

HAVANT BOROUGH COUNCIL  
PUBLIC SERVICE PLAZA  
CIVIC CENTRE ROAD  
HAVANT  
HAMPSHIRE P09 2AX

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## GOVERNANCE & AUDIT COMMITTEE AGENDA

**Membership:** Councillor Smith K (Chairman)

Councillors Mackey, Hart, Perry, Mrs Smallcorn, Tarrant and Wilson

**Meeting:** Governance & Audit Committee

**Date:** Tuesday 16 September 2014

**Time:** 5.00 pm

**Venue:** Hurstwood Room, Public Service Plaza, Civic Centre Road,  
Havant, Hampshire PO9 2AX

The business to be transacted is set out below:

Jo Barden-Hernandez  
Service Manager – Legal & Democratic Services

8 September 2014

Contact Officer: *Tristan Fieldsend* 023 9244 9233  
Email: [tristan.fieldsend@havant.gov.uk](mailto:tristan.fieldsend@havant.gov.uk)

	<b>Page</b>
<b>1 Apologies</b>	
To receive apologies for absence.	
<b>2 Minutes</b>	<b>1 - 8</b>
To confirm the minutes of the Governance and Audit Committee held on 17 June 2014 and of the Extraordinary Governance and Audit Committee held on 4 August 2014.	
<b>3 Matters Arising</b>	
To consider any matters arising from the minutes of the previous meeting.	

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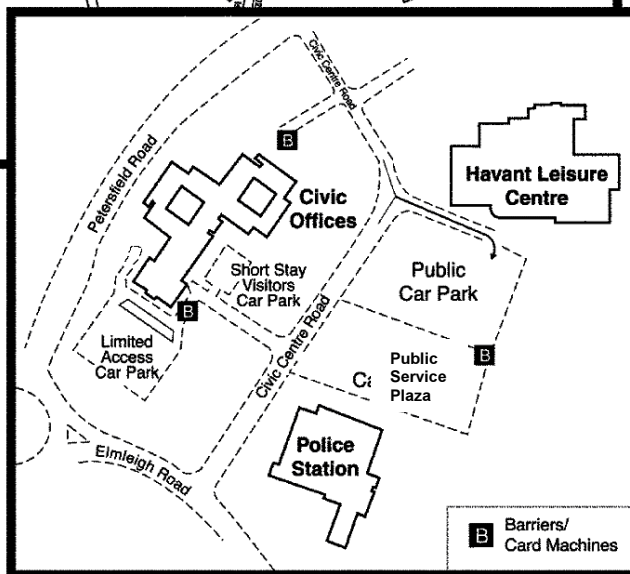
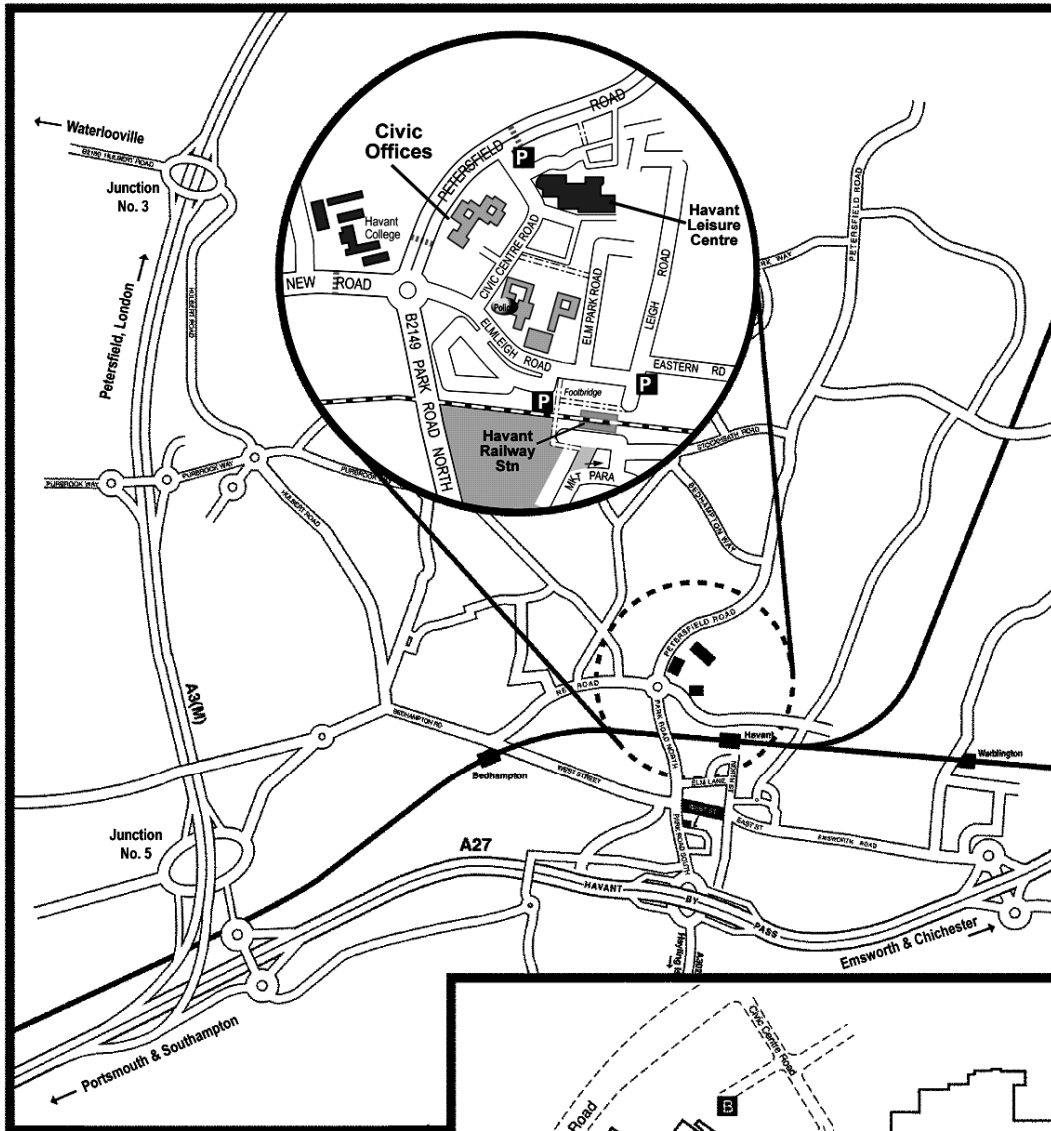
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# MINUTES FOR APPROVAL

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## HAVANT BOROUGH COUNCIL

At a meeting of the Governance & Audit Committee held on 17 June 2014

Present

Councillor Smith K (Chairman)

Councillors Mackey, Hart, Perry, Tarrant, Wilson and Shimbart

### **1 Apologies**

Apologies for absence were received from Councillor Mrs Smallcorn.

### **2 Minutes**

RESOLVED that the minutes of the meeting of the Governance and Audit Committee held on 5 March 2014 be approved as a correct record.

### **3 Matters Arising**

There were no matters arising from the minutes of the last meeting.

### **4 Declarations of Interest**

There were no declarations of interests from any of the members present.

### **5 Chairman's Report**

The Chairman provided a welcome to the new members of the Committee.

### **6 External Audit Papers**

The Committee considered three papers presented by Ernst and Young LLP. Helen Thompson and Ian Young of Ernst and Young LLP were invited to join the meeting for the debate on this item and answered members' questions in connection with the report.

The Audit Progress Report provided the Committee with an overview of the stage reached in the 2013/14 audit and an outline of their plans for the remainder of the year.

The Audit Plan 2013/14 provided a basis for the Committee to review the proposed audit approach and scope for 2013/14. The areas due to be focused on were noted and it was confirmed that an update on the results of the work would be brought before the Committee in September 2014.

The Audit Fee Letter 2014/15 confirmed the audit work and associated fee proposed for the 2014/15 financial year. The fee had been set by the Audit Commission as part of the five year procurement exercise carried out in 2012.

RESOLVED that the report be noted

## **7 End of Year Internal Audit Progress Report**

The Committee considered the Internal Audit Progress Report which provided an overview of internal audit activity against assurance work completed in accordance with the approved audit plan together with an overview of the status of live reports. Antony Harvey and Neil Pitman of the Southern Internal Audit Partnership were invited to join the meeting and answered members' questions in connection with the report.

A summary of work undertaken in 2013/14 was presented which detailed the progress made in implementing any reported recommendations. The Committee was pleased to note that all three key performance targets had been met and no significant issues arising from internal audit work had been identified.

RESOLVED that the report be noted.

## **8 Annual Internal Audit Report and Opinion 2013/14**

The Committee was provided with the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2014.

The Committee noted the following key points:

- Internal audit was compliant with the Public Sector Internal Audit Standards during 2013/14;
- The revised internal audit plan for 2013/14 had been substantially delivered;
- The Council's framework of governance, risk management and management control was considered to be adequate and audit testing had demonstrated controls worked in practice; and
- Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement had been agreed with the responsible managers.

RESOLVED that the Chief Internal Auditor's annual report and opinion for 2013/14 be approved.

## **9 Effectiveness of Internal Audit 2013/14**

A report on the Effectiveness of Internal Audit was presented to the Committee which provided an overview of the measures currently in place to monitor and maintain internal audit effectiveness.

The Committee was pleased to note that using the self-assessment system the Council was compliant with 326 of 411 standards. The majority of the



*Governance & Audit Committee (17.6.14)*

remaining areas were classified as not applicable to the Council. The Head of the Southern Internal Audit Partnership agreed to consider a suggestion that the one area regarded as non compliant, 'Independence and Objectivity', be classified as not applicable in future.

It was confirmed that an external assessment must be conducted at least once every five years and a paper exploring the options, form, timing and scope of the assessment would be prepared for September 2014.

RESOLVED that

- 1) The report be noted; and
- 2) The action plan generated from the assessment against the Public Sector Internal Audit Standards be endorsed.

**10 Review of the Council's Statement of Arrangements for Managing Risks and Quarterly Update on Corporate Risks from the Executive Board**

The Committee received a report from the Executive Head for Governance and Logistics detailing the Council's corporate governance and risk management arrangements for the year 2014/15.

An overview of the highest corporate risks reviewed by the Joint Executive Board on 13 May 2014 was provided and the details of these noted.

RESOLVED that

- 1) the Council's arrangements for the management of risk for the year 2014/15 be noted; and
- 2) the most serious corporate risks reviewed by the Joint Executive Board on 13 May 2014 be noted.

**11 Havant Borough Council Constitution**

There was no business to discuss under this item.

**12 Local Government Ombudsman**

There was no business to discuss under this item.

**13 Code of Conduct Complaints**

There was no business to discuss under this item.

**The meeting commenced at 5.00 pm and concluded at 6.28 pm**

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## HAVANT BOROUGH COUNCIL

At a meeting of the Governance & Audit Committee held on 4 August 2014

Present

Councillor Smith K (Chairman)

Councillors Mackey, Hart, Perry, Wilson and Shimbart

### **14 Apologies**

Apologies for absence were received from Councillors Mrs Smallcorn and C Tarrant.

### **15 Declarations of Interest**

There were no declarations of interests from any of the members present.

### **16 Chairman's Report**

There were no matters the Chairman wished to report to the Committee.

### **17 Changes to Corporate Surveillance Policy and Procedure**

The Committee received a report from the Senior Lawyer (Contentious) requesting that the Committee formally review the Council's Corporate Surveillance Policy following two amendments to the Regulation of Investigatory Powers Act 2000 (RIPA):

- 1) In order to carry out covert surveillance authorisation was now required to be obtained from the Magistrates' Court following provisional authorisation by duly authorised Council Officers;
- 2) Authorisation under the Regulation of Investigatory Powers Act 2000 was now only permitted if the purpose of the surveillance was the prevention or detection of crime(s) punishable by six months imprisonment or more, or related to the sale of alcohol or tobacco to underage persons.

The Senior Lawyer brought to the Committees attention to some typographical errors in the report and reminded members that a Councillor training course on the Act was planned for 22 August 2014.

The Committee requested that the Council's Corporate Surveillance Policy come before the Governance and Audit Committee on an annual basis for review.

RESOLVED that the amended Corporate Surveillance Policy be adopted by the Council subject to:

*Governance & Audit Committee (4.8.14)*

- (a) Paragraph 4 on page 5 being amended to read “It is essential, therefore, that all involved with RIPA comply with this document and any further guidance that may be issued, from time to time by the designated Senior Responsible Officer identified by the Council’s Constitution.” and;
- (b) The first sentence of paragraph 14.1 on page 21 be amended to read “The Officer of Surveillance Commissioners (OSC) has been established under RIPA to facilitate independent scrutiny of the use of RIPA powers by the investigatory bodies that are subject to it.”

**The meeting commenced at 5.00 pm and concluded at 5.24 pm**

**NON-EXEMPT**

## **HAVANT BOROUGH COUNCIL**

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**Governance and Audit Committee**

**16 September 2014**

**EXTERNAL AUDIT PAPERS - HAVANT BOROUGH COUNCIL**  
**Corporate Accountancy Team Leader**

**FOR INFORMATION**

**Portfolio: FINANCE - CLLR MIKE CHESHIRE**

**Key Decision: No**

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### **1.0 Purpose of Report**

1.1 To outline the papers to be presented by Ernst & Young LLP.

### **2.0 Recommendation**

2.1 We ask the Committee to note the content of the reports attached to this paper.

### **3.0 Summary**

3.1 To fulfil our responsibilities as your external auditor we are required to present formally the papers attached to this report to those charged with governance.

### **4.0 Reports**

#### **4.1 Audit Progress Report 2013/14**

The purpose of this report is to provide the Governance and Audit Committee with an overview of the stage we have reached in your 2013/14 audit.

#### **4.2 Audit Results Report 2013/14**

This report summarises our preliminary audit conclusion in relation to Havant Borough Council's financial position and results for year ended 31 March 2014.

### **5.0 Implications**

5.1 Resources: No direct implications

5.2 Legal: No direct implications

5.3 Strategy: No direct implications

5.4 Risks: No direct implications

5.5 Communications: No direct implications

5.6 For the Community: No direct implications

**6.0 Consultation:** Executive Head of Governance & Logistics

6.1 Appendices:

1. 2013/14 Audit Progress Report
2. 2013/14 Audit Results Report

**Contact Officer:** Kevin Harlow  
**Job Title:** Corporate Accountancy Team Leader  
**Telephone:** 01730 234126  
**E-Mail:** kevin.harlow@havant.gov.uk

# Havant Borough Council

Governance and Audit Committee Progress Report

16 September 2014







Governance and Audit Committee  
Havant Borough Council  
Penns Place  
Petersfield  
Hampshire  
GU31 4EX

3 September 2014

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report.

This report summarises the work we have undertaken to date and our plans for the remainder of the 2013/14 year. Its purpose is to provide the Governance and Audit Committee with an overview of the stage we have reached in the 2013/14 audit and ensure our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Helen Thompson  
Director  
For and behalf of Ernst & Young LLP



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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## Work completed

### **Financial Statements audit**

Our audit work in respect of our opinion on the Council's financial statements is substantially complete. The results of our work are reported in the Audit Results Report which is on the agenda today.

### **Value for money assessment**

We have completed our work on assessing the Council's ability to secure economy, efficiency and effectiveness. The results of our work are reported in the Audit Results Report which is on the agenda today.

### **Grant claim certification**

We plan to start the audit of your housing benefit claim in October and will bring our annual certification report to the Governance and Audit Committee in March 2015.

## Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2013/14 Governance and Audit Committee cycle. We will provide formal reports to the Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Associated Governance & Audit Committee	Status
High level planning	Ongoing	Audit Fee Letter	March 2013	Completed - Reported to the March 2013 Committee
Risk assessment and setting of scope of audit	Feb – April 2014	Audit Plan	June 2014	Completed - Reported to the June 2014 Committee
Testing of routine processes and controls	Feb – April 2014	Audit Plan	June 2014	Completed - Reported to the June 2014 Committee
Year-end audit	June - August 2014	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2014	Completed - Reported to the September 2014 Committee
Annual Reporting	October 2014	Annual Audit Letter	November 2014	-
Grant Claims	September – November 2014	Annual certification report	March 2015	

EY | Assurance | Tax | Transactions | Advisory

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# Havant Borough Council

Audit results report for the year ended 31 March 2014

September 2014

Ernst & Young LLP



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Governance and Audit Committee  
Havant Borough Council  
Public Service Plaza  
Civic Centre Road  
Havant  
PO9 2AX

3 September 2014

## **Audit results report**

We are pleased to attach our audit results report for the forthcoming meeting of the Governance and Audit Committee. This report summarises our preliminary audit conclusion in relation to Havant Borough Council's (the Council's) financial position and results of operations for the year ended 31 March 2014. We will issue our final conclusion after the Governance and Audit Committee scheduled for 16 September 2014.

The audit is designed to express an opinion on the 2013/14 financial statements, reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

This report is intended solely for the information and use of the Governance and Audit Committee and the Council. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Governance and Audit Committee meeting scheduled on 16 September 2014.

Yours faithfully  
For and on behalf of Ernst & Young LLP

**Helen Thompson**  
Ernst & Young LLP  
**United Kingdom**  
Enc.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Overview of the financial statement audit

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

We also report to the National Audit Office (NAO) under its group instructions.

Summarised below are the conclusions from all elements of our work:

### Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Council's financial statements. Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

#### Significant risks:

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##### Significant risk – Risk of Management Override:

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.

**There are no significant issues that we need to report to you.**

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##### Significant risk- National Non-Domestic Rates (NNDR) rateable value appeals provision:

###### Risk

The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half of the business rates collected by councils will be retained locally and half paid over to central government. The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

Our work focussed on reviewing the accounting transactions made and assessing the reasonableness of the estimation made.

**There are no significant issues that we need to report to you.**

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### Control themes and observations

Our audit identified a number of control themes, the most significant of which are detailed within section 3 of this report. The issues reported did not result in any material misstatement but did indicate a reduced level of control over the production of the financial statements.

### Summary of audit differences

Our audit identified a small number of misstatements in the accounts presented for audit. The most significant of which are detailed in section 3 of this report. In addition we have reported a small number of minor issues from our IT controls testing to the Corporate Accountancy Team Leader.

**Economy, efficiency and effectiveness**

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion.

**Whole of Government accounts**

We have completed the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts. We have no issues to report.

**Audit certificate**

The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

## 2. Scope update

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in June 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

Additional work was required to address the issues identified in section 3 of this report. We will need to quantify the extent of this additional work and discuss the impact on the planned fee. We will update the Governance and Audit Committee through the Annual Audit Letter.

### 3. Significant findings from the financial statement audit

In this section of our report, we outline the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk outlined in our Audit Plan.

#### Significant risk 1 – Risk of Management Override

##### Risk

As identified in International Standards on Auditing 240 UK & Ireland (ISA 240 UK&I), management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We:

- ▶ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ reviewed accounting estimates for evidence of management bias; and
- ▶ evaluated the business rationale for significant unusual transactions

##### Our approach focussed on:

- ▶ Considering the representations from management, internal audit and the Governance and Audit Committee.
- ▶ Reviewing significant non-routine year end transactions and estimates including journals, accruals, provisions and cut off arrangements.

##### Our findings:

- ▶ We have received the requested assurances and our review of these has not identified any new risks.
- ▶ Our testing did not highlight any significant issues in this area.

#### Significant risk 2 – National Non Domestic Rates (NNDR) rateable value appeals provision

##### Risk

The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half of the business rates collected by councils will be retained locally and half paid over to central government.

The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA).

Where local businesses believe the current value for business properties is wrong they can:

- ▶ appeal to the VOA and ask them to correct details
- ▶ appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal.

Where rating appeals are successful, monies to settle the appeals will come out of the Council's funds and will also impact on other local public bodies that precept on the Council. This includes not only claims from 1 April 2013 but also claims that relate to periods before the introduction of the business rates retention scheme. As appeals are to the Valuation Office, authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.

The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

We:

- ▶ sought to understand and assess the reasonableness of the Council's methodology in estimating any planned provision in respect of rateable value appeals outstanding at the balance sheet date.
- ▶ considered both the completeness and accuracy of the data on the number of appeals outstanding and the basis for the assumptions made by the Council on the likelihood of success.

##### Our approach focussed on:

- ▶ Reviewing the assumptions the Council used when calculating their estimate.
- ▶ Reviewing the completeness of the appeals included in the Council's estimate.

##### Our findings:

- ▶ Our testing did not highlight any significant issues in this area
- ▶ Our testing did not highlight any significant issues in this area.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Additionally, as required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to bring to your attention any:

- ▶ significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ significant difficulties encountered during the audit;
- ▶ written representations that we are seeking; and
- ▶ related parties issues identified.

Our findings in relation to these control themes are documented in the table below:

Area of testing	Details
General	There were a substantial number of working papers that were not completed and were therefore unavailable at the start of our audit. Working papers to support the accounts were received on a piecemeal basis throughout the audit which had a significant impact on the efficiency of the audit. Additional auditor and officer time has subsequently been required through the audit process, particularly where there have been a number of iterations of the same working paper. We will continue to work with the Corporate Accountancy Team Leader to agree our working paper requirements as part of the Council's closedown and financial statements preparation process for 2014/15.
Enquiries of management and those charged with governance	<p>ISA240 requires auditors, as part of planning procedures, to formally update their understanding of management processes and how those charged with governance exercise control over these processes.</p> <p>We discharged this responsibility by writing to the Council on 24 February 2014. To inform our planning procedures a response was requested by 11 April 2014. However, despite requesting this on a number of occasions, no response was received until mid July.</p>
Additions and cross checking	Our initial testing highlighted an increased number of casting and cross referencing issues when compared to previous years. These were not of a material nature and the relevant corrections have been made.
Data Analytics	Data analytics are an integral part of our audit and involves the Council submitting a full download from both the general ledger and the payroll system.
	The Council failed to submit the general ledger data by the

Area of testing	Details
Related Party Transactions	<p data-bbox="643 277 1406 367">agreed deadline. Additionally, the payroll data had to be submitted, and subsequently processed by us, four times due to the Council sending incomplete data sets.</p> <p data-bbox="643 412 1406 591">Our audit identified a significant number of Councillors and members of the Executive team who had failed to return their annual related party transaction declaration. At the time of writing there remain six Councillors who had failed to return their declaration. We will seek specific representation from the Council to confirm there are no undisclosed related parties.</p>
Fixed Asset Register	<p data-bbox="643 613 1406 795">The Council maintains a fixed asset register which records all of the Council's assets along with any associated impairments, revaluations and depreciation charges. However, for land and building the register is not sufficiently disaggregated to meet the requirements of component accounting as required by International Accounting Standard 16 (IAS16).</p>

### 3.1.1 Summary of Audit Differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

We have asked the Council to correct all misstatements over £57,554. We have included all amounts greater than approximately £1.1 million relating to the Council in our summary of misstatements below.

#### Corrected Misstatements

Our audit did not identify any material misstatements to the comprehensive income and expenditure statement or the statement of financial position within the draft statements. We highlight below the following misstatements to disclosure notes in the draft financial statements which are material in value but had no impact on the Council's reported out-turn position:

- ▶ Note 34 – Leases – Due to the Council using an incorrect rent figure, an adjustment was required to correct the minimum lease payments due to the Council. The most significant of was to “amounts due later than five years”, which was reduced by £2.1 million.
- ▶ Note 6 – Material items of income and expenditure – The income and expenditure relating to pensions income and expenditure and balance sheet liabilities were amended from £16.3 million to £17.2 million and £13.7 million to £14.5 million respectively.
- ▶ Compared to previous years there was an increase in the number of non material adjustments that were required to the draft statements that were presented for audit. These adjustments were mainly due to casting and cross referencing errors and all corrections required have been made by management.



### **Uncorrected misstatements**

At the time of writing, we have not identified any uncorrected misstatements that are individually or in aggregate material to the presentation and disclosures of the financial statements for the year ended 31 March 2014.

## 4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We did not identify any significant risks to the value for money conclusion, but we did identify one other risk regarding the ongoing financial pressures facing the Council in our Audit Plan. The table below summarises the findings from our work:

### Other Risk – Council Finances

The Council is facing ongoing financial pressures, with reliance on the new homes bonus to deliver 2014/15 and a budget gap from 2015/16.

Impacts on arrangements for securing economy efficiency and effectiveness and financial resilience

#### Our approach focussed on:

- ▶ reviewing your 2014/15 annual budget, and medium term forecast assumptions; and
- ▶ discussing the budget gaps from 2015/2016 and the Council's plans to address them.

#### Our findings:

- ▶ The Council delivered its 2013/14 budget.
- ▶ A budget has been set for 2014/15 to deliver a surplus of £0.5 million. This includes fully utilising the new homes bonus available to the Council.
- ▶ The future is more challenging and the current medium term financial strategy (MTFS) highlights a gap of £0.685 million in 2015/16 (again using the entire new homes bonus available to the Council), rising to £1.38 million in 2018/19. There are a number of projects in place which the Council believe will contribute to bridging the gap. However, there is also a possibility that general fund balances will need to be used.
- ▶ As part of bridging the gap the Council is implementing a Service Futures Programme to review efficient service delivery. Part of this project will also be to identify new revenue streams to help bridge the gap.

The Council has made reasonable assumptions in their MTFS. However, it should ensure that there are plans in place should funding streams or methods of funding change in the future.

## 5. Status of our work

### 5.1 Financial statement audit

Our audit work in respect of our opinion on the Council's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	<ul style="list-style-type: none"> <li>▶ To be tabled at the Governance and Audit Committee on 16 September 2014.</li> </ul>	Management and Governance and Audit Committee
Annual accounts	<ul style="list-style-type: none"> <li>▶ Incorporation of EY review comments on disclosure notes.</li> <li>▶ Review of year end reconciliations.</li> <li>▶ Agreement of senior officer remuneration to the payroll system.</li> <li>▶ Approval of accounts by Governance and Audit Committee.</li> <li>▶ Accounts re-certified by the Executive Head of Governance and Logistics.</li> </ul>	Management, Governance and Audit Committee and EY

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Council's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

### 5.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

### 5.3 Objections

At the date of writing this report we have received no objections from members of the public.

## 6. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2013/14 £'000	Planned fee 2013/14 £'000	Scale fee 2013/14 £'000	Explanation of variance
<b>Total Audit Fee – Code work</b>	<b>To be determined</b>	<b>61,500</b>	<b>61,500</b>	
Certification of claims and returns	12,320*	12,320	12,320	

*\*Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance in December 2014 within the Annual Certification Report for 2013/14.*

Our final fee is yet to be determined. The additional work required to address the issues raised in section 3 of this report led to a significant increase in the volume of testing required. We will assess what effect this had on our fee, taking into account the support received from the Council's Finance team.

## 7. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 6 June 2014. We complied with the Auditing Practice's Board's Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance and Audit Committee on 16 September 2014.

## Appendix A Required communications with the Governance and Audit Committee

There are certain communications that we must provide to the Governance and Audit Committee. These are detailed here:

Required communication	Reference
<b>Terms of engagement</b>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
<b>Significant findings from the audit</b>	Audit Results Report
<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process)</li> </ul>	
<b>Misstatements</b>	Audit Results Report
<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	
<b>Fraud</b>	Letter from Chair of Governance and Audit Committee
<ul style="list-style-type: none"> <li>▶ Enquiries of the Governance and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	Audit Results Report
<ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	
<b>External confirmations</b>	Not Applicable
<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Governance and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>Letter from Chair of Governance and Audit Committee</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Plan and update in section 7 of this report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Audit Results Report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit Results Report</p>
<p><b>Fee reporting</b></p> <ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).</li> </ul>	<p>Audit Plan, Audit Results Report and Annual Audit Letter</p>
<p><b>Summary of certification work undertaken</b></p> <ul style="list-style-type: none"> <li>▶ Annual report to those charged with governance summarising the certification work undertaken</li> </ul>	<p>Annual Certification Report – to be issued in December 2014.</p>

## Appendix B Letter of representation

To:  
Helen Thompson  
Director  
Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

### Havant Borough Council - Audit for the year ended 31 March 2014

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Havant Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2014:

#### A. Financial Statements and Financial Records

I have fulfilled my responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).

I acknowledge my responsibility for the fair presentation of the financial statements. I believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. I have approved the financial statements.

I confirm that as the Responsible Officer I have:

- ▶ reviewed the accounts;
- ▶ reviewed all relevant written assurances relating to the accounts; and
- ▶ made other enquiries as appropriate.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

I believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA Code that are free from material misstatement, whether due to fraud or error.

#### B. Fraud

I acknowledge that I am responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

#### C. Compliance with Laws and Regulations

I have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.



#### **D. Information Provided and Completeness of Information and Transactions**

I have provided you with:

- ▶ access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
- ▶ additional information that you have requested from us for the purpose of the audit; and
- ▶ unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

I have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 16 September 2014.

I confirm the completeness of information provided regarding the identification of related parties. I have disclosed to you the identity of the Council related parties and all related party relationships and transactions of which I am aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

I have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

I have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

I have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that I have given to third parties.

#### **F. Subsequent Events**

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Accounting Estimates**

I believe that the significant assumptions I used in making accounting estimates, including those measured at fair value, are reasonable.

In respect of accounting estimates recognised or disclosed in the financial statements:

- ▶ I believe the measurement processes, including related assumptions and models, used in determining accounting estimates is appropriate and the application of these processes is consistent.
- ▶ The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.

- ▶ The assumptions used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- ▶ No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **H. Segmental reporting**

I have reviewed the operating segments reported internally to the Board and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- ▶ The nature of the products and services
- ▶ The nature of the production processes
- ▶ The type or class of customer for their products and services
- ▶ The methods used to distribute their products

#### **I. Going Concern**

I have made you aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

#### **Signed on behalf of Havant Borough Council**

I confirm that this letter has been discussed and agreed by the Governance and Audit Committee on 16 September 2014.

Signed:

Name: Jane Eaton

Position: Executive Head of Governance and Logistics

Date: 16 September 2014

Signed:

Name: Councillor K Smith

Position: Chairman, Governance and Audit Committee

Date: 16 September 2014

**EY** | Assurance | Tax | Transactions | Advisory

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**NON-EXEMPT**

## **HAVANT BOROUGH COUNCIL**

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**Governance & Audit Committee**

**16 September 2014**

**STATEMENT OF ACCOUNTS 2013/14 AND LETTER OF REPRESENTATION - HAVANT BOROUGH COUNCIL**  
**Corporate Accountancy Team Leader**

**FOR INFORMATION**

**Portfolio: FINANCE - CLLR MIKE CHESHIRE**

**Key Decision: No**

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### **1.0 Purpose of Report**

- 1.1 To present the audited Statement of Accounts 2013/14 for signing and approval.
- 1.2 To present the Council's Letter of Representation for signing and approval

### **2.0 Recommendation**

- 2.1 That the Committee agree the Statement of Accounts for 2013/14, and that the Chairman and S151 Officer certify the approval of the Accounts by signing page 5 of the Accounts.
- 2.2 That the Committee agree the draft Letter of Representation, and the Chairman of the Committee and S151 Officer signs the letter

### **3.0 Summary**

- 3.1 The Council is required to formally respond to the External Audit report. This is carried out in the Letter of Representation.
- 3.3 The Council is required to approve the audited 2013/14 Statement of Accounts for publication on or before 30<sup>th</sup> September each year.

## **4.0 Reports**

### **Statement of Accounts 2013/14**

- 4.1 The Accounts and Audit Regulations 2011 require the Chief Financial Officer to first sign the accounts no later than 30<sup>th</sup> June and certify that they present a true and fair view the financial position of the Council at the end of the year to which it relates and its income and expenditure for that year. The Chief Financial Officer is required to re-certify the presentation of the statement of accounts before the accounts are approved by the Governance and Audit Committee.
- 4.2 The accounts have been audited by Ernst & Young and their conclusions have been presented to the Committee.
- 4.3 A small number of disclosure errors were identified. These errors relate to disclosure notes in the Accounts, specifically leases and IAS19 Pensions accounting, and did not result in any amendments to the primary statements.
- 4.4 The audit report noted that the closedown process in 2013/14 was not as smooth as in previous years. The closedown process coincided with a particularly difficult time for the Finance team. During April, the recruitment process for the Business Partners was still ongoing for three out of the five Business Partners. Furthermore, the Principal Accountant was on long term sick during the entire closedown process.
- 4.5 In addition to recruitment issues, the existing Cedar finance system had to be upgraded in order to comply with government PCN requirements. A new chart of accounts was also implemented during April as part of the upgrade, and the separate Debtors system (FIMS) migrated into Cedar, in preparation for the replacement finance system in April 2015. This meant that Cedar could not be accessed for a period of time in April, and resulted in a higher than usual volume of queries being addressed by the team.
- 4.6 The Auditors have also raised the issue of responses from councillors regarding related party transactions. Despite several reminders, a complete set of responses from all councillors was not achieved. It is recommended that the Governance & Audit committee feed this back to all Councillors and consider ways in which to improve the response rate in 2014/15.

## **5.0 Letter of Representation**

- 5.1 The Letter of Representation is the Council's formal response to the Audit Results report. It outlines how the Council has complied with its statutory duties.
- 5.2 The draft Letter of Representation is attached as appendix B to this report.

## **Implications**

- 7.1 Resources: No direct implications
- 7.2 Legal: The Council is required to publish Accounts within a statutory timescale. Robust year end processes mitigate the risk of not meeting these timescales.
- 7.3 Strategy: No direct implications
- 7.4 Risks: No direct implications
- 7.5 Communications: No direct implications
- 7.6 For the Community: No direct implications

## **8.0 Consultation:**

Executive Head of Governance & Logistics  
Corporate Accountancy team Leader

- 8.1 Appendices:
  - A. Statement of Accounts 2013/14
  - B. Draft Letter of Representation

**Contact Officer:** Kevin Harlow  
**Job Title:** Corporate Accountancy Team Leader  
**Telephone:** 01730 234126  
**E-Mail:** kevin.harlow@havant.gov.uk

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# HAVANT BOROUGH COUNCIL

## STATEMENT OF ACCOUNTS 2013/2014

**Havant**  
BOROUGH COUNCIL

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Enquiries regarding the contents of this report should be made to:-

The Finance Department,  
Havant Borough Council,  
Public Service Plaza, Civic Centre Road,  
Havant, Hants. PO9 2AX  
Telephone: Havant (023 9244 6309)

This report and further details of the Council's finances can also be viewed on the  
Council's website  
(<http://www.havant.gov.uk>)



# EXPLANATORY FOREWORD

## Introduction

The Statement of Accounts for 2013/14 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The purpose of the published Statement of Accounts is to give electors, local taxpayers, Councillors and other interested parties clear information about the Council's finances. The statements inform readers of the cost of services provided by the Council in the year 2013/14, how services were paid for and the Council's assets and liabilities at the year end date of 31st March 2014.

The purpose of each of the main statements is explained below.

The following key statements are included:

### **The Comprehensive Income & Expenditure Statement (page 12)**

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

### **The Balance Sheet (page 13).**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities of the Council.

### **The Movements in Reserves Statement (page 14-15)**

The Movements in Reserves Statement reconciles the balance on the Comprehensive Income and Expenditure Statement to the movement on the Council's reserves, both usable and unusable.

### **The Cash Flow Statement (page 16)**

The Cash Flow Statement reconciles the movement in cash and cash equivalents to the surplus or deficit on the Provision of Services within the Comprehensive Income & Expenditure Statement.

### **Notes to the Core Financial Statements (including pensions disclosures) (pages 17-71)**

### **The Collection Fund (pages 72-73)**

This account records all transactions relating to Council Tax and Business Rates. The government introduced a new Business Rates Retention Scheme for 2013/14, and more information is provided below.

## **Council Services**

The Council's services and activities vary widely, covering homelessness and housing services, the collection of refuse, recycling, leisure and recreation, car parking, planning services, cemeteries, environmental health and many other services. More details of these services and the main achievements of the Council and its performance can be found in the Council's website. ([www.havant.gov.uk](http://www.havant.gov.uk))

## EXPLANATORY FOREWORD

### Review of the Year

The most fundamental change in 2013/14 has been to the way in which local authorities are financed. The formula based distribution of Business Rates by central government has been replaced by the new Business Rates Retention Scheme.

### Business Rates Retention Scheme

The principle behind the introduction of the scheme was to enable local authorities to retain a share of Business Rates collected from their local businesses. Authorities will retain a share of any growth in the business base, giving councils incentive to invest in local infrastructure.

The government also announced the extension of the Small Business Rate relief scheme through 2013/14. The impact of the scheme was to reduce collectible business rates and contributed to a collection fund deficit, and this has been offset by a cash grant paid to the Council in January 2014.

The surplus or deficit on the collection fund will be redistributed between the Government, Havant Borough Council, Hampshire County Council, and Hampshire Fire and Rescue during 2014/15. The grant awarded in 2013/14 will be transferred to the General Fund and used to offset this cost in 2014/15.

The table below demonstrates how the Council estimated its collectable business rates, how this is split between the participating authorities, the split of the 2013/14 deficit, and the impact on the General Fund in 2013/14, compared to actual performance in the year.

<b>Collection Fund</b>	<b>Budget £000</b>	<b>Actual £000</b>
<b>Business Rates Yield</b>		
Base Yield	31,247	31,710
Provision for backdated appeals		(1,121)
Adjustment for provision for bad debt		76
Transitional protection payment		(124)
<b>Business Rates Yield</b>	<b>31,247</b>	<b>30,541</b>
<b>Distribution</b>		
Central Government (50%)	(15,624)	(15,624)
Hampshire County Council (9%)	(2,812)	(2,812)
Hampshire Fire (1%)	(312)	(312)
Havant Borough Council baseline (40%)	(12,499)	(12,499)
<b>Total Distribution</b>	<b>(31,247)</b>	<b>(31,247)</b>
<b>Collection Fund Deficit</b>	<b>-</b>	<b>(706)</b>

## EXPLANATORY FOREWORD

<b>Deficit Share Calculation</b>	<b>Budget £000</b>	<b>Actual £000</b>
Central Government (50%)	-	(353)
Hampshire County Council (9%)	-	(64)
Hampshire Fire (1%)	-	(7)
Havant Borough Council baseline (40%)	-	(282)
<b>Total</b>	<b>-</b>	<b>(706)</b>

<b>Havant Borough Council Retained Business Rates Calculation</b>	<b>Budget £000</b>	<b>Actual £000</b>
Havant Borough Council baseline	(12,499)	(12,499)
Tariff paid to Central Government	9,396	9,396
Levy for safety net paid to Central Government	107	173
Extension of Small Business Rates Relief	-	(380)
<b>Retained Business Rates</b>	<b>(2,996)</b>	<b>(3,310)</b>

### 2013/14 Revenue Outturn

For the 2013/2014 financial year, the Council agreed its budget for net revenue spending on General Fund services at £15,213,000.

Net revenue spending is financed in part by Government Grant and retained business rates, with the remainder being raised through council tax, use of reserves and interest on external investments. The Council Tax charge for Council services was set at £192.78 for band D properties.

The table below compares the final outturn with the original budget. The basis for these figures is the Council's internal management accounts rather than the statutory published accounts which comply with International Financial Reporting Standards (IFRS).

	<b>2013-14 Original Budget</b>	<b>2013-14 Provisional Outturn</b>	<b>Forecast Deficit/ (Surplus)</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Chief Executive and Directors	234	226	(8)
Economy and Communities	1,313	1,178	(135)
Environment and Neighbourhood Quality	2,997	2,891	(106)
Governance and Logistics	7,489	6,863	(626)
Marketing and Development	2,522	2,459	(63)
Planning and Built Environment	1,113	628	(485)
Financing Items	(526)	(614)	(88)
Langstone Harbour Board	71	35	(36)
<b>Net Expenditure</b>	<b>15,213</b>	<b>13,666</b>	<b>(1,547)</b>
<b>Funding</b>	<b>(15,213)</b>	<b>(15,687)</b>	<b>(474)</b>
<b>Deficit/(Surplus)</b>	<b>-</b>	<b>(2,021)</b>	<b>(2,021)</b>

## EXPLANATORY FOREWORD

Council services were funded through the following:

Revenue Support Grant	(4,189)	(4,369)	(180)
Council Tax	(7,493)	(7,217)	276
Retained Business Rates	(2,996)	(2,930)	66
Retained Business Rates S31 Grant	-	(380)	(380)
<b>General Government Grants</b>			
New Burdens Grants	-	(125)	(125)
Flooding Support Grants	-	(93)	(93)
Electoral Registration Funding	-	(13)	(13)
Council Tax Freeze Grant	(83)	(83)	-
New Homes Bonus	(452)	(452)	-
New Homes Bonus Adjustment Grant	-	(25)	(25)
<b>TOTAL FUNDING</b>	<b>(15,213)</b>	<b>(15,687)</b>	<b>(474)</b>

The table below summarises the main reasons for the surplus generated in 2013/14:

	<u>Deficit/ (Surplus)</u>	<u>Deficit/ (Surplus)</u>
	<u>£000's</u>	<u>£000's</u>
<b>Additional Income</b>		
Planning Applications and Local Land Charges	(186)	
Coastal Partnership Income	(120)	
Housing Benefit Overpayment Collection	(100)	
Legal Fees	(31)	
ICT Capita Contract	(36)	
Other	(88)	<b>(561)</b>
<b>Reduced Expenditure</b>		
Major Buildings Repairs	(223)	
Local Development Framework	(100)	
Other Minor Variances Across Clusters	(49)	<b>(372)</b>
<b>Adjustments Due to Changes in Government Schemes</b>		
Council Tax Benefit Claw back 2013/14	(204)	
Discretionary Rate Relief	(90)	<b>(294)</b>
<b>Additional Funding</b>		
General Government Grants	(163)	
Council Tax	69	
Business Rates	(314)	
Adjustment for the reduction in the use of transfers between reserves	(293)	
Flooding Grants	(93)	<b>(794)</b>
<b>Deficit/(Surplus)</b>		<b>(2,021)</b>

## EXPLANATORY FOREWORD

At the end of the year, the Council's General Fund Balance has increased to £3,726,000 from £2,394,000. This reserve is held to provide financial stability to the Council, and enable it to meet unexpected demands.

### Capital Spending and Receipts

Capital expenditure is defined as expenditure which generates an asset that has a useful life of more than one year. The expenditure in the year amounted to £6.55m. The main items of capital expenditure are detailed in the table below.

Main Items of Capital Expenditure	Actual £'000
Investment Property Purchases	127
Disabled facilities grants	734
Waterlooville Town Centre Improvements	39
Acquisition of vehicles	412
Eastoke Point Coastal Defences	4,913
All other schemes	327
<b>Total</b>	<b>6,552</b>
Funded by:	
Government grants and contributions	5,665
Revenue Reserves	291
Direct revenue contributions	40
Borrowing	556
<b>Total</b>	<b>6,552</b>

### Pension Costs

Information regarding assets, liabilities, income and expenditure relating to the Council's pension scheme is included in Note 37. The Council's share of assets and liabilities of the pension fund shows an estimated liability of £40.45m at 31<sup>st</sup> March 2014. The liability represents the difference between the value of the authority's pension fund assets and the estimated present value of payments which it is committed to make. Statutory arrangements for funding the liability mean that the financial position of the Council remains acceptable because a proportion of contributions made in 2013/14 relates to past service costs, which ensures that sufficient cash is available to cover current liabilities.

### Overall Financial Position

The Council's overall financial position remains strong with good levels of reserves. There are robust processes in place for budget setting and forecasting, and the Council has in place a Medium Term Financial Strategy. There are sound systems in place to ensure cash is collected, that debtor balances are minimised and all funding streams are exploited.



## EXPLANATORY FOREWORD

### 2014/15 Onwards

Continued uncertainty in future funding for local authorities and the likely medium and long term impacts of the changes already in progress place a number of financial risks on the Council which need to be monitored and managed.

Past financial performance ensures that the Council can plan its response to the announcements already made on funding going forward which will reduce Central Government funding to the Council.

The Council's business plans set out an ambitious programme to ensure the long term financial resilience of the Council, transforming the way that the Council delivers its services and supports communities and businesses in Havant.

Jane Eaton  
(S151 Officer)  
30th June 2014

# 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 ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Head of Governance and Logistics (Section 151 Officer).
- ◆ manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- ◆ approve the Statement of Accounts.

## Responsibilities of the Section 151 Officer:

The Executive Head of Governance and Logistics is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain.

In preparing this Statement of Accounts, the S151 Officer has selected suitable accounting policies and then applied them consistently, made judgements and estimates that were reasonable and prudent and complied with the Code of Practice on Local Authority Accounting in the United Kingdom.

The Section 151 Officer also:

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

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

Signed:



Jane Eaton  
S151 Officer

Date: 30<sup>th</sup> June 2014

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## **Certification of the Audited Statement of Accounts:**

I confirm that the Statement of Accounts have been audited and, in accordance with the Accounts and Audit Regulations (amendment) 2011, I certify that the Audited Statement of Accounts present a true and fair view of the financial position of the Authority and its income and expenditure for the year ended 31 March 2014.

### **Signed:**

Jane Eaton  
S151 Officer

**Date:** 16<sup>th</sup> September 2014

## **Certificate of approval by the Council:**

I confirm that the Audited Statement of Accounts were approved at the Governance and Audit Committee meeting of Havant Borough Council on 16th September 2014.

### **Signed:**

Chairman  
Governance and Audit Committee

**Date:** 16<sup>th</sup> September 2014

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
HAVANT BOROUGH COUNCIL**

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# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement. The comparatives for 2012/13 have been restated to take account of the revisions to IAS19 (Accounting for retirement benefits), which applies from 1<sup>st</sup> April 2013.

2012-13 Restated				2013-14		
Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's		Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's
11,407	(9,873)	1,534	Central services to the public	1,619	(676)	943
4,437	(415)	4,022	Cultural and related services	3,519	(438)	3,081
6,637	(1,732)	4,905	Environmental and regulatory services	6,808	(2,096)	4,712
3,442	(919)	2,523	Planning services	3,571	(1,165)	2,406
2,013	(1,669)	344	Highways and transport services	2,201	(1,793)	408
36,224	(33,524)	2,700	Housing services	35,615	(33,071)	2,544
120	(85)	35	Adult Social Care	28	-	28
1,956	(14)	1,942	Corporate and democratic core	1,628	(52)	1,576
136	(51)	85	Non distributed costs	10	-	10
<b>66,372</b>	<b>(48,282)</b>	<b>18,090</b>	<b>Cost of Services</b>	<b>54,999</b>	<b>(39,291)</b>	<b>15,708</b>
302	-	302	Other operating expenditure (Note 9)	35	(460)	(425)
5,030	(912)	4,118	Financing and investment income and expenditure (Note 10)	3,719	(4,830)	(1,111)
	(16,479)	(16,479)	Taxation and non-specific grant income (Note 11)		(21,502)	(21,502)
<b>71,704</b>	<b>(65,673)</b>	<b>6,031</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>58,753</b>	<b>(66,083)</b>	<b>(7,330)</b>
		(1,396)	Surplus on revaluation of property, plant and equipment assets			-
		3,450	Actuarial gains/losses on pension assets/liabilities			(17,190)
		<b>2,054</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(17,190)</b>
		<b>8,085</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(24,520)</b>

## BALANCE SHEET

This Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by Havant Borough Council. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and the reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31st March 2013 £000's		Notes	31st March 2014 £000's
49,546	Property, plant and equipment	12	52,455
15,468	Investment property	13	18,820
41	Intangible assets	14	32
178	Long term debtors	15	151
<b>65,233</b>	<b>Long term assets</b>		<b>71,458</b>
94	Inventories	16	94
3,332	Short term debtors	17	2,957
6,190	Cash and cash equivalents	18	9,975
<b>9,616</b>	<b>Current assets</b>		<b>13,026</b>
(951)	Bank overdraft	18	-
(80)	Short term borrowing	15	(77)
(5,567)	Short term creditors	19	(5,850)
(45)	Short term provisions	20	(97)
<b>(6,643)</b>	<b>Current liabilities</b>		<b>(6,024)</b>
(233)	Long term creditors	19	(233)
(209)	Long term provisions	20	(669)
(3,878)	Long term borrowing	15	(3,823)
(54,990)	Other long term liabilities	37	(40,450)
(3,378)	Receipts in advance	30	(3,247)
<b>(62,688)</b>	<b>Long term liabilities</b>		<b>(48,422)</b>
<b>5,518</b>	<b>Net assets</b>		<b>30,038</b>
7,315	Usable reserves	21	10,916
(1,797)	Unusable reserves	22	19,122
<b>5,518</b>	<b>Total reserves</b>		<b>30,038</b>



## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The net increase / decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

Movements in 2013-2014:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants and Other Contributions Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2013</b>	<b>2,394</b>	<b>4,022</b>	-	<b>899</b>	<b>7,315</b>	<b>(1,797)</b>	<b>5,518</b>
<b>Movement in reserves during 2013-14</b>							
Surplus or (deficit) on the provision of services	7,330	-	-	-	<b>7,330</b>	-	<b>7,330</b>
Other Comprehensive Income and Expenditure	-	-	-	-	-	17,190	<b>17,190</b>
<b>Total Comprehensive Income and Expenditure</b>	7,330				<b>7,330</b>	17,190	<b>24,520</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	(4,447)	-	455	562	<b>(3,430)</b>	3,430	-
<b>Net Increase /(Decrease) before Transfers to Earmarked Reserves</b>	2,883		455	562	<b>3,900</b>	20,620	<b>24,520</b>
Transfers to/(from) Earmarked Reserves (Note 8)	(1,551)	1,252	0	-	<b>(299)</b>	299	-
<b>Increase/(Decrease) in 2013-14</b>	1,332	1,252	455	562	<b>3,601</b>	20,919	<b>24,520</b>
<b>Balance at 31 March 2014</b>	<b>3,726</b>	<b>5,274</b>	<b>455</b>	<b>1,461</b>	<b>10,916</b>	<b>19,122</b>	<b>30,038</b>

## MOVEMENT IN RESERVES STATEMENT

Comparative movements in 2012-2013:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants and Other Contributions Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
(Restated) <b>Balance at 31 March 2012</b>	1,373	5,099	-	1,205	7,677	5,926	13,603
<b>Movement in reserves during 2012-13</b>							
Surplus or (deficit) on the provision of services	(6,031)	-	-	-	(6,031)	-	(6,031)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(2,054)	(2,054)
<b>Total Comprehensive Income and Expenditure</b>	(6,031)				(6,031)	(2,054)	(8,085)
Adjustments between accounting basis & funding basis under regulations (Note 7)	7,210	-	-	(306)	6,904	(6,904)	-
<b>Net Increase /(Decrease) before Transfers to Earmarked Reserves</b>	1,179		-	(306)	873	(8,958)	(8,085)
Transfers to/(from) Earmarked Reserves (Note 8)	(158)	(1,077)	-	-	(1,235)	1,235	-
<b>Increase/(Decrease) in 2012-13</b>	1,021	(1,077)	-	(306)	(362)	(7,723)	(8,085)
<b>Balance at 31 March 2013</b>	2,394	4,022	-	899	7,315	(1,797)	5,518

## CASH FLOW STATEMENT

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

2012-13		2013-14
£ 000's		£ 000's
(6,031)	Net surplus or (deficit) on the provision of services	7,330
7,280	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(4,595)
(62)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or and financing activities	(55)
77	Net cash flow from operating activities (Note 23)	70
(4,345)	Investing activities (Note 24)	677
230	Financing activities (Note 25)	1,310
(2,851)	Net increase or (decrease) in cash, cash equivalents and bank overdraft	4,737
8,089	Cash, cash equivalents and bank overdraft at the beginning of the reporting period	5,238
5,238	<b>Cash, cash equivalents and bank overdraft at the end of the reporting period (note 18)</b>	9,975

## 1. Accounting Policies

### i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, as amended in 2011, which require it to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

### ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are 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.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue 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. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months from the date of acquisition and that 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 Authority's cash management.

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority'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.

### **v. Charges to Revenue for Non-Current Assets**

Services and support services are debited with the following amounts to record the cost of holding fixed 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 is no accumulated gain in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance (England and Wales). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance [MRP], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **vi. Employee Benefits**

#### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is estimated for the cost of holiday entitlements 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 Authority 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 when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

## Post Employment Benefits

Employees of the Authority can be members of the Local Government Pension Scheme, administered by Hampshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the authority.

The liabilities of the Hampshire County Council pension fund attributable to the authority are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate based on the indicative rate of return on AA corporate bonds.

The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

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

- 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 – the increase or decrease in liabilities arising from current year decisions 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
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- 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 – debited to the Pensions Reserve
- 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 Authority to the pension fund in the year, not the amount calculated

according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations 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 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 Authority 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.

## **vii. Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events 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 of authorisation for issue are not reflected in the Statement of Accounts.

## **viii. Financial Instruments**

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and 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. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

### **Financial Assets**

Financial assets are classified into two types:

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

## Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured 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 Authority 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.

However, the Authority has made a number of loans to voluntary organisations at less than market rates, and offers employees an interest free loan to purchase a car (soft loans). When soft loans are made, under Accounting Standards a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. However, these soft loans are not material to the Authority's accounts and consequently the amount presented in the Balance Sheet is the outstanding principal receivable and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

## ix. Government Grants and Contributions

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

- the Authority 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 creditors. 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.

Non-ring fenced government grants are general grants allocated by central government directly to local authorities as additional revenue funding. These grants are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

### **x. Heritage Assets**

Heritage assets are defined as those assets that are held specifically to increase the knowledge, understanding and appreciation of the Authority's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules may be relaxed in relation to heritage assets, where no reliable market value is available. The Authority currently has no asset meeting the definition of a heritage asset.

### **xi. Intangible Assets**

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line 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 the Capital Receipts Reserve.

## **xii. Inventories**

Stocks and stores held in the Council's depot and Tourist Information Centre stock at the year end are included in the balance sheet at the latest purchase price. Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

## **xiii. Investment Property**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. 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 relation to 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 Receipts Reserve.

## **xiv. Interests in Companies and Other Entities**

Local authorities are required to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. In order to assess whether the Council has interests relevant to group accounts, consideration has been given to involvement with companies, partnerships, voluntary organisations and other public bodies to determine whether:

- the authority has a formal interest in a body which gives it access to economic benefits or service potential and that the body is an identifiable entity carrying on a trade or business of its own.
- the interest constitutes control over the majority of equity capital or voting rights or over rights to appoint the majority of the governing body or the interest involves it exercising, or having the right to exercise, dominant influence over the entity, such that the entity is classified as a subsidiary of the authority.
- if the authority does not have control, whether its interest involves it being able to exercise a significant influence over the entity without support from other participants, such that the entity is classified as an associate of the authority.
- if the authority does not have control, whether its interest allows it to direct the operating and financial policies in conjunction and with the consent of the other participants in the entity, such that the entity is classified as a joint venture for the authority.

Consideration has been given to the relationship with all potential entities and the following disclosures have been made:-

- interests in other entities as shown in Note 32 to the Core Financial Statements

The relationship with the body disclosed is not material and therefore there is no entity where the Council's interest is such that it would give rise to the requirement to prepare group accounts.

This position will be reviewed and updated on an annual basis.

## xv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers 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 Authority as Lessee

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority 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 authority at the end of the lease period).

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

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### The Authority as Lessor

#### Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and

# NOTES TO THE CORE FINANCIAL STATEMENTS

Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

## **Operating Leases**

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

## **xvi. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP).

The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Cost of Services.

## **xvii. Property, Plant and Equipment**

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

## Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority 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.

## 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

The Authority does not capitalise expenditure below a de minimis of £15,000, or borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, they are accounted for by:

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

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

## Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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

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

## Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and 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 assessed useful life of the asset concerned (life between 3 and 20 years) as advised by a suitably qualified officer
- infrastructure – straight-line allocation over assessed useful life of the type of asset (life between 10 and 50 years) as advised by a suitably qualified officer

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.

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

## Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously 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. Receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

### **xviii. Provisions, Contingent Liabilities and Contingent Assets**

#### **Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority 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.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

#### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the authority 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 authority. 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 authority 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 authority.

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

## **xix. Reserves**

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in Note 22.

## **xx. Revenue Expenditure Funded from Capital under Statute**

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

## **xxi. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **xxii. 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 Authority's financial performance.



## 2. Accounting Standards that have been issued but have not yet been adopted

There have been a number of changes made to International Financial Reporting Standards that have not yet been adopted. However, none of the changes have a material impact on the Statement of Accounts.

## 3. Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Authority 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:

**Future funding for local government** - There is a high degree of uncertainty about future levels of funding for local government. However the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

**Asset reclassifications** – the Council has made judgements on whether assets are classified as Investment Property 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 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).

**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.

**Production of group accounts** – the Council has an interest in another entity, Portchester Crematorium Joint Committee, which manages the operations of Portchester Crematorium. The accounts of this entity have not been consolidated into the financial statements of the Council based on the fact that grouping the accounts would not materially change the reported figures in the Statement of Accounts and it would confuse the reader of the accounts.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 4. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or regarding other uncertainties. Estimates are made taking into account historical experience, current trends and other relevant factors. However, due to this uncertainty, there is a risk that actual results could vary from the assumptions made.

The items in the authority's balance sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming year are as follows.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns from pension fund assets. A firm of actuaries is engaged by the pension fund administrator to provide expert advice about the assumptions to be applied.	Further information on the impact of changes to assumptions can be found at note 37.
Property, Plant & Equipment	When calculating the fair value of assets, assumptions are made around useful lives, level of repairs, and the impact of the current economic climate. Changes in these assumptions may result in a material change to the depreciation charges applied. In the current economic climate it is unlikely that the level of repairs and maintenance can be sustained and this would have an effect on the depreciation charges.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls.</p> <p>It is estimated that the annual depreciation charge for property, plant and equipment would increase by £199,000 if the useful lives on every asset had to be reduced by 1 year.</p>
Provisions	At 31-Mar-14, the authority had a balance of general fund sundry debtors of £281,000 (2012/13 £688,000) and of Overpaid Housing Benefits £1,930,000 (2012/13 £1,851,000). The authority has made allowances for doubtful debt on a sliding scale dependant upon the age of the debt.	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £80,000 (2012/13 £70,000).
Business Rates Appeals Provision	The introduction of the Business Rates retention scheme from April 2013 means that the Council has assumed some of the liability for refunding business ratepayers who successfully appeal against the rateable value of their properties. The estimate is based on the latest list of outstanding rating list proposals provided by the Valuation Agency, and takes into account changes to comparable properties, historic trends and the likelihood that a number of appeals will be unsuccessful.	The Council has provided £1.121m for appeals within the collection fund. Havant Borough Council's share of this is £448,000. A 5% change in provision would require an adjustment of £22,400.

## 5. Exceptional item

There are no exceptional items in 2013/14.

## 6. Material Items of Income and Expense

During 2013/14 the Pension Scheme recorded an actuarial gain of £17.2m which is reflected in the Comprehensive Income and Expenditure Account and is mostly responsible for the decrease in the Council' s pension fund liabilities of £14.5m (see Notes 22 and 37). This is partly due to revisions to IAS19, which came into affect from April 2013.

The Authority also undertook programmed revaluation on its investment property assets during 2013/14. This exercise resulted in an increase in value of investment properties of £2.7m, which is reflected in the Comprehensive Income and Expenditure Account.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 7. Adjustments between the accounting basis and funding basis under regulations

This note details the adjustment that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions.

2013/14	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants and Other Contributions Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	(2,278)	-	-	2,278
Revaluation losses on Property Plant and Equipment	-	-	-	-
Movements in the market value of Investment Properties	2,727	-	-	(2,727)
Amortisation of intangible assets	-	-	-	-
Capital Grants and contributions applied	34	-	-	(34)
Impairment and Downward Revaluation	-	-	-	-
Revenue expenditure funded from capital under statute	(734)	-	-	734
Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(14)	-	-	14
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	819	-	-	(819)
Capital Expenditure charged against the General Fund	-	-	-	-
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	6,227	-	(6,227)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	5,665	(5,665)

## NOTES TO THE CORE FINANCIAL STATEMENTS

2013/14	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants and Other Contributions Unapplied £000	
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	455	(455)	-	-
Use of Capital Receipts Reserves to finance new capital expenditure	-	-	-	-
Contributions from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	-	-	-	-
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited and credited to the Comprehensive Income and Expenditure Statement	(4,140)	-	-	4,140
Employer's pensions contributions and direct payments to pensioners payable in the year	1,490	-	-	(1,490)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	125	-	-	(125)
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(283)			283
<b>Adjustment primarily involving Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	19	-	-	(19)
<b>Total Adjustments</b>	<b>4,447</b>	<b>(455)</b>	<b>(562)</b>	<b>(3,430)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The comparative adjustments made between accounting basis and funding basis in 2012/13 are as follows:

### Adjustments between accounting basis and funding basis under regulations

2012/13	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants and Other Contributions Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	2,163	-	-	(2,163)
Revaluation losses on Property Plant and Equipment	859	-	-	(859)
Movements in the market value of Investment Properties	2,592	-	-	(2,592)
Amortisation of intangible assets	53	-	-	(53)
Capital Grants and contributions applied	-	-	-	-
Impairment and Downward Revaluation	-	-	-	-
Revenue expenditure funded from capital under statute	774	-	-	(774)
Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,417	-	-	(1,417)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	(825)	-	-	825
Capital Expenditure charged against the General Fund	-	-	-	-
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(967)	-	967	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(1,273)	1,273

## NOTES TO THE CORE FINANCIAL STATEMENTS

2012/13	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants and Other Contributions Unapplied £000	
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,188)	1,188	-	-
Use of Capital Receipts Reserves to finance new capital expenditure	-	(1,188)	-	1,188
Contributions from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	-	-	-	-
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited and credited to the Comprehensive Income and Expenditure Statement	3,900	-	-	(3,900)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,630)	-	-	1,630
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	34	-	-	(34)
<b>Adjustment primarily involving Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	28	-	-	(28)
<b>Total Adjustments</b>	7,210	-	(306)	(6,904)

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 8. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2013/14.

	Balance at 31 March 2012 £000	Transfers out 2012/13 £000	Transfers in 2012/13 £000	Balance at 31 March 2013 £000	Transfers out 2013/14 £000	Transfers in 2013/14 £000	Balance at 31 March 2014 £000
General Fund - earmarked	513	-	414	927	(22)	257	1,162
Legal Reserve	385	-	-	385	-	-	385
Insurance Reserve	594	-	33	627	(54)	-	573
LABGI Reserve	240	(186)	-	54	(15)	-	39
Asset Acquisition Reserve	2,060	(1,463)	-	597	(127)	734	1,204
Welfare Reform Reserve	-	-	35	35	(22)	-	13
Capital Reserve	427	-	373	800	(147)	648	1,301
Restructuring and Redundancy Reserve	880	(283)	-	597	-	-	597
<b>Total</b>	<b>5,099</b>	<b>(1,932)</b>	<b>855</b>	<b>4,022</b>	<b>(387)</b>	<b>1,639</b>	<b>5,274</b>

## 9. Other Operating Expenditure

	2012/13 £000	2013/14 £000
Langstone Harbour Board levy	71	35
Loss / (Surplus) on disposal of non-current assets	231	(460)
<b>Total</b>	<b>302</b>	<b>(425)</b>

## 10. Financing and Investment Income and Expenditure

	2012/13 £000	2013/14 £000
Interest payable and similar charges	198	190
Pensions interest cost and expected return on pensions assets	2,240	2,330
Interest receivable and similar income	(77)	(70)
Income and expenditure in relation to investment properties (Note 13)	(835)	(834)
Change in the fair value of investment properties (Note 13)	2,592	(2,727)
<b>Total</b>	<b>4,118</b>	<b>(1,111)</b>



# NOTES TO THE CORE FINANCIAL STATEMENTS

## 11. Taxation and non specific grant incomes

	2012/13 £000	2013/14 £000
Council tax income	(8,294)	(7,240)
Non domestic rates	(6,510)	-
Retained Business Rates	-	(2,647)
Revenue support grant (Note30)	(126)	(4,396)
Non-ringfenced government grants (Note 30)	(1,337)	(1,181)
Capital grants and contributions (Note 30)	(212)	(6,038)
<b>Total</b>	<b>(16,479)</b>	<b>(21,502)</b>

## 12. Property, plant and equipment

Movements in 2013/14:

	Land and Buildings £000	Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets under Construction £000	Total Property, Plant and Equipment * £000
<b>Cost or Valuation:</b>						
At 1 April 2013	36,203	13,539	10,643	2,643	949	63,977
Additions	-	416	5,000	47	303	5,766
Reclassifications	(625)	-	9	0	(9)	(625)
Derecognition - disposals	-	(339)	-	-	-	(339)
<b>At 31 March 2014</b>	<b>35,578</b>	<b>13,616</b>	<b>15,652</b>	<b>2,690</b>	<b>1,243</b>	<b>68,779</b>
<b>Accumulated Depreciation and Impairment:</b>						
At 1 April 2013	(1,705)	(8,779)	(2,954)	(993)	-	(14,431)
Depreciation Charge	(572)	(953)	(566)	(127)	-	(2,218)
Derecognition - disposals	-	325	-	-	-	325
<b>At 31 March 2014</b>	<b>(2,277)</b>	<b>(9,407)</b>	<b>(3,520)</b>	<b>(1,120)</b>		<b>(16,324)</b>
<b>Net Book Value:</b>						
<b>as at 31 March 2014</b>	<b>33,301</b>	<b>4,209</b>	<b>12,132</b>	<b>1,570</b>	<b>1,243</b>	<b>52,455</b>
<b>as at 31 March 2013</b>	<b>34,498</b>	<b>4,760</b>	<b>7,689</b>	<b>1,650</b>	<b>949</b>	<b>49,546</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

Movements in 2012/13:

	Land and Buildings £000	Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets under Construction £000	Total Property, Plant and Equipment * £000
<b>Cost or Valuation:</b>						
At 1 April 2012	36,523	12,449	10,359	2,623	564	62,518
Additions	1,095	357	284	20	385	2,141
Revaluation increases/(decreases) recognised in the Revaluation Reserve	337	-	-	-	-	337
Revaluation increases/(decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(1,752)	786	-	-	-	(966)
Derecognition - disposals	-	(53)	-	-	-	(53)
Other movements in cost or valuation	-	-	-	-	-	-
<b>At 31 March 2013</b>	<b>36,203</b>	<b>13,539</b>	<b>10,643</b>	<b>2,643</b>	<b>949</b>	<b>63,977</b>
<b>Accumulated Depreciation and Impairment:</b>						
At 1 April 2012	(2,266)	(7,797)	(2,555)	(871)	-	(13,489)
Depreciation Charge	(572)	(1,068)	(399)	(122)	-	(2,161)
Depreciation written out to the Revaluation Reserve	1,059	33	-	-	-	1,092
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	74	-	-	-	-	74
Derecognition - disposals	-	53	-	-	-	53
<b>At 31 March 2013</b>	<b>(1,705)</b>	<b>(8,779)</b>	<b>(2,954)</b>	<b>(993)</b>		<b>(14,431)</b>
<b>Net Book Value:</b>						
<b>as at 31 March 2013</b>	<b>34,498</b>	<b>4,760</b>	<b>7,689</b>	<b>1,650</b>	<b>949</b>	<b>49,546</b>
<b>as at 31 March 2012</b>	<b>34,257</b>	<b>4,652</b>	<b>7,804</b>	<b>1,752</b>	<b>564</b>	<b>49,029</b>

\* There was no PFI asset included in Property, Plant and Equipment in 2013/14 or 2012/13.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Depreciation:

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

- Buildings - 5-50 years
- Vehicles, Plant, Furniture and Equipment - 3-20 years
- Infrastructure - 10-50 years
- Community Assets - 4-30 years

### Capital Commitments:

There were no capital commitments outstanding as at 31 March 2014.

### Effects of changes in estimates:

The Authority's Accounting Policy requires the componentisation of properties valued at over £5,000,000. The purpose of componentisation is to identify the value of plant, equipment and engineering services within a building and depreciate these separately. Reconsideration of the useful lives and fair value of each component is required when an asset is subject to enhancement expenditure.

### Revaluations:

The Authority carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured to fair value is revalued at least every five years. All valuations are carried out under the supervision of an estates officer employed by the Council. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors, and the accounting policies set out in Note 1 (xvii).

	Land and Buildings £000	Other £000	Total £000
<b>Carried at historical cost:</b>			
Community assets	-	-	-
Infrastructure assets	-	-	-
Assets under construction	-	-	-
Vehicles, plant, furniture and equipment	-	2,285	2,285
<b>Valued at fair value as at:</b>			
31 March 2014	-	-	-
31 March 2013	17,563	1,566	19,129
31 March 2012	8,532	800	9,332
31 March 2011	17,377	1,153	18,530
31 March 2010	-	-	-
31 March 2009	2,281	-	2,281
31 March 2008	5,158	-	5,158
<b>Total property, plant and equipment</b>	<b>50,911</b>	<b>5,804</b>	<b>56,715</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 13. 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:

	2012/13 £000	2013/14 £000
Rental income from investment property	1,074	1,143
Direct operating expenses arising from investment property	(239)	(309)
Net gain/(loss)	835	834

There is no restriction on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligation to purchase, construct, develop or enhance investment property.

The following table summarises the movement in the fair value of investment properties over the year:

	2012/13 £000	2013/14 £000
Balance at the start of the year	16,826	15,468
Additions in the year	2,651	-
Disposals in the year	(1,417)	-
reclassification of investment property	-	625
Net gains/losses from fair value adjustments	(2,592)	2,727
Balance at the end of the year	15,468	18,820

### 14. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences but not internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful lives assigned to the major software suites used by the Authority are 4-6 years.

The carrying value of intangible assets is cost less any accumulated amortisation and any accumulated impairment loss. The cost is amortised on a straight-line basis. The amortisation of £59,000 charged to revenue in 2013/14 was absorbed as an overhead across all the service headings in the Net Expenditure of Services.

# NOTES TO THE CORE FINANCIAL STATEMENTS

The movement on Intangible Asset balances during the year is as follows:

	2012/13 £000	2013/14 £000
Balance at the start of the year:		
Gross carrying amounts	533	546
Accumulated amortisation	(452)	(505)
Net carrying amount at the start of the year	81	41
Additions in the year	13	50
Amortisation for the period	(53)	(59)
Net carrying amount at the end of the year	41	32
Balance at the end of the year:		
Gross carrying amounts	546	596
Accumulated amortisation	(505)	(564)

The items of capitalised software that are individually material to the net carrying cost of intangibles at the end of the year are the ACOLAID system, the current net book value of which is £16,085, and the Democratic Services system, the current net book value of which is £15,429.

## 15. Financial Instruments

Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

	Current		Long-term	
	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000
<b>Financial Assets</b>				
Mortgages (sales of council houses)	-	-	-	-
Loans to local organisations	3	3	52	52
Staff car loans	76	72	123	96
Short term investments	-	-	-	-
Trade receivables	925	1,042	-	-
less provisions	(142)	(150)	-	-
Bank deposits	6,171	9,974	-	-
	7,033	10,941	175	148
<b>Financial Liabilities</b>				
Finance lease liability (Note 34)	15	15	233	233
Trade payables	2,443	3,753	-	-
Overdraft	951	-	-	-
Long term borrowing	80	77	3,857	3,823
	3,489	3,845	4,090	4,056

## NOTES TO THE CORE FINANCIAL STATEMENTS

There was no gain or loss recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments.

Financial assets and liabilities, represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost which is not materially different from their fair value.

On 16<sup>th</sup> March 2012 the Council borrowed £4,000,000 from the Public Works Loan Board at an interest rate of 4.04%. The loan matures in 30 years and is repayable in equal annual instalments, including interest, of £232,500. The amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest. The fair value of the loan at the Balance Sheet date is £4,679,000 against an amortised value of £3,899,000.

Trade receivables and the provisions against them relate to housing initiatives where settlement is deferred.

The following table discloses an age analysis of receivables past their due date for payment:

<b>Age analysis of trade receivables</b>	2012/13	2013/14
	£000	£000
Up to two months	573	842
Two to six months	112	80
Six months to one year	109	31
One year or more	131	89
	925	1,042

### 16. Inventories

	Fuel		Maintenance Materials		Other		Total	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000	£000	£000	£000	£000
Balance outstanding at start of year	55	38	27	43	13	13	95	94
Purchases	328	342	346	289	68	89	742	720
Recognised as an expense in the year	(345)	(339)	(330)	(317)	(68)	(64)	(743)	(720)
Written off balances								
Balance outstanding at end of year	38	41	43	15	13	38	94	94

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 17. Debtors

	31 March 2013	31 March 2014
	£000	£000
Central government bodies	946	481
Other local authorities	1,063	893
Public corporations and trading funds	-	-
Other entities and individuals	3,435	3,665
	5,444	5,039
Less:		
Collection fund allowance for bad and doubtful debts	(444)	(488)
Overpaid housing benefits	(1,329)	(1,444)
General fund allowance for bad and doubtful debts	(339)	(150)
<b>Total</b>	<b>3,332</b>	<b>2,957</b>

## 18. Cash and cash equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2013	31 March 2014
	£000	£000
Cash held by the Authority	15	404
Bank current accounts	60	101
Short term deposits	6,115	9,470
<b>Total cash and cash equivalents</b>	<b>6,190</b>	<b>9,975</b>
Bank overdraft	(951)	-
<b>Total cash, cash equivalents and bank overdraft</b>	<b>5,239</b>	<b>9,975</b>

## 19. Creditors

	31 March 2013	31 March 2014
	£000	£000
<b>Short term creditors</b>		
Central government bodies	1,942	254
Other local authorities	1,400	1,969
Other entities and individuals	2,225	3,627
<b>Total</b>	<b>5,567</b>	<b>5,850</b>
<b>Long term creditors</b>		
Long term liability under a finance lease (Note 34)	233	233
<b>Total</b>	<b>233</b>	<b>233</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 20. Provisions

Provisions at 31 March 2014 represent amounts set aside for the purpose of providing for liabilities, which are likely or certain to be incurred but are uncertain as to the amount or the date on which they will arise.

Insurance claims are met by an insurance fund operated by the Council. Insurance premiums are paid into the fund from the revenue account by services requiring insurance cover. Insurance claims less than the policy excesses, and policy excesses, are then met from the Insurance Fund. Risks covered by the fund include: Employer's Liability; Third Party Claims; Property; Motor Vehicles; Engineering; Terrorism; Officials Indemnity and Professional Indemnity within agreed excess levels.

Municipal Mutual Insurance (MMI) was a local authority owned mutual providing insurance to the Council which ceased business in 1992. However, MMI is still liable for certain insurance claims which, if not covered by MMI's remaining assets, will be apportioned between the member authorities. A Supreme Court ruling in March 2012 gave certainty that MMI will incur full liability for Mesothelioma claims, significantly increasing the likelihood that costs will be incurred by the Council. The latest estimate of potential liability is £131,000 and a provision has been created to ensure the council can meet this liability.

Businesses in the Havant Borough Council area are entitled to appeal against the rating valuation of their property. Prior to 2013/14 the impact of these appeals was borne by Central Government. Following the introduction of the Business Rates retention scheme, the Council now bears 40% of the impact of business rates appeals. The provision is created on the basis of known appeals that have yet to be settled.

	Insurance Fund £000	Business Rates Backdated Appeals £000	MMI £000	Total £000
Balance outstanding at 1 April 2013	100	-	154	254
Additional provisions made during the year	86	449	-	535
Unused amounts reversed in the year	-	-	-	-
Amounts used in the year	-	-	(23)	(23)
<b>Balance outstanding at 31 March 2014</b>	<b>186</b>	<b>449</b>	<b>131</b>	<b>766</b>

Under one year	97	-	-	97
One year and over	89	449	131	669
<b>Balance outstanding at 31 March 2014</b>	<b>186</b>	<b>449</b>	<b>131</b>	<b>766</b>



# NOTES TO THE CORE FINANCIAL STATEMENTS

## 21. Usable reserves

	Balance at 31 March 2013 £000	Movement in year £000	Balance at 31 March 2014 £000
General Fund Balance	2,394	1,332	3,726
Earmarked Reserves	4,022	1,252	5,274
Capital Receipts Reserve	-	455	455
Capital Grants and other contributions unapplied	899	562	1,461
<b>Total</b>	<b>7,315</b>	<b>3,601</b>	<b>10,916</b>

Movements in usable reserves are detailed in the Movement in Reserves Statement and Note 8.

## 22. Unusable reserves

	31 March 2013 £000	31 March 2014 £000
Revaluation reserve	6,045	7,273
Capital adjustment account	47,295	52,585
Pensions reserve	(54,990)	(40,450)
Collection fund adjustment account	(24)	(182)
Accumulated absences account	(123)	(104)
<b>Total unusable reserves</b>	<b>(1,797)</b>	<b>19,122</b>

### Revaluation reserve:

The revaluation reserve contains the gains made by the Authority arising from the increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gain is 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 of the Capital Adjustment Account.

	31 March 2013		31 March 2014	
	£000	£000	£000	£000
Balance outstanding at start of year		5,105		6,045
Upward revaluation of assets	3,850		-	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,454)		-	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		1,396		-
Other reclassification		-		1,375
Difference between fair value depreciation and historical cost depreciation		(456)		(147)
<b>Balance outstanding at end of year</b>		<b>6,045</b>		<b>7,273</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Capital adjustment account:

	31 March 2013 £000	31 March 2014 £000
<b>Balance outstanding at start of year</b>	50,175	47,295
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non-current assets	(3,022)	(2,219)
- Amortisation of intangible assets	(53)	(59)
- Revenue expenditure funded from capital under statute	(33)	(129)
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,417)	(14)
	(4,525)	(2,421)
Adjusting amounts written out of the Revaluation Reserve	456	(1,227)
Net written out amount of the cost of non-current assets consumed in the year	(4,069)	(3,648)
<b>Capital financing applied in the year:</b>		
- Use of the Capital Receipts Reserve to finance new capital expenditure	1,188	-
- Use of the Capital Reserve to finance new capital expenditure	(326)	142
- Use of the Asset Acquisition Reserve to finance new capital expenditure	1,462	127
- Use of the LABGI Reserve to finance new capital expenditure	100	-
- Use of the General Fund Earmarked Reserve to finance new capital expenditure	-	22
- Use of the General Fund to finance new capital expenditure	-	40
- Repayments of loans to local organisations	(2)	-
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	534	5,061
- Statutory provision for the financing of capital investment charged against the General Fund	825	819
	3,781	6,211
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(2,592)	2,727
<b>Balance outstanding at end of year</b>	47,295	52,585

## NOTES TO THE CORE FINANCIAL STATEMENTS

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

### **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 Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority 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.

	31 March 2013 £000	31 March 2014 £000
Balance outstanding at start of year	(49,270)	(54,990)
Actuarial gains or (losses) on pensions assets and liabilities	(4,470)	17,190
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	(2,880)	(4,140)
Employer's pensions contributions and direct payments to pensioners payable in the year	1,630	1,490
Balance outstanding at end of year	(54,990)	(40,450)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Collection Fund adjustment account

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

	31 March 2013 £000	31 March 2014 £000
Balance outstanding at start of year	11	(24)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(35)	126
Amount by which Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-	(284)
Balance outstanding at end of year	(24)	(182)

### Accumulated absences account

The accumulated absences account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the account.

	31 March 2013 £000	31 March 2014 £000
Balance outstanding at start of year	(95)	(123)
Settlement or cancellation of accrual made at the end of the preceding year	95	123
Amounts accrued at the end of the current year	(123)	(104)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(28)	19
Balance outstanding at end of year	(123)	(104)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 23. Net cash flow from operating activities

The cash flows for operating activities include the following items:

	2012/13 £000	2013/14 £000
Interest received	77	70

### 24. Net cash flow from investing activities

	2012/13 £000	2013/14 £000
Purchase of property, plant and equipment, investment property and intangible assets	(5,782)	(5,816)
Capital grants received	249	6,038
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,188	455
Other receipts from investing activities	-	-
Net cash flows from investing activities	(4,345)	677

### 25. Net cash flow from financing activities

	2012/13 £000	2013/14 £000
Cash receipts of short and long term borrowing	-	-
Net (increase) / decrease in short term investments	-	-
Net increase / (decrease) in national non-domestic rates cash	261	636
Net increase / (decrease) in preceptors share of council tax cash	35	744
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(15)	(15)
Repayments of short and long term borrowing	(51)	(55)
Net cash flows from financing activities	230	1,310

### 26. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across Service Heads. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charge is made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year

## NOTES TO THE CORE FINANCIAL STATEMENTS

- income and expenditure from investment properties is included in Governance and Logistics but has been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

The income and expenditure of the Authority's principal Service Heads recorded in the budget reports for the year is as follows:

<b>Service Head Income and Expenditure 2013/14</b>	CEO and Directors Office £000	Economy and Communities £000	Env't & Neighbourhood Quality £000	Governance & Logistics £000	Marketing and Development £000	Planning and Built Environment £000	Total £000
<b>Total Income</b>	(105)	(585)	(4,640)	(35,644)	(461)	(2,354)	(43,789)
Employee expenses	328	1,105	5,303	2,681	1,299	2,156	12,872
Other service expenses	3	658	2,233	39,868	1,658	764	45,184
<b>Total Expenditure</b>	331	1,763	7,536	42,549	2,957	2,920	58,056
<b>Net Expenditure</b>	226	1,178	2,896	6,905	2,496	566	14,267

The income and expenditure of the Authority's principal Service Heads recorded in the budget report for 2012/13 was as follows:

<b>Service Head Income and Expenditure 2012/13</b>	CEO and Directors Office £000	Economy and Communities £000	Env't & Neighbourhood Quality £000	Governance & Logistics £000	Marketing and Development £000	Planning and Built Environment £000	Total £000
<b>Total Income</b>	(112)	(579)	(4,343)	(45,172)	(425)	(1,911)	(52,542)
Employee expenses	351	1,084	5,436	2,757	1,152	2,095	12,875
Other service expenses	19	813	2,156	47,925	1,682	688	53,283
<b>Total Expenditure</b>	370	1,897	7,592	50,682	2,834	2,783	66,158
<b>Net Expenditure</b>	258	1,318	3,249	5,510	2,409	872	13,616

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Reconciliation of Service Head Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Service Head income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2012/13 £000	2013/14 £000
Net expenditure in the Service Head analysis	13,616	14,267
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	3,682	608
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	792	833
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>18,090</b>	<b>15,708</b>

### Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Service Head income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

	Service Head analysis £000	Amounts not reported to management in the analysis £000	Amounts not included in the CI&E £000	Total £000
<b>2013/14</b>				
<b>Total Income</b>	(43,789)	-	(43)	(43,832)
Employee expenses	12,872	-	-	12,872
Other service expenses	45,184	-	-	45,184
Investment Property Income & expenditure	-	833	-	833
Exceptional item	-	-	-	-
Accumulated absences provision	-	-	-	-
Capital Grants and Contributions	-	(187)	-	(187)
IAS19 Pension Adjustment	-	838	-	838
Other operating expenditure (Note 9)	-	(425)	-	(425)
Financing and Investment Income and Expenditure (Note 10)	-	(1,111)	-	(1,111)
Taxation and non specific grant income (Note 11)	-	(21,502)	-	(21,502)
<b>Total Expenditure</b>	<b>58,056</b>	<b>(21,554)</b>	<b>-</b>	<b>36,502</b>
<b>Surplus or deficit on the provision of services</b>	<b>14,267</b>	<b>(21,554)</b>	<b>(43)</b>	<b>(7,330)</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

	Service Head analysis £000	Amounts not reported to management in the analysis £000	Amounts not included in the CI&E £000	Total £000
<b>2012/13</b>				
<b>Total Income</b>	(52,542)	-	(43)	(52,585)
Employee expenses	12,875	-	-	12,875
Other service expenses	53,283	-	-	53,283
Investment Property Income & expenditure	-	835	-	835
Depreciation, amortisation and impairment	-	3,075	-	3,075
Exceptional item	-	-	-	-
Accumulated absences provision	-	28	-	28
Capital Grants and Contributions	-	-	-	-
IAS19 Pension Adjustment	-	579	-	579
Other operating expenditure (Note 9)	-	302	-	302
Financing and Investment Income and Expenditure (Note 10)	-	4,118	-	4,118
Taxation and non specific grant income (Note 11)	-	(16,479)	-	(16,479)
<b>Total Expenditure</b>	66,158	(7,542)		58,616
<b>Surplus or deficit on the provision of services</b>	13,616	(7,542)	(43)	6,031

## 27. Officers' Remuneration

The remuneration paid to the Authority's senior employees\* is as follows:

Post Holder information	Year	Salary (including fees & allowances) £	Benefit s in Kind £	Compensatio n for loss of office £	Employer's Pension Contribution s £	Total £
Chief Executive	2013/14	126,250	-	-	16,539	142,789
	2012/13	125,000	-	-	16,375	141,375
Executive Head of Economy and Communities	2013/14	75,750	-	-	9,923	85,673
	2012/13	75,000	-	-	9,825	84,825
Executive Head of Environment and Neighbourhood Quality	2013/14	75,750	211	-	9,923	85,884
	2012/13	75,000	247	-	9,825	85,072

\*A senior employee is defined as an officer who earns a salary of more than £150,000 per annum, or is the designated head of the paid service, or is a statutory chief officer, or is any person having responsibility for the management of the council, to the extent that the officer has power to direct or control the major activities of the council, in particular activities involving the expenditure of money, whether solely or collectively with other officers.



## NOTES TO THE CORE FINANCIAL STATEMENTS

The contribution rate for pensions is 13.1% of pensionable pay plus an additional monetary amount relating to all scheme members of £517,800 for 2012/13 and 2013/14.

**Note:** The Joint Management Team is made up of the Chief Executive, two Executive Directors and five Executive Heads. All of these posts are shared with East Hampshire District Council, and the cost of these posts are split equally between both Councils. The Chief Executive is employed by Havant Borough Council. Both Executive Directors are employed by East Hampshire District Council, and two of the five Executive Heads are employed by Havant Borough Council.

The table below outlines the contributions between Havant Borough Council and East Hampshire District Council in respect of senior employees

Post Title	Contributions paid to East Hampshire District Council £		Contributions received from East Hampshire District Council £	
	2012/13	2013/14	2012/13	2013/14
Chief Executive	-	-	78,210	78,989
Executive Director	56,637	57,201	-	-
Executive Director	56,637	57,201	-	-
Executive Head of Economy & Communities	-	-	46,410	46,880
Executive Head of Environment & Neighbourhood Quality	-	-	46,485	46,948
Executive Head of Governance & Logistics	47,478	46,948	-	-
Executive Head of Marketing & Development	48,322	46,948	-	-
Executive Head of Planning & Built Environment	46,485	46,948	-	-
<b>Total Contribution</b>	<b>255,559</b>	<b>255,246</b>	<b>171,105</b>	<b>172,817</b>

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Bands	Number of Employees			
	2012/13 exc termination benefits	2012/13 inc termination benefits	2013/14 exc termination benefits	2013/14 inc termination benefits
£50,000 - £54,999	1	1	2	2
£55,000 - £59,999	7	9	6	6
£65,000 - £69,999	-	-	-	-
£70,000 - £74,999	-	-	-	-
£75,000 - £79,999	-	-	-	-
£80,000 - £84,999	-	-	-	-
£85,000 - £89,999	-	-	-	-
£90,000 - £94,999	-	2	-	-
	<b>8</b>	<b>12</b>	<b>8</b>	<b>8</b>

The numbers of exit packages with total cost per band are set out in the table below. All exit packages were incurred as a result of compulsory redundancy.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Exit package cost band (including special payments)	Total number of exit packages by cost band		Total cost of exit packages in each band	
	2012/2013	2013/2014	2012/2013	2013/2014
£0 - £20,000	1	5	1,241	46,657
£20,001 - £40,000	1	-	20,718	-
£40,001 - £60,000	2	-	88,994	-
£60,001 - £80,000	-	-	-	-
£81,001 - £100,000	1	-	90,629	-
£100,000 - £150,000	1	-	106,147	-
£150,001 - £200,000	-	-	-	-
<b>Total</b>	<b>6</b>	<b>5</b>	<b>307,729</b>	<b>46,657</b>

Havant Borough Council paid £16,692 to East Hampshire District Council as a contribution to the redundancy costs of officers employed by East Hampshire District Council for 2013/2014 (£85,551 for 2012/2013). No contributions were received from East Hampshire District Council in respect of restructuring in 2013/2014 (£128,347 was received in 2012/2013).

### 28. Members' Allowances

The Authority paid the following amounts to members of the council during the year.

	2012/13 £000	2013/14 £000
Allowances	303	307
Expenses	5	6
<b>Total</b>	<b>308</b>	<b>313</b>

### 29. External audit costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:

	2012/13 £000	2013/14 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	62	62
Fees payable for the certification of grant claims and returns for the year	20	12
<b>Total</b>	<b>82</b>	<b>74</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 30. Grant Income

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2013/14:

	2012/13 £000	2013/14 £000
<b>Credited to taxation and non-specific grant income</b>		
Revenue support grant	126	4,396
New homes bonus grant	287	477
Council tax freeze grant	207	83
Environment Agency	104	8
New Burdens grant - Deferment of Business Rates	4	-
New Burdens Grant - Council Tax Support Scheme	84	76
New Burdens Grant - Community Right to Challenge	5	9
New Burdens Grant - Assets of Community Value	9	8
New Burdens Grant - Transparency	-	3
Section 31 grant - Small Business Rate Relief	-	381
Section 31 grant - Flood relief	-	70
Section 31 grant - Electoral Registration	-	12
Transition grant - Council Tax Support Scheme	-	31
Capitalisation grant - flooding	-	23
Other private sector contributions	80	-
Other HCC grants	28	-
<b>Capital grants</b>		
Disabled Facilities Grants	741	604
Environment Agency	-	5,350
Other external contributions	-	84
<b>Total</b>	<b>1,675</b>	<b>11,615</b>

	2012/13 £000	2013/14 £000
<b>Credited to services</b>		
Department for work and pensions: NNDR admin; benefits grant	42,774	33,041
Supporting People grant	77	-
EA beach recycling	162	438
Crime reduction grant	23	-
<b>Total</b>	<b>43,036</b>	<b>33,479</b>

The Authority has received a number of developers' contributions that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the contributors. The balances at the year-end included in receipts in advance are £1,189,000 (2012/13: £1,217,000).

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council is holding a contribution of £2,057,053 from Hampshire County Council towards the cost of the refurbishment of the Public Service Plaza. With effect from 1<sup>st</sup> June 2012 the Council agreed that Hampshire County Council could occupy a proportion of the Public Service Plaza for 25 years. The contribution is held in the Balance Sheet as a receipt in advance to be amortised in equal annual instalments to the Comprehensive Income and Expenditure Account (CI&E) over the term of the occupancy agreement. £93,000 is due to be taken to the CI&E in 2014/15 and is included in the fair value of the loan.

### 31. Related Parties

The Authority 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 Authority.

#### Central Government

Central government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are detailed in Note 30.

#### Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 28. There was no known material related party transaction with councillors for 2013/14 or for 2012/13.

#### Officers

There was no known material related party transaction with officers for 2013/14 or for 2012/13.

From 1<sup>st</sup> October 2010 a Joint Management structure was established with East Hampshire District Council which resulted in eight shared senior management posts working across both Councils. Details of the transactions between both Councils can be found in Note 27 Officers' remuneration.

#### Entities Controlled or Significantly Influenced by the Authority

The Council provided material financial assistance to the following organisations. This might enable the Council to influence the financial and operating policies of these organisations:

Organisation	Nature of control or influence	2012/13 £000	2013/14 £000
Havant & District Citizens Advice Bureaux	payment of a grant under a service level agreement	141	141
Havant Council of Community Service	payment of a grant under a service level agreement and a contribution towards the cost of providing meals for the elderly	164	70

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 32. Interests in Other Entities

The Council does not have, in aggregate, a material interest in any subsidiary companies, associated companies or joint ventures. Group accounts have therefore not been prepared.

The Council has an interest in Portchester Crematorium Joint Committee which manages the operations of Portchester Crematorium. The Joint Committee is represented equally by the four constituent authorities, Fareham Borough Council, Havant Borough Council, Gosport Borough Council and Portsmouth City Council. Further information can be obtained from: The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham. The accounts of this entity have not been consolidated into the financial statements of the Council. Havant Borough Council's share of the net assets of Portchester Crematorium Joint Committee is £1,960,000 (£1,413,000 in 2012/2013). During 2013/2014 the Council received £150,000 from the Portchester Crematorium Joint Committee (£150,000 in 2012/2013) being its share of the distributable surpluses.

### 33. 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2012/13 £000	2013/14 £000
<b>Opening capital financing requirement</b>	10,409	11,464
Capital investment:		
- Property, plant and equipment	4,806	5,817
Loans to local organisations	-	-
Revenue expenditure funded from capital under statute	775	734
Sources of finance:		
- Capital receipts	(1,188)	-
- Capital reserve	326	(142)
- Revenue Reserves	(1,463)	(149)
- Government grants and other contributions	(1,376)	(5,665)
Sums set aside from revenue:		
- Direct revenue contributions	-	(40)
- MRP	(825)	(819)
Movement in loans to local organisations	-	-
<b>Closing capital financing requirement</b>	<b>11,464</b>	<b>11,200</b>

	2012/13 £000	2013/14 £000
<b>Explanation of movements in year:</b>		
Increase / (decrease) in underlying need for borrowing (unsupported by government financial assistance)	1,054	(264)
Movement in Loans to Local Organisations	-	-
<b>Increase/(decrease) in capital financing requirement</b>	<b>1,054</b>	<b>(264)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 34. Leases

#### Authority as Lessee

##### Finance Leases

The Council has acquired a 98 year interest in a regional business centre under a finance lease. The asset acquired under this lease is carried as Property, Plant and Equipment in the Balance Sheet at £261,000 (2012/2013 £267,000)

The Authority is committed to making minimum payments under this lease comprising settlement of the long-term liability for the interest in the property acquired by the Authority, and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2013 £000	31 March 2014 £000
Finance lease liabilities (net present value of minimum lease payments):		
- current	15	15
- non-current	1,252	1,237
Finance costs payable in future years	(1,019)	(1,004)
Minimum lease payments	248	248

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000
Not later than one year	15	15	15	15
Later than one year and not later than five years	52	52	60	60
Later than five years	181	181	1,192	1,177
Finance costs payable in future years	-	-	(1,019)	(1,004)
	248	248	248	248

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2013/2014 £14,000 contingent rents were payable by the Authority (2012/2013 £12,000).

##### Operating Leases

The Authority leases land and property under operating leases for a number of purposes. These include the CCTV Control Room at the Meridian Centre, some recreation land and a car park.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	31 March 2013 £000	31 March 2014 £000
Not later than one year	8	8
Later than one year and not later than five years	29	25
Later than five years	110	105
	147	138

The minimum lease payments receivable do not include amounts that are contingent on future events, such as adjustments arising from rent reviews.

Expenditure on Operating Leases was charged to the following services on the Comprehensive Income and Expenditure Statement as follows:

The Council had no rental obligation as lessee under operating leases during 2013/14.

<b>Service Heading</b>	31 March 2013 £000	31 March 2014 £000
Cultural Services	6	6
Environmental & Regulatory Services	3	3
	9	9

### Authority as Lessor

#### Finance Leases

The Authority does not lease any of its assets under a finance lease agreement.

#### Operating Leases

The Authority leases out property and equipment under operating leases for a number of purposes. These include the generation of income from investment properties, and the provision of community services including sports facilities and economic development purposes.

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

	31 March 2013 £000	31 March 2014 £000
Not later than one year	1,182	1,161
Later than one year and not later than five years	4,626	4,460
Later than five years	64,141	60,937
	69,949	66,558

The minimum lease payments receivable do not include amounts that are contingent on future events, such as adjustments arising from rent reviews.

## 35. Impairment losses

In 2013/14, there were no impairment losses identified. In 2012/13 impairment losses arose on the downward revaluation of the Public Service Plaza and £57,000 in relation to the revaluation of the Authority's car park portfolio.

## 36. Termination Benefits

The Authority terminated the contracts of five employees in 2013/2014, incurring liabilities of £46,657 (£308,000 in 2012/13), in the form of compensation for loss of office, of which £3,914 related to enhanced pension benefits.

## 37. Defined benefit pension schemes

The disclosures below relate to the funded liabilities within the Hampshire County Council Pension Fund (the "Fund") which is part of the Local Government Pension Scheme (the "LGPS"). The LGPS is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits to be paid for the period covered by this disclosure are set out in the LGPS (Benefits, Membership and Contributions) Regulations 2007. The funded nature of the LGPS requires the Employer and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in 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.

### Contributions for the accounting period ending 31 March 2015

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2015 are estimated to be £1.57M. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

	31-Mar-12	31-Mar-13	31-Mar-14
Discount rate (funded)	4.7	4.3	4.3
Discount rate (unfunded)	4.6	4.1	4.2
RPI Inflation (funded)	3.5	3.6	3.3
RPI Inflation (unfunded)	3.4	3.5	3.2
CPI Inflation (funded)	2.5	2.7	2.3
CPI Inflation (unfunded)	2.4	2.6	2.2
Rate of increase to pensions in payment (funded)*	2.5	2.7	2.3
Rate of increase to pensions in payment (unfunded)*	2.4	2.6	2.2
Rate of increase to deferred pensions (funded)**	2.5	2.7	2.3
Rate of general increase in salaries (funded) **	5	4.6	3.8

\* In excess of Guaranteed Minimum Pension increases in payment where appropriate

\*\* In addition, allowance is made for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2013



# NOTES TO THE CORE FINANCIAL STATEMENTS

## Mortality assumptions

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements.

	31-Mar-13	31-Mar-14
<b>Post retirement mortality (retirement in normal health)</b>		
<b>Males</b>		
Year of Birth base table	Standard SAPS Normal	Standard SAPS Normal
	Health Light Amounts (S1NMA_L)	Health Light Amounts (S1NMA_L)
Rating to above base table * (years)	Zero	Zero
Scaling to above base table rates	100%	100%
Improvements to Continuous Mortality Investigation (CMI) base table rates	CMI 2009 with a long term rate of improvement of 1.25% p.a.	CMI 2012 with a long term rate of improvement of 1.5% p.a.
Future lifetime from age 65 (aged 65 at accounting date)	24	24.4
Future lifetime from age 65 (aged 45 at accounting date)	25.7	26.5
<b>Females</b>		
Year of Birth base table	Standard SAPS Normal	Standard SAPS Normal
	Health Light Amounts (S1NMA_L)	Health Light Amounts (S1NMA_L)
Rating to above base table * (years)	0	0
Scaling to above base table rates	100%	95%
Improvements to Continuous Mortality Investigation (CMI) base table rates	CMI 2009 with a long term rate of improvement of 1.25% p.a.	CMI 2012 with a long term rate of improvement of 1.5% p.a.
Future lifetime from age 65 (aged 65 at accounting date)	25	26.2
Future lifetime from age 65 (aged 45 at accounting date)	26.9	28.5

\* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Commutation of benefits

	31-Mar-13	31-Mar-14
<b>Commutation</b>	Each member assumed to exchange 25% of the maximum amount permitted of their pre 1 April 2010 pension entitlements, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum.	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

### Asset allocation

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. The assets allocated to the Employer in the Fund are notional and the assets are assumed to be invested in line with the investments of the Fund set out below for the purposes of calculating the return to be applied to those notional assets. The Fund is large and largely liquid and as a consequence there will be no significant restriction on realising assets if a large payment is required to be paid (e.g. bulk transfer value payment). The Administering Authority does not invest in property or assets related to itself. It is possible, however, that assets may be invested in shares relating to some of the private sector employers participating in the Fund if it forms part of their balanced investment strategy.

	Asset split at 31-Mar-13 (%) Total	Asset split at 31-Mar-14 (%) Quoted	Asset split at 31-Mar-14 (%) Unquoted	Asset split at 31-Mar-14 (%) Total
Equities	57.6	57.6	3.2	60.8
Property	7.8	7.5	0	7.5
Government bond	24.9	23.5	0.1	23.6
Corporate bonds	1.3	1.4	0.2	1.6
Cash	2.3	3.8	0	3.8
Other*	6.1	0.2	2.5	2.7
<b>Total</b>	<b>100</b>	<b>94</b>	<b>6</b>	<b>100</b>

\* Other holdings may include hedge funds, currency holdings, asset allocation futures and other financial instruments. It is assumed that these will get a return in line with equities.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Reconciliation to balance sheet

	Value as at 31-Mar-12 Funded £m	Value as at 31-Mar-12 Unfunded £m	Value as at 31-Mar-13 Funded £m	Value as at 31-Mar-13 Unfunded £m	Value as at 31-Mar-14 Funded £m	Value as at 31-Mar-14 Unfunded £m
Fair value of assets	63.90	-	70.52	-	76.59	-
Present value of funded defined benefit obligation	(112.59)	(0.58)	(124.83)	(0.68)	(116.37)	(0.67)
Funded status	(48.69)	(0.58)	(54.31)	(0.68)	(39.78)	(0.67)
<b>Asset / (Liability) recognised on the balance sheet</b>	<b>(48.69)</b>	<b>(0.58)</b>	<b>(54.31)</b>	<b>(0.68)</b>	<b>(39.78)</b>	<b>(0.67)</b>

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

Active members	25%
Deferred Pensioners	14%
Pensioners	61%

## Breakdown of amounts recognised in the Surplus or Deficit on the Provision of Services and Other Comprehensive Income (OCI)

	Period ending 31-Mar-13 Funded £m	Period ending 31-Mar-13 Unfunded £m	Period ending 31-Mar-14 Funded £m	Period ending 31-Mar-14 Unfunded £m
<b>Operating cost</b>				
Current service cost	1.56	-	1.83	-
Past service cost	0.10	-	0.01	-
<b>Financing Cost</b>				
Interest on net defined benefit liability / (asset)	2.24	0.03	2.30	0.03
<b>Pension expense recognised in profit and loss</b>	<b>3.90</b>	<b>0.03</b>	<b>4.14</b>	<b>0.03</b>
<b>Remeasurements in OCI</b>				
Return on plan assets (in excess of) / below that recognised in net interest	(6.48)	-	(5.23)	-
Actuarial (gains)/losses due to change in financial assumptions	9.99	0.06	(9.57)	(0.04)
Actuarial (gains) / losses due to changes in demographic assumptions	-	-	(1.20)	0.01
Actuarial (gains) / losses due to liability experience	(0.19)	0.04	(1.18)	0.02
<b>Total Amount recognised in OCI</b>	<b>3.32</b>	<b>0.10</b>	<b>(17.18)</b>	<b>(0.01)</b>
<b>Total Amount recognised in the Comprehensive Income &amp; Expenditure Account</b>	<b>7.22</b>	<b>0.13</b>	<b>(13.04)</b>	<b>0.02</b>

Note: The Current service cost includes an allowance for the administration expenses of £0.02M.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Changes to the present value of defined benefit obligation during the accounting period

	Period ending 31-Mar-13 Funded £m	Period ending 31-Mar-13 Unfunded £m	Period ending 31-Mar-14 Funded £m	Period ending 31-Mar-14 Unfunded £m
Opening defined benefit obligation	112.59	0.58	124.83	0.68
Current service cost	1.56	-	1.83	-
Interest expense on defined benefit obligation	5.18	0.03	5.29	0.03
Contributions by participants	0.49	-	0.49	-
Actuarial (gains) / losses on liabilities - financial assumptions	9.99	0.06	(9.57)	(0.04)
Actuarial (gains) / losses on liabilities - demographic assumptions	-	-	(1.20)	0.01
Actuarial (gains) / losses on liabilities - experience	(0.19)	0.04	(1.18)	0.02
Net benefits paid out	(4.89)	(0.03)	(4.13)	(0.03)
Past service cost (incl. curtailments)	0.10	-	0.01	-
<b>Closing defined benefit obligation</b>	<b>124.83</b>	<b>0.68</b>	<b>116.37</b>	<b>0.67</b>

*Note: Current service cost consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums. Also includes an allowance for fund administration expenses of £0.02M*

### Changes to the fair value of assets during the accounting period

	Period ending 31-Mar-13 Funded £m	Period ending 31-Mar-13 Unfunded £m	Period ending 31-Mar-14 Funded £m	Period ending 31-Mar-14 Unfunded £m
Opening fair value of assets	63.90	-	70.52	-
Interest income on assets	2.94	-	2.99	-
Remeasurement gains / (losses) on assets	6.48	-	5.23	-
Contributions by the employer	1.60	0.03	1.49	0.03
Contributions by participants	0.49	-	0.49	-
Net benefits paid out	(4.89)	(0.03)	(4.13)	(0.03)
<b>Closing fair value of assets</b>	<b>70.52</b>	<b>-</b>	<b>76.59</b>	<b>-</b>

*Note: Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums. Also includes an allowance for fund administration expenses of £0.02M*

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Actual return on assets

	Period ending 31-Mar-13 £m	Period ending 31-Mar-14 £m
Interest income on assets	2.94	2.99
Remeasurement gain / (loss) on assets	6.48	5.23
<b>Actual return on assets</b>	<b>9.42</b>	<b>8.22</b>

## Sensitivity Analysis

The results shown above are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2014 and the projected service cost for the year ending 31 March 2015 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same. Sensitivity of unfunded benefits are excluded on grounds of materiality.

<b>Discount rate assumption</b>		
<b>Adjustment to discount rate</b>	<b>+0.1% p.a.</b>	<b>-0.1% p.a.</b>
Present value of total obligation (£m)	114.61	118.21
% change in present value of total obligation	-1.5%	1.6%
Projected service cost (£m)	1.58	1.68
Approximate % change in projected service cost	-3.1%	3.1%
<b>Rate of general increase in salaries</b>		
<b>Adjustment to salary increase rate</b>	<b>+0.1% p.a.</b>	<b>-0.1% p.a.</b>
Present value of total obligation (£m)	116.63	116.11
% change in present value of total obligation	0.2%	-0.2%
Projected service cost (£m)	1.63	1.63
Approximate % change in projected service cost	0.0%	0.0%
<b>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption</b>		
<b>Adjustment to pension increase rate</b>	<b>+0.1% p.a.</b>	<b>-0.1% p.a.</b>
Present value of total obligation (£m)	117.92	114.91
% change in present value of total obligation	1.3%	-1.3%
Projected service cost (£m)	1.68	1.58
Approximate % change in projected service cost	3.1%	-3.1%
<b>Post retirement mortality assumption</b>		
<b>Adjustment to mortality age rating assumption</b>	<b>-1 year</b>	<b>+1 year</b>
Present value of total obligation (£m)	119.29	113.43
% change in present value of total obligation	2.5%	-2.5%
Projected service cost (£m)	1.68	1.58
Approximate % change in projected service cost	3.1%	-3.1%

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Estimated Surplus / Deficit in future periods

Below is provided an estimate of the charges to the Estimated surplus or deficit on the provision of services in future periods, based on the assumptions as at 31 March 2014, plus an additional assumption to reflect that the projected cost is based on benefits being earned under a CARE Scheme.

### Funded LGPS benefits - Expected amounts charged to Surplus or Deficit on the Provision of Services

	Period ending 31 March 2015 £m
Projected service cost	1.63
Past service costs	-
Interest on the net defined benefit liability/(asset)	1.68
<b>Total</b>	<b>3.31</b>

*Note: The Projected Service Cost includes an allowance for the administration expenses of £0.02M in the period ending 31 March 2015.*

### LGPS unfunded benefits - Expected amounts charged to Surplus or Deficit on the Provision of Services

	Period ending 31 March 2015 £m
Past service costs	-
Interest on the net defined benefit liability	0.03
<b>Total</b>	<b>0.03</b>

## Notes

### Benefits valued

The benefits valued allow for the introduction of the revised benefit structure of the LGPS from 1 April 2014, as set out in The Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

## Pension cost for the period ending 31 March 2015

The pension cost shown in the next period's accounts will be different to that shown above. Although it is not possible to give a reliable indication of the impact, the Employer should make it clear in their budgeting

process that the IAS 19 figures shown are subject to change. Reasons why the pension cost may change include:

- Actual increase in payroll being different to that used in the calculations particularly given that the revised benefit structure from 1 April 2014 is based on a different definition of pensionable pay. We have used a payroll figure of £7,665,900 in our calculations. The difference in payroll will particularly affect the current service cost);
- Past service costs may not be zero (this cost is that resulting from benefit augmentations or early retirement of individual members before age 60 or on the grounds of efficiency);
- Curtailment / settlement events may occur (e.g. outsourcing exercises, redundancy exercises or bulk transfers);
- Actual cash-flows over the next accounting periods may differ from those assumed (this will particularly affect the interest on the net defined benefit liability – this effect is, however, minor compared to those above.

## 38. Contingent liabilities and contingent assets

At 31 March 2014 the authority has the following material contingent liabilities:

A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have not yet been issued. The Council has been informed that the value of those claims at present is £87,514 plus interest and costs. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

The council operates a rent deposit guarantee scheme under which it guarantees rent deposits payable by tenants to landlords in order to assist them to obtain rented accommodation as part of the council housing strategy. If all of these guarantees were called upon the council's potential liability would be in the order of £76,000.

The Council has made an estimate of known Business Rates appeals (note 20 refers). However, the Council has based its estimate on known appeals as at 31st March 2014. The Council is unable to make a reliable estimate of potential appeals, but recognises that there is a risk to the Council arising from future appeals.

There were no contingent assets.

### 39. Nature and extent of risks arising from financial instruments

The Authority's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central finance team, under policies approved by the council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority'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, as laid down by Sector Treasury Services. This service also uses a number of overlays such as credit watches and credit outlooks to enhance the credit ratings of counterparties. The Council's priority when making these deposits is security of capital and liquidity of investments. Deposits are not made with banks and financial institutions unless they are rated independently with a minimum category green in the Sector credit rating system. The approved list of counterparties is amended immediately if any change in sector rating occurs.

Limits for investment with these counterparties are in place; the maximum investment up to 364 days deposited with any one institution in the highest rated category was £4 million. No more than £2 million can be invested for a period of more than 365 days without councillor involvement. No investment is to be made in an institution where it could be expected, at the time of investment, that the amount invested with that institution would at any time exceed 50% of the Authority's investments unless the total investments are below £3 million and with authority from the Head of Governance and Logistics.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies 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. Risks relating to recoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise. The Council has experienced no loss arising from defaults on its investments during the last five years.

The Council does not generally allow credit for customers; if it does so the customers are assessed, taking into account their financial position, past experience and other factors wherever possible.

No credit limit was exceeded during the reporting period.



## Liquidity Risk

The Council has £3,855,000 outstanding with the Public Works Loans Board at a fixed rate of 4.04% for 30 years. The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowing such that a rise in interest rates will lead to the fair value of the borrowing falling. In addition borrowings take place exceptionally to meet short term cash flow needs. In the event of an unexpected cash requirement the authority has ready access to borrowings from the money markets to cover any day to day cash flow need.

The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Consequently there is minimal liquidity risk exposure for the Council.

## Market Risk

### *Interest Rate Risk*

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 70% of its borrowings in variable rate loans. Due to the nature of the investments held at 31 March 2012, the authority was not exposed to significant interest rate risk.

### *Price Risk*

The Authority does not invest in equity shares.

### *Foreign Exchange Risk*

The Authority has no financial asset or liability denominated in a foreign currency and thus has no exposure to loss arising from movements in exchange rates.

### **40. Agency Services**

The Council is responsible for aspects of highway maintenance within the borough on behalf of Hampshire County Council. The Council spent £449,000 in respect of highway revenue works (£447,700 in 2012/2013). The County Council reimburses the Council for this work together with a contribution towards revenue administrative costs. Agency works expenditure is not included in the Comprehensive Income and Expenditure Account but administration costs and the associated County Council reimbursement are included.

The Council has entered into an agency agreement with Hampshire County Council for the enforcement of parking control. The net cost of this service was £276,000 during 2013/2014 (£156,900 in 2012/2013); all net costs are included within the Comprehensive Income and Expenditure Account.

The County Council does not reimburse Havant Borough Council for these net costs; however, any cumulative net costs can be reimbursed from any future surplus of income arising from parking enforcement.

### **41. Events after the Balance Sheet Date**

The Statement of Accounts was approved by the Responsible Finance Officer on 30<sup>th</sup> June 2014, and this is the date up to which events after the balance sheet date have been considered for inclusion in the Accounts. No post balance sheet events have been identified in the period to 30<sup>th</sup> June 2014.

### **42. Authorisation of the statement of accounts**

The Statement of Accounts was approved by the Responsible Finance Officer on 30<sup>th</sup> June 2014.

## COLLECTION FUND

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2012/13 £000	<u>Income</u>	2013/14 <b>Business Rates</b> £000	2013/14 <b>Council Tax</b> £000	2013/14 <b>Total</b> £000
52,995	Income from Council Tax (net of benefits)	-	55,017	55,017
9,174	Council Tax Benefits	-	-	-
30,494	Income collectable from Business Ratepayers	31,851	-	31,851
<b>92,663</b>		<b>31,851</b>	<b>55,017</b>	<b>86,868</b>
	<b><u>Expenditure</u></b>			
62,027	Precepts paid to Police and Crime Commissioner, Fire Authority, County and District Councils	-	53,696	53,696
110	Distribution of previous year's estimated surplus	-	(218)	(218)
30,354	Payment to National Pool	-	-	-
-	Business rates payable to central govt and Major Preceptors	18,749	-	18,749
-	- Borough Council	12,499	-	12,499
-	- Provision for Business rates appeals	1,121	-	1,121
-	- Transitional Relief due to Central Government	124	-	124
141	Costs of collection	141	-	141
287	Net contribution to Bad Debt Provision	(76)	605	529
<b>92,919</b>		<b>32,558</b>	<b>54,083</b>	<b>86,641</b>
	<b><u>Movement on Fund Balance</u></b>			
(79)	Surplus brought forward	-	177	177
256	Surplus or Deficit for the year	707	(934)	(227)
<b>177</b>	(Surplus)/Deficit carried forward	<b>707</b>	<b>(757)</b>	<b>(50)</b>

# NOTES TO THE COLLECTION FUND

## 1. Calculation of the council tax base

Council Tax is calculated by reference to the valuation band appropriate to each chargeable dwelling; the total yield being determined by what is known as the band D equivalent. The band D charge in 2013/2014 was £1,443.29. The Council Tax base was as follows:-

	<u>*Band A</u>	<u>Band A</u>	<u>Band B</u>	<u>Band C</u>	<u>Band D</u>	<u>Band E</u>	<u>Band F</u>	<u>Band G</u>	<u>Band H</u>
No. of Properties	0	8,187	13,836	12,326	9,661	5,456	2,373	928	40
Equivalents after exemptions, etc	11	6,607	12,160	11,053	8,742	4,965	2,198	839	26
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9
No. of Band D Equivalents	6	4,405	9,457	9,825	8,742	6,068	3,174	1,399	53
						Band D Equivalents	43,129		
						Contributions in lieu of armed forces accommodation	42		
						Reduction in Taxbase - Council Tax Support Scheme	(5,967)		
						Tax Base	<u>37,204</u>		

\* after disabled reduction

## 2. Non-Domestic Rateable Value and Rate Multiplier

The total non-domestic rateable value at the 31 March 2014 was £78,965,440 (£79,311,831 at 31 March 2013). The national non-domestic rate multiplier for the year was 47.1p (45.8p at 31 March 2013) and 46.2p for small businesses (43.0p at 31 March 2013).

## 3. Precepts and Demands on the Collection Fund

Hampshire County Council, Hampshire Police Authority, Hampshire Fire & Rescue Service and Havant Borough Council precept upon the collection fund. The amounts of these precepts, together with the distribution of surpluses or recovery of deficits as at the end of the financial year, were:-

	<b>2012/2013</b>	<b>-----2013/2014-----</b>		
	<b>Total</b>	<b>Share of</b>		
	<b>£'000</b>	<b>Precept /</b>	<b>31st March</b>	<b>Total</b>
		<b>Demand</b>	<b>2013 Deficit</b>	<b>£'000</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Hampshire County Council	44,887	38,614	(158)	38,456
Hampshire Police Authority	6,325	5,627	(22)	5,605
Hampshire Fire & Rescue Service	2,655	2,283	(9)	2,274
Havant Borough Council	8,338	7,172	(29)	7,143
	<u><b>62,205</b></u>	<u><b>53,696</b></u>	<u><b>(218)</b></u>	<u><b>53,478</b></u>

# ANALYSIS OF 2013/14 SERVICE EXPENDITURE

	Expenditure £000's	Income £000's	Net £000's
<b><u>Central Services to the Public</u></b>			
Local tax collection	956	(468)	488
Elections	203	(7)	196
Emergency planning	62	-	62
Local land charges	133	(201)	(68)
General grants, bequests and donations	265	-	265
Other central services to the public	-	-	-
	1,619	(676)	943
<b><u>Cultural Services</u></b>			
Cultural and heritage	199	-	199
Recreation and sport	1,339	(292)	1,047
Community parks and open spaces	1,783	(145)	1,638
Tourism	198	(1)	197
	3,519	(438)	3,081
<b><u>Environmental and Regulatory Services</u></b>			
Cemetery and cremation services	289	(298)	(9)
Coast protection	1,352	(518)	834
Environmental health	1,602	(359)	1,243
Community safety	399	(21)	378
Waste collection	2,215	(880)	1,335
Street cleansing	951	(20)	931
	6,808	(2,096)	4,712
<b><u>Planning Services</u></b>			
Building control	456	(269)	187
Development control	1,282	(672)	610
Planning policy	708	-	708
Economic development	418	(185)	233
Other planning services	707	(39)	668
	3,571	(1,165)	2,406
<b><u>Highways, Roads and Transport Services</u></b>			
Transport planning policy and strategy	52	-	52
Highways/roads (structural)	-	-	-
Highways/roads (routine)	919	(232)	687
Parking services	1,072	(1,495)	(423)
Public transport	138	(49)	89
Other highways, roads and transport services	20	(17)	3
	2,201	(1,793)	408
<b><u>Housing Services</u></b>			
Private sector housing renewal	917	(1)	916
Homelessness	424	(154)	270
Housing benefits payments	32,048	(32,054)	(6)
Housing benefits administration	1,892	(862)	1,030
Other housing services	334	-	334
	35,615	(33,071)	2,544
<b><u>Social Services</u></b>			
Meals	28	-	28
	28	0	28
<b><u>Corporate and Democratic Core</u></b>			
Corporate Management	604	(52)	552
Democratic representation and management	1,024	-	1,024
	1,628	(52)	1,576
<b><u>Unapportionable Central Overheads</u></b>			
	10	-	10
	10	-	10
<b><u>COST OF SERVICES BEFORE EXCEPTIONAL ITEM</u></b>	54,999	(39,291)	15,708

# GLOSSARY OF TERMS

## **Accrual**

This concept means that income and expenditure is accounted for as it is earned or incurred, not as the money is received or paid (cash basis).

## **Asset**

A tangible or intangible item, that is of value to the Authority. Tangible assets include land and buildings, plant and machinery, vehicles, fixtures and fittings. Intangible assets include computer software licenses and in house software development.

## **Actuarial Gains & Losses (Pensions)**

Over reporting period, these consist of:

- Experience gains and losses are the effects of differences between previous assumptions made when calculating overall pension liability, and what has actually occurred, and
- The effects of changes in actuarial assumptions such as salary inflation and life expectancy on the pension liability.

## **Billing Authority**

The Council responsible for collecting Council Tax from residents. East Hampshire District Council is a billing authority.

## **Business Rates Retention Scheme**

A government funding scheme launched in 2013/14 which allows the Council to retain a share of the Business Rates collected in the Borough.

## **Capital Expenditure**

Expenditure on the acquisition or construction of assets, or expenditure that enhances an existing asset that has a long-term value to the authority, particularly land and buildings.

## **Capital Adjustment Account (CAA)**

An accounting reserve which forms part of the capital accounting system and is not available for use. It represents amounts that have been set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans.

## **Capital Programme**

The authority's plan of capital projects and spending over future years. Included in this category is the purchase or enhancement of land and buildings, vehicle purchases and other major items of equipment.

## **Capital Receipts**

Income from the sale of land or buildings which can be used to finance new capital expenditure, or to repay outstanding debt on assets originally financed through loans.

## **Carrying Amount**

The cost or value of an asset, less depreciation incurred against that asset.

## **Cash and Cash Equivalents**

Cash relates to the Council's bank balance or overdraft, petty cash and change floats as at 31<sup>st</sup> March. Cash equivalents relate to cash deposits that are readily convertible into cash at any given time, for example, balances held in the Council's overnight investment account.

## **Central Services to the Public**

This covers services to the public that are often provided by central departments and includes Local Tax Collection, Elections, Emergency Planning, and Local Land Charges.

## **CIPFA**

The Chartered Institute of Public Finance and Accountancy.

**Collection Fund**

Income and expenditure relating to the collection and distribution of Council Tax and National Non Domestic Rates.

**Community Assets**

Assets that the Council intend to hold in perpetuity for the benefit of the Community, that have no determinable useful life and that may have restrictions on their disposal. East Hampshire District Council's community assets relate mainly to open spaces.

**Contingent Assets and Liabilities**

A liability that, at the balance sheet date, can be anticipated to arise if a particular event occurs. A typical example is a court case pending against the Council, the outcome of which is uncertain, but if the judgement were to be awarded against the Council, could result in a financial cost being incurred (liability) or an award of income to the council (asset).

**Creditors**

A creditor is an organisation, body or individual from whom the Council has purchased goods or services but the payment for which has not yet been made.

**Current Service Cost**

The present value of pension benefits accrued to employees in the period of account.

**Curtailement**

Curtailements show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

**Debtors**

Organisations, bodies or individuals who have received goods or services from the Council for which the payment has not yet been received.

**Deferred Credit**

This is income that has been received before the period or periods to which it relates. Deferred income is shown in the Balance Sheet.

**Deficit**

A deficit arises where expenditure exceeds income. A deficit can be financed by reserves.

**Depreciation**

An annual charge made in the Council's revenue account reflecting the reduction in value of an asset caused by the day to day operation of that asset.

**Expected Rate of Return on Assets (Pensions)**

The expected increase in the value of pension fund assets, based on valuations and long-term expected returns as at the start of the accounting period.

**Existing Use Value**

This is a method of valuing property that achieves a valuation based on the current use of the asset.

**Fair Value**

A methodology used to determine the value of Council assets. For land and buildings it is the amount that would be paid for an asset in its existing use or, where this is not available, the cost of replacing the asset in its existing use.

**Financial Instruments**

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Financial Instruments include trade debtors and trade creditors, and treasury management transactions, for example, cash deposits, swaps, and embedded derivatives.

**General Fund**

The main revenue fund of the Council which contains the income and expenditure of all services provided by the District Council. The General Fund Balance represents the Council's minimum reserve balance to cover emergency expenditure.

**Gross Book Value (GBV)**

The GBV of a fixed asset is the value of the asset before depreciation has been applied.

**Historic Cost**

The historic cost of an asset is deemed to be the carrying amount of an asset as at 1 April 2007 (the date the revaluation reserve was created) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

**IFRS**

International Financial Reporting Standards

**Impairment Loss**

A significant decline in the value of an asset that is specific to that asset which is caused through deterioration rather than a reduction in market value of the asset.

**Interest Cost (Pensions)**

Increase in present value of pension benefit obligations, which arise because the benefits are one year closer to payment.

**Market Value**

The Market Value of an asset is the value that could be achieved if the asset were offered for sale with no restrictions that could affect its value.

**National Non-Domestic Rates (NNDR)**

Tax charged on the rateable value of non-domestic properties (business properties). The rate of tax is set by the Government. The proceeds are pooled nationally and are redistributed on the basis of a fixed amount per head of population.

**Net Book Value**

The value of an asset, less the depreciation that has been applied to the asset since its purchase or revaluation.

**Current Replacement Cost**

The cost of replacing an asset, reduced to reflect obsolescence. This cost is often used to value assets where market values or existing use values are not available.

**Net Realisable Value**

The existing use value of an asset, less any additional costs likely to be incurred to bring the asset into use.

**Non-Current Assets**

Tangible and intangible assets that yield benefits to the authority for a period of more than one year, for example, land and buildings.

**Past Service Cost**

The increase in the present value of pension benefits for employee service before the year of account, which result in the current period from the introduction of, or changes to, post-employment benefits. Past service cost may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).



**Precept**

The levy (demand) made by the County Council, Parish and Town Councils, on the District Council's Collection Fund for their net expenditure requirements.

**Present value of defined benefit obligation**

The value, in today's money, of expected future payments required to settle the pension obligation resulting from employee service.

**Provisions**

Amounts set aside to meet liabilities or losses which are likely to occur, or certain to occur in the future, but where the exact amounts and/or dates are uncertain.

**Reserves**

Amounts set aside to meet planned future capital or revenue expenditure, particularly projects.

**Revenue Expenditure**

Day to day income and expenditure, relating to the provision of the Council's services.

**Revaluation Reserve**

An unusable reserve, that represents the amount by which the Council's assets have been revalued since April 2007.

**Revenue Support Grant (RSG)**

A general government grant in support of local authority expenditure. The grant is calculated by Central Government and is based on the relative needs of the district.

**SeRCOP**

The Service Reporting Code of Practice. This guide is used by Councils to ensure that service expenditure is accounted for consistently across all Councils, to enable comparisons between authorities to be made, and to allow the calculation of the total cost of services provided by all local authorities.

**Settlement (Pension)**

Settlement occurs when the council enters into a transaction that eliminates all further obligation for part or all of the benefits provided under a defined benefit pension, for example, when a lump-sum cash payment is made to, or on behalf of, participants in exchange for their rights to receive specified post-employment benefits.

**Surplus**

A surplus occurs where income exceeds expenditure. In some cases, a surplus will be transferred to an appropriate reserve.



If you would like to find out more about our accounts for the year 2013/2014 please contact:

Public Service Plaza,  
Civic Centre Rd,  
Havant,  
Hampshire  
PO9 2AX

**Havant**  
BOROUGH COUNCIL



Helen Thompson  
Director  
Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

**Enquiries to:** Jane Eaton  
**Direct line:** (023) 92 446305  
**Email:** [Jane.Eaton@havant.gov.uk](mailto:Jane.Eaton@havant.gov.uk)  
**My reference:**  
**Your reference:**  
**Date:** 16th September 2014

Dear Mrs Thompson

## **Havant Borough Council - Audit for the year ended 31 March 2014**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Havant Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2014:

### **A. Financial Statements and Financial Records**

I have fulfilled my responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).

I acknowledge my responsibility for the fair presentation of the financial statements. I believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. I have approved the financial statements.

I confirm that as the Responsible Officer I have:

- ▶ reviewed the accounts;
- ▶ reviewed all relevant written assurances relating to the accounts; and
- ▶ made other enquiries as appropriate.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

I believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements that are free from material misstatement, whether due to fraud or error, in accordance with the CIPFA Code.

## **B. Fraud**

I acknowledge that I am responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## **C. Compliance with Laws and Regulations**

I have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

## **D. Information Provided and Completeness of Information and Transactions**

I have provided you with:

- ▶ access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
- ▶ additional information that you have requested from us for the purpose of the audit; and
- ▶ unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

I have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 16 September 2014.

I confirm the completeness of information provided regarding the identification of related parties. I have disclosed to you the identity of the Council related parties and all related party relationships and transactions of which I am aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

I have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

## **E. Liabilities and Contingencies**

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

I have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

I have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that I have given to third parties.

## **F. Subsequent Events**

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

## **G. Accounting Estimates**

I believe that the significant assumptions I used in making accounting estimates, including those measured at fair value, are reasonable.

In respect of accounting estimates recognised or disclosed in the financial statements:

- ▶ I believe the measurement processes, including related assumptions and models, used in determining accounting estimates are appropriate and the application of these processes is consistent.
- ▶ The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- ▶ The assumptions used in making accounting estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- ▶ No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

## **H. Segmental reporting**

I have reviewed the operating segments reported internally to the Joint Executive Board and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- ▶ The nature of the products and services
- ▶ The nature of the production processes
- ▶ The type or class of customer for their products and services
- ▶ The methods used to distribute their products

## **I. Going Concern**

I have made you aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

## **Signed on behalf of Havant Borough Council**

I confirm that this letter has been discussed and agreed by the Governance and Audit Committee on 16 September 2014.

Signed:

Name: Jane Eaton

Position: Executive Head of Governance and Logistics

Date: 16 September 2014

Signed:

Name: Councillor K Smith

Position: Chairman, Governance and Audit Committee

Date: 16 September 2014

**NON-EXEMPT**

## **HAVANT BOROUGH COUNCIL**

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**Governance & Audit Committee**

**16 September 2014**

**ANNUAL GOVERNANCE STATEMENT**  
**Corporate Accountancy Team Leader**

**FOR INFORMATION**

**Portfolio: Cllr Jackie Branson**

**Key Decision: No**

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### **1.0 Purpose of Report**

- 1.1 To present the Annual Governance Statement for Havant Borough Council. The Statement accompanies the 2013/14 Statement of Accounts.

### **2.0 Recommendation**

That the Governance & Audit Committee note the Annual Governance Statements and action plans included.

### **3.0 Summary**

- 3.1 This is the annual review of corporate governance arrangements for the Council, as required under the Accounts and Audit Regulation 2003 as amended by the Accounts & Audit [Amendment] [England] Regulations 2011. It is also part of the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance, "Developing Good Governance in Local Government".

### **4.0 Subject of Report**

- 4.1 The purpose of the Annual Governance Statement is to explain how the Councils comply with their Local Codes of Governance. The guidance contained in the Code of Practice on Local Authority Accounting in the UK states the following information to be included in the Statement:
- a) An acknowledgement of responsibility for ensuring there is a sound system of internal control

- b) An indication of the level of assurances that a system of internal control can provide
- c) A brief description of the key elements of the internal control environment
- d) A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the system of internal control, including some comment on the role of the authority; the executive; the audit committee/ overview and scrutiny committee; risk management committee; internal audit and other explicit review / assurance mechanisms
- e) An outline of the actions taken, or proposed, to deal with significant internal control issues
- f) A statement on whether the financial management arrangements conform to the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government.

4.2 The Statement should also include details of significant events or developments relating to the system of internal control that occur between 31<sup>st</sup> March and the date on which the Statement is signed.

## **5.0 REVIEW OF EFFECTIVENESS**

5.1 The Joint Executive Board is responsible for reviewing and updating the Assurance Framework the Council. This forms the basis of the annual review of effectiveness.

5.2 Assurances are gained from several sources, for example, Internal Audit, the Risk Management Group, and the Joint Executive Board. Pages 7 and 8 of the Governance Statement details these sources of assurance and how they contribute to the process.

## **6.0 RESULTS OF THE REVIEW OF EFFECTIVENESS**

6.1 As part of the review of effectiveness undertaken during 2013/14 an assessment was made on progress with issues identified in the previous Annual Governance Statement. In addition, the review aimed to identify any actions that may be required to improve the Council's Governance arrangements.



6.2 The results of the review of effectiveness are detailed on pages 9 and 10 of the Governance Statement, along with the actions that Management have committed to improve corporate governance arrangements across each council.

6.3 The Annual Governance Statements will be published alongside the Statement of Accounts on or before 30<sup>th</sup> September 2014.

## **7.0 Implications**

7.1 Resources: No implications other than staff time reviewing and progressing.

7.2 Legal: No implications

7.3 Strategy: Public Service Excellence

7.4 Risks: No implications

7.5 Communications: No implications

7.6 For the Community: No Implications

## **8.0 Consultation**

Section 151 Officer  
Internal Audit  
Joint Executive Board

Appendices:

Appendix 1: Havant Borough Council – Annual Governance Statement 2013/14

Agreed and signed off by:

Executive Head of Governance & Logistics 21/8/14

**Contact Officer:** Kevin Harlow  
**Job Title:** Corporate Accountancy Team Leader  
**Telephone:** 01730 234126  
**E-Mail:** kevin.harlow@havant.gov.uk

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## HAVANT BOROUGH COUNCIL

### ANNUAL GOVERNANCE STATEMENT

#### Scope of Responsibility

Havant Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Havant Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Havant Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Havant Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at [www.havant.gov.uk](http://www.havant.gov.uk) or can be obtained from the Council's offices. This statement explains how Havant Borough Council has complied with the code and also meets the requirements of regulation 4[2] of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2011 in relation to the publication of a statement on internal control.

#### The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Havant Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Havant Borough Council for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

## **The Governance Framework**

The six key elements of good governance are:-

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of members and officers to be effective.
6. Engaging with local people and other stakeholders to ensure robust public accountability.

The Governance Framework at Havant Borough Council is designed to reflect the six core principles of effective corporate governance. The way in which the Council meets these principles is outlined below.

### **1. Purpose and Vision**

Following appropriate consultations Havant Borough Council has laid out its purpose, direction, vision and objectives in its Council Strategy 2012 - 2017. This document can be obtained either on the Council's website ([www.havant.gov.uk](http://www.havant.gov.uk)) or from the Council's offices. Cluster business plans are prepared to support the Corporate Strategy. The Council's vision is that the communities of South East Hampshire will be increasingly prosperous, vibrant and active.

The Corporate Strategy, which is comprehensively reviewed every three years, is underpinned by the key themes of Financial Sustainability, Economic Growth and Public Service excellence.

The Council's operational services are divided into Service Clusters. Business plans for each cluster are agreed annually and identify objectives and targets for all services. A three year business planning approach has been rolled out for 2013/14, allowing a closer link between business and financial planning. Risk is considered and recorded as part of the business planning process.

The Council has a wide range of performance indicators, which are used to measure progress against the Council's priorities. Performance indicators are reported quarterly to the Joint Executive Board and informally to the Cabinet.

The Council has a Medium Term Financial Strategy, which is used to align resources to key priorities. The Financial Strategy is reviewed annually and forms the basis of the annual budgeting process. Quarterly financial forecasts are submitted to the Joint Executive Board and to Councillors alongside the Performance Indicator information.

## **2. Members and Officers Purpose, Functions and Roles**

The Council ensures that the roles and responsibilities for decision making and governance arrangements are defined and allocated, so that there is clear accountability for decisions made and actions taken.

The Council does this by appointing a Leader and Cabinet, which allocates specific executive responsibilities.

There are also a number of committees appointed to discharge regulatory and scrutiny functions. Each committee has clear terms of reference setting out roles and responsibilities, and Councillor remuneration is reviewed and agreed by an independent remuneration panel.

All leadership roles, the roles of key officers and the Council's Scheme of Delegation are set out within the Council Constitution.

The Council has a Governance and Audit Committee to provide assurance to the Council on the effectiveness of Internal Audit and the robustness of the Council's Annual Accounts. As part of this review we have noticed that the Committee has not taken on a role in risk management this year, although it is in its terms of reference, and this will become part of the work programme for 2014/15.

All Council employees have clear conditions of employment, and roles and responsibilities are set out in job descriptions.

The Council has a joint management team with East Hampshire District Council. This management team is made up of the Chief Executive, two executive directors, and five executive heads. The Council employs shared Service Managers, covering all services except Coastal Protection and Waste Collection. The costs of all shared management posts are shared equally between the two Councils. The senior officers meet weekly as the Joint Executive Board to lead the executive functions of the Council.

Statutory officer roles are the Chief Executive, as Head of Paid Service, the shared S151 Officer, who carries overall responsibility for the Council's financial administration and is a member of the Joint Executive Board, and a shared Monitoring Officer, who carries responsibility for legal compliance.

The Council's Constitution contains the standing orders, financial regulations and contracts procedure rules. The Constitution also contains the policies for anti fraud & corruption, anti bribery, and whistle blowing. These are updated on a continual basis.

The Council has a performance management framework. This includes induction and performance appraisal processes for all employees. Performance indicators clearly link individual clusters to the corporate objectives and include details of national and local performance indicators and risk. Individual performance plans link to cluster business plans and the Corporate Strategy.

### **3. Values and Conduct**

There are codes of conduct in place for all Councillors and Officers, and there is a requirement for Councillors to make any Declarations of Interest. The Governance & Audit Committee monitors the Code of Conduct for Councillors, and receives reports from the Council's appointed independent persons who investigate any allegations of misconduct.

The Council has in place a complaints procedure, including weekly reminders to managers responsible for the work. There are clearly defined disciplinary procedures for Officers.

Staff awareness training has been undertaken to ensure that the Council complies adequately with the provisions of the Data Protection and Freedom of Information Acts, Risk Management and Fraud Awareness, Health and Safety and Equalities requirements.

### **4. Robust Decision Making**

Full Council is responsible for agreeing new policies and amendments to existing policies. It also sets out the policy and budget framework, and approves the annual budget. The Governance & Audit Committee approves the Statement of Accounts.

The Cabinet operates within the policy framework set by Council, and makes key decisions. All Cabinet meetings are held in public, with the exception of exempt items under the Access to Information Act. All decision records are publicly available, and the Forward Plan is published on the Council website. Decisions made by Cabinet can be called in for review by the Scrutiny Board.

The Governance & Audit Committee also acts as the Council's Audit Committee.

Decisions can also be made by officers under delegated powers and reported to Councillors in line with the Council Constitution. Authority to make decisions is given in the Scheme of Delegation and by specific agreement by Cabinet.

Decisions can also be made by officers under delegated powers and reported to Councillors in line with the Council Constitution. Authority to make decisions is given in the Scheme of Delegation and by specific agreement by Cabinet or Council.

The Council has in place a number of policies and procedures to ensure decisions made are robust. These are included in the Finance and Contracts Procedure rules in the Constitution. Compliance with these policies is the responsibility of all Officers.

The Internal Audit function has an annual audit plan, based on a risk analysis carried out by the auditors each spring. This minimises the risk of fraud and error, and provides management with assurance that policies and procedures are robust.

## **5. Skills and Training**

Following the Borough Council Elections, all new Councillors are required to undertake a comprehensive and compulsory training programme. This includes Development Management training, Code of Conduct training and Licensing training. Councillors are not allowed to sit on the Planning or Licensing Committees until such training has been undertaken. The training programme ensures that they have an understanding of the procedures and protocols of the Council.

In addition to the compulsory training, a series of other courses and events are also offered. During the course of a Councillor's four year term of office, regular skills audits are undertaken to identify any new skills requirements or refresher training requirements.

Training programmes are identified for Officers as part of the performance appraisal process. This information is fed into the Corporate Training Programme approved by the Joint Executive Board each year. In addition, mandatory e-learning for staff on data protection, risk management and fraud awareness, safeguarding and equalities and diversities has been undertaken.

## **6. Public Accountability**

We value the views of borough residents. We use a wide variety of methods to establish the views of stakeholders, and are working to understand our customers better using customer insight tools.

The Council Strategy is formulated following the results of a survey which seeks feedback from the public, Councillors, staff and other key stakeholders.

An important aspect of the Council Strategy, is the building of partnerships with various sectors including other local authorities, statutory agencies, voluntary groups, action groups, contractors and our citizens.

All decision making meetings are held in public, although some items are considered as exempt under the Access to Information Act. Minutes of all Council meetings are made available to the public, and members of the public have the opportunity to contribute to Council meetings.

The Council has a complaints and feedback system, which records and monitors customer comments, complaints and requests for information. Complaints are regularly monitored and reported to the Joint Executive Board.

The Council subscribes to the Government's transparency agenda and publishes information on remuneration for senior management, and information on items of expenditure over £500.

A conclusion on the arrangements the Council puts in place to provide value for money to its residents is made as part of the External Audit process. A positive Value for Money conclusion was reported in September 2013.

The Council publishes the Statement of Accounts annually within the statutory timescales. Accounting Statements incorporate the full requirements of best practice guidance in relation to corporate governance, risk management and internal control.

The Council is subject to independent audit by Ernst & Young. The External Audit plan outlines the work undertaken and the timing of external audit reports. The Council supplements this work with an internal audit team. The Governance & Audit Committee undertakes the core functions of an audit committee. The Council has appointed the Executive Head of Governance and Logistics as the Section 151 officer with the statutory responsibility for the proper administration of the Council's financial affairs.

### **Compliance with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2010)**

The CIPFA Statement on the role of the Chief Finance Officer was published during 2010 and outlines the governance requirements of the role. These governance requirements are divided into the following five key principles:

1. The Chief Finance Officer in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
2. The Chief Finance Officer in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.
3. The Chief Finance Officer in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.
4. The Chief Finance Officer in a local authority must lead and direct a finance function that is resourced to be fit for purpose.
5. The Chief Finance Officer in a local authority must be professionally qualified and suitably experienced.

A new consultation draft has been issued by CIPFA, to advise the role of the Chief Finance Officer in the financial administration of the Local Government Pension Scheme and, if agreed, is to be used in conjunction with the 2010 Statement.

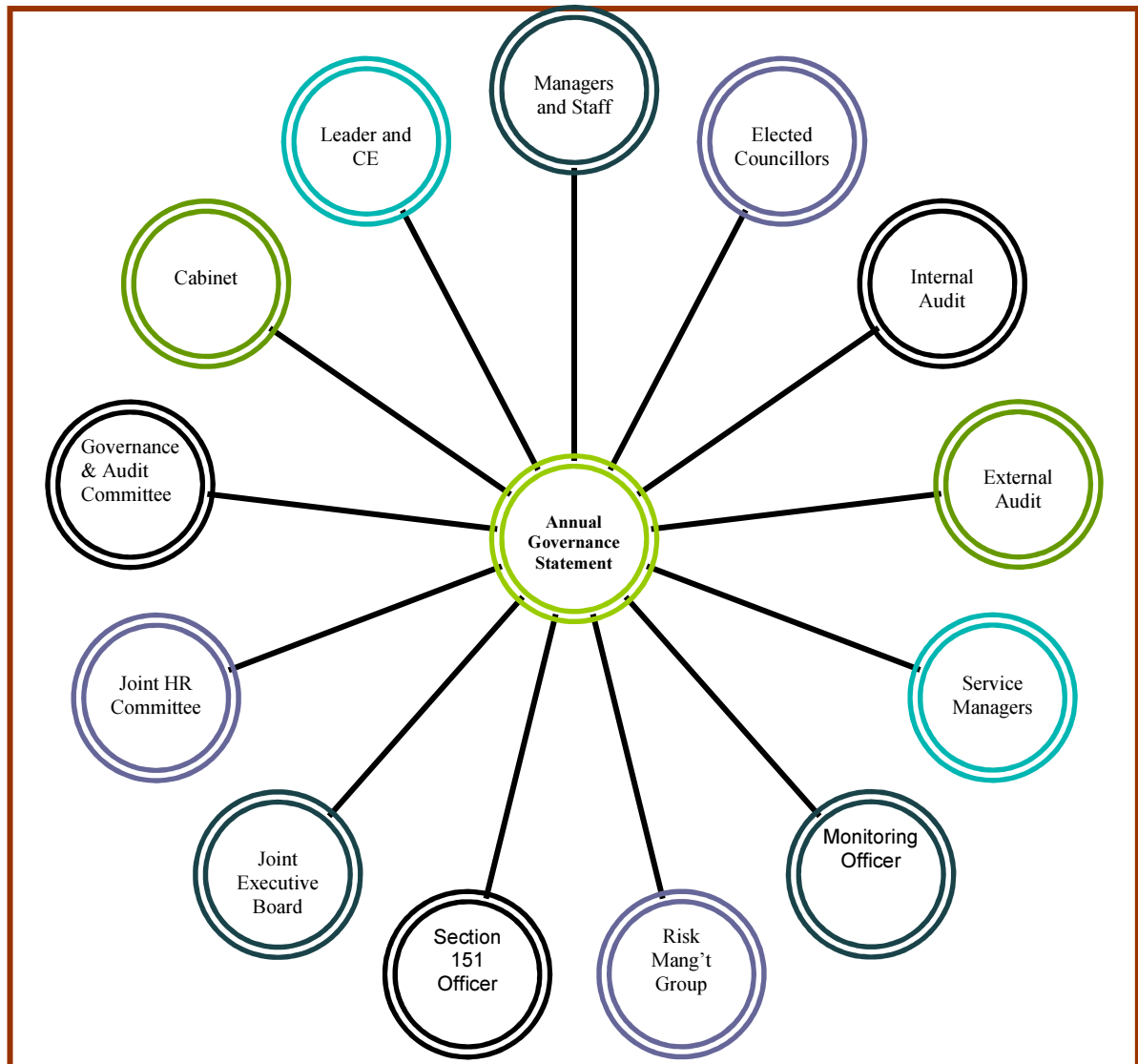
Havant Borough Council shares a Chief Finance officer with East Hampshire District Council. The Chief Finance Officer role complies with 32 of the 33 requirements. The post did not report direct to the Chief Executive. The Chief Finance Officer reports to an Executive Director. The Chief Finance Officer has direct access to the Chief Executive through regular executive meetings.



## Review of effectiveness

Havant Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements includes wide input:-

### INPUTS TO THE ANNUAL GOVERNANCE STATEMENT



The **Executive** bodies are the **Council**, which is responsible for deciding policies and budgets including approval of the constitution, and the **Cabinet**, which is responsible for day to day decisions. In order to ensure transparency in the decision making process, decision making meetings are normally open to the public, a forward plan of decisions to be taken is published, and agendas and minutes of all meetings are available.

The **Governance & Audit Committee** meets four times per year as the Audit Committee for Havant Borough Council. The Audit Committee is responsible for monitoring and ensuring risk management arrangements are adequate; receives reports from Internal and External Audit; and ensures that the Internal and External Audit reports are robust.

The **Joint Human Resources Committee** is responsible for the appointment of the Chief Executive, Executive Directors and other senior staff. It also handles superannuation matters, appeals, grievances and dismissals, and considers staffing strategies, terms and conditions.

The Council's **Internal Audit** is provided by the Southern Internal Audit Partnership which is hosted by Hampshire County Council. An Audit plan, based on a full risk evaluation, is approved annually. Progress against the audit plan is reported quarterly to the Governance and Audit Committee. Any outstanding high risk actions are addressed as a matter of priority.

The Council's **External Audit** is provided by Ernst & Young. The role of External Audit is to ensure that the Council's Accounts are free from material error, to provide a value for money conclusion and to certify key grant claims.

Other governance arrangements include:

- **The Council Constitution.** This is a document which includes the roles, responsibilities, terms of reference and reporting arrangements of the Council and its committees.
- **The Monitoring Officer** – This is a statutory role, shared with East Hampshire District Council, which has a duty to ensure legal compliance and to monitor and review the operation of the constitution to ensure its aims and principles are given full effect. The Monitoring officer also provides training and advice on the Councillor code of Conduct, and will investigate instances where the Code is not complied with.
- **The Section 151 Officer** – This is a statutory role, shared with East Hampshire District Council, which has a duty to make arrangements for the proper financial administration of the Council.
- **Joint Risk Management Group** – The Risk Management Group ensures that all corporate and service risks have been identified and recorded, and that mitigations are in place to address risk. The Joint Corporate Governance Group has been abolished and function has been taken on by JEB.
- **Policies and Procedures** – key areas of the Council's administration are covered by specifically approved policies which are reviewed appropriately. These include Treasury Management Policies and Practices and an annual review of Reserves and Balances and the Constitution.
- **Scheme of Delegation** – this enables Councillors to concentrate on the strategic direction of the Council and on policy matters, whilst officers deal with operational matters within an approved framework.

## Emerging Issues

The review of the effectiveness of internal control during 2013/14 was structured around the core principles of the Code of Local Governance. In addition, input from Risk Management, Internal and External Audit, and the Corporate Governance Group was considered. Issues identified in previous Annual Governance Statements where further or continued action is required are shown along with significant emerging issues identified in 2013/14:

<b>Issues identified in previous Reviews that require further or continued action.</b>			
<b>Governance Subject</b>	<b>Actions Required</b>	<b>Progress made in 2013/14</b>	<b>Actions for 2014/15</b>
Procurement Review	Implement review of procurement processes.	The Council is currently in discussions with other organisations about setting up a partnership to carry this work forward.	Continue discussions with potential partners and recruit internally where appropriate.
Training	Refresher training to be given on Anti-Fraud & Corruption	Training was rolled out on the e-learning system in October 2013. This review identified that some staff had not completed this mandatory course.	Management are to ensure that all officers complete training in all compulsory subject areas.
Lack of Succession Planning	Further development of succession planning.	The People Plan has been developed to include a succession planning process. Six monthly workshops to support succession planning and talent management for the Joint Executive Board are planned.	Further work on succession planning is included in the People Performing Effectively work stream.
Improving IT systems	Shared systems/databases where appropriate.	Investigation stages are still underway for a Legal Case management system. The Democratic Services team have implemented YouGov, which will go live in April 2014. A new Finance system has been procured for implementation by April 2015.	Implementation of the Finance system in April 2015. Shared electronic HR processes by April 2015.

Emerging Issues identified in the 2013/14 Review	
Issue	Actions Identified
Councillor review of risk management	Risk management to be considered by the Governance and Audit Committee.

## Opinion

It is our opinion that corporate governance, along with supporting controls and procedures, is strong. We propose over the coming year to take steps to address the above matters to further enhance our corporate governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

Signed



Sandy Hopkins  
Chief Executive  
Havant Borough Council  
Dated 30<sup>th</sup> June 2014

Signed



Councillor Tony Briggs  
Deputy Leader of the Council  
Havant Borough Council  
Dated 30<sup>th</sup> June 2014

## HAVANT BOROUGH COUNCIL

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### GOVERNANCE AND AUDIT COMMITTEE

#### INTERNAL AUDIT PROGRESS REPORT 2014-15 (13 August 2014)

Head of Southern Internal Audit Partnership

FOR DECISION

Cabinet Lead: Governance and Logistics – Cllr Jackie Branson

Key Decision: No

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#### 1.0 Purpose of Report

- 1.1 The purpose of this paper is to provide the Governance and Audit Committee with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

#### 2.0 Recommendation

- 2.1 That the Governance and Audit Committee note the Internal Audit Progress Report (13 August 2014) as attached.

#### 3.0 Summary

- 3.1 Under the Accounts and Audit (England) Regulations 2011, the Council is responsible for:
- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
  - undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 3.2 In accordance with the Public Sector Internal Audit Standards and the Council's Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to the Governance and Audit Committee, summarising:

*'communications on the internal audit activity's performance relative to its plan.'*

**3.3** Appendix 1 summarises the performance of internal audit for the period to 13 August 2014.

#### **4.0 Implications**

##### **4.1 Resources:**

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consisted of 380 audit days and remained fluid throughout the year to meet the changing needs of the Council.

##### **4.2 Legal:**

Compliance with the Accounts and Audit (England) Regulations 2011.

##### **4.3 Strategy:**

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

##### **4.4 Risks:**

The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register.

##### **4.5 Communications:**

None directly from this report.

##### **4.6 Customers and Community:**

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

##### **4.7 Integrated Impact Assessment (IIA):**

N/A

#### **5.0 Consultation**

**5.1** The report has been discussed and approved by the Management Team who met at the Executive Board on 19 August 2014.

Appendices:

**Appendix 1 – Internal Audit Progress Report (13 August 2014)**

Agreed and signed off by:

Legal Services: Jo Barden-Hernandez 19 August 2014

Finance: Jane Eaton 13 August 2014

Executive Head of Governance & Logistics: Jane Eaton 13 August 2014

**Contact Officer:** Neil Pitman  
**Job Title:** Head of Southern Internal Audit Partnership  
**Telephone:** 01962 845139  
**E-Mail:** neil.pitman@hants.gov.uk

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SUBJECT:	<b>Internal Audit: Progress Report</b>
MEETING:	<b>Governance and Audit Committee</b>
DATE OF MEETING:	<b>16 September 2014</b>
REPORT OF:	<b>Head of Internal Audit Partnership</b>
REPORT DATE:	<b>13 August 2014</b>

<b>1 Opinion definitions – From 2013/14 onwards</b>
---

<b>Opinion</b>	<b>Framework of governance, risk management and management control</b>
Substantial assurance	A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
Adequate assurance	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
Limited assurance	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
No assurance	Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks.

<b>2 Status of 'live' reports:</b>								
Audit title	Report date	Audit Sponsor	Audit Assessment		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Finance	Dec 2011	G&L	Substantial*	Substantial*	6 (0)	5 (0)	1 (0)	
Parking Services	Apr 2012	E&NQ	Limited*	Substantial*	<b>3 (0)</b>	<b>3 (0)</b>		
Development control	Aug 2012	P&BE	Limited*	Substantial*	11 (0)	10 (0)		1 (0)
Food safety and noise control	Sep 2012	E&NQ	Substantial*	Substantial*	<b>14 (1)</b>	<b>14 (1)</b>		
Operational services procurement	Apr 2013	E&NQ	Limited*	Substantial*	13 (0)	12 (0)		1 (0)
Developer contributions	May 2013	P&BE	Limited*	Substantial*	9 (0)	8 (0)	1 (0)	
Information management	23/08/13	M&D	Limited	Limited	1 (0)			1 (0)
Vehicle maintenance	10/10/13	E&NQ	Adequate	Adequate	5 (1)	3 (1)		2 (0)
Lease income	16/12/13	G&L	Adequate	Adequate	7 (0)	5 (0)	2 (0)	
Accounts payable	06/01/14	G&L	Adequate	Adequate	1 (0)		1 (0)	
Proactive fraud initiatives	23/01/14	G&L	Adequate	Adequate	<b>1 (0)</b>	<b>1 (0)</b>		
NNDR	31/01/14	G&L	Substantial	Substantial	<b>1 (0)</b>	<b>1 (0)</b>		
Payroll	31/01/14	G&L	Adequate	Adequate	3 (0)	2 (0)	1 (0)	

Audit title	Report date	Audit Sponsor	Audit Assessment		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
SCOPAC (Standing Conference on Problems Associated with the Coastline) accounts	20/02/14	G&L	Substantial	Substantial	1 (0)		1 (0)	
Partnership management	22/04/14	E&NQ	Limited	Adequate	6 (1)	4 (1)	2 (0)	
Health and Safety at work	02/05/14	G&L	Adequate	Adequate	5 (0)	4 (0)		1 (0)
Finance – Main accounting	02/05/14	G&L	Adequate	Adequate	<b>2 (0)</b>	<b>2 (0)</b>		
Asset Acquisition Strategy	13/05/14	G&L	Adequate	Adequate	2 (0)		1 (0)	1 (0)
Risk Management	27/05/14	G&L	Adequate	Adequate	<b>4 (0)</b>	<b>4 (0)</b>		
Computer Audit - Modern Gov	09/06/14	M&D	Adequate	Adequate	5 (0)	2 (0)	3 (0)	
Performance Management Systems	30/06/14	M&D	Adequate	Adequate	5 (5)		5 (5)	
Planning Development Fee Income	01/07/14	P&BE	Adequate	Adequate	4 (0)		4 (0)	
Finance - Budgetary Control	13/08/14	G&L	Adequate	Adequate	2 (0)	0 (0)	2 (0)	
Capital Purchases	19/08/14	G&L	Adequate	Adequate	2 (0)		2 (0)	

\*The audit assessments/opinions are in accordance with the definitions in place prior to 2013/14. See Appendix A for the previous definitions.

<b>Key to Audit Sponsors</b>	
Executive Head Marketing and Development	M&D
Executive Head Governance and Logistics	G&L
Executive Head Environment and Neighbourhood Quality	E&NQ
Executive Head Planning and Built Environment	P&BE
Executive Head Economy and Communities	E&C

### **3 Internal Audit Performance**

The internal audit service is measured against the following key performance targets:

<b>Performance Targets –2014-15</b>		
	Target for Year (%)	Actual to Date (%)
% of revised plan delivered (including 2013-14 c/f)	95	34
Compliant with the Public Sector Internal Audit Standards	Yes	Yes
% of positive customer responses to Quality Appraisal Questionnaire	90	100

#### **4 Planning and Resourcing**

The internal audit plan for 2014-15 was prepared following meetings with the Executive Heads and Service Managers and was presented to the Executive Board on 04 February 2014 and was approved by the Governance and Audit Committee on 05 March 2014. The audit plan remains fluid to ensure audit resource is effectively aligned to the Council's needs. Progress against the plan is detailed within section 7.

#### **5 Issues arising**

There have been no significant issues arising from internal audit work carried out in accordance with the 2014-15 audit plan.

#### **6 Fraud and Irregularities**

There have been no potential fraud and irregularity investigations undertaken to date during 2014/15.

One investigation (commenced in 2013/14) has concluded and did not identify any fraud or impropriety. There are no on-going reviews.

**7 Rolling work programme**

Audit title	Audit Sponsor	Audit progress					
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
<b>2013-14 Carry Forward Reviews</b>							
Business Continuity Planning	M&D	✓	✓	✓	✓	✓	
Performance Management Systems	M&D	✓	✓	✓	✓	✓	30/06/14
Risk management	G&L	✓	✓	✓	✓	✓	27/05/14
Benefits	G&L	✓	✓	✓	✓	✓	02/07/14
Capital Purchases	G&L	✓	✓	✓	✓	✓	19/08/14
Finance - Budgetary Control	G&L	✓	✓	✓	✓	✓	13/08/14
Mod Gov	M&D	✓	✓	✓	✓	✓	09/06/14
<b>2014-15 Reviews</b>							
<b>Corporate Cross Cutting</b>							

Audit title	Audit Sponsor	Audit progress					
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Information management	M&D	✓	✓	✓	✓		
HR	M&D						
NFI (National Fraud Initiative)	G&L	n/a	n/a	✓			
Project Management	M&D	✓	✓	✓			
<b>Corporate Governance</b>							
Proactive fraud initiatives	G&L	✓	n/a	✓			
Code of Conduct	TBC						
Review of Annual Governance Statement	G&L	✓	n/a	✓	✓		
Special Investigations	G&L						
Annual review of effectiveness of Internal Audit	G&L	✓	✓	✓	✓	✓	17/06/14
<b>Financial Management</b>							
Parking	E&C	✓	✓	✓			
Income Collection and Banking	G&L						

Audit title	Audit Sponsor	Audit progress					
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Council Tax	G&L						
Accounts Receivable / Debt Management	G&L						
Finance – Payroll	G&L						
Finance – Treasury Management	G&L						
SCOPAC (Standing Conference on Problems Associated with the Coastline) accounts	G&L						
<b>Information Technology</b>							
Computer implementations (Finance)	M&D	Advice role					
ICT policies and security	M&D						
ICT contract	M&D						
ICT hosted services	M&D						
<b>Corporate objective - economic growth - No audits in 2014/15 plan</b>							
<b>Corporate objective - public service excellence</b>							
Depot Services	E&NQ						



Audit title	Audit Sponsor	Audit progress					
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Fuel Management	E&NQ	✓	✓	✓	✓	✓	
Building Control	P&BE						
Licencing	E&NQ	✓	✓	✓	✓		
Planning Development – Fee Income	P&BE	✓	✓	✓	✓	✓	30/06/14
Crematorium Partnership	E&NQ						
Impact of Welfare Reform	E&C	✓	✓	✓			
Beach Huts	G&L/E&NQ	✓	✓				
<b>Corporate objective - financial sustainability</b>							
Developers Obligations and Contributions / Community Infrastructure Levy	P&BE	✓	✓	✓			

<b>Key to Audit Sponsors</b>	
Executive Head Marketing and Development	M&D
Executive Head Governance and Logistics	G&L
Executive Head Environment and Neighbourhood Quality	E&NQ
Executive Head Planning and Built Environment	P&BE
Executive Head Economy and Communities	E&C

## Appendix A

Opinion	Framework of governance, risk management and management control
<b>Full</b>	<p><b>Evaluation opinion</b> - There is a sound system of control designed to achieve the system objectives, and</p> <p><b>Testing opinion</b> – The controls are being consistently applied.</p>
<b>Substantial</b>	<p><b>Evaluation opinion</b> – While there is a basically sound system there are weaknesses which put some of the control objectives at risk, and/or</p> <p><b>Testing opinion</b> – There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.</p>
<b>Limited</b>	<p><b>Evaluation opinion</b> – Weaknesses in the system of controls are such as to put the system objectives at risk, and/or</p> <p><b>Testing opinion</b> – The level of non-compliance puts the system objectives at risk.</p>
<b>No Assurance</b>	<p><b>Evaluation opinion</b> – Control is generally weak leaving the system open to significant error or abuse, and/or</p> <p><b>Testing opinion</b> – Significant non-compliance with basic controls leaves the system open to error or abuse.</p>

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## HAVANT BOROUGH COUNCIL

### GOVERNANCE & AUDIT COMMITTEE

#### Quarterly Update on Corporate Risks from the Executive Board

Report by Jane Eaton, Executive Head: Governance and Logistics

#### FOR NOTING

Cabinet Lead for Governance & Logistics

Key Decision: No

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#### 1.0 Purpose of Report

- 1.1 This report tells the Committee about the Council's corporate governance and risk management arrangements and gives the Committee an update on the highest corporate risks reviewed by the Joint Executive Board in August.

#### 2.0 Recommendation

- 2.1 The Committee notes the most serious corporate risks reviewed by the Joint Executive Board on 5 August.

#### 3.0 Summary

- 3.1 This report tells the Committee about the risks the Executive Board felt remained high after mitigation at their last review meeting.

#### 4.0 Subject of Report

- 4.1 To oversee the effectiveness of risk management the Governance & Audit Committee note the most important risks facing the Council at the last quarterly review of the risk registers by the Executive Board. The last quarterly review was on 5 August 2014. The most important risks, those showing red on our corporate risk register after mitigation, at this time were:
- 4.1.1 IT provision remained a risk due to the continued level of change in IT including the implementation of a new Finance System in April 2015. All our IT projects are professionally managed by qualified project managers, however, the scale of change means they still remain high risk.
- 4.1.2 Manpower and resources remain a high risk and could put some corporate objectives at risk. The main area continuing to experience difficulties is parking. Management have taken action to reduce these risks through the use of recruitment organisations and this has had some success in professional services such as finance.

4.1.3 Political leadership and service continuity remain a high risks as the new Cabinet settles into its new roles. Following the resignation of the Service Manager: Environmental Health in August this service area is now an increasing risk area for service continuity.

4.1.4 Management team added the political pressure around the 2015 elections to the risk register in July. Management will continue to monitor the impact of these elections in conjunction with Cabinet Leads in the run up to the election.

## **5.0 Implications**

### **5.1 Resources:**

There are no resource implications of this report because risk management is one of the regular funded functions of the management of the Council.

### **5.2 Legal:**

There are no legal implications arising from this report.

### **5.3 Strategy:**

Sound risk management supports the Council's objective of financial sustainability by ensuring financial risks are controlled and customer service excellence by ensuring the continuity of our services.

### **5.4 Risks:**

This report forms part of the Council's risk management arrangements.

### **5.5 Communications:**

There is no need for communications following this report.

### **5.6 For the Community:**

There is no community impact from this report but it will assist in ensuring the community continue to receive vital council services.

5.7 **The Integrated Impact Assessment (IIA)** is not needed for this report because it does not contain a decision.

## **6.0 Consultation**

Executive Board and the Risk Management Group.

### **Background Papers:**

None

**Agreed and signed off by:**

Legal Services: 18 August 2014

Executive Head of Governance & Logistics: 8 August 2014

Relevant Executive Head: 8 August 2014

Cabinet Lead: 19 August 2014

**Contact Officer:** Jane Eaton  
**Job Title:** Executive Head: Governance & Logistics  
**Telephone:** 02392 446305  
**E-Mail:** [jane.eaton@havant.gov.uk](mailto:jane.eaton@havant.gov.uk)

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7 July 2014

*By email*

Ms Sandy Hopkins  
Managing Director  
Havant Borough Council

Dear Ms Sandy Hopkins

### **Annual Review Letter 2014**

I am writing with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2014. This is the first full year of recording complaints under our new business model so the figures will not be directly comparable to previous years. This year's statistics can be found in the table attached.

A summary of complaint statistics for every local authority in England will also be included in a new yearly report on local government complaint handling. This will be published alongside our annual review letters on 15 July. This approach is in response to feedback from councils who told us that they want to be able to compare their performance on complaints against their peers.

For the first time this year we are also sending a copy of each annual review letter to the leader of the council as well as to the chief executive. We hope this will help to support greater democratic scrutiny of local complaint handling and ensure effective local accountability of public services. In the future we will also send a copy of any published Ombudsman report to the leader of the council as well as the chief executive.

### ***Developments at the Local Government Ombudsman***

At the end of March Anne Seex retired as my fellow Local Government Ombudsman. Following an independent review of the governance of the LGO last year the Government has committed to formalising a single ombudsman structure at LGO, and to strengthen our governance, when parliamentary time allows. I welcome these changes and have begun the process of strengthening our governance by inviting the independent Chairs of our Audit and Remuneration Committees to join our board, the Commission for Administration in England. We have also recruited a further independent advisory member.

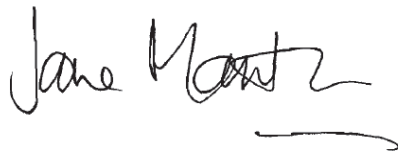
### ***Future for local accountability***

There has been much discussion in Parliament and elsewhere about the effectiveness of complaints handling in the public sector and the role of ombudsmen. I have supported the creation of a single ombudsman for all public services in England. I consider this is the best way to deliver a system of redress that is accessible for users; provides an effective and comprehensive service; and ensures that services are accountable locally.

To contribute to that debate we held a roundtable discussion with senior leaders from across the local government landscape including the Local Government Association, Care Quality Commission and SOLACE. The purpose of this forum was to discuss the challenges and opportunities that exist to strengthen local accountability of public services, particularly in an environment where those services are delivered by many different providers.

Over the summer we will be developing our corporate strategy for the next three years and considering how we can best play our part in enhancing the local accountability of public services. We will be listening to the views of a wide range of stakeholders from across local government and social care and would be pleased to hear your comments.

Yours sincerely

A handwritten signature in black ink that reads "Jane Martin". The signature is written in a cursive style with a long horizontal flourish at the end.

Dr Jane Martin  
Local Government Ombudsman  
Chair, Commission for Local Administration in England

## Local authority report – Havant Borough Council

For the period ending – 31/03/2014

For further information on interpretation of statistics click on this link to go to <http://www.lgo.org.uk/publications/annual-report/note-interpretation-statistics/>

### Complaints and enquiries received

Local authority	Adult care services	Benefits and tax	Corporate and other services	Education and children's services	Environmental services and public protection and regulation	Highways and transport	Housing	Planning and development	Total
Havant BC	0	1	1	0	1	0	0	3	6

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### Decisions made

Local authority	<u>Detailed investigations carried out</u>		Advice given	Closed after initial enquiries	Incomplete/Invalid	Referred back for local resolution	Total
	Upheld	Not upheld					
Havant BC	1	1	0	2	0	5	9

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