funding support received during the year, the requirement to draw from reserves didn't materialise. In 2021/22, there is anticipated Government funding of £750,000 to be received with a contribution of £1.8 million from reserves being required to meet the ongoing costs to the Council.

The Council's revised 5-year financial forecast for the Medium-Term Finance Strategy (MTFS) was presented to the October 2020 Executive taking into account the future impacts of the pandemic and other operational changes. The MTFS will be updated during 2021/22 to take into account continuing events and the impact on services and Council reserves. With no indication that further Government funding will be available beyond 2021/22, the Council will either use reserves to stabilise the budget next year or look at alternative measures through further cost savings or revenue generation.

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

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

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

There has been a less significant impact of Covid-19 on the Housing Revenue Account which made a deficit of £219,000 against an original budgeted surplus of £166,000 for 2020/21.

As the economy has changed significantly since the Covid-19 pandemic, capital investment plans were revisited to determine if the original business cases remain sound. Budget phasing was reviewed and the updated programme for 2020/21 was £13.6 million compared to the original programme of £32.7 million.

The Council has undertaken cash flow modelling through to March 2023 which demonstrates the Council's ability to work within its authorised borrowing limit of £152 million in 2021/22 and £161 million in 2022/23. Based on its cash flow forecasting and the resultant liquidity position, the Council expects to have short-term borrowings of approximately £15 million at 31 March 2022, an increase of £2m on last year with £3m longer-term planned borrowing for the Housing Revenue Account. The Council's short-term borrowing continues to be for financing capital expenditure and is not expecting to borrow specifically for Covid-19. The Council will actively manage the cash position through daily treasury management controls and has access to short-term borrowing from other local authorities and the Public Loans Work Board to meet its liquidity needs.

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

Note 2 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Deputy Chief Executive Officer (Section 151 Officer) on 14 March 2022. 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 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 3 Expenditure and Funding Analysis

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

2019/20			2020/21			
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	
404	25	429	Licensing and Regulatory Affairs Committee	412	6	418
832	121	953	Planning Committee	834	15	849
1,257	211	1,468	Housing Portfolio	1,991	55	2,046
(3)	(5,912)	(5,915)	Housing Revenue Account	(3,919)	812	(3,107)
1,036	1,200	2,236	Leisure and Community Portfolio	1,461	2,631	4,092
1,684	197	1,881	Planning and Development Portfolio	1,521	106	1,627
(1,167)	6,163	4,996	Policy and Resources Portfolio	2,006	3,970	5,976
462	680	1,142	Health and Public Protection Portfolio	1,657	(409)	1,248
5,140	1,442	6,582	Streetscene Portfolio	5,773	1,589	7,322
9,645	4,127	13,772	Cost of Services	11,696	8,775	20,471
(10,677)	2,968	(7,709)	Other Income and Expenditure	(20,007)	5,311	(14,696)
(1,032)	7,095	6,063	(Surplus)/Deficit	(8,311)	14,086	5,775
(26,722)			Opening General Fund and HRA Balance at 1 April	(9,019)		
1,135			Less Surplus/(Deficit) on General Fund and HRA Balance in Year	(8,311)		
(2,365)			Less Transfers (to)/from Earmarked Reserves	(6,861)		
(27,952)			Closing General Fund and HRA Balance at 31 March	(10,470)		

Note 4 Note to the Expenditure and Funding Analysis

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

2020/21				
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	6	-	-	6
Planning Committee	15	-	-	15
Housing Portfolio	55	-	-	55
Housing Revenue Account	191	621	-	812
Leisure and Community Portfolio	2,631	-	-	2,631
Planning and Development Portfolio	106	-	-	106
Policy and Resources Portfolio	3,970	-	-	3,970
Health and Public Protection Portfolio	(409)	-	-	(409)
Streetscene Portfolio	1,589	-	-	1,589
Net Cost of Services	8,154	621	-	8,775
Other income and expenditure from the Expenditure and Funding Analysis	(3,226)	2,797	5,740	5,311
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	4,928	3,418	5,740	14,086
2019/20				
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	-	25	-	25
Planning Committee	-	121	-	121
Housing Portfolio	27	184	-	211
Housing Revenue Account	(4,435)	528	(2,005)	(5,912)
Leisure and Community Portfolio	1,165	75	(40)	1,200
Planning and Development Portfolio	88	109	-	197
Policy and Resources Portfolio	8,221	314	(2,372)	6,163
Health and Public Protection Portfolio	584	96	-	680
Streetscene Portfolio	1,057	385	-	1,442
Net Cost of Services	6,707	1,837	(4,417)	4,127
Other income and expenditure from the Expenditure and Funding Analysis	(1,384)	1,377	2,976	2,969
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	5,323	3,214	(1,441)	7,096

Notes

1) Adjustments for Capital Purposes:

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

Other Income and Expenditure from the Expenditure and Funding Analysis

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

2) Net Changes for the Pension Adjustments:

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

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

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

3) Other Differences:

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

Note 5 Expenditure and Income Analysed by Nature

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

Expenditure/Income	2020/21 £'000	2019/20 £'000
Expenditure		
Employee benefits expenses	16,507	16,923
Other services expenses	45,793	45,266
Support service recharges	(914)	(749)
Interest payments	1,818	1,819
Depreciation, amortisation and impairment	6,275	948
Gain/loss on financial assets	(936)	1,334
Payments to housing receipts pool	196	196
Gain/loss on the disposal of assets	(521)	13
Total Expenditure	68,218	65,750
Income		
Fees, charges and other service income	(26,034)	(28,242)
Interest and investment income	(662)	(721)
Income from council tax and non-domestic rates	(10,066)	(10,136)
Government grants and contributions	(25,681)	(20,588)
Total Income	(62,443)	(59,687)
(Surplus)/Deficit on Provision of Services	5,775	6,063

Note 6 Segmental Income

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

Services	2020/21 £'000	2019/20 £'000
Licensing and Regulatory Affairs Committee	184	504
Planning Committee	669	573
Housing Portfolio	959	871
Housing Revenue Account	12,573	12,268
Leisure and Community Portfolio	143	1,456
Planning and Development Portfolio	49	63
Policy and Resources Portfolio	4,015	3,440
Health and Public Protection Portfolio	876	2,359
Streetscene Portfolio	2,261	2,307
Total Income Analysed on a Segmental Basis	21,729	23,841

Note 7 New Accounting Standards yet to be adopted

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

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16

These amendments are minor and not expected to have a material impact on the Statement of Accounts.

Note 8 Critical Judgements in Applying Accounting Policies

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

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

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

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

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

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

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

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

Covid-19 Business Grants – As part of the Covid-19 response, the government announced a range of grant schemes to support local businesses. The Council, as billing authority, were responsible for paying over the grants to the businesses and were then reimbursed by government under Section 31 of the Local Government Act 2003. The Council has made judgements about the treatment of these grants and whether the Council is acting as a principal or agent. Of the £35.1 million grants received during 2020/21, £30.5 million were treated as agent transactions, of which £25.5 million were applied and the balance of £5 million shown as a government creditor. £4.6 million were treated as principal transactions, of which £2.7 million were applied and the balance of £1.9 million shown as receipts in advance.

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

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

The items in the Council's Balance Sheet at 31 March 2021 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 £408,379 (2019/20 £337,000) for every year that useful lives had to be reduced.
Investment Property	The Council's valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available.	Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date. If the value of the Council's investment properties were to reduce by 10% this would lead to a reduction in value of £6 million.
Council Dwellings	Council dwellings are valued based on a beacon methodology. Each beacon property is considered individually using comparable properties to give evidence of value, utilising sales figures from the Land Registry, marketing details from local estate agents and regional and national indices.	A reduction in the estimate value of Council dwellings would be a reduction in the revaluation reserve or a loss in the Comprehensive Income and Expenditure Statement. If the value of dwellings were to reduce by 10% this would lead to a reduction in value of £12.8 million.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. Note 17 provides details of the impact of changes to the key assumptions.
Financial Assets and Liabilities	Estimation of fair values for financial assets and liabilities are based on current lending rates for equivalent loans and investments. These are provided by the Council's treasury advisors.	Fair value estimates do not apply to instruments which mature 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 £2.2 million (2019/20 £2 million) based on what it believes to be a prudent but realistic level. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £110,000 (2019/20 £100,000).

uncertainty about the economic viability of debtors and hence their ability to settle their debts.

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 £29,900 (2019/20 £26,600).
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 £6.1 million (2019/20 £6.8 million) for these refunds within the Collection Fund. The Council's share of the provision is £2.4 million (2019/20 £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 £244,400 (2019/20 £270,800).

Note 10 Adjustments between Accounting Basis and Funding Basis under Regulation

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

2020/21	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
Capital Adjustment Account							
Depreciation and impairment of non-current assets	3,482	-	2,691	-	-	-	(6,173)
Revaluation losses on property, plant and equipment	4,504	-	730	-	-	-	(5,234)
Revaluation of investment properties	3,408	-	29	-	-	-	(3,437)
Amortisation of intangible assets	-	-	5	-	-	-	(5)
Capital grants and contributions applied	(821)	-	(478)	-	-	(260)	1,559
Revenue Expenditure funded from capital under statute	451	-	-	-	-	-	(451)
Property written out on disposal	-	-	533	-	-	-	(533)
Statutory provision for the financing of capital investment	(1,101)	-	-	-	-	-	1,101
Capital expenditure charged to the General Fund and HRA Balances	(1,277)	-	(2,767)	-	-	-	4,044
Capital Grants Unapplied Account							
Capital grants and contributions unapplied	(173)	-	-	-	-	173	-
Capital Receipts Reserve							
Proceeds from disposal of property	-	-	(1,055)	-	1,055	-	-
Capital receipts applied	-	-	-	-	(2,228)	-	2,228
Housing and other capital receipts	(738)	-	-	-	754	-	(16)
Payments to the Government housing capital receipts pool	196	-	-	-	(196)	-	-
Major Repairs Reserve							
Depreciation re-credited to HRA	-	-	(2,691)	2,691	-	-	-
Major Repairs Reserve to finance new capital expenditure	-	-	-	(2,690)	-	-	2,690
Pension Reserve							
Net charges for retirement benefits	4,873	-	1,033	-	-	-	(5,906)
Employer's contribution to Pension Fund/ to pensioners	(2,076)	-	(412)	-	-	-	2,488
Collection Fund Adjustment Account							
Collection Fund adjustment	6,676	-	-	-	-	-	(6,676)
Accumulated Absences Account							
Accumulated Absences	-	-	-	-	-	-	-
Pooled Fund Adjustment Account							
Financial Assets	(936)	-	-	-	-	-	936
Total Adjustments	16,468	-	(2,382)	1	(615)	(87)	(13,385)

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

Note 11 Grant Income

The Council credited the following grants and contributions over £40,000 to the Comprehensive Income and Expenditure Statement.

Service Specific Revenue Grants and Contributions (included in Cost of Services)	2020/21 £'000	2019/20 £'000
Department for Works and Pensions		
Rent Allowances Subsidy	9,449	9,919
Rent Rebates	5,617	5,818
Housing and Council Tax Benefit Administration	178	173
Discretionary Housing Payments	154	111
New Burdens Grants	59	-
Ministry for Housing, Communities and Local Government		
Discretionary Business Support Grants	2,756	-
Disabled Facilities Grant	451	454
Council Tax Hardship Grant	423	-
Preventing Homelessness Grants	408	294
NNDR Collection Allowance	-	138
Welborne Capacity Funding	130	86
Council Tax Support Administration	90	68
European Regional Development Fund - Public Spaces Recovery Fund	62	-
Test and Trace Grants	60	-
Covid 19 Compliance and Enforcement Grant	41	-
Department for Environment, Food and Rural Affairs		
Air Quality Feasibility Study Grant	23	53
Environment Agency		
Coast Monitoring Grant	136	69
Hampshire County Council		
Emergency Assistance Grants	72	-
Clinically Extremely Vulnerable Individuals Funding	55	-
Other		
Portchester Crematorium	200	160
Developer Contributions	43	-
Total	20,407	17,343
Credited to Taxation and Non-Specific Grant Income		
	2020/21 £'000	2019/20 £'000
Ministry for Housing, Communities and Local Government		
Sales, Fees and Charges Compensation Grant	1,966	-
Covid-19 Support Grants	1,400	34
New Homes Bonus	702	821
New Burdens Business Support Grants	356	-
Other New Burdens and Admin Grants	65	43
Homes England		
Affordable Homes Programme	478	1,037
Daedalus Development	221	109
Other		
Community Infrastructure Levy	173	1,346
Developer Contributions	150	44
Total	5,511	3,434

Note 12 Audit Fees Payable

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

	2020/21 £'000	2019/20 £'000
External audit services	37	37
Certification of grant claims and returns	10	10
Total	47	47

Note 13 Members' Allowances

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

	2020/21 £'000	2019/20 £'000
Basic Allowances	225	220
Special Responsibility Allowances	168	162
Superannuation and National Insurance	19	18
Travelling and Subsistence Allowances	-	4
Conference Expenses	-	1
Internet Rental Allowance	-	1
Total	412	406

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

Note 14 Remuneration of Staff

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

Remuneration Band	2020/21 Number of Employees	2019/20 Number of Employees
£50,000 - £54,999	10	7
£55,000 - £59,999	2	4
£60,000 - £64,999	4	3
£65,000 - £69,999	1	1
£70,000 - £74,999	7	7
£75,000 - £79,999	1	1
£80,000 - £84,999	1	1
£85,000 - £89,999	-	1
£90,000 - £94,999	-	3
£95,000 - £99,999	2	-
£105,000 - £109,999	1	-
£110,000 - £119,999	1	1
£135,000 - £139,999	1	-
£140,000 - £144,999	-	1

Note 15 Senior Officer Emoluments

Post Title	Salary inc fees and allowances £	Expense Allowances £	Total remuneration excl pension contributions £	Pension contributions £	Total remuneration incl pension contributions £
2020/21					
Chief Executive Officer (1)	137,418		137,418	26,308	163,726
Deputy Chief Executive Officer (1)	118,432	-	118,432	21,085	139,517
Director of Support Services	108,775	-	108,775	19,984	128,759
Director of Planning and Regulation	95,981	441	96,422	18,524	114,946
Director of Leisure and Community (1)	95,411	-	95,411	18,424	113,835
	556,017	441	556,458	104,325	660,783
2019/20					
Chief Executive Officer (1)	139,950	263	140,213	21,359	161,572
Deputy Chief Executive Officer (1)	110,699	-	110,699	17,340	128,039
Director of Planning and Regulation	93,412	441	93,853	15,039	108,892
Director of Support Services	90,205	-	90,205	14,513	104,718
Director of Leisure and Community (1)	87,196	143	87,339	13,556	100,895
	521,462	847	522,309	81,807	604,116

Notes:

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

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

Note 16 Termination Benefits

The Council terminated the contracts of a number of employees in 2020/21, incurring liabilities of £37,435 (£635,693 in 2019/20). 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	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
£0 - £20,000	-	22	9	11	9	33	£37,435	£120,462
£20,001 - £40,000	-	5	-	1	-	6	-	£184,139
£40,001 - £60,000	-	1	-	1	-	2	-	£99,087
£80,001 - £100,000	-	1	-	-	-	1	-	£84,305
£140,001 - £160,000	-	1	-	-	-	1	-	£147,700
Total	-	30	9	13	9	43	£37,435	£635,693

Note 17 Pensions

Participation in Pension Schemes

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

The disclosures below relate to the following schemes:

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

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

Contributions for the Accounting Period Ending 31 March 2022

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2022 are estimated to be £2.42 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 2022, the Employer expects to pay £0.19 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	
	2020/21	2019/20	2020/21	2019/20
	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Statement:				
Cost of Services				
- Current service cost	4,378	4,441	-	-
- Past service cost	119	72	-	-
Financing and Investment Income and Expenditure				
- Interest net defined benefit liability	1,350	1,313	59	64
(Surplus)/deficit on the provision of services	5,847	5,826	59	64
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	(26,596)	5,923	-	-
Actuarial (gains)/losses due to:				
- Changes in financial assumptions	33,780	(4,324)	193	(21)
- Changes in demographic assumptions	-	(4,519)	-	(43)
- Liability experience	(2,034)	3,438	(34)	95
Total amount recognised in Other Comprehensive Income and Expenditure	5,150	518	159	31
Total Amount Recognised	10,997	6,344	218	95
Movement in Reserves Statement:				
Reversal of net charges made to the surplus/(deficit) in accordance with the Code	(5,847)	(5,826)	(59)	(64)
Actual amount charged against the General Fund				
Balance for pensions in year:				
Employers' contribution payable to scheme	(2,294)	(3,109)	-	-
Retirement benefits payable to pensioners	-	-	(194)	(205)

Pension Assets and Liabilities Recognised in the Balance Sheet

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

	Funded Benefits		Unfunded Benefits	
	2020/21	2019/20	2020/21	2019/20
	£'000	£'000	£'000	£'000
Fair value of assets	145,162	117,287	-	-
Present value of defined benefit obligation	213,550	176,972	2,688	2,664
Funded status	(68,388)	(59,685)	-	-
Liability recognised on the Balance Sheet	(68,388)	(59,685)	(2,688)	(2,664)

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

Active members	35%
Deferred Pensioners	18%
Pensioners	47%

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

	Funded Benefits		Unfunded Benefits	
	2020/21 £'000	2019/20 £'000	2020/21 £'000	2019/20 £'000
Opening balance at 1 April	117,287	120,690	-	-
Interest income	2,680	2,897	-	-
Remeasurement gains and (losses)				
- Return on plan assets, excluding amount included in net interest expense	26,596	(5,923)	-	-
Contributions by the employer	2,294	3,109	194	205
Contributions by participants	838	805	-	-
Benefits paid	(4,533)	(4,291)	(194)	(205)
Closing balance at 31 March	145,162	117,287	-	-

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

	Funded Benefits		Unfunded Benefits	
	2020/21 £'000	2019/20 £'000	2020/21 £'000	2019/20 £'000
Opening balance at 1 April	176,972	177,140	2,664	2,774
Current service cost	4,378	4,441	-	-
Interest expense	4,030	4,210	59	64
Contribution by participants	838	805	-	-
Remeasurement gains and (losses) on liabilities				
- Financial assumptions	33,780	(4,324)	-	-
- Demographic assumptions	0	(4,519)	-	-
- Experience	(2,034)	3,438	159	31
Benefits paid	(4,533)	(4,291)	(194)	(205)
Past service cost	119	72	-	-
Closing balance at 31 March	213,550	176,972	2,688	2,664

Local Government Pension Scheme Assets

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

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

	Asset split at 31 March 2021			Asset split at 31 March 2020
	% Quoted	% Unquoted	% Total	% Total
Equities	49.4	7.6	57.0	52.7
Property	0.8	5.3	6.1	7.3
Government Bonds	17.3	-	17.3	21.8
Corporate Bonds	-	-	-	-
Cash	1.4	-	1.4	2.0
Other	15.9	2.3	18.2	16.2
Total	84.8	15.2	100.0	100.0

Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries. Estimates for the Hampshire County Council Fund are based on the latest full valuation of the scheme as at 31 March 2019 for funded benefits and 31 March 2021 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	
	2021 % p.a	2020 % p.a	2021 % p.a	2020 % p.a
Mortality assumptions:				
Future lifetime from age 65 (aged 65 at accounting date)				
Men	23.1	23.0	23.1	23.0
Women	25.5	24.7	25.5	25.5
Future lifetime from age 65 (aged 45 at accounting date)				
Men	24.8	25.5	n/a	n/a
Women	27.3	27.2	n/a	n/a
Principal financial assumptions (% per annum)				
Discount rate	2.1	2.3	2.1	2.3
CPI inflation	2.7	2.0	2.7	2.0
Pension increases	2.7	2.0	2.7	2.0
Pension accounts revaluation rate	2.7	2.0	n/a	n/a
Salary increases	3.7	3.0	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 2021 and the projected service cost for the year ending 31 March 2022 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)	209.493	213.550	217.821
% change in present value of total obligation	-1.9%		2.0%
Projected service cost (£M)	5.927	6.123	6.325
Approximate % change in projected service cost	-3.2%		3.3%
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)	213.977	213.550	213.123
% change in present value of total obligation	0.2%		-0.2%
Projected service cost (£M)	6.123	6.123	6.123
Approximate % change in projected service cost	0.0%		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)	217.180	213.550	209.920
% change in present value of total obligation	1.7%		-1.7%
Projected service cost (£M)	6.325	6.123	5.927
Approximate % change in projected service cost	3.3%		-3.2%

Post retirement mortality assumption

	-1 year	Base Figure	+1 year
Adjustment to mortality age rating assumption			
Present value of total obligation (£M)	221.238	213.550	206.076
% change in present value of total obligation	3.6%		-3.5%
Projected service cost (£M)	6.374	6.123	5.878
Approximate % change in projected service cost	4.1%		-4.0%

Note 18 Property, Plant and Equipment

Valuation information

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

The portfolio is revalued on a rolling basis by the Council's own valuers K. Boothroyd MRICS, M. Newman MRICS and S. Farndell MRICS, alongside external valuers Carter Jonas.

The various sites at Daedalus were revalued by M. Newman MRICS to 31 March 2021.

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	-	1,764	12,342	14,106
2016/17	-	10	-	10
2017/18	-	292	-	292
2018/19	-	1,483	-	1,483
2019/20	-	1,662	-	1,662
2020/21	130,217	91,059	-	221,276
Total	130,217	96,270	12,342	238,829

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

Council dwellings were re-valued as at 31 March 2021. 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 2021, the Council had entered into a number of contracts for the construction, purchase or enhancement of Property, Plant and Equipment in 2021/22 and future years, budgeted to cost £13.8 million. Similar commitments at 31 March 2020 were £2.3 million. The major commitments are Faraday Business Park at Daedalus and the refurbishment of Fareham Leisure Centre.

Movement in Non-Current Assets 2020/21

	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 2020	126,886	95,075	11,791	2,143	377	2,244	238,516
Additions	4,398	2,792	964	6	-	3,074	11,234
Revaluation increases/(decreases) to RR	-	3,317	-	-	-	-	3,317
Revaluation increases/(decreases) to SDPS	(3,238)	(4,504)	-	-	-	-	(7,742)
Derecognition – Disposals	(544)	-	(413)	-	-	-	(957)
Reclassified to/from Held for Sale	-	-	-	-	-	-	-
Other movements	2,715	(410)	-	-	-	(1,975)	330
At 31 March 2021	130,217	96,270	12,342	2,149	377	3,343	244,698
Depreciation and impairment							
At 1 April 2020	2,509	3,578	8,103	984	40	-	15,214
Depreciation Charge	2,588	2,668	888	17	2	-	6,163
Depreciation written out to RR	-	-	-	-	-	-	-
Depreciation written out to SDPS	(2,509)	(2,690)	-	-	-	-	(5,199)
Derecognition – Disposals	(10)	-	(413)	-	-	-	(423)
At 31 March 2021	2,578	3,556	8,578	1,001	42	-	15,755
Net Book Value							
At 31 March 2021	127,639	92,714	3,764	1,148	335	3,343	228,943
At 31 March 2020	124,377	91,497	3,688	1,159	337	2,244	223,302

Movement in Non-Current Assets 2019/20

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

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

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

Note 19 Investment Properties

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

	2020/21 £'000	2019/20 £'000
Rental, sales income and service charges	(4,622)	(4,750)
Direct operating expenses	647	732
Net (gain)/loss	(3,975)	(4,018)

Movement in Fair Value of Investment Properties

	Value at 31 March 2020 £'000	Acquisitions £'000	Change in Value £'000	Re- classifications £'000	Value at 31 March 2021 £'000
Commercial	18,796	-	1,159	(280)	19,675
Leisure	1,202	-	323	(300)	1,225
Office	3,786	84	213	-	4,083
Other	4,403	-	272	(30)	4,645
Retail	36,077	-	(5,404)	-	30,673
Total	64,264	84	(3,437)	(610)	60,301

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

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 2021 £'000
Commercial	-	18,965	710	19,675
Leisure	-	1,198	27	1,225
Office	-	4,083	-	4,083
Other	-	4,561	84	4,645
Retail	-	30,673	-	30,673
Total	-	59,480	821	60,301

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 2021 £'000	31 March 2020 £'000
Property, Plant and Equipment	9,770	9,651
Investment Property	5,605	5,673
Total	15,375	15,324

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 2021 £'000	31 March 2020 £'000
Not later than one year	5,161	5,260
Later than one year and not later than five years	13,846	14,659
Later than five years	43,239	45,807
Total	62,246	65,726

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 2020/21, contingent rents of £0.22 million were received by the Council (2019/20 £0.61 million).

Note 21 Short Term Debtors

	31 March 2021 £'000	31 March 2020 £'000
Central government bodies	9,437	190
Other local authorities	3,171	711
Community Infrastructure Levy	173	1,346
Other entities and individuals	3,135	1,937
Housing benefits overpaid	1,447	1,641
Council tenants arrears	690	668
Council Tax and NNDR arrears	1,282	709
Provision for doubtful debts	(2,382)	(2,008)
Total	16,953	5,195

Note 22 Short Term Creditors

	31 March 2021 £'000	31 March 2020 £'000
Central government bodies	18,048	3,951
Other local authorities	1,945	3,352
Receipts in advance	837	1,138
Other entities and individuals	4,163	2,964
Total	24,993	11,405

Note 23 Provisions

	Balance at 1 April £'000	Provision in year £'000	Applied in year £'000	Balance at 31 March £'000
Business rate appeals	2,708	448	(712)	2,444
Insurance	57	123	(90)	90
Employee related	209	209	(209)	209
Total 2020/21	2,974	780	(1,011)	2,743
Total 2019/20	2,711	691	(428)	2,974

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

Note 24 Receipts in Advance

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

	31 March 2021 £'000	31 March 2020 £'000
Balance at 1 April	6,954	5,833
Movements in year:		
Amounts received (with conditions)	6,153	2,897
Amounts recognised as income (conditions subsequently met):		
- Within Cost of Services	(3,410)	(132)
- Within Taxation and Non-Specific Grants	(849)	(1,644)
Balance at 31 March	8,848	6,954
Receipts in Advance (Capital Grants)		
Leisure developer contributions	1,855	1,855
Homes England	656	1,256
Affordable housing developer contributions	442	442
Other developer contributions	501	540
Other capital contributions	1,043	635
	4,497	4,728
Receipts in Advance (Revenue Grants)		
Discretionary Business Grants	1,872	-
Welborne Garden Village contribution	552	552
National Grid IFA2 developer contribution	495	432
Titchfield Country Park developer contribution	434	477
Air quality grants	431	454
Environment Agency – Hook Lake Habitat Creation	150	256
Sport England – National Leisure Recovery Fund	150	-
Hampshire County Council – Contain Outbreak Mgt Fund	116	-
MHCLG – Test and Trace Grants	97	-
Other revenue contributions	55	55
	4,352	2,226
Total Receipts in Advance	8,848	6,954

Note 25 Transfers to/from Earmarked Reserves

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

	31 March 2019 £'000	Transfers Out £'000	Transfers In £'000	31 March 2020 £'000	Transfers Out £'000	Transfers In £'000	31 March 2021 £'000
General Fund							
Major Repairs and Renewals	1,302	-	-	1,302	-	-	1,302
Other Earmarked Reserves	3,919	(142)	1,930	5,707	(136)	6,923	12,494
Earmarked Capital Reserves	3,895	(979)	1,125	4,041	(1,320)	1,572	4,293
	9,116	(1,121)	3,055	11,050	(1,456)	8,495	18,089
HRA							
Housing Repairs Account	1,500	-	-	1,500	-	-	1,500
Capital Development Fund	3,391	(714)	-	2,677	(1,392)	-	1,285
Debt Repayment Fund	2,280	-	1,140	3,420	-	1,140	4,560
Leaseholder Repairs	280	-	7	287	-	74	361
	7,451	(714)	1,147	7,884	(1,392)	1,214	7,706
Total	16,567	(1,835)	4,202	18,934	(2,848)	9,709	25,795

Note 26 Capital Expenditure and Capital Financing

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

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

2019/20 £'000		2020/21 £'000
90,523	Opening Capital Finance Requirement	103,790
	Capital Investment	
7,877	Property, Plant and Equipment	11,424
13,818	Investment Properties	83
454	Revenue Expenditure Funded from Capital under Statute	451
	Sources of Finance	
(525)	Capital Receipts	(2,228)
(2,503)	Government Grants and Other Contributions	(1,559)
	Sums set aside from revenue:	
(2,155)	HRA Major Repairs Reserve	(2,690)
(2,941)	Direct Revenue Contributions	(4,044)
(758)	Minimum Revenue Provision	(1,101)
103,790	Closing Capital Finance Requirement	104,126
	Explanation of movements in year	
13,267	Increase/(decrease) in underlying need to borrow	336

Note 27 Unusable Reserves

	31 March	
	2021 £'000	2020 £'000
Revaluation Reserve	44,726	39,834
Capital Adjustment Account	141,109	144,222
Pensions Reserve	(71,076)	(62,349)
Collection Fund Adjustment Account	(8,082)	(1,405)
Accumulated Absences Account	(209)	(209)
Pooled Fund Adjustment Account	(525)	(1,461)
	105,944	118,631

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.

2019/20 £'000		2020/21 £'000
30,979	Balance at 1 April	39,834
12,129	Upward revaluation of assets	11,419
(2,457)	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services	(5,412)
9,672		6,007
(557)	Difference between current value depreciation and historical cost depreciation	(1,115)
(261)	Accumulated gains on assets disposed or reclassified to Investment Properties	-
(818)	Amount written off to the Capital Adjustment Account	(1,115)
39,834	Balance at 31 March	44,726

b) Capital Adjustment Account

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

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

2019/20 £'000		2020/21 £'000
147,511	Balance at 1 April	144,222
	Reversal of items relating to capital expenditure in the Comprehensive Income and Expenditure Statement	
(5,694)	Charges for depreciation and impairment of non-current assets	(6,173)
671	Revaluation losses on property, plant and equipment	(5,234)
(5)	Amortisation of intangible assets	(5)
(454)	Revenue expenditure funded from capital under statute	(451)
(1,277)	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	(534)
140,752		131,825
(17)	Amount credited to Capital Receipts Reserve relating to part repayment of principal on long term debtor	(16)
261	Cumulative (gains)/losses on assets sold or reclassified as Investment Properties	-
557	Adjustment amounts written out of the Revaluation Reserve	1,115
141,553	Net written out amount of the cost of non-current assets consumed in the year	132,924
	Capital financing applied in the year	
525	Use of the Capital Receipts Reserve to finance new capital expenditure	2,228
2,155	Use of the Major Repairs Reserve to finance new capital expenditure	2,690
2,504	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,559
759	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,101
2,941	Capital expenditure charged against the General Fund and HRA balances	4,044
150,437		144,546
(6,215)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(3,437)
144,222	Balance at 31 March	141,109

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.

2019/20 £'000		2020/21 £'000
(59,224)	Balance at 1 April	(62,349)
(549)	Actuarial gains or losses on pension assets and liabilities	(5,309)
(5,890)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(5,906)
3,314	Employers' pension contributions and direct payments to pensioners payable in the year	2,488
(62,349)	Balance at 31 March	(71,076)

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.

2019/20 £'000		2020/21 £'000
55	Balance at 1 April	(1,405)
139	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	(1)
(1,599)	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	(6,676)
(1,405)	Balance at 31 March	(8,082)

Note 28 Financial Instruments

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

	Fair Value Level	Long Term		Short Term	
		31 March 2021 £'000	31 March 2020 £'000	31 March 2021 £'000	31 March 2020 £'000
- Borrowing	2	40,000	40,000	15,985	17,659
- Bank overdraft		-	-	625	-
Total Borrowing		40,000	40,000	16,610	17,659
Long Term Creditors		3,137	4,421	-	-
Trade Creditors		-	-	5,714	6,083
Total Financial Liabilities		43,137	44,421	22,324	23,742

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

	Fair Value Level	Long Term		Short Term	
		31 March 2021 £'000	31 March 2020 £'000	31 March 2021 £'000	31 March 2020 £'000
- Investments at amortised cost		-	-	83	88
- Fair value through profit or loss:					
Property funds	2	2,690	2,709	-	-
Multi-asset funds	1	8,785	7,830	-	-
Total Investments		11,475	10,539	83	88
- Cash at amortised cost		-	-	1,751	994
- Fair value through profit or loss:					
Money market funds	1	-	-	5,400	4,303
Total Cash and Cash Equivalent		-	-	7,151	5,297
Long Term Debtors		85	101	-	-
Trade Debtors		-	-	5,745	3,631
Total Financial Assets		11,560	10,640	12,979	9,016

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

Financial Instruments - Fair Values

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

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

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

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

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

The fair values of long term borrowing are:

	31 March 2021		31 March 2020	
	Balance Sheet £'000	Fair Value £'000	Balance Sheet £'000	Fair Value £'000
Borrowing	40,000	54,135	40,000	53,542

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

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

Nature and Extent of Risks Arising from Financial Instruments

Liquidity Risk

The Council manages its liquidity position through the setting and approval of prudential indicators and the treasury and investment strategy (approved by Full Council on 21 February 2020) and through cash flow management which seeks to ensure that cash is available when needed.

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

The maturity analysis of financial instruments is as follows:

Time to Maturity	As at 31 March 2021		As at 31 March 2020	
	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000
Less than 3 months	3,593	7,234	7,640	4,392
3 to 6 months	-	-	-	-
6 months to 1 year	13,017	-	10,019	-
1 to 5 years	-	11,475	-	10,539
Over 35 years	40,000	-	40,000	-
Total	56,610	18,709	57,659	14,931

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 2021.

Rating Category	31 March 2021 £'000	31 March 2020 £'000
AA or equivalent	2,400	4,302
A or equivalent	4,752	6
Not rated	11,557	10,623
Total	18,709	14,931

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 £18.7 million (2019/20 £14.9 million) investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence as at the 31 March 2021 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 (£671,000 as at 31 March 2021, £423,000 as at 31 March 2020). Trade debtors include outstanding sundry debts and other trade debts. Loss allowances have been calculated by reference to the Council's historic experience of default, multiplied by 131% (2019/20 365%) to adjust for current and forecast economic conditions.

Sundry Debtors Age Analysis	Amount Outstanding as at 31 March 2021 £'000	Expected Credit Loss £'000	Amount Outstanding as at 31 March 2020 £'000	Expected Credit Loss £'000
On time	26	0	836	10
Up to 1 month late	658	19	296	7
1-2 months late	126	16	114	9
2-3 months late	238	49	280	43
3-6 months late	308	70	105	29
6-12 months late	381	102	103	40
1-2 years late	146	152	101	87
2-3 years late	115	111	44	43
Over 3 years late	158	152	158	155
Total	2,156	671	2,037	423

Market Risk

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

Price Risk

The Council's investment in long term pooled funds is subject to the risk of falling commercial property prices and share prices. This risk is limited by the Council's maximum exposure to property and multi-asset investments. As at 31 March 2021 the Council had £11.5 million invested in long term pooled funds. A 5% fall in share price would result in a £575,000 charge to Other Comprehensive Income and Expenditure. This would have no impact on the Surplus or Deficit on the Provision of Services until the investment was sold.

Note 29 Related Party Transactions

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

Central Government

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

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2020/21, 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 2020/21 is shown in note 13.

Chief Officers

Chief Officers have the ability to influence the Council. During 2020/21, there were no material related party transactions between the Council and Chief Officers.

Portchester Crematorium Joint Committee

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

Fareham Borough Council's share of the net assets of PCJC is £2,444,228 (2019/20 £2,458,943). In 2020/21, PCJC paid a contribution of £200,000 to the Council (£160,000 in 2019/20). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2021, £2,967,432 was invested with the Council (£2,627,969 at 31 March 2020).

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 2020/21, the Partnership charged Gosport Borough Council £59,382 (2019/20 £146,377) and Portsmouth City Council £103,919 (2019/20 £126,689) 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 2021, the balance of retained surpluses for future investment in the service was £167,236 for Fareham Borough Council, £100,629 for Gosport Borough Council and £64,287 for Portsmouth City Council.

Fareham and Gosport Environmental Health Partnership

The Fareham and Gosport Environmental Health Partnership provides environmental health services to Fareham Borough Council and Gosport Borough Council. The Partnership came into operation in 2014/15. During 2020/21, the Partnership charged Gosport Borough Council £619,094 (2019/20 £641,939) for statutory environmental health services. The Partnership has a policy of sharing expenditure (excluding internal recharges) on a 50/50 basis. All income is retained by the relevant authority.

Note 30 Contingent Liabilities

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

Municipal Mutual Insurance – Scheme of Arrangement

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

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

Note 31 Cash Flow Statement - Operating Activities (Interest)

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

2019/20 £'000		2020/21 £'000
(45)	Interest received	470
(1,459)	Interest paid	(1,508)
(1,504)		(1,038)

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

2019/20 £'000		2020/21 £'000
5,694	Depreciation and impairment	6,173
(671)	Downward valuations	5,233
5	Amortisation of intangible assets	5
3,173	Increase/decrease in creditors	16,313
1,299	Increase/decrease in debtors	(2,603)
1	Increase/decrease in inventories	7
2,576	Movement in pension liability	3,418
1,277	Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised	534
7,811	Other non-cash items charged to the net surplus/deficit on provision of services	2,271
21,165		31,351

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

2019/20 £'000		2020/21 £'000
(1,637)	Capital grants credited to surplus/deficit on the provision of services	(1,193)
(1,918)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(1,781)
(3,555)		(2,974)

Note 34 Accounting Policies

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

GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. 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 2020/21 and the Service Reporting Code of Practice 2020/21, supported by International Financial Reporting Standards (IFRS).

The Statement of accounts has been prepared on a 'going concern' basis. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ACCRUALS OF INCOME AND EXPENDITURE

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

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

CASH AND CASH EQUIVALENTS

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

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

EXCEPTIONAL ITEMS

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

PRIOR PERIOD ADJUSTMENTS IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

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

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

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

CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

COUNCIL TAX AND NON-DOMESTIC RATES

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

Accounting for Council Tax and NDR

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

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

EMPLOYEE BENEFITS

Benefits Payable during Employment

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

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

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

Termination Benefits

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

Post-Employment Benefits (Retirement Pensions)

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

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

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

Service cost comprising:

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

Re-measurement comprising:

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

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

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

Discretionary Benefits

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

EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

FINANCIAL INSTRUMENTS

Financial Liabilities

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit or Loss

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

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

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

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

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

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

Level 3 inputs – unobservable inputs for the asset.

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

GRANTS AND CONTRIBUTIONS

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

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

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

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

Business Improvement District

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

Community Infrastructure Levy

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

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

HERITAGE ASSETS

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

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

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

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

INTANGIBLE ASSETS

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

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

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

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

INVENTORIES AND LONG TERM CONTRACTS

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

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

INVESTMENT PROPERTIES

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

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

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

LEASES

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

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

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

The Council as Lessee – Finance Leases

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

Lease payments are apportioned between:

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

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

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

The Council as Lessee – Operating Leases

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

The Council as Lessor – Finance Leases

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

The Council as Lessor – Operating Leases

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

OVERHEADS AND SUPPORT SERVICES

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

PROPERTY, PLANT AND EQUIPMENT

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

Recognition

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

Componentisation of an asset will be considered where:

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

Contingent Liabilities

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

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

Contingent Assets

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

RESERVES

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

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

VAT

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



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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.

	2020/21 £'000	2019/20 £'000
Income		
Gross rent income		
- Dwellings	(10,938)	(10,720)
- Other	(352)	(350)
Charges for services and facilities	(1,186)	(1,177)
Contributions towards expenditure	(97)	(21)
Total income from service	(12,573)	(12,268)
Expenditure		
Repairs and maintenance	2,362	2,759
Supervision and management	3,440	3,097
Rents, rates, taxes and other charges	147	137
Depreciation and impairment of non-current assets (note 7)	3,425	215
Debt management expenses	33	27
Provision for doubtful debts	59	118
Total expenditure on service	9,466	6,353
Net Expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement	(3,107)	(5,915)
HRA service share of corporate and democratic core	158	140
Net Expenditure for HRA Services	(2,949)	(5,775)
Gain on sale of HRA non-current assets	(521)	(556)
Change in fair value of Investment Properties	29	(1)
Interest payable and similar charges	1,822	1,818
Interest receivable	(134)	(118)
Pension interest cost	246	251
Capital Grants and contributions receivable	(478)	(1,037)
(Surplus) or Deficit for Year on HRA Services	(1,985)	(5,418)

Movement on the HRA Statement

	2020/21 £'000	2019/20 £'000
Balance on the HRA at the end of previous year	(798)	(1,302)
(Surplus) or Deficit for year on HRA Income and Expenditure Statement	(1,985)	(5,418)
Remove gain on sale of HRA non-current assets	521	555
Pension reserve contributions	(621)	(528)
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 HRA Balances	2,767	2,006
Transfers to/from Major Repairs Reserve	2,691	2,635
Transfers to/from Capital Adjustment Account	(2,976)	822
Adjustments between accounting basis and funding basis under statute	2,382	5,490
Net (increase) or decrease before transfers to or from the reserves	397	72
Transfer to/(from) reserves	(178)	432
(Increase) or decrease in year on the HRA	219	504
Surplus Carried Forward	(579)	(798)

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 2021	31 March 2020
Houses	779.25	773.25
Flats	1,450.00	1,445.00
Bungalows	166.00	166.00
	2,395.25	2,384.25

During the year 6 homes were sold under the right to buy scheme (16 in 2019/20) and 2 were sold on the open market (0 in 2019/20), 1 shared-owner property was fully acquired by their owner (0 in 2019/20). The Council bought 7 homes that were 100% in private ownership and fully acquired 3 shared-owner homes (8 in private ownership and 1 shared-owner homes in 2019/20). Construction was completed at Oak Tree Close bringing 5 homes into the housing stock, and 6 homes were completed out of 18 at Rose Court.

Note 2 Value of Housing Revenue Account Property

Council dwellings have been valued in their current use with an allowance for occupation by a secure social tenant including the right to buy where applicable. The vacant possession value at 31 March 2021 is £395 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 2020/21	Council Dwellings £'000	Other Land and Buildings £'000	Plant and Equipment £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation At 1 April 2020	126,886	5,246	124	1,901	134,157
Additions	4,398	-	-	1,944	6,342
Revaluation Increases/(decreases) to RR	-	-	-	-	-
Revaluation Increases/(decreases) to SDPS	(3,238)	-	-	-	(3,238)
Derecognition - Disposals	(544)	-	-	-	(544)
Other reclassifications	2,715	30	-	(1,975)	770
At 31 March 2021	130,217	5,276	124	1,870	137,487
Depreciation and Impairment At 1 April 2020	2,509	97	36	-	2,642
Depreciation Charge	2,588	97	6	-	2,691
Depreciation written out to RR	-	-	-	-	-
Depreciation written out to SDPS	(2,509)	(97)	-	-	(2,606)
Derecognition – Disposals	(10)	-	-	-	(10)
At 31 March 2021	2,578	97	42	-	2,717
Net Book Value					
At 31 March 2021	127,639	5,179	82	1,870	134,770
At 31 March 2020	124,377	5,149	88	1,901	131,515

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

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

Note 3 Major Repairs Reserve

	2020/21 £'000	2019/20 £'000
Balance at 1 April	2,317	1,838
Receipts in year	2,691	2,634
Used in year	(2,690)	(2,155)
Balance at 31 March	2,318	2,317

Note 4 Housing Repairs Account

	2020/21 £'000	2019/20 £'000
Balance at 1 April	1,500	1,500
Contribution from HRA	832	1,907
Other Income	215	147
Expenditure	(2,365)	(2,762)
Transfer to Reserve	1,318	708
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. A proportion of this expenditure led to an increase in the value of current housing stock, the remainder increases the stock through acquisition and housing developments that were completed and remain underway.

	Houses and Flats £'000
Section 106 Contributions	31
Capital Receipts	567
Capital Development Fund	1,392
Major Repairs Reserve	2,690
Revenue Contributions	1,404
Housing Grants	447
Expenditure in 2020/21	6,531

Note 6 Capital Receipts

Capital receipts from the Right to Buy sales of HRA property in 2020/21 were £584,700 (£1.576 million in 2019/20).

Note 7 Depreciation and Impairment

		2020/21 £'000	2019/20 £'000
Depreciation	Dwellings	2,588	2,530
	Garages	97	97
	Plant and Equipment	6	7
	Total	2,691	2,634
Amortisation	Intangible Asset	5	5
Revaluation (Gain)/Loss	Dwellings	729	(2,424)
Total Charge		3,425	215

For 2020/21 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 2021, arrears were 5.60% of the gross income due in the year. 2020/21 was a 52 week rent year (2019/20 was a 53 week rent year). The arrears figures are as follows:

	2020/21 £'000	2019/20 £'000
Arrears as at 31 March	711	691
Gross Income	12,688	12,782
Provision for Uncollectable Rents	617	580
Arrears as a Percentage of Gross Income	5.60%	5.41%

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	2020/21 Total £'000	2019/20 Total £'000
Income				
Council Tax				
Billed to Taxpayers	75,361	-	75,361	71,992
Non-Domestic Rates - Due	-	23,149	23,149	41,814
Transitional Protection Payments	-	(1,245)	(1,245)	(554)
Total Income	75,361	21,904	97,265	113,252
Expenditure				
Collection Fund Surplus/(Deficit) in Previous Year				
Central Government	-	(1,165)	(1,165)	3,113
Fareham Borough Council	(47)	(932)	(979)	2,385
Hampshire County Council	(363)	(210)	(573)	(262)
Police and Crime Commissioner for Hampshire	(59)	-	(59)	(121)
Hampshire Fire and Rescue	(20)	(23)	(43)	17
	(489)	(2,330)	(2,819)	5,132
Precepts, Demands and Shares				
Central Government	-	20,483	20,483	19,659
Fareham Borough Council	7,197	16,386	23,583	22,603
Hampshire County Council	56,029	3,687	59,716	56,613
Police and Crime Commissioner for Hampshire	9,211	-	9,211	8,645
Hampshire Fire and Rescue	3,008	410	3,418	3,298
	75,445	40,966	116,411	110,818
Charges to the Collection Fund				
Cost of Collection Allowance	-	138	138	138
Increase/(Decrease) in Appeals Provision	-	(660)	(660)	651
Increase/(Decrease) in Bad Debt Provision	403	302	705	292
	403	(220)	183	1,081
Total Expenditure	75,359	38,416	113,775	117,031
Fund balance brought forward at 1 April	960	(3,927)	(2,967)	812
Surplus/(Deficit) for the Year	2	(16,512)	(16,510)	(3,779)
Fund balance carried forward at 31 March	962	(20,439)	(19,477)	(2,967)

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 43,559 for 2020/21 (42,910 for 2019/20). 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:

	2020/21 £'000	2019/20 £'000
Fareham Borough Council	165.22	160.22
Police and Crime Commissioner for Hampshire	211.46	201.46
Hampshire Fire and Rescue	69.06	67.71
Hampshire County Council	1,286.28	1,236.87
Total	1,732.02	1,666.26

Note 2 Non-Domestic Rates (NDR)

NDR is organised on a national basis. The Government specifies a rate in the £ (in 2020/21, 49.9p for small businesses and 51.2p for large; in 2019/20, 49.1p for small businesses and 50.4p for large) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the ratepayers in its area. The rateable value at 31 March 2021 was £101,503,390 (£102,502,408 as at 31 March 2020). This rateable value is based on the valuation list effective from 24 March 2021.

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 2020/21, the Business Rates Baseline was £17,018,474 (2019/20 £16,745,632) and the Baseline funding level was £1,928,612 (2019/20 £1,897,692).

Note 3 Collection Fund Balance

The Collection Fund balance for 2020/21 was a deficit of £20.4 million (a deficit of £3 million in 2019/20) 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.



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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.



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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 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Movement in Reserves Statement,
- Cash Flow Statement,
- the related notes 1 to 34.
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the 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 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2021 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 2020/21.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Deputy Chief Executive Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period

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Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period

of twelve months to 31 March 2023 from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Deputy Chief Executive Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2020/21 other than the financial statements and our auditor's report thereon. The Deputy Chief Executive Officer is responsible for the other information contained within the Statement of Accounts 2020/21.

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.

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 course of 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 themselves. 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.

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;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects

Responsibility of the Deputy Chief Executive Officer

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 29, the Deputy Chief Executive Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the authority and determined that the most significant are:

- Local Government Act 1972,
- Local Government and Housing Act 1989 (England and Wales)
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992)
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- The Local Audit and Accountability Act 2014, and

- The Accounts and Audit Regulations 2015.

In addition, the council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Fareham Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the authority's committee minutes, and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; assessed accounting estimates for evidence of management bias; and evaluated the business rationale for any significant unusual transactions.

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 reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether Fareham Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the 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 2021.

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, 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.

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.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

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
18 March 2022



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CONTACTS

HOW TO CONTACT US

This Statement can be viewed via the Council's website at www.fareham.gov.uk.

For more information please contact us at:

Deputy Chief Executive Officer

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Friday - 8.45am to 4.45pm

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FAREHAM

BOROUGH

COUNCIL

STATEMENTS OF

ACCOUNTS

2020/2021

FAREHAM
BOROUGH COUNCIL