



STATEMENT OF ACCOUNTS
2005-2006

GOSPORT BOROUGH COUNCIL
STATEMENT OF ACCOUNTS 2005 / 2006

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EXPLANATORY FOREWORD

1. Contents

In accordance with statutory obligations and the Code of Practice on Local Authority Accounting, the accounts for 2005/2006 include the following statements:

- **Consolidated Revenue Account**

This account summarises all of the Council's revenue activities for both the *General Fund* and *Housing Revenue Account* and shows how the net cost has been financed from government grants and council taxpayers.

- **Housing Revenue Account**

The Council is required to maintain a separate account for income and expenditure on council housing and related activities.

- **Collection Fund**

The *Collection Fund* is separate from the rest of the Council's accounts and summarises council tax and business rate transactions for the Borough, County Council, Police Authority, Fire and Rescue Authority and Central Government.

- **Consolidated Balance Sheet**

The *Consolidated Balance Sheet* sets out the Council's financial position at 31st March 2006. It summarises the Council's assets and liabilities including the available balances and reserves. The Council's share of the pension fund deficit is also shown.

- **Statement of Total Movement in Reserves**

The statement brings together all gains and losses for the financial year which are not reported through the *Consolidated Revenue Account*.

- **Cash Flow Statement**

All cash flows between the Council and third parties are included in the statement.

2. Summary of Financial Performance during the year

The Council's overall financial position has continued to improve and a balanced and robust budget has been set for 2006/2007. Projections of future tax requirements from 2007/2008 remain a concern with the need for early action to ensure adherence to the Council's policy of annual tax rises of no more than 4%.

- **General Fund**

The Council's revised budget for 2005/2006 included a contribution to the General Fund working balance of £56,000 and a net contribution from the Revenue Financing Reserve of £20,800.

After making these contributions as budgeted, the General Fund was underspent by £489,000 and in line with Council policy this sum has been allocated to the Revenue Financing Reserve.

The table below summarises 2005/2006 in the format of the Council's budget book as opposed to the statutory reporting format of the Consolidated Revenue Account on page 12.

GENERAL FUND BUDGET 2005/2006			
	REVISED 2005/2006 £'000	ACTUAL 2005/2006 £'000	VARIANCE £'000
GENERAL FUND			
COMMUNITY & ENVIRONMENT	6,608	6,479	(129)
HOUSING (GF)	516	578	62
POLICY & ORGANISATION	3,775	3,345	(430)
TOTAL NET EXPENDITURE	10,899	10,402	(497)
TRANSFER TO GF WORKING BALANCE	56	56	0
TRANSFER TO BUILDING CONTROL RESERVE	0	8	8
TRANSFER FROM REVENUE .FIN.RESERVE	(21)	(21)	0
TRANSFER TO REVENUE.FIN.RESERVE - GF SURPLUS	0	489	489
BUDGET TOTAL	10,934	10,934	0

	2005/2006	
	£'000	%
FINANCED BY		
GOSPORT COUNCIL TAX	4,667	42.7%
REVENUE SUPPORT GRANT	4,012	36.7%
NON DOMESTIC RATES DISTRIBUTION	2,235	20.4%
COLLECTION FUND SURPLUS	20	0.2%
	10,934	100.0%

The main variations in the General Fund budget include:

- o Highways (GBC) - a net underspending across several headings; £51,000 cr
- o Homelessness - net overspending of £79,000
- o Land Charges Income - improved income level; variance of £32,000 cr
- o Housing Benefits and Local Tax Benefits - lower net cost, including 2004/05 final audited claim; variance of £176,000 cr
- o Local Tax Collection - improved cost income; £75,000 cr
- o Administration and Staffing savings - £147,000 cr

(note : figures in brackets or with cr represent a cost reduction or underspending)

Revenue budget carried forward proposals totalling £78,100 will partially offset the underspend.

▪ **Reserves**

- o The General Fund working balance at 31st March 2006 is £821,000 (7% of the net revenue budget) as projected in the Budget Report for 2006/2007.
- o The Revenue Financing Reserve at 31st March 2006 is £709,000 which exceeds the forecast balance of £220,000 by £489,000 because of the underspending outlined above.

▪ **Housing Revenue Account**

The Housing Revenue Account was forecast to have a revenue deficit of £110,000 for 2005/2006 which would decrease the account balance to £787,000 at 31st March 2006. The actual position for the year was a surplus of £94,000 and the account balance is £991,000 at 31st March 2006.

The main variations include an increase in management and maintenance (£196,000) offset by a lower net subsidy payment (£82,000) and lower than expected contribution to the capital programme (£359,000).

▪ **Treasury Management**

At 31st March 2006, the Council had investments of £8.4 million, including £7 million temporary investments with building societies and £1.4 million short term investments with the money market placed through the Council's Global Treasury Fund and Corporate Deposit Account.

In January 2006, the Council took long term loans totalling £8 million with the Public Works Loan Board at favourable rates of interest. This was in line with policy and the need to fund the Council's future capital programme against a background of diminishing internal resources.

The Council was therefore in a net investment position of £400,000 at 31st March 2006. Additionally, at year end, the Council's current and on-line account balances were £39,000 and £58,000 respectively.

▪ **Local Tax Collection**

The surplus on the collection fund, which reflects income from Council Tax and Non Domestic Rates together with the spending requirements of Gosport Borough, Hampshire County Council, Hampshire Police Authority and the Hampshire Fire and Rescue Authority is £431,000 which is more than forecast.

The rates of Council Tax and Non Domestic Rates collection for 2005/2006 were 96.8% and 98.6% respectively (96.6% and 98.1% for 2004/2005).

▪ **Capital Programme**

The revised Capital Programme for 2005/06 was budgeted at £8.354 million. The actual capital spend was £6.816 million, an underspending of £1.538 million. Of this sum, £1.247 million has been identified as scheme slippage and will be carried forward into 2006/2007.

CAPITAL PROGRAMME 2005/2006			
	REVISED 2005/2006 £'000	ACTUAL 2005/2006 £'000	SLIPPAGE £'000
<u>BY BOARD</u>			
HOUSING BOARD (HRA)	4,497	4,210	0
HOUSING BOARD (GF)	1,406	808	444
COMMUNITY & ENVIRONMENT BOARD	1,338	865	531
POLICY & ORGANISATION BOARD	1,113	933	272
	8,354	6,816	1,247
<u>BY MAJOR SCHEME</u>			
COUNCIL DWELLINGS	4,497	4,210	0
SOCIAL HOUSING	1,034	635	399
IT, ACCOMMODATION & OFFICES	637	477	162
HOUSING GRANTS	372	173	45
PRIDDYS HARD HERITAGE AREA	360	385	72
HIGH STREET REFURBISHMENT	260	47	213
KERBSIDE RECYCLING	162	160	0
NOBES HALL	139	140	0
STOKES BAY PADDLING POOL	115	118	0
FALKLANDS GARDENS - PUBLIC CONVENIENCE	100	1	100
FORTON RECREATION GROUND	87	94	0
AID TO VOL ORGANISATIONS	40	12	28
NEW CEMETERY	20	3	17
ADVENTURE GOLF, STOKES BAY	18	19	0
CEMETERY - MEMORIAL HEADSTONE SAFETY	0	59	0
ALL OTHER SCHEMES	513	283	211
	8,354	6,816	1,247

	2005/2006	
	£'000	%
<u>PROGRAMME FINANCING</u>		
REVENUE (HRA)	51	0.8%
MAJOR REPAIRS ALLOWANCE	2,172	31.9%
CAPITAL RECEIPTS	2,928	42.8%
COMMUTED SUMS	147	2.2%
GRANTS & CONTRIBUTIONS	628	9.2%
CAPITAL GRANTS	68	1.0%
SUPPORTED BORROWING	822	12.1%
	6,816	100.0%

At 31st March 2006, the Council has funds of approximately £5.8 million which may be utilised for capital expenditure purposes; this includes specific, earmarked and committed funding. Capital funding is also possible under the Prudential Code regime of capital controls.

- **Pensions**

The Statement of Accounts complies with FRS17 - the financial reporting standard on Retirement Benefits. This is expanded on in note 12 to the Statement of Accounting Policies, note 10 to the Consolidated Revenue Account and note 13 to the Consolidated Balance Sheet. The reported figures are supplied by independent actuaries to the Hampshire County Council administered pension fund.

In carrying out their work, the actuaries are required to make various assumptions including as regards the level of take-up of the commutation of benefits (lump sum) following changes to the Local Government Pension Scheme from April 2006. The approach they adopted in relation to disclosure was not consistent with advice issued by CIPFA's Local Authority Accounting Panel (LAAP), in that they treated the effect of the commutation as a negative past service cost within the Statement of Total Movements in Reserves (STMR) rather than as non-distributed costs within the Consolidated Revenue Account (CRA). The impact of the commutation is an overall reduction in FRS 17 liabilities in the STMR of less than 3% and this does not impact on either the overall value of FRS 17 liabilities at the year-end, or on the bottom line of the CRA.

The Pension note to the Consolidated Balance Sheet shows a broadly similar position to last year (a reduced deficit of £10,000). The principal movements were an actuarial gain (improved markets performance) countered by updated financial assumptions for calculating liabilities.

- **Restating of 2004/05 Comparative Figures**

Three figures have been amended in the Cash Flow Statement comparative figures for 2004/2005. This is noted and explained on page 41 to the Cash Flow Statement.

Statement of Accounts authorised for issue on 21st June 2006.
Mr Peter Wilson
Deputy Chief Executive and Borough Treasurer

STATEMENT OF ACCOUNTING POLICIES

1. General

The statement of accounts summarises the Council's transactions for the 2005/2006 financial year and its position at the year end of 31st March 2006. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005: A Statement of Recommended Practice, by the Chartered Institute of Public Finance and Accountancy (CIPFA). The guidance notes issued by CIPFA on the application of accounting standards have also been followed. Any significant non-compliance is disclosed in the following statements.

2. Accruals of Income and Expenditure

The accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice. That is, sums due to, or from, the Council during the year are included whether or not the cash has actually been received or paid in the year. This policy is consistently applied each year and therefore does not have a material effect on the years accounts. Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet

3. Fixed Assets

Nature and measurement

Intangible fixed assets are assets that do not have physical substance but are identifiable and controlled by the Council (eg software licences) and which will bring benefits to the Council for more than one financial year. In line with CIPFA's Statement of Recommended Practice, Intangible Assets are now shown separately on the face of the balance sheet having previously been included with Vehicles, Plant and Equipment. This has necessitated an adjustment to the 2004/2005 comparative figures.

Tangible fixed assets are assets that have physical substance and are held for use in the direct or indirect provision of services on a continuing basis.

Expenditure on fixed assets is capitalised in the accounts on an accruals basis. Only expenditure that benefits the authority for a period of more than one year is capitalised. This excludes spending on routine repairs and maintenance of fixed assets, which is charged directly to service revenue accounts.

A de-minimus level of £10,000 has been set below which the initial cost of assets is not capitalised.

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition. After this, assets are revalued where there have been material changes in value, but as a minimum every five years.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the principles of the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual and Guidance Note 11.

- Operational, non-specialised properties are valued at existing use value
- Operational, specialised properties are valued at depreciated replacement cost
- Non Operational Assets, including investment properties, assets that are surplus to requirements and assets under construction are included at open market value
- Infrastructure and Community Assets, and Vehicles, Plant and Equipment and Intangible Assets are included in the balance sheet at historical cost
- Council dwellings are valued at their EUV-SH [Economic Use Value for Social Housing]. In line with the Guidance on Stock Valuation published by the DETR in May 2000, the housing stock has been revalued at 1st April 2005 prices by Countrywide Surveyors on behalf of the Council

Any surpluses or deficits arising from revaluations are recorded in the Fixed Asset Restatement Account.

Impairment

An impairment assessment is undertaken for each category of asset and of material individual assets for evidence of reductions in value. Where an impairment is identified, it is accounted for by

- if due to a clear consumption of economic benefits - the loss is charged to the relevant service revenue account. Impairment charges, while recognised in the Net Cost of Services, are reversed out in the Consolidated Revenue Account and do not impact against council tax.
- otherwise it is written off to Fixed Asset Restatement Account

There are no impairments to report in 2005/2006.

Disposals

The balance sheet value of assets disposed of is written off to the Fixed Asset Restatement Account and amounts in excess of £10,000 are credited to the Usable Capital Receipts Reserve to fund new capital investment or reduce the Council's borrowing requirement. A proportion of income from housing asset sales is paid to the government as required by the Pooling of Housing Capital Receipts regulations.

4. Charges to Revenue for Fixed Assets

Depreciation

Assets other than land and investment properties are depreciated over their useful economic lives except where the asset's life is so long that depreciation would not be material. Depreciation is calculated using the straight-line method over the following periods:

Buildings:	individually assessed
Vehicles:	5 - 7 years
Infrastructure:	20 - 50 years
Equipment:	3-10 years
Intangible:	the economic life of the investment

The depreciation charge for housing stock is equal to the Major Repairs Allowance. This represents a capital sum that is allowed annually to maintain the council's housing stock and in 2005/2006 is £2.172 m.

Depreciation is not charged on Community Assets as it is the Council's view that most of the Community Asset value is held in land and it is not therefore depreciable.

Asset Rental

From 1st April 1994 and 1st April 2001, General Fund service accounts and the Housing Revenue Account respectively, have been charged with a capital charge for all fixed assets used in the provision of services. The capital charge comprises an 'asset rental' calculated by applying a specified notional rate of interest to asset values, and the provision for depreciation where applicable.

The notional rates of interest applied in 2005/2006 were 3.5% for assets valued at current value, and 4.95% for assets valued at historical cost. These rates of interest were applied to opening asset values in the Fixed Asset Register for both General Fund and Housing Revenue Account (HRA) assets. Capital charges are reversed in the Consolidated Revenue Account and therefore have no impact on the level of council tax.

Minimum Revenue Provision

The Council is required to make an annual provision from revenue to contribute towards the reduction in its underlying General Fund borrowing requirement (calculated as 4% of the adjusted General Fund Capital Financing Requirement). Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision after Net Operating Expenditure by way of an adjusting transaction with the Capital Financing Account for the difference between these items and the minimum revenue provision (MRP). This is to negate the impact of the former on council tax and leave only a net charge for the MRP requirement. There is no MRP requirement for the Housing Revenue Account.

5. Deferred Charges

Deferred charges represent expenditure that may be capitalised but which does not result in the creation of an asset. Deferred charges are written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of deferred charges from existing capital resources or by borrowing, a transfer to the Capital Financing Account then reverses out the amounts charged to the Consolidated Revenue Account so there is no impact on the level of council tax. Deferred charges include, for example, housing improvement grants.

6. Leases

Finance leases are leasing arrangements where substantially all the rewards and risks relating to the leased property transfer to the lessor. Council policy is to not enter into finance leases.

Operating leases are leases that are not finance leases. Rentals payable are charged to the revenue accounts of the services that use the assets as they become payable and

asset ownership is retained by the lessor. Assets leased in this way are excluded from the balance sheet as they are not owned by the Council.

7. VAT

Income and expenditure excludes any amounts related to VAT as this is accounted for separately with VAT collected being paid to HM Revenue and Customs and VAT paid being recoverable from them.

8. Stocks

To comply with SSAP 9 stocks should be included in the balance sheet at the lower of cost and net realisable value. Stocks and stores items are generally valued at cost.

9. Cost of Support Services

All costs of management and administration have been fully allocated to services following the principles outlined in CIPFA's Best Value Accounting Code of Practice. Generally, all overheads are initially apportioned on suitable bases (e.g. accommodation on floor area occupied) and end service unit costs are fully reallocated to services and functions on the basis of time spent. The exceptions to this are the defined costs relating to the Corporate and Democratic Core and the inclusion in Non Distributed Costs of discretionary benefits awarded to employees retiring early - both of these are accounted for as separate headings in the Consolidated Revenue Account as part of the Net Cost of Services.

10. Interest

Interest earned and interest paid are accrued and accounted for in the Council's accounts. The Housing Revenue Account is charged or credited for a proportion of the net interest paid or earned in accordance with statutory guidelines.

11. Investments

The Council's investments are recorded in the balance sheet at original cost.

12. Pensions

The majority of the Council's employees belong to the Local Government Superannuation Scheme (LGPS) administered by Hampshire County Council. Detailed regulations govern rates of contribution and scales of benefit.

The scheme's accounts are prepared in accordance with the Financial Reporting Standard No 17 - Retirement Benefits (FRS17). The pension scheme is detailed in notes 10 to the consolidated revenue account and 13 to the consolidated balance sheet.

The change in the net pensions liability can be analysed into several components.

- Current service cost - the increase in liabilities as a result of service earned this year - allocated to the relevant service heads in the Consolidated Revenue Account (CRA).
- Past service cost - the increase in liabilities arising from current years decisions whose effect relates to years of service earned in earlier years - charged to the non-distributed cost head in the CRA.
- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - charged to Net Operating Expenditure in the CRA.
- Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return - credited to Net Operating Expenditure in the CRA.
- Actuarial gains and losses - changes in the 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 - not charged to revenue
- Contributions paid to the LGPS - cash paid as employers contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the CRA this means that there is an appropriation to the Pensions reserve after Net Operating Expenditure to remove the notional debits and credits for retirement benefits and replace them with the debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

13. Government Grants and Contributions

Government Grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable certainty that the grant or contribution will be received. Revenue grants are matched in service revenue accounts with the expenditure to which they relate and general grants (eg Revenue Support Grants) are credited in the Consolidated Revenue Account appropriations section.

14. Provisions

Provisions are required for any liabilities of uncertain timing or amount that have been incurred and are recognised only when they exist at the balance sheet date. Provisions are charged to revenue accounts and when the expenditure is incurred this is charged directly to the provision. Provisions are utilised only for the purpose for which they are established, except when a change is required as a result of a review of the appropriateness of the balance or charge. A provision for bad debts is maintained for debts that may be irrecoverable, Note 11 to the Consolidated Balance Sheet refers.

15. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Consolidated Revenue Account after the Net Operating Expenditure line. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue account in

that year to score against the Net Cost of Services. The reserve is then appropriated back to the Consolidated Revenue Account after Net Operating Expenditure so that there is no charge against the council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits - these do not represent usable resources for the Council.

The Council's main reserves are briefly described below.

- Fixed Asset Restatement Account represents the difference between valuing assets on the basis of previous accounting practice and current accounting practice together with any movement following asset revaluations and the net book value of any asset disposals.
- Capital Financing Account - this account primarily represents : the reserved part of capital receipts required to be set aside to pay external loans, the Minimum Revenue Provision (MRP) and depreciation adjustments and capital expenditure financed from capital receipts, grants and contributions and revenue.
- Unapplied Capital Receipts primarily result from the sale of land and property and are invested pending use for financing new development or redemption of debt. From 1st April 2004, the Local Government Act 2003 and Prudential Code require the payment to the government of a proportion of housing capital receipts, prior to this there was a set aside requirement for the repayment of debt within the Capital Financing Account.
- The Grants Deferred Account reflects the amount of external grants and contributions received in the year are then written off to the Consolidated Revenue Account over the life of the asset.
- General Fund and Housing Revenue Account balances safeguard the Council against any major unforeseen increases in expenditure or decreases in income.
- Earmarked Reserves are reserves that are held for specific expenditure and service uses. These are included in Note 19 to the Consolidated Balance Sheet.
- Local Tax Reserves represent the surpluses arising from the collection of Council Tax. Council Tax surpluses are distributed between Hampshire County Council, Hampshire Police Authority, Hampshire Fire and Rescue Authority and Gosport Borough Council on the basis of estimates of balances made in the previous year.

16. Group Accounts

The 2005 Accounting Code of Practice stipulates that the modified Group Accounting requirements should be fully implemented for the 2005/2006 financial reporting year. Where a local authority has a material interest in subsidiary or associate companies or joint ventures then there is a requirement to produce an additional set of financial statements.

There are no entities where the Council's interest is such that it would give rise to the requirement to prepare group accounts.

The Council's has an interest in an entity that does not require the production of group accounts and this is disclosed in note 12 to the Consolidate Revenue Account.

CONSOLIDATED REVENUE ACCOUNT

2004/2005 Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	2005/2006 Net Expenditure £'000
977	Central Services to the Public	5,357	(4,536)	821
8,798	Cultural, Environmental and Planning Service	11,652	(3,165)	8,487
952	Highways, Roads and Transportation	2,129	(1,416)	713
7,631	Housing Services	32,611	(25,477)	7,134
2,381	Corporate and Democratic Core	2,592	(42)	2,550
154	Non Distributed Costs	262	0	262
<hr/> 20,893	Net cost of services	<hr/> 54,603	<hr/> (34,636)	<hr/> 19,967
(7,761)	Transfer from Asset Management Revenue Account (note 3)			(8,054)
513	Contribution of housing capital receipts to Government Pool			696
(250)	Interest and investment income			(255)
890	Pensions Interest Cost and Expected Return on Pensions Assets			850
<hr/> 14,285	Net operating expenditure			<hr/> 13,204
(40)	HRA surplus (deficit) transferred to (from) HRA Reserve			94
258	Contribution to Earmarked Revenue Reserves (note 17 to Balance Sheet)			469
(513)	Transfer from Usable Capital Receipts equal to the contribution to Housing Pooled Capital Receipts			(696)
(2,381)	Contribution from Capital Financing Account			(1,133)
(1,130)	Contribution from the Pensions Reserve			(1,060)
<hr/> 10,479	Amounts to be met from government grants and local taxation			<hr/> 10,878
(4,492)	Demand on the Collection Fund			(4,667)
(3,914)	General Government Grants- Revenue Support Grant			(4,012)
(2,100)	Non-Domestic Rates distribution			(2,235)
(142)	Transfers from (-) / to the collection fund in respect of surpluses or deficits			(20)
<hr/> (169)	Net General Fund (surplus)/deficit			<hr/> (56)
<hr/> (596)	Balance on General Fund at 1st April 2005			<hr/> (765)
<hr/> (765)	Balance on General Fund at 31st March 2006			<hr/> (821)

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. S.137 (3) LOCAL GOVERNMENT ACT 1972

The Local Government Act 2000 granted new powers to authorities in England and Wales to promote well-being in their area. As a consequence the majority of the provisions of s137 were repealed with effect from October 2000. The Council is still required to disclose expenditure under s137 (3) e.g. donations to charities. Actual expenditure under s137 (3), incurred on grants to voluntary organisations in 2005/2006 was £32,500 (£34,200 in 2004/2005).

2. TRANSACTIONS IN THE ASSET MANAGEMENT REVENUE ACCOUNT

The main aim of this account is to remove the capital charges from the consolidated revenue account so they do not impact on the charge made to the General Fund. It also includes external interest paid and the statutory capital charge or credit to the Housing Revenue Account (HRA). An impairment of £212,000 has been included for Privett Park Pavilion which burnt down in May 2005

2004/2005			2005/2006
£'000	<u>Income</u>		£'000
(2,893)	Capital charges	-General Fund	(2,627)
(7,928)		-Housing Revenue Account	(8,002)
0	Impairment charge	- General Fund	(212)
(664)	Government Grants Deferred		(1,121)
(11,485)			(11,962)
	<u>Expenditure</u>		
1,516	Provision for depreciation	-General Fund	1,442
2,177		-Housing Revenue Account	2,181
0	Impairment	- General Fund	212
31	Interest charges		73
(7,761)	Balance to Revenue Account		(8,054)

The inclusion of the Housing Revenue Account in the Consolidated Revenue Account necessitates consolidating adjustments for the HRA Asset Rental charge and HRA interest earned for both the Item 8 adjustment and on internal balances. The latter two have also been restated in the 2004/2005 figures in both this note and against the Housing Services and AMRA transfer lines in the Consolidated Revenue Account.

The Authority is required by statute to set aside a minimum revenue provision for the redemption of external debt. The method of calculating the provision is defined by statute.

2004/2005		2005/2006
£'000		£'000
	<u>Minimum Revenue Provision</u>	
206	Non-Housing amount – 4% of capital financing requirement	229
(206)	Commutation adjustment	(229)
0		0
	<u>Adjustments from / (to) the Capital Financing Account to the Consolidated Revenue Account</u>	
1,516	Depreciation charge to General Fund	1,442
1,405	Deferred Charges written off to Revenue	528
0	Impairment Losses	212
(664)	Government Grants Deferred	(1,121)
0	Minimum Revenue Provision	0
2,257		1,061

3. S.5 LOCAL GOVERNMENT ACT 1986 PUBLICITY ACCOUNT

Expenditure on publicity amounted to £162,300 in 2005/2006 (£142,570 in 2004/05) of which £28,700 (£27,230 in 2004/05) was incurred in the production of 'Coastline' the Council's newspaper of which 4 editions were issued to all properties within the Borough. The cost of promoting Tourism for 2005/2006 was £78,900 (£71,490 in 2004/2005).

4. HIGHWAYS AGENCY

The Council's agency agreement for the provision of highways maintenance and management was terminated by Hampshire County Council on 1st May 2002 and the service is now funded and managed directly by the County, though staff remain within the Borough Council offices. The Borough Council has retained the agencies for Traffic Management and Development Control and the County Council reimburses the Borough for this work, including a contribution towards administration costs.

Detailed below is a summary of expenditure incurred in respect of the activity, which is not included in the Consolidated Revenue Account.

	2004/2005 £'000	2005/2006 £'000
Routine Maintenance - Aids to Movement	17	21
- Environmental	88	115
Administrative costs	91	95
Total Highway Agency Expenditure	<u>196</u>	<u>231</u>

5. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

The Council is empowered by this Act to provide goods and services to other public bodies. In 2005/2006 the Council received £490,700 (£579,500 in 2004/2005) from Hampshire County Council – principally in respect of various Highways Agency functions. Related expenditure was £518,100 in 2005/06 and £594,800 in 2004/05.

6. LEASED ASSET – RENTALS

Equipment and Software – the authority uses equipment and software financed under terms of an operating lease. The amount paid under these arrangements in 2005/2006 was £72,000 (£139,000 in 2004/2005).

7. EMPLOYEES RECEIVING REMUNERATION IN EXCESS OF £50,000

Employees receiving a remuneration in excess of £50,000 during 2005/2006 are shown below. Remuneration means all amounts due to an employee including expense allowances subject to United Kingdom income tax, and the estimated money value of any benefits received by the employee other than in the form of cash.

Remuneration	Number of Employees	
	2004/2005	2005/2006
Between £50,000 and £59,999	6	6
Between £60,000 and £69,999	1	-
Between £70,000 and £79,999	2	2

8. MEMBERS' ALLOWANCES

The total allowances paid to members in 2005/2006 were £196,700 (2004/2005 £198,700).

9. THE EURO

The Authority did not incur any specific expenditure in 2005/2006 preparing for the introduction of the Euro. The likely implications have been reviewed and a Euro group has been established but is not currently active.

10. PENSION COSTS

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in the Local Government Pension Scheme, administered by Hampshire County Council – this is a defined benefit scheme based on final pensionable salary. It is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The Council pays additional contributions in respect of early and efficiency retirements and this is known as the unfunded element. Both parts are reflected in the figures below.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account (CRA) after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

	2004/2005 £'000	2005/2006 £'000
Net Cost of Services		
▪ Current service costs	1,250	1,310
▪ Past service costs	120	260
Net Operating Expenditure		
▪ Interest Cost	3,120	3,180
▪ Expected return on assets in the scheme	(2,230)	(2,330)
Amount to be met from Government Grants and Local Taxation		
▪ Movement on pensions reserve	(1,130)	(1,060)
Actual amount charged against council tax for pensions in the year		
▪ Employers' contributions payable to scheme	1,130	1,360

Note 13 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note.

Note 1 to the statement of Total Movements in Reserves details the costs that have arisen through the year estimates made in preparing figures for previous years have had to be revised (e.g. the expected return on investments)

11. RELATED PARTY TRANSACTIONS

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

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (eg housing benefits). Details of transactions with government departments are set out in a note to the Cash Flow Statement.

Members of the Council have direct control over the Council's financial and operating policies. During 2004/2005, a Council member entered into an agreement with the Council for the rent of office accommodation in his ownership for

the provision of council services. The agreement was made in full compliance with the Council's standing orders and with proper declaration of interest. The value of payments from 1st April 2005 to 31st March 2006 as £8,000. In 2005/2006 £1,700 was paid to a Council member for rent of lodgings accommodation under the Council's Homelessness service.

Officers – there were no related party transactions during the year by officers of the Council.

Other Public Bodies – related party transactions are as below:

		£'000
Hampshire County Council	Precept payments	22,678
	Pension Fund payments	1,466
Hampshire Police Authority	Precept payments	2,967
Hampshire Fire & Rescue Authority	Precept payments	1,359
Building Control Partnership	Income from Fareham Borough Council	71

Joint Ventures

Portchester Crematorium : The Council along with 3 neighbouring authorities is part of the Portchester Crematorium Joint Committee, which has control over the functions of Portchester Crematorium. During 2005/2006 the Council received £101,000 from the Joint Committee being its share of the distributable surpluses.

Portsmouth Harbour Renaissance Ltd – the Council is one of three equal shareholders in Portsmouth Harbour Renaissance Ltd. Portsmouth Harbour Renaissance Ltd. does not operate independently, generate surpluses or own assets. It is merely an interface between the project partners (shareholders) and the Millennium Commission; collating the expenditure of the partners, submitting the claims, receiving and distributing the grant. Any administrative costs are charged to the partners quarterly. The accounts of PHR are audited independently and are available from Portsmouth City Council.

12. INTEREST IN OTHER ENTITIES

The Council has an interest in the following entity, the accounts of which have not been consolidated into the financial statements of the Council.

Portchester Crematorium Joint Committee: The joint committee manages the operations of Portchester Crematorium and is equally represented by the four constituent authorities : Gosport Borough Council, Fareham Borough Council, Havant Borough Council and Portsmouth City Council. Further information can be obtained from : The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham. Gosport Borough Council's share of the net assets of Portchester Crematorium Joint Committee are £937,003 (£882,678 in 2004/2005). Transactions between the Joint Committee and the Council are outlined in note 11 (Related Parties) to the Consolidated Revenue Account.

13. DISCLOSURE OF AUDIT COSTS

In 2005/2006 the Council incurred the following fees relating to external audit and inspection.

2004/2005 £'000		2005/2006 £'000
	Fee payable to the Audit Commission with regard to external audit services carried out by appointed auditors	
91	External audit services	104
0	Statutory inspection	0
29	Certification of grant claims and returns	46
1	Other Services	0
<u>121</u>		<u>150</u>

14. BUILDING CONTROL TRADING ACCOUNT

Building Control is included within Development Services. From the 1st February 2003, Gosport Building Control merged with Fareham Building Control under a three year agreement for the joint provision of Building Control Services to the Boroughs of Gosport and Fareham. This agreement has been renegotiated and a renewed open ended agreement was signed on 31st March 2006.

The Local Authority building control charge regulations require disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the building control unit cannot be charged for, such as dangerous structure services, enforcement, demolition service, providing general advice and liaising with other statutory authorities. The following table shows the cost of operating the building control unit divided between chargeable and non-chargeable activities, for Gosport Borough Council and the Partnership.

Gosport Borough Council 2005/2006	Chargeable £'000	Non Chargeable £'000	Total £'000
Expenditure			
Employee Expenses	129	81	210
Transport	5	3	8
Supplies and Services	15	6	21
Third Party Payments	12	7	19
Central and Support Services	39	20	59
Total Expenditure	200	117	317
Income			
Building Regulation Charges	205	5	210
Other Fees and Charges	-	2	2
Charges to Fareham Borough Council	1	70	71
Charges to other GBC accounts	-	40	40
Total Income	206	117	323
Gross Surplus	6	-	6
Future Funds retained by Gosport BC	2	-	2
Total Surplus for the year	8	-	8
Surplus for 2004/2005	17	-	17
Building Control Partnership			
Total expenditure	520	307	827
Total income	537	307	844
Surplus for 2005/2006	17	-	17
Fareham	11	-	11
Gosport	6	-	6
Surplus for 2004/2005	58	-	58
Fareham	25	-	25
Future Funds Account (held by Fareham)	16	-	16
Gosport	17	-	17

COUNCIL HOUSING

THE HOUSING REVENUE ACCOUNT

ACTUAL 2004/2005 £'000		ACTUAL 2005/2006 £'000
	INCOME	
(8,567)	Dwelling Rents (see note 13)	(8,792)
(214)	Shops & Garages	(211)
(479)	Service Charges	(511)
<u>(9,260)</u>		<u>(9,514)</u>
	EXPENDITURE	
1,973	Management	2,301
2,773	Maintenance	2,735
85	Rents, Rates, Taxes, Other Charges	78
25	Bad Debt Provision	0
5,782	Cost of Capital/Impairment/Deferred Charges (see note 9)	5,821
2,177	Depreciation	2,181
0	Transitional Contribution for Rent Rebates	157
1,960	HRA Subsidy (including MRA) (see note 11)	2,018
250	Subsidy Creditor for 2003/2004	0
<u>15,025</u>		<u>15,291</u>
<u>5,765</u>	NET COST OF SERVICES	<u>5,777</u>
	Transfer from Asset Management Revenue Account (Difference between cost of capital and impairment/deferred charges and HRA interest costs)	(5,905)
(5,899)	Amortised Premiums / Discounts	35
39	HRA Investment Income / Mortgage Interest	(52)
(62)		<u>(5,922)</u>
<u>(5,922)</u>		<u>(5,922)</u>
<u>(157)</u>	NET OPERATING EXPENDITURE	<u>(145)</u>
	APPROPRIATIONS	
197	Revenue Contributions to Capital	51
<u>40</u>	TOTAL DEFICIT/(SURPLUS) FOR THE YEAR	<u>(94)</u>
<u>(937)</u>	Surplus at beginning of Year	<u>(897)</u>
<u>(897)</u>	Surplus at end of Year	<u>(991)</u>

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Local Government and Housing Act 1989

The Housing Revenue Account includes the income and expenditure prescribed by the Local Government and Housing Act 1989. It is presented in accordance with the revised standard classification published by CIPFA in February 1995 and the update published by CIPFA in June 2001 covering resource accounting requirements.

2. Charges for Services and Facilities

Charges are made for heating, water rates, warden services and for communal services supplied to leaseholders.

3. Housing Stock

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

	31 March 2005	31 March 2006
Houses	1,387	1,343
Bungalows	441	440
Flats	1,511	1,495
	<u>3,339</u>	<u>3,278</u>

Analysis of bedroom type

	31 March 2005	31 March 2006
1 bedroom	1,626	1,612
2 bedroom	561	556
3 bedroom	1,065	1,023
4 or more bedrooms	87	87
	<u>3,339</u>	<u>3,278</u>

Analysis of stock by age

	31 March 2005	31 March 2006
Pre 1945	280	275
1945 – 1964	1,382	1,343
1965 – 1974	697	690
1974 onwards	980	970
	<u>3,339</u>	<u>3,278</u>

4. Value of Housing Revenue Account Property

This analysis shows the gross value and number of types of dwelling within the HRA. Council dwellings are valued at their Economic Use Value for Social Housing.

	31 March 2005		31 March 2006	
	Number	Value £'000	Number	Value £'000
Operational Assets				
Standard Dwellings	3,071	157,904	3,011	140,544
Sheltered Housing	268	7,096	267	5,927
Garages	1,018	1,435	1,018	1,141
Community Asset	1	33	1	33
	<u>4,358</u>	<u>166,468</u>	<u>4,297</u>	<u>147,645</u>
Non Operational Assets				
Premises	3	113	3	144
Total		<u>166,581</u>		<u>147,789</u>

This analysis shows the value of dwellings within the HRA if they were sold on the open market with vacant possession. The balance sheet valuation differs from the open market value because of the discount allowed to tenants who buy their property under the Right to Buy legislation. This reduces the amount the Council will receive on the sale of the asset.

	31 March 2005 Value £'000	31 March 2006 Value £'000
Dwellings	321,283	325,490
Other Land and Buildings	1,435	1,141
	<u>322,718</u>	<u>326,631</u>

5. Major Repairs Reserve

The major repairs reserve was set up in 2001/2002 to account for the new government subsidy for major repairs to council dwellings – the major repairs allowance (MRA).

	2004/2005 £'000	2005/2006 £'000
Balance Brought Forward	0	0
Receipts in year	2,177	2,172
Expenditure in year		
o Houses and Flats	(2,147)	(2,156)
o Environmental Improvements	(16)	(4)
o Surveys / Other	(14)	(12)
Balance Carried Forward	<u>0</u>	<u>0</u>

6. Housing Repairs

	2004/2005 £'000	2005/2006 £'000
Expenditure on repairs	5,684	6,296
Of which planned	3,646	3,947
% of Planned / Response	64.1%	62.7%

£4,210,000 of the 2005/2006 expenditure on repairs was capital

The main categories of expenditure were central heating, window and door replacement and the modernisation of kitchens and bathrooms.

7. Capital Financing

The financing of capital expenditure on the housing revenue account property during the year is shown below.

	Land £'000	Houses and Flats £'000	Other £'000	Total £'000
Government Grants		2,172		2,172
Revenue Contributions		51		51
Supported Borrowing		785		785
Capital Receipts		1,202		1,202
	<u>0</u>	<u>4,210</u>	<u>0</u>	<u>4,210</u>

8. Capital Receipts

Capital receipts from the sale of housing revenue account property in the year were as follows:

	2004/2005 £'000	2005/2006 £'000
Right to Buy sales	2,686	1,882
Auction sales		145
Land sales	321	
	<u>3,007</u>	<u>2,027</u>

9. Cost of Capital

The charge for the cost of capital is 3.5% of the value of HRA operational assets carried out in accordance with the guidance on stock valuation published by the DETR in May 2000. This has been calculated from the opening asset values (note 4, page 8 refers). This is reversed out below the Net Cost of Services as a transfer from the Asset Management Revenue Account in order that there is no bottom line impact.

10. Depreciation and Impairment

The total charge for depreciation in 2005/2006 was £2,180,892 (£2,177,000 in 2004/2005). There was no impairment in 2005/2006 or 2004/2005. The depreciation charge for Council Dwellings is equated to the Major Repairs Allowance at £2,171,788 (£2,177,000 in 2004/2005).

11. Subsidy

	2004/2005 £'000	2005/2006 £'000
Management and maintenance	4,271	4,891
Major Repairs Allowance	2,177	2,172
Charges for capital and interest	302	42
Rent rebates	0	
Interest on receipts	(17)	(32)
Rent income	(8,818)	(9,036)
Other items	50	
Total for year	<u>(2,035)</u>	<u>(1,963)</u>
Adjustment for prior years	69	(55)
Modified Schemes	6	
Total subsidy under 1989 Act	<u>(1,960)</u>	<u>(2,018)</u>

12. Rent Arrears

	2004/2005 £'000	2005/2006 £'000
Current Tenants	196	152
Former Tenants	76	61
Garages	2	1
Total Rent Arrears	<u>274</u>	<u>214</u>
Gross Rent Income	(8,567)	(8,792)
Arrears as a % of Gross Rent Income	3.2%	2.4%

13. Rent Income from Dwellings

	2004/2005 £'000	2005/2006 £'000
Full rental income from dwellings	8,753	8,977
Less Rent due on void properties	(143)	(150)
Less Irrecoverables	(43)	(35)
Total	8,567	8,792

14. Service Charge Breakdown

The £511,000 included under service charges income is broken down as follows.

	£'000	
Service Charges	84	Leaseholders
Housing Care	270	Care element of sheltered rent
Insurance	43	Leaseholders insurance repayments
Water / Alarms	21	Sheltered accommodation recharge
Court Costs	11	From tenants
Service Charges	15	Tenants
Other	67	
	<u>511</u>	

15. Pensions

The 2005 Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice requires that retirement benefits be accounted for in accordance with FRS17 and the application of this to the Housing Revenue Account (HRA) has been deliberated on by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office of the Deputy Prime Minister (ODPM).

Pensions costs have been included within the Housing Services expenditure line in the Consolidated Revenue Account (page 12) but are not included within the separate HRA statement (page 18) as there remains uncertainty surrounding the application of FRS17 to the HRA. Until this is resolved it is considered prudent to make no adjustments to the HRA in the Statement of Accounts.

THE COLLECTION FUND

	Notes	2004/2005 £'000	2005/2006 £'000
INCOME			
Council Tax	2	27,115	28,534
Transfers from General Fund - Council Tax Benefits		3,370	3,628
Income collectable from business ratepayers	3	10,198	11,436
		<u>40,683</u>	<u>43,598</u>
EXPENDITURE			
Precepts and demands	4	30,253	31,671
Contributions – release of surplus	5	998	134
Business rate			
- Payment to National Pool		10,122	11,361
- Costs of Collection		76	75
Bad and doubtful debts			
- Write Offs		(98)	(111)
- Provisions		169	177
		<u>41,520</u>	<u>43,307</u>
Deficit / (Surplus) for the Year		<u>837</u>	<u>(291)</u>
APPROPRIATIONS			
(Surplus) as at 1 April		(977)	(140)
Deficit / (Surplus) for year		837	(291)
(Surplus) as at 31 March		<u>(140)</u>	<u>(431)</u>

NOTES TO THE COLLECTION FUND

1. This account represents the statutory requirement for billing authorities to maintain a separate Collection Fund and is consolidated within the Council's accounts.

Any surplus or deficit in respect of Council Tax at the end of the year is, during the next year distributed between the billing authority and the major precepting authorities in proportion to their precepts in the year the surplus or deficit occurred.

2. Council Tax

Council Tax income is calculated by estimating the amount of income required from the Collection Fund for Hampshire County Council, Hampshire Fire and Rescue Authority, Hampshire Police Authority and Gosport Borough Council. This is then divided by the tax base and multiplied by the ratio shown below to give the council tax for each band of property.

The Council's tax base is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings, calculated as follows:

Band	Estimated Number of Taxable Properties After Discounts	Ratio Equivalent	Band D Dwellings
A	4,698.3	6/9	3,132.9
B	10,440.5	7/9	8,120.4
C	7,418.4	8/9	6,594.0
D	3,727.3	9/9	3,727.3
E	1,572.8	11/9	1,922.3
F	1,141.0	13/9	1,648.1
G	301.0	15/9	501.7
H	6.0	18/9	12.0
			25,658.7
	Plus MOD contributions in lieu		646.5
	Less allowance for losses on collection		(289.4)
	Add second homes adjustment		68.0
	Tax Base for 2005/2006		26,083.8

3. Non-Domestic Rateable Value

The NNDR multiplier for the year was 42.2 pence. The rateable value at the year-end was £33,615,420

4. Precepts and Demands

	2004/2005 £'000	2005/2006 £'000
Hampshire County Council	21,647	22,678
Hampshire Fire & Rescue Authority	1,322	1,359
Hampshire Police Authority	2,792	2,967
Gosport Borough Council	4,492	4,667
	30,253	31,671

5. Release of Collection Fund surpluses

	2004/2005 £'000	2005/2006 £'000
Hampshire County Council	768	96
Hampshire Fire & Rescue Authority		6
Hampshire Police Authority	88	12
Gosport Borough Council	142	20
	998	134

CONSOLIDATED BALANCE SHEET

2004/2005 £'000	The Council's Assets Are	2005/2006 £'000	2005/2006 £'000
372	Fixed Assets (see note 1)		
	Intangible Fixed Assets	301	
	Tangible Fixed Assets		
	Operational Assets :		
165,000	- Council Dwellings	146,471	
16,726	- Other Land and Buildings	11,134	
1,601	- Vehicles, Plant and Equipment	1,751	
12,437	- Infrastructure	12,478	
2,734	- Community Assets	3,090	
	Non-Operational Assets :		
8,796	- Investment properties	16,444	
174	- Assets in Course of Construction	232	
<u>207,840</u>	Total Fixed Assets		<u>191,901</u>
	Long Term Debtors (see note 6)		514
<u>766</u>	Total Long Term Assets		<u>192,415</u>
<u>208,606</u>			
	Current Assets		
5,000	Investments (see note 7)	8,477	
7	Cash in hand	93	
147	Stock of materials	118	
5,546	Debtors (see note 8)	<u>6,699</u>	
			15,387
<u>219,306</u>	Total Assets		<u>207,802</u>
	Current Liabilities		
2,000	Short Term Borrowing	0	
1,083	Cash Overdrawn	271	
4,434	Creditors (see note 9)	<u>3,933</u>	
			4,204
<u>211,789</u>	Total Assets Less Current Liabilities		<u>203,598</u>
	Long Term Borrowing (see note 10)		8,000
0	Provisions (see note 11)		0
0	Deferred Capital Receipts (see note 12)		185
<u>234</u>			
<u>211,555</u>	Net Assets before Pension Liability		<u>195,413</u>
26,010	Liability related to Defined Benefit Pension Scheme (see note 13)		26,000
<u>185,545</u>	Total Assets Less Liabilities		<u>169,413</u>
	Fixed Asset Restatement Account (see note 14)		112,625
130,657	Capital Financing Account (see note 15)		59,227
57,161	Grants Deferred Account (see note 16)		14,579
15,517	Unapplied Grants and Contributions (see note 17)		3,345
1,678	Usable Capital Receipts Reserve (see note 18)		2,482
4,297	Fund Balances and Reserves (see note 19)		3,155
2,245	Pensions Reserve		(26,000)
(26,010)			
<u>185,545</u>	Total Net Worth		<u>169,413</u>

Mr Peter Wilson
Deputy Chief Executive and Borough Treasurer

September 2006

CONSOLIDATED BALANCE SHEET NOTES

1. Movement on Fixed Assets during the year

	31 March 2005			Movement in 2005/2006			31 March 2006 Net Book Value of Assets £'000	
	Certified Valuation £'000	Accumulated Depreciation & Impairment £'000	Net Book Value of Assets £'000	Revaluation Impairments Adjustments £'000	Expenditure £'000	Disposal & Transfers £'000		Depreciation £'000
Intangible	478	(106)	372		88		(159)	301
Tangible								
Council Dwellings	167,060	(2,060)	165,000	(20,792)	4,210	(1,858)	(89)	146,471
Other Land & Buildings	18,861	(2,135)	16,726	(236)	51	(5,446)	39	11,134
Vehicles, Plant & Equipment	3,221	(1,620)	1,601	0	548	0	(398)	1,751
Infrastructure	14,451	(2,014)	12,437	0	443	0	(402)	12,478
Community Assets	2,734	0	2,734	0	317	39	0	3,090
Total Operational Assets	206,327	(7,829)	198,498	(21,028)	5,569	(7,265)	(850)	174,924
Non Operational Assets	8,970	0	8,970	2,029	270	5,407	0	16,676
Total Assets	215,775	(7,935)	207,840	(18,999)	5,927	(1,858)	(1,009)	191,901

Assets now categorised as Intangible Assets, primarily software licences, were previously included with Vehicles, Plant and Equipment and within that heading were depreciated over a three year period on a straight line basis. In line with SORP guidance they are now shown separately and will not require revaluation. In 2006/2007 they will be subject to an impairment review to reassess their economic lives for depreciation purposes.

An impairment of £212,000 has been included for Privett Park Pavilion which burnt down in May 2005.

2. Valuation of Fixed Assets

The table below shows the progress of the Council's rolling programme of fixed asset revaluations in line with the valuation methods set out in the Statement of Accounting Policies. The valuations, except for Council Dwellings, are carried out by the Council's Property Services Manager: Mr M. Pam MRICS BA. Council Dwellings are valued by Countrywide Surveyors on behalf of the Council. The valuations are gross balance sheet value before depreciation.

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment (inc Intangibles) £'000	Infra structure £'000	Community Assets £'000	Non Operational Properties £'000
Valued at Historical Cost:			4,336	14,894	3,090	
Revalued when indicated:						
2005/2006	148,620	1,974				8,466
2004/2005		148				777
2003/2004		985				
2002/2003		1,495				6,137
2001/2002		8,627				1,064
	148,620	13,229	4,336	14,894	3,090	16,444

3. Capital Expenditure and Financing

Capital expenditure may be financed in various ways including by the use of internal resources; external grants or contributions; directly from revenue and from borrowing.

The Local Government Act 2003 introduced the Prudential Code and the Capital Financing Requirement (CFR) The CFR shows the overall indebtedness – or underlying need to borrow - of the Council. The underlying need to borrow may not directly relate to external loans but can also include internal funds that have been used to finance capital spending as an alternative to raising external debt – in which case borrowing may be required at a future date.

	2004/2005 £'000	2005/2006 £'000
Opening Capital Financing Requirement	4,706	5,272
Capital Investment		
Operational Assets	4,939	5,657
Non-Operational Assets	52	270
Deferred Charges	720	528
Sources of Finance		
Capital Receipts	(1,874)	(2,929)
Government Grants & Other Contributions	(3,126)	(2,585)
Sums set aside from Revenue	(198)	(51)
Other Adjustments		
Long Term Debtors	(125)	(102)
Capitalisation Direction	124	72
Movement in Loans to Local Organisations	54	
Closing Capital Financing Requirement	<u>5,272</u>	<u>6,132</u>
Explanation of Movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	566	822
Increase in underlying need to borrow (unsupported by Government financial assistance)	0	0
Increase in underlying need to borrow because of Long Term Debtors & Capitalisation Direction	0	38
Increase / (decrease) in Capital Financing Requirement	<u>566</u>	<u>860</u>

Capital Commitments - significant commitments for future expenditure at 31st March 2006 include:

<u>31 March 2005</u>	<u>£'000</u>	<u>31 March 2006</u>	<u>£'000</u>
Social Housing	991	Housing Renewal	45
Town Centre Parks (Compass Point)	63	Social Housing	399
Nobes Hall	137	PHA – Social Housing	1,800
Open Spaces / Cemetery Headstones	51	Falklands Gdns Public Convenience	100
Stokes Bay Paddling Pool	75	High Street Refurbishment	213
CCTV Cameras	37	Priddys Hard	1,337
Implementing Electronic Government	197	Transformation Government (IT)	145
PHA – Social Housing	1,800		
	<u>3,351</u>		<u>4,039</u>

4. Information on Assets Held

Major fixed assets held at 31st March 2006 include

Council Dwellings	3,278 Council Dwellings
	1,018 Garages
Other Land and Buildings	1 Town Hall
	42 Car Parks
	1 Cemeteries
	23 Public Conveniences (including 4 boarded up)
	1 Disinfestation Centre
Vehicles, Plant and Equipment	4 Vehicles
	CCTV Equipment
	IT Hardware
Infrastructure assets	Slipways
	Coastal Defences
Community assets	1 Paddling Pool
	Parks and open spaces
	Collections of art/artefacts
	Civic regalia and silverware
Non-Operational assets	1 Leisure Centre with Swimming Pool
	1 Depot
	Land and tenanted buildings

5. Analysis of Net Assets employed

	2004/2005 £'000	2005/2006 £'000
General Fund	45,259	47,087
Housing Revenue Account	166,296	148,326
Total	<u>211,555</u>	<u>195,413</u>

6. Long Term Debtors- the long term loan debt outstanding on the following types of advance

	2004/2005 £'000	2005/2006 £'000
Housing Act Advances	7	7
Sale of Houses	234	185
Voluntary and Sporting Organisations	16	14
Car Loans to Staff (payable after 12 months)	474	308
PWLB Loan Premium	35	0
	<u>766</u>	<u>514</u>

7. Investments

	2004/2005 £'000	2005/2006 £'000
Temporary Investments	5,000	7,000
Money Market Funds - Principal	0	1,423
Money Market Funds – Interest		54
	<u>5,000</u>	<u>8,477</u>

8. Sundry Debtors

	2004/2005 £'000	2005/2006 £'000
Sundry Debtors	2,510	3,880
Car Loans to Staff (payable within 12 months)		150
Housing Rents - arrears (including General Fund)	575	541
Council Tax – arrears	1,949	2,167
NNDR – arrears	436	332
Government Departments	1,345	1,099
Agency/Contract Service	0	21
	<u>6,815</u>	<u>8,190</u>
Less Provision for Bad Debts		
Sundry Debtors	393	604
Housing Rents	125	125
Council Tax	537	603
NNDR	214	159
	<u>5,546</u>	<u>6,699</u>

Prior to 2005/2006, unbanked monies held in car parking machines at year end were included under debtors. From 2005/2006 they are included in the Balance Sheet under Cash in Hand. The corresponding figure for 2004/2005 of £4,000 has been similarly moved.

Sundry Debtors at 31 March 2006 included £1 million in respect of Section 106 deposits owed at year end.

9. Sundry Creditors

	2004/2005 £'000	2005/2006 £'000
Sundry Creditors	2,177	2,644
Capital Accruals	195	56
Payments in Advance	2,001	794
Government Departments	60	438
Agency/Contract Services	1	1
	<u>4,434</u>	<u>3,933</u>

10. Long Term Borrowing

(I.e. Loans with over 12 months to maturity)

	2004/2005 £'000	2005/2006 £'000
Public Works Loan Board – repayable in ten years or more	0	8,000
	<u>0</u>	<u>8,000</u>

The Education Trust Fund that the Council administers was previously included here and this is now included with the Council's Fund Balances and Reserves (notes 19 and 23 refer).

11. Provisions

The Council has no provisions apart from the Provision for Bad Debts which is included in note 8

12. Deferred Capital Receipts

Deferred capital receipts are amounts which are not available until they are repaid. They consist of the outstanding balance of mortgage advances for the sale of Council Houses and Houses Built for Sale.

	2004/2005 £'000	2005/2006 £ '000
Houses Built for Sale	12	11
Sale of Council Houses	222	174
	<u>234</u>	<u>185</u>

13. Pension Assets and Liabilities

Note 10 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Superannuation Scheme administered by Hampshire County Council. The following note contains details of the related assumptions made in estimating the figures included in that note.

In accordance with Financial Reporting Standard No. 17 - Retirement Benefits (FRS 17) Gosport Borough Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees.

The pension calculations are based on the liabilities determined in the Actuarial Valuation as at 31 March 2004 as updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of FRS17 in order to assess the liabilities of the Fund as at 31 March 2006. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value.

Gosport Borough Council's contribution rate over the accounting period was 250% of members' contributions.

Projected contribution rates – expressed as a % of members' contributions - are as follows:

April 2005 to March 2006	250%
April 2006 to March 2007	275%
April 2007 to March 2008	300%

These figures include the past service element of the contribution rate.

Assumptions:

The main assumptions used for the purposes of FRS 17 are as follows:

	31 March 2005	31 March 2006
Rate of inflation	2.9% pa	3.0% pa
Rate of increase in salaries	4.4% pa	4.5% pa
Rate of increase to pensions in payment	2.9% pa	3.0% pa
Rate of increase to deferred pensions	2.9% pa	3.0% pa
Discount rate	5.3% pa	4.9% pa
Long-term expected rates of return on:		
Equities	7.7% pa	7.3% pa
Property	6.7% pa	6.3% pa
Government Bonds	4.7% pa	4.3% pa
Corporate Bonds	5.3% pa	4.9% pa
Other assets	4.8% pa	4.6% pa
Average long term expected rate of return	6.8% pa	6.5% pa

Position in the Fund:

Assets are valued at fair value, principally market value for investments. The proportions of total assets held in each asset type by the Fund as a whole at 31 March 2005 and 31 March 2006 are as follows:

	31 March 2005	31 March 2006
Equities	69%	70%
Bonds	22%	21%
Property	4%	4%
Other	5%	5%
Total fair value of assets in Fund	£2,120.76m	£2,667.53m

The following amounts, needed for reconciliation to the balance sheet, were measured in accordance with the requirements of FRS17:

	31 March 2005	31 March 2006
	£m	£m
Share of assets	34.14	41.68
Estimated Funded Liabilities	(57.51)	(64.84)
Estimated Unfunded Liabilities	<u>(2.64)</u>	<u>(2.84)</u>
Gosport Borough Council's deficiency in the Fund	<u>(26.01)</u>	<u>(26.00)</u>

In accordance with Local Authority Accounting Practice (LAAP) Bulletin 56, the opening unfunded liability balance has been recognised as a prior period adjustment to the opening balances of the pensions liability & pensions reserve

The movement in net deficiency for the year to 31 March 2006 is as follows:

Net deficiency at 1 st April 2005	£m
	(26.01)
Contributions Paid	1.36
Current Service Cost	(1.31)
Past Service Costs	(0.26)
Gain/loss on any Settlements or Curtailments	0
Expected return on Pension Scheme Assets	2.33
Interest on Pension Scheme Liabilities	(3.18)
Actuarial gain/loss	1.07
Net deficiency at 31 st March 2006	<u>(26.00)</u>

The actuarial gain/loss can be further analysed as follows:

	Amount	Percentage
	£m	
Actual return less expected return on assets	5.63	13.5% of scheme assets
Experience gains and losses on pension liabilities	0.04	0.1% of scheme liabilities
Changes in assumptions underlying the present value of pension liabilities	<u>(4.60)</u>	6.8% of scheme liabilities
Total	<u>1.07</u>	1.6% of scheme liabilities

The liability at 31st March 2006 shows the underlying commitment that the authority has in the long run to pay retirement benefits and impacts on the net worth of the authority as recorded in the balance sheet. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

14. Fixed Asset Restatement Account

	2004/2005 £'000	2005/2006 £'000
Balance as at 1 April	130,781	130,657
Gains / losses on revaluation of fixed assets	2,629	(16,197)
Disposal of fixed assets	(2,753)	(1,835)
Balance as at 31 March	<u>130,657</u>	<u>112,625</u>

15. Capital Financing Account

The Capital Financing Account contains the amount of capital receipts set aside by statute or voluntarily to repay external loans and records the financing of capital expenditure from sources other than loan. It also includes the difference between the amounts provided for depreciation and required to be charged to revenue to repay the principal element of external loans. This reserve is primarily to maintain the double entry accounting concept and does **not** represent cash balances available for future financing of capital expenditure

	2004/2005 £'000	2005/2006 £'000
Balance as at 1 April	57,120	57,161
Housing Assoc. & Vol. Organisation loan principal repaid	(54)	
Capital Financing		
- revenue	198	51
- grant write off	664	1,121
- capital receipts	1,874	2,973
- commuted sum	50	147
- deposits	353	37
- deferred charges	(1,405)	(528)
Capitalisation Direction (Commutation adjustment)	(124)	(72)
Major Repairs Reserve (HRA depreciation)	0	(9)
MRP / Depreciation Provision / Impairment	(1,515)	(1,654)
Balance as at 31 March	<u>57,161</u>	<u>59,227</u>

16. Grants Deferred Account

The Grants Deferred account reflects grants receivable in the year and the amount released to meet the cost of depreciating associated capital expenditure items usually over the useful life of the asset.

	2004/2005 £'000	2005/2006 £'000
Balance 1 st April	15,635	15,517
Grant Receivable	546	184
Grant Released	(664)	(1,122)
Balance 31 st March	<u>15,517</u>	<u>14,579</u>

17. Unapplied Grants and Contributions

Unapplied grants and contributions represents developer deposits and contributions which are held and utilised to fund capital expenditure

	2004/2005 £'000	2005/2006 £'000
Balance 1 st April	1,181	1,678
Receipts	901	1,997
Payments	(404)	(330)
Balance 31 st March	<u>1,678</u>	<u>3,345</u>

18. Usable Capital Receipts Reserve

	2004/2005 £'000	2005/2006 £'000
Balance as at 1 April	2,009	4,297
Receipts	4,162	1,158
	6,171	5,455
Financing of capital expenditure	1,874	2,973
Balance as at 31 March	4,297	2,482

The balance at 31st March 2006 includes £200,000 in respect of Camden Allotments which must be applied in accordance with the provisions of Section 32 of the Smallholdings and Allotments Act 1908.

19. Fund Balances and Reserves

	1 st April £'000	Receipts £'000	Payments £'000	31 st March £'000
<u>Fund Balances</u>				
General Fund surplus	765	56		821
Housing Revenue Account	897	94		991
Collection Fund	140	291		431
Civic	1		1	0
Royan Twinning Fund	6		4	2
Museum Purchases	8	1		9
Open Spaces	121		5	116
Education Fund	3	1		4
Miscellaneous	3			3
<u>Earmarked Reserves</u>				
Capital	0			0
Revenue				
Building Control Partnership	61	8		69
Revenue Financing Reserve	240	489	20	709
Total	2,245	940	30	3,155

20. Operating Leases

The authority was committed at 31 March 2006 to making payments of £66,000 under operating leases in respect of equipment and software in 2006/2007, comprising the following elements:

	£'000
Leases expiring in 2006/07	31
Leases expiring between 2007/08 and 2010/11	24
Leases expiring after 2010/11	11

21. Contingent Liabilities

- Municipal Mutual Insurance Limited

There is a potential residual liability of £60,000 in respect of claims that have been settled by MMI and that could be recovered if the winding up results in a loss. The current forecast is that a small surplus will result – part of which will be distributed to Gosport Borough Council. The latest available scheme statement is for the six months ended 31st March 2006.

- Browndown Tip

The Council's officers are of the opinion that the Council could have substantial liabilities under the provisions of the Environmental Protection Act 1990 as a class B person namely the current owner / occupier of the land. The extent of the liability depends on the contamination, whether a class A person (one who caused or knowingly permitted the contamination) can be identified and the future use of the land. These matters are presently being investigated by the Environment Agency.

- Millennium Project

On the 19th May 1997, Portsmouth Harbour Renaissance Ltd. acting on behalf of shareholders, Gosport Borough Council, Portsmouth City Council, Portsmouth Naval Base Property Trust, entered into an agreement with the Millennium Commission to complete the Portsmouth Harbour Renaissance Project. Over the three year period Gosport Borough Council incurred expenditure of approximately £11m which was partially offset by Millennium Grant of £6.6m. The three partners are jointly and severally responsible for delivering the project and the Commission can withhold grant from across the whole project if any one of the three partners defaults on the delivery of their part of the scheme. The final stages of the scheme have been completed in 2005/06.

22. Post Balance Sheet Events

There were no post balance sheet events.

23. Education Fund

The Council administers an Education Trust Fund amounting to £3,600 at 31 March 2006. The purpose of the Trust is to assist the education of necessitous Gosport children unable to avail themselves of educational facilities for financial reasons. The fund balance was previously invested with the Charity Commission and now separately identified within the Council's reserves and earns internal interest (notes 10 and 19 refer).

STATEMENT OF TOTAL MOVEMENT IN RESERVES

	2004-2005 £000s	2005-2006 £000s	2005-2006 £000s
Surplus / (deficit) for the year			
- General Fund	169	56	
- Housing Revenue Account	(40)	94	
- Fund Balances	(787)	283	
- Earmarked Revenue Reserves	257	477	
<i>deduct</i> Appropriation from pensions reserve	(1,130)	(1,060)	
Actuarial gains and losses relating to pensions	(8,680)	1,070	
Total increase / (decrease) in revenue resources (note 1)	(10,211)		920
Increase / (decrease) in Usable Capital Receipts	2,287	(1,815)	
Increase / (decrease) in Unapplied Capital Grants and Contributions	498	1,667	
Total increase / (decrease) in realised capital resources (note 2)	2,785		(148)
Gains / (losses) on revaluation of fixed assets	2,629	(16,197)	
Total increase / (decrease) in unrealised value of fixed assets (note 3)	2,629		(16,197)
Value of assets sold or disposed of (note 4)	(2,754)		(1,835)
Capital receipts set aside	1,874	2,973	
Revenue Resources set aside	(1,833)	(907)	
Movement on Government Grants Deferred	(118)	(938)	
Movement on Major Repairs Reserve	0	0	
Total increase / (decrease) in amounts set aside to finance capital investment (note 5)	(77)		1,128
Increase / (decrease) on the pensions reserve	9,810		(10)
Total recognised gains and losses	2,182		(16,142)

Notes to Statement of Total Movement in Reserves

1. Movements in revenue resources

	General Fund Balances	HRA Balances	Fund Balances (Note 1)	Earmarked Revenue Reserves (Note 2)	Pensions Reserve (Note 3)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Surplus / (Deficit) in 2005-06	56	94				150
Appropriation to / from revenue				477	(1,060)	(583)
Receipts & Payments			283			283
Actuarial gains and losses relating to pensions (see note below)					1,070	1,070
	56	94	283	477	10	920
Balance B/Fwd at 1 st April 2005	765	897	282	301	(26,010)	(23,765)
Balance C/Fwd at 31 st March 2006	821	991	565	778	(26,000)	(22,845)

Note 1: Fund Balances comprise

	£'000
Collection Fund	431
Civic	0
Royan Twinning Fund	2
Museum Purchases	9
Open Spaces	116
Education Fund	4
Miscellaneous accounts	3
	<u>565</u>

Note 2: Earmarked Revenue Reserves comprise

	£'000
Building Control Partnership	69
Revenue Financing Reserve	709
	<u>778</u>

Note 3: The actuarial gains identified as movements on the Pensions Reserve in 2005-06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March 2005.

	2002-03		2003-04		2004-05		2005-06	
	£'000	%	£'000	%	£'000	%	£'000	%
Differences between the expected & actual return on assets	(10,160)	(36.4%)	3,440	10.5%	930	2.7%	5,630	13.5%
Differences between the actuarial assumptions about liabilities & actual experience	190	0.4%	(110)	(0.2%)	1,550	2.6%	40	0.1%
Changes in the demographic & financial assumptions used to estimate liabilities	(60)	(0.1%)	130	0.3%	(11,160)	(18.6%)	(4,600)	(6.8%)
	<u>(10,030)</u>		<u>3,460</u>		<u>(8,680)</u>		<u>1,070</u>	

2. Movement in realised capital resources

	Usable capital receipts £'000	Unapplied capital grants & contributions £'000
Amounts receivable in 2005-06	1,158	1,997
Amounts applied to finance new capital investment	(2,973)	(330)
Total increase/(decrease) in realised capital investment in 2005-06	(1,815)	1,667
Balance B/Fwd at 1 st April 2005	4,297	1,678
Balance C/Fwd at 31 st March 2006	2,482	3,345

3. Movements in unrealised value of fixed assets, & 4. Value of assets sold or disposed of

	Fixed Asset Restatement Account £'000
3. Movements in unrealised value of fixed assets	
Gain/(loss) on revaluation of fixed assets in 2005-06	(16,197)
4. Value of assets sold or disposed of	
Amounts written off fixed asset balances for disposals in 2005-06	(1,835)
Total movement on reserve in 2005-06	(18,032)
Balance B/Fwd at 1 st April 2005	130,657
Balance C/Fwd at 31 st March 2006	112,625

5. Movements in amounts set aside to finance capital investment

	Capital Financing Account £'000	Government Grants Deferred £'000
Capital receipts set aside in 2005-06		
- receipts set aside to reduce indebtedness		
- usable receipts applied	2,973	
Total capital receipts set aside in 2005-06	2,973	
Revenue resources set aside in 2005-06		
- capital expenditure financed from revenue	235	
- commutation adjustment	(72)	
- reconciling amount for provisions for loan repayment	(1,070)	
Total revenue resources set aside in 2005-06	(907)	
Grants applied to capital investment in 2005-06		184
Amounts credited to the asset management revenue account in 2005-06		(1,122)
Movements on Governments Grants Deferred		(938)
Movements on Major Repairs Reserve		
Total increase / (decrease) in amounts set aside to finance capital investment		
Total movement on reserve in 2005-06	2,066	(938)
Balance B/Fwd at 1 st April 2005	57,161	15,517
Balance C/Fwd at 31 st March 2006	59,227	14,579

CASH FLOW STATEMENT		2005/2006	
2004/2005		£'000	£'000
	REVENUE ACTIVITIES		
	CASH OUTFLOWS		
10,055	Cash paid to and on behalf of employees	10,923	
7,792	Housing benefit paid out	8,440	
11,139	National non-domestic rate payments to national pool	11,677	
26,618	Precepts paid	27,118	
513	Payments to the capital receipts pool	696	
21,816	Other operating cash payments	17,559	
77,933			76,413
	CASH INFLOWS		
(4,693)	Rents (after rebates)	(4,827)	
(26,778)	Council tax income	(28,175)	
(2,100)	National non-domestic rate receipts from national pool	(2,235)	
(11,410)	Non-domestic rate receipts	(12,161)	
(3,914)	Revenue support grant	(4,012)	
(13,003)	Other government grants	(15,750)	
(2,330)	Cash received for goods and services	(4,390)	
(12,863)	Other operating cash receipts	(4,082)	
(77,091)			(75,632)
842			781
	RETURNS ON INVESTMENT AND SERVICING OF FINANCE		
	CASH OUTFLOWS		
30	Interest paid		72
	CASH INFLOWS		
(247)	Interest received		(339)
	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
	CASH OUTFLOWS		
5,148	Purchase of fixed assets	5,996	
324	Payment of Housing Improvement grants	173	
354	Payment of Affordable Housing initiatives	635	
12	Payment to voluntary organisations	12	
5,838			6,816
	CASH INFLOWS		
(4,673)	Sale of fixed assets	(2,026)	
(2,177)	Major Repairs Allowance	(2,172)	
(195)	Housing grants	0	
(2,837)	Capital schemes - Grant income	(1,453)	
(9,882)			(5,651)
	MANAGEMENT OF LIQUID RESOURCES		
	CASH OUTFLOWS		
5,000	Investments made		8,423
	CASH INFLOWS		
0	Investments realised		(5,000)
1,581			5,102
	FINANCING		
	CASH OUTFLOWS		
0	Repayments of amounts borrowed	0	
9,500	Short-term loans repaid	2,000	
9,500			2,000
	CASH INFLOWS		
0	New loans raised	(8,000)	
(11,500)	Short - term loans raised	0	
(11,500)			(8,000)
(419)	NET (INCREASE) / DECREASE IN CASH		(898)

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation of net surplus on Consolidated Revenue Account to the movement in cash

2004/2005 £'000		2005/2006 £'000
169	General Fund surplus	56
(1,301)	Fixed Assets	(2,093)
811	Deferred Charges & Long Term Debtors	252
(1,417)	Current Assets other than cash	(4,687)
169	Current Liabilities other cash	(2,415)
0	Long Term Borrowing	8,000
(150)	Provisions & Deferred Capital Receipts	(49)
(77)	Capital Financing Account & Grants Deferred	1,128
2,785	Unapplied Grants & Usable Receipts	(148)
(570)	Other Balances	854
0	Pension Scheme Liability	0
<u>419</u>	<u>Movement in Cash</u>	<u>898</u>

2. Movement in cash

2004/2005 £'000		2005/2006 £'000
(1,502)	Cash and bank balance 1 April	(1,083)
(1,083)	Cash and bank balance 31 March	(185)
<u>419</u>		<u>898</u>

3. Reconciliation of movement in cash to net debt

31 March 05 £'000		31 March 06 £'000
419	Increase / (Decrease) in Cash – Note 2	898
	Increase / (Decrease) in Cash – Note 4	
5,000	▪ Temporary Investments	3,477
(2,000)	▪ Short Term Borrowing	2,000
0	▪ Long Term Borrowing	(8,000)
<u>3,419</u>	<u>Change in Net Debt arising from Cashflows</u>	<u>(1,625)</u>
(1,502)	Net Debt 1 st April	1,917
<u>1,917</u>	<u>Net Debt 1st April</u>	<u>292</u>

4. Analysis of changes in financing & management of liquid resources

31 March 05 £'000		31 March 06 £'000	Movement £'000
5,000	Temporary Investments	8,477	3,477
(2,000)	Short Term Borrowing	0	2,000
0	Long Term Borrowing	(8,000)	(8,000)
<u>3,000</u>		<u>477</u>	<u>(2,523)</u>

Temporary Investments and Short Term Borrowing are primarily treasury management and cash flow transactions with building societies. The former also includes short term deposits on the money market through the Council's Global Treasury Fund and Corporate Deposit Accounts. Long Term Borrowing is with the Public Works Loan Board (PWLB).

5. Analysis of Government Grants

31 March 05 £'000		31 March 06 £'000
	<u>Revenue Grants</u>	
(3,914)	Revenue Support Grants	(4,012)
(14,876)	Housing Benefit Subsidy	(20,070)
1,873	Housing Subsidy	4,320
<u>(13,003)</u>		<u>(15,750)</u>
	<u>Capital Grants</u>	
(2,177)	Major Repairs Allowance	(2,172)
(195)	Housing Grants	0
	<u>Capital Schemes – Grants & Contributions</u>	
(274)	Public Amenity Open Spaces	(335)
0	Miscellaneous	(243)
(848)	Affordable Housing	(322)
0	Priddys Open Space	(250)
0	Nimrod Drive	(138)
(98)	Football Foundation – Privett Park	0
(88)	Heritage Lottery – Town Centre Parks	0
(707)	Sports Lottery – GFRC & St Vincents	0
(350)	IEG	(150)
(444)	Defra – Recycling & Coast Protection	(8)
(25)	CCTV	0
(3)	Other	(7)
<u>(2,837)</u>		<u>(1,453)</u>

The methodology of compiling the cash flow statement has been reviewed following external audit comments for the 2004/2005 year. This has resulted in a revised set of notes (1 to 5 above). Additionally, in the summary on page 39, certain of the comparative figures have been restated with an amended net cash flow.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

Councillor
Chair of Policy and Organisation Board

September 2006

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

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

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- complied with the Code of Practice.

The Chief Finance Officer has also:

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

I certify that the Statement of Accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2006.

Mr Peter Wilson
Deputy Chief Executive and Borough Treasurer

September 2006

STATEMENT ON INTERNAL CONTROL

1. Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The 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, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the council's functions and which includes arrangements for the management of risk.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it 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 the 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 system of internal control has been in place at the council for the year ended 31 March 2006 and up to the date of approval of the annual accounts.

3. The Internal Control Environment

The system of internal financial control is based on a framework of regular management information, financial regulations, administration procedures, management supervision and a recognised system of delegation and accountability. In particular, the system includes: -

- Regular reviews of monthly and annual financial reports that indicate performance against forecasts;
- comprehensive financial procedures and rules;
- quarterly updates from the Head of Audit to the Audit & Risk Sub Committee;
- a structured approach to the work of Internal Audit and External Audit;
- financial updates to Senior Management Team and Members;
- Setting targets to measure financial and other performance.

The Council has a nominated Section 151 Officer, the Deputy Chief Executive and Borough Treasurer with the Financial Services Manager acting as Deputy.

- The administration of financial affairs of the Council;
- the provision of advice on financial probity and budget issues;
- Compliance with the Accounts and Audit Regulations 2006.

A developed performance management framework is in place and an annual Best Value Performance Plan is produced detailing our performance against established targets.

Outcomes from the council wide risk workshops have been being further developed with the assistance of both the Council's insurers and the private sector to establish a "web based" risk register. These were facilitated by Internal Audit staff and supported by senior management.

4. Review of Effectiveness

The Council introduced a new political management structure (2001) to oversee the executive management decisions. For Councils with a population of less than 85,000, one of the models was "alternative arrangements". Following consideration of the residents' views the Borough Council has adopted a Constitution based on the "alternative arrangements" favoured by its residents. This meets the requirements of the Local Government Act 2000.

The [Constitution](#) sets out how the Borough Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose.

All of the previously existing Committees have been disbanded. They have been replaced by Boards and Sub Boards, which will make executive decisions. Two Scrutiny (Service & Policy) Committees have also been established to scrutinise the work of the Boards on behalf of residents.

Management

Service Unit Managers are responsible for the routine monitoring and review of the internal controls operating within their services. They meet weekly to discuss strategic matters.

Internal Audit

The responsibility for maintaining and reviewing the system of internal control rests with the Council. In practice, however, the Council is likely to take assurance from the work of Internal Audit. During the year, the work of Internal Audit included fundamental reviews of all the systems of internal financial control as well as other key areas of the Council. The Section used a "risk based" approach to its reviews of the fundamental systems.

The section work closely with the Council's External Auditors to provide a broader coverage and to ensure there is no duplication of valuable resources. In addition, the Council engages specialist IT Auditors to review the IT control environment.

The Council's Boards & Scrutiny Committees

The powers and terms of references of the above are covered under [Part 3 Schedule 9](#) of the Constitution.

The Audit & Risk Sub-Committee

The Sub-Committee meets regularly throughout the year and receives formal reports from the Head of Internal Audit and Risk Assurance. Minutes and reports are available through the Council's website www.gosport.gov.uk.

External Audit (Mazars)

As well as carrying out an annual review of Internal Audit the appointed External Auditors also have a program of annual audit work on the Council's systems.

5. Significant Internal Control Issues

There have been no significant internal financial control issues identified. The following table highlights the progress against the issues raised in last year's (2004/05) Statement of Internal Control. An action plan has been prepared for the implementation of corporate governance and risk management procedures:

2004/05 Significant Internal Control Issues	Progress in 05/06
There is a need to improve the business processes in many operational areas to establish and encourage "efficiencies" and improved value for money on a systematic basis.	This is on-going as new systems have come on-line. Efficiencies have come from improved "take up" on direct debits for rents as well as introducing direct credit for the payment of Benefits.
Develop a framework to support corporate assurance.	Is under development.
There is a need to further improve the Council's performance management framework	A corporate group has been established, terms of reference agreed and meets on a quarterly basis. A corporate performance management framework has been established.
There is a need to embed risk management into the culture of the Council.	A corporate group has been established, terms of reference agreed and meets on a quarterly basis.
Provide key staff and Members with financial training.	This has been timetabled for late 2006 with Member training and Officer training to follow.
Update the financial regulations and contract standing orders.	Financial regulations have been updated and are being approved at Policy & Organisation Board in June 2006.
Provide the Members of the Audit & Risk Sub Committee with in-house training and awareness of risk management matters within the Council.	This was completed at a briefing with the three Members.
The Council's procurement practices need to be further developed in accordance with the National Procurement Strategy.	A corporate group has been established, terms of reference agreed and meets on a quarterly basis.

The following significant internal control issues have been identified.

No.	Issue 05/06	Action
1.	Further work on risk management is required to embed the culture into the Council and its processes as laid out in the Audit Commission's Use of Resources.	The corporate working group report to senior management an action plan to address this matter. That management monitor progress against this action plan.
2.	Improve procurement practices within the Council and update its Contract Standing Orders.	That the agreed procurement strategy is applied in all cases of Council procurement.
3.	There are segregation of duty concerns within creditors and debtors.	To be reviewed following introduction of the new creditor system.
4.	There is need for succession planning to be introduced for key posts within the Council.	Define the posts critical to the Council and ensure a process is developed to support an incoming Officer when cases arise.
5.	Improve financial management information to Members (e.g. write-offs).	Improve the process for reporting financial information to Members.
6.	The lack of a creditor control account.	A creditor control account will feature when the new system goes live in July 2006.

7.	Introduce a more robust process for reconciliation management sign off.	Delegate this management check to a senior member of the Accountancy team independent of the reconciliation process.
8.	There is a lack of quality key financial systems procedural notes.	Through 2006/07 both Internal Audit and key officers will develop the notes for each key financial system.
9.	Develop a code of corporate governance.	Head of Internal Audit will develop this with the Borough Treasurer, Borough Solicitor and appropriate Members to ensure good practice.

Borough Treasurer

Chief Executive

Chair of P&O Board

Date



Independent auditors' report to the Members of Gosport Borough Council

Opinion on the financial statements

We have audited the financial statements of Gosport Borough Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Gosport Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Gosport Borough Council for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

We review whether the statement on internal control reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

A handwritten signature in dark ink, appearing to read 'Mazars LLP', is written over the printed name.

Mazars LLP
Chartered Accountants and Registered Auditors
Southampton

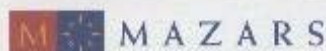
25 September 2006

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

Authority's responsibilities

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

Under the Local Government Act 1999, the Authority is required to prepare and publish a Best Value Performance Plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.



Auditors' responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's Best Value Performance Plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Gosport Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006 except for the failure to put in place arrangements for the management of its asset base.

Best Value Performance Plan

We issued our statutory report on the audit of the Authority's Best Value Performance Plan for the financial year 2005/06 on 16 December 2005. We did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

A handwritten signature in dark ink, appearing to read 'Mazars LLP', is written over the printed name.

Mazars LLP
Chartered Accountants and Registered Auditors
Southampton

25 September 2006