



## **STATEMENT OF ACCOUNTS**

**2009-2010**



# GOSPORT BOROUGH COUNCIL

## STATEMENT OF ACCOUNTS 2009/10

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## EXPLANATORY FOREWORD

### 1. Background

The Statement of Accounts for 2009/10 reflects the reporting and accounting requirements encompassed in the Statement of Recommended Practice (SORP) for 2009.

The SORP 2009 builds on its predecessors by including further accounting changes that must be reflected in the Statement of Accounts for 2009/10 in the move towards fully embracing International Financial Reporting Standards (IFRS) for 2010/11. Most notable of these is the move to accounting for the Collection Fund on an agency basis within the core statements.

IFRS is a fundamental change to statutory financial reporting in Local Authorities that is to be fully adopted from the 2010/11 financial year. This is a substantial body of work and requires the interpretation and understanding of complex new guidance as well as the researching and analysing of existing records and arrangements and then putting in place system changes for the future. The previous two annual Council balance sheets need to be restated along with the detailed notes. This is very challenging and requires significant officer resources. The accounts to be presented to members in June 2011 will reflect these changes.

In conjunction with this and as part of the 2009/10 closure, the technical presentation in the core statements has been reviewed to ensure that items are presented correctly. Where necessary 2008/09 figures have been restated to ensure consistent presentation of comparatives. The notes to the core statements include these where necessary.

### 2. Contents

In accordance with statutory obligations and the Code of Practice on Local Authority Accounting, the accounts for 2009/10 include the following statements:

- **Income and Expenditure Account**

This statement is a summary of the resources generated and consumed by the authority during the year.

It reports the net cost for the year of all functions for which the authority is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

- **Statement of Movement on the General Fund Balance**

This statement reconciles the outturn on the Income and Expenditure Account to the General Fund balance and the statutory requirements for raising Council Tax by adjusting for those items that are required to be credited or charged to the General Fund in order to determine the local authority's budget requirement and Council Tax demand – both of which are determined by statute and non-statutory proper practices.

- **Statement of Total Recognised Gains and Losses**

This statement brings together all the gains and losses for the year and identifies those that are not reported through the Income and Expenditure Account. It reconciles to the movement in net worth in the Balance Sheet.

- **Balance Sheet**

The Balance Sheet sets out the Council's financial position at 31 March 2010. 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.

- **Cash Flow Statement**

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

- **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.

### 3. Summary of Financial Performance during the year

The Council's overall financial position remains stable and a balanced budget has been set for 2010/11.

The forthcoming public sector expenditure reductions and uncertain national economic position are a serious concern. The need to ensure that future council tax levels are acceptable and reserve levels remain adequate is a priority and efficiency opportunities continue to be sought and evaluated with the emphasis on maintaining front line services.

- **General Fund**

The Council's revised budget for 2009/10 included a contribution to the Revenue Financing Reserve of £42,430 – this was achieved.

The General Fund was underspent by £566,906 in addition to identified revenue budget carry forwards of £194,550 which will be charged in 2010/11. This total underspend against the revised budget of £761,456 was credited to the Revenue Financing Reserve in line with Council policy

The table below summarises 2009/10 in the format of the Council's budget book as opposed to the statutory reporting format in the Income and Expenditure Account on page 15. A full service breakdown of expenditure and income is included within the Approval of Accounts report to Policy and Organisation Board.

The main variations in the General Fund (GF) budget include:

- o Concessionary Travel – an underspending of £14,250.
- o Homelessness – lower net service costs of £68,420
- o Benefits – subject to the external audit certification of the subsidy grant claim, lower than expected (net of subsidy) costs of £208,920.

- o Development Services – net underspendings totalling £85,980 across various service headings, including appeal costs of £32,260 and increased planning fees of £14,730. Of this total, £84,400 is being carried forward to 2010/11.
- o The net saving in administration recharges to General Fund services is £18,240 which comprises salary costs of £30,450 and other non salary savings of £48,690.
- o The inclusion within net cost of services of Planning & Development Grant then carried forward to 2010/11 within the Revenue Financing Reserve  
(nb: figures in brackets represent a cost reduction or underspending)

<b>GENERAL FUND BUDGET 2009/10</b>
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	REVISED 2009/10 £'000	ACTUAL 2009/10 £'000	VARIANCE £'000
<b><u>GENERAL FUND</u></b>			
Community & Environment	7,311	7,480	169
Housing	527	478	(49)
Policy & Organisation	5,092	4,210	(882)
<b>Total Net Expenditure</b>	<b>12,930</b>	<b>12,168</b>	<b>(762)</b>
Transfer to Revenue Financing Reserve	42	42	0
Transfer to Revenue Financing Reserve - GF Surplus	0	762	762
<b>Budget Total</b>	<b>12,972</b>	<b>12,972</b>	<b>0</b>

	2009/10	
	£'000	%
<b><u>FINANCED BY</u></b>		
Gosport Council Tax	5,612	43.3%
Revenue Support Grant	1,361	10.5%
Non Domestic Rates Distribution	5,899	45.5%
Collection Fund Surplus	100	0.8%
	<b>12,972</b>	<b>100.0%</b>

▪ **Reserves**

- o The General Fund working balance at 31 March 2010 is £890,000 as projected in the Budget Report for 2010/11.
- o The Revenue Financing Reserve at 31 March 2010 is £1,561,010 which exceeds the forecast balance of £799,550 by £761,460 because of the underspending outlined above. This balance will, however, be reduced by the revenue carry forwards of £194,550.

▪ **Housing Revenue Account**

The Housing Revenue Account was forecast to have a revenue deficit of £106,730 for 2009/10 with a revised account balance of £383,240 at 31 March 2010. The actual position for the year was a deficit of £131,680, an overspending of £24,950, with a resulting account balance of £358,290 at 31 March 2010.

The major variations were increased expenditure on repairs, voids and debt repayment costs totalling £93,000 and reduced expenditure on management costs of £98,000. A reduction in service charge income related to care costs and a decrease in budgeted investment income resulted in the overall variation of £24,950

▪ **Capital Spending**

The revised Capital Programme for 2009/10 was budgeted at £9.454 million. The actual capital spend reflected in the table below is £5.976 million an underspending of £3.478million. Scheme slippage of £3.385million has been identified and will be carried forward into 2009/10

**CAPITAL PROGRAMME 2009/10**

	<b>REVISED 2009/10 £'000</b>	<b>ACTUAL 2009/10 £'000</b>	<b>SLIPPAGE £'000</b>
<b><u>BY BOARD</u></b>			
Housing Board (HRA)	2,600	2,663	0
Housing Board (GF)	1,538	658	(684)
Community & Environment Board	3,177	909	(2,300)
Policy & Organisation Board	2,139	1,746	(401)
	<b>9,454</b>	<b>5,976</b>	<b>(3,385)</b>
<b><u>BY MAJOR SCHEME</u></b>			
Council Dwellings	2,600	2,663	0
Replacement Landing Stage	1,200	135	(1,065)
Social Housing	1,070	379	(691)
Town Hall Major Repairs	732	712	(20)
Information Technology	588	493	(95)
Housing Grants	468	279	7
Priddys Hard Heritage Area	360	367	0
Provide lighting to pathways in Leisure	195	0	(195)
New Cemetery	178	4	(174)
Walpole Park Cocklepond - footways	160	0	(160)
Privett Enclosure / GBFC Improved Facilities	150	0	(150)
Waterfront Masterplanning	150	0	(150)
CCTV schemes	144	126	(18)
High Street Refurbishment	55	70	0
Gosport Leisure Centre - replacement	0	66	66
All other schemes	1,404	682	(740)
	<b>9,454</b>	<b>5,976</b>	<b>(3,385)</b>

	<b>REVISED 2009/10 £'000</b>	<b>ACTUAL 2009/10 £'000</b>
<b><u>PROGRAMME FINANCING</u></b>		
Major Repairs Allowance	2,543	2,543
Capital Receipts	130	623
Developer Contributions - Open Spaces	590	77
Other Grants & Contributions	1,853	705
Capital Grants	240	240
Borrowing	4,098	1,788
	<b>9,454</b>	<b>5,976</b>

The Council's assets are shown in the balance sheet net of depreciation with a net book value at 31 March 2010 of £194 million. This figure excludes the The Priddys Hard site including the Explosion Museum which was disposed of in October 2009.



- **Capital Financing**

The Council's Capital Financing Requirement (CFR) or underlying need to borrow is a measure of capital spending which is not covered by grants, contributions or receipts and is therefore effectively met by borrowing. This stands at £10.352 million at 31 March 2010.

The statutory revenue charge towards this for 2009/10 was £195,000.

At 31 March 2010 the Council has funds of approximately £3.7million 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.

- **Treasury Management**

At 31 March 2010, the Council had investments of £5.287 million, including £4 million invested with banks and building societies and £1.287 million short term investments with the Council's money market and call accounts.

Following the debt restructuring reported to Council in February as part of the annual Treasury Management & Prudential Indicators report, additional borrowing of £4 million was taken on 1 March 2010. This transaction took advantage of favourable interest rates and was in line with the need to forward fund forthcoming major capital projects. Debt restructuring discount of £169,000 is held on the balance sheet at 31 March 2010 to be released to revenue over the next 6 years.

Total long term borrowing with the PWLB (Public Works Loan Board) at 31 March 2010 was £15 million and the Council was therefore in a net borrowing position of £9.713 million at the end of the financial year.

- **Local Tax Collection**

The balance on the collection fund which recognises the difference between estimated and actual council tax income is shared between the billing authorities of Gosport Borough, Hampshire County Council, Hampshire Police Authority and the Hampshire Fire and Rescue Authority. The collection fund has moved from a surplus position of £392,000 at the beginning of the year to a deficit of £676,000 at the end of the year. This recognises both the sharing of the estimated surplus for 2009/10 calculated at 15 January 2009 of £705,000 and a fall in net council tax income of £363,000 for which further analysis is taking place - this being a reflection of both property numbers and banding changes.

The rates of Council Tax and Non Domestic Rates collection for 2009/10 were 97.3% and 99.0% respectively (96.9% and 98.7% for 2008/09). Eventual collection rates will be higher as year end arrears are pursued.

- **Retirement Benefits**

The Statement of Accounts complies with FRS17 – the financial reporting standard on Retirement Benefits. This is expanded on in note 31 to the core financial statements. The reported figures are supplied by independent actuaries to the Hampshire County Council administered pension fund.

The Balance Sheet and note show a poorer position compared to last year's net pension deficit by £12.62 million primarily due to revised and updated financial and demographic assumptions in calculating assets. Market conditions and financial assumptions change every year resulting in volatility in the net pension position on the balance sheet. Statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.



## STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2009/10 financial year and its position at the year end of 31 March 2010. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice*, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Any significant non-compliance is disclosed in the following statements. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

### 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 annual 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. Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

### 3. Contingent Liabilities

Contingent liabilities are not formally recognised in the accounting statements but are disclosed by way of a note to the accounts. They represent a possible obligation that may require a payment or transfer of economic benefits and are included to aid understanding of the Council's financial position.

### 4. Revenue Expenditure funded from Capital under Statute

Revenue Expenditure funded from Capital under Statute are expenses that were formerly called Deferred Charges and represent expenditure that may be capitalised under statutory provisions but which does not result in the creation of an asset. They are written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet their cost from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax. Revenue Expenditure funded from Capital under Statute includes, for example, housing improvement grants.

### 5. Events after the Balance Sheet date

A separate disclosure note is made of any material events that may have occurred after the balance sheet date which provided evidence of conditions that existed at that date. Such events may be adjusting or non-adjusting and are reflected up until the date when the Statement of Accounts is authorised for issue.

### 6. Exceptional Items, Extraordinary Items & Prior Period Adjustments

Exceptional items and extraordinary items are disclosed and described separately on the face of the income and expenditure account. The occurrence of either is explained in the notes to the accounting statements.

Prior period adjustments generally arise from corrections and adjustments that are an inherent part of the estimates and changes in policy and practice used in the accounting process.

Material adjustments arising from changes in accounting policies or from the correction of errors are accounted for by restating the comparative figures in both the accounting statements and notes for the previous period and explaining any adjustments in the accompanying notes.

## **7. Fixed Assets**

### Intangible Fixed Assets

Intangible assets do not have physical substance but are identifiable and controlled by the Council (eg software licences) and will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

### Tangible Fixed Assets

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.

### Recognition

Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised in the accounts on an accruals basis provided that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of the asset (eg repairs and maintenance) is charged to revenue as it is incurred.

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

### Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Council dwellings are valued at their Economic Use Value for Social Housing [EUV-SH].
- 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 market value
- Infrastructure and Community Assets, and Vehicles, Plant and Equipment and Intangible Assets are included in the balance sheet at historical cost

Assets included in the balance sheet at current value are revalued where there have been material changes in value, but as a minimum every five years

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

### Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service account
- otherwise it is written against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service accounts.

Where an impairment loss is charged to the Income & Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

#### Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is required to be credited to the Usable Capital Receipts reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the reserve from the Statement of Movement on the General Fund Balance.

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

#### Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for land and non-operational investment properties) by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. Depreciation is calculated using the straight-line method over the following periods:

Council Dwellings:	Equal to the Major Repairs Allowance. This represents a capital sum that is allowed annually to maintain the council's housing stock and in 2009/10 is £2.543 m
Buildings:	Straight line allocation over the estimated life of the property
Vehicles, Plant and Equipment	Straight line allocation over 5 to 10 years depending on the asset. IT hardware and software have been reassessed to provide a more accurate analysis of asset life for both depreciation and minimum revenue provision (MRP) charges from 2010/11. Previously an average 4 year life was used for all IT expenditure.
Infrastructure:	Straight line allocation over 20 to 50 years depending on the asset

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

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

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

### Charges to Revenue for Fixed Assets

Service revenue accounts and support services are charged with the following amounts to record the real cost of holding fixed assets during the year

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible fixed assets attributable to the service

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. This is known as the Minimum Revenue Provision (MRP) and is made in accordance with statute and Council policy. Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## **8. Group Accounts**

The 2005 Accounting Code of Practice stipulated that the modified Group Accounting requirements were to be fully implemented from the 2005/06 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 has an interest in an entity that does not require the production of group accounts and this is disclosed in note 9 to the accounting statements.

## **9. 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 Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure. Capital grants, when applied to the acquisition of a fixed asset are credited to the Government Grants Deferred Account and are then released to services on a basis that is consistent with the depreciation charged on the asset to which it relates.

## **10. Leases**

Finance leases are leasing arrangements where substantially all the rewards and risks relating to the leased property transfer to the lessee. 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.

The adoption of IFRS from 2010/11 requires the review of both lease and 'lease type' arrangements which may amend both their inclusion and accounting treatment with updated prior year comparatives where necessary.

## 11. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early

These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services

## 12. Provisions

Provisions are made when an event has taken place that gives the council an obligation that probably requires a settlement by a transfer of economic benefits but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year with any necessary increase or decrease being adjusted between the provision and the service revenue account.

The Council maintains a provision for bad debts and doubtful debts that may be irrecoverable.

## 13. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement 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 described further in note 29 to the accounting statements.

## 14. Retirement Benefits

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 note 31 to the accounting statements.

The Local Government Scheme is accounted for as a defined benefits scheme.

- The liabilities of the LGPS attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5%
- Assets of the LGPS attributable to the council are included in the balance sheet at their fair value.

The council's change in the net pensions liability is analysed into 6 components

Current service costs	The increase in liabilities as a result of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
Past service costs	The increase in liabilities arising from current year's decisions whose effect relates to years of service earned in earlier years – charged to Non-Distributed Costs in the Income and Expenditure Account
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 Income and Expenditure Account
Expected return on assets in the scheme	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 Income and Expenditure Account
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 – debited to the Statement of Total Recognised Gains and Losses
Employers' contributions payable to scheme	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 Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with the debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

## 15. Stocks

Stocks are included in the balance sheet at the lower of cost and net realisable value.

## 16. Value Added Tax

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.



## **17. Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Regulations allow the impact of premiums and discounts incurred following debt restructuring to be reflected in the General Fund over future years. Discounts are apportioned over the lifetime of replacement loans with the unapportioned balance being included on the balance sheet within the carrying amount of the outstanding loans.

## **18. Financial Assets**

Financial assets are classified into two types:

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

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

The Council makes interest free car loans available to certain employees as part of its recruitment and retention package. These constitute 'soft loans' being made at less than market rates. No accounting adjustment is made for these as the effect is not considered material.

## **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 M. Hook  
Chair of Policy and Organisation Board

27 September 2010

### **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 SORP').

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 local authority SORP.

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 a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

Mr Peter Wilson  
Deputy Chief Executive and Borough Treasurer

27 September 2010

### INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the council during the last year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees during the year.

<b>2008/09 Net Expenditure £'000 (restated)</b>		<b>2009/10 Gross Expenditure £'000</b>	<b>2009/10 Gross Income £'000</b>	<b>2009/10 Net Expenditure £'000</b>
1,469	Central Services to the Public	6,937	(5,792)	1,145
7,375	Cultural, Environmental and Planning Services	10,853	(3,364)	7,489
1,683	Highways, Roads and Transport Services	2,772	(1,061)	1,711
1,921	Housing Services	37,153	(34,458)	2,695
2,885	Corporate and Democratic Core	2,539	(234)	2,305
22	Non Distributed Costs	122	0	122
0	Exceptional Item	0	(332)	(332)
<b>15,355</b>	<b>NET COST OF SERVICES</b>	<b>60,376</b>	<b>(45,241)</b>	<b>15,135</b>
(290)	(Gain) / Loss on the disposal of fixed assets			5,511
379	Interest payable and similar charges			405
(673)	Interest and Investment income			(323)
98	Contribution of Housing Capital Receipts to Government Pool			154
1,390	Pensions Interest Cost and Expected Return on Pensions Assets			2,470
<b>16,259</b>	<b>NET OPERATING EXPENDITURE</b>			<b>23,352</b>
(5,425)	Demand on Collection Fund			(5,561)
(1,402)	General Government Grants			(1,887)
(6,341)	Non-Domestic Rates distribution			(5,899)
<b>3,091</b>	<b>DEFICIT FOR THE YEAR</b>			<b>10,005</b>

### STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the authority is required to raise precepts on a different accounting basis, the main differences being:

- (a) Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- (b) Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the precepts that it raised for the year, taking into account the use or reserves built up in the past and contributions to reserves earmarked for future

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

<b>2008/09</b>		<b>2009/10</b>
<b>£'000</b>		<b>£'000</b>
<b>(restated)</b>		
3,091	Deficit for the year on the Income and Expenditure Account	10,005
(3,121)	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance for the year (Note 12 refers)	(10,005)
<b>(30)</b>	<b>Increase in General Fund balance for the year</b>	<b>0</b>
<b>(860)</b>	<b>General Fund Balance brought forward</b>	<b>(890)</b>
<b>(890)</b>	<b>General Fund Balance carried forward</b>	<b>(890)</b>

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2008/09 £'000 (restated)		2009/10 £'000
3,091	Deficit on the Income and Expenditure Account	10,005
1,610	Deficit arising from the revaluation of Fixed Assets	5,572
11,490	Actuarial losses on pension fund assets and liabilities	10,720
	<u>Any other recognised gains or losses</u>	
0	Deficit / (surplus) on the Collection Fund	0
(216)	Application of Commuted Sums and Deposits to finance capital	0
35	Reduction in Deferred Credits & Long Term Debtors	14
0	Fixed Asset Register adjustment	20
177	General Grant (HPDG) to Unapplied Capital Grants	0
(402)	Unapplied Grants & Contributions to Revenue Reserves	0
(1)	CFR / MRP adjustment	0
<b>15,784</b>	<b>Total recognised loss for the year</b>	<b>26,331</b>

The 2008/09 recognised loss has been restated from £16.185m to £15.784m following a prior year adjustment whereby unapplied grants and contributions of £402,000 have been restated as revenue reserves. Adjustments for the Collection Fund and General Grants have also been made although these do not impact on the total recognised loss. Notes 28 and 29f refer.

<b>BALANCE SHEET as at 31st March 2010</b>			
<b>31st March 2009</b>		<b>Notes</b>	<b>31st March 2010</b>
<b>£'000</b>			<b>£'000</b>
<b>(restated)</b>			
	<b>Fixed Assets</b>	13-17	
161	<b>Intangible Fixed Assets</b>		411
	<b>Tangible Fixed Assets</b>		
	<b>Operational Assets</b>		
156,316	Council Dwellings		148,534
16,313	Other Land & Buildings		11,795
895	Vehicles, Plant & Equipment		1,019
12,254	Infrastructure Assets		10,257
4,418	Community Assets		3,130
	<b>Non-Operational</b>		0
18,021	Investment Properties		17,840
901	Assets Under Construction		1,135
<u>209,279</u>	<b>Total Fixed Assets</b>		<u>194,121</u>
2,022	Long Term Investments	19	1,011
337	Long Term Debtors	20	858
<u>211,638</u>	<b>Total Long Term Assets</b>		<u>195,990</u>
	<b>Current Assets</b>		
56	Stock		36
7,594	Debtors	21	9,664
6,876	Investments	19	4,301
7	Cash and Bank		5
<u>14,533</u>			<u>14,006</u>
<u>226,171</u>	<b>TOTAL ASSETS</b>		<u>209,996</u>
	<b>Current Liabilities</b>		
0	Temporary Borrowing		0
0	Borrowing repayable within 12 mnths	22	198
6,526	Creditors	23	2,000
294	Bank Overdrawn		783
<u>6,820</u>			<u>2,981</u>
<u>219,351</u>	<b>Total Assets less Current Liabilities</b>		<u>207,015</u>
11,162	Long Term Borrowing	22	15,089
0	Provisions	26	0
13,358	Grants Deferred Account	27	11,548
4,331	Unapplied Grants & Contributions	28	3,589
<u>190,500</u>	Net Assets before Pension Liability		<u>176,789</u>
31,700	Liability related to Defined Benefit Pension Scheme		44,320
<u><u>158,800</u></u>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<u><u>132,469</u></u>

31st March 2009 £'000 (restated)		31st March 2010 £'000
	Note 29	
	<b>FINANCED BY:</b>	
177,801	Capital Adjustment Account	168,474
9,427	Revaluation Reserve	3,747
56	Collection Fund Adjustment Account	(95)
136	Capital Receipts Reserve	65
77	Deferred Capital Receipts	638
3,003	Fund Balances & Reserves	3,960
(31,700)	Pensions Reserve	(44,320)
<b><u>158,800</u></b>	<b>TOTAL NET WORTH</b>	<b><u>132,469</u></b>
Mr Peter Wilson Deputy Chief Executive and Borough Treasurer		September 2010

2008/09		<b>CASHFLOW STATEMENT</b>		2009/10	
£'000	£'000			£'000	£'000
(restated)					
	(57)	<b>Net Cash Flow from Revenue Activities</b>			5,452
		<b>Returns on Investments and Servicing of Finance</b>			
		<i>Cash Outflows</i>			
347		Interest Paid on Debt		391	
		<i>Cash Inflows</i>			
(607)		Interest Received		(452)	
	(260)				(61)
		<b>Capital Activities</b>			
		<i>Cash Outflows</i>			
6,018		Purchase of Fixed Assets		5,247	
0		Purchase of Long Term Investments		0	
2,440		Other Capital Cash payments		884	
		<i>Cash Inflows</i>			
(145)		Sale of Fixed Assets		(182)	
(2,162)		Capital Grants received		(2,543)	
(2,090)		Other Capital Cash receipts		(1,728)	
	4,061				1,678
	<u>3,744</u>	<b>Net Cash (inflow) / outflow before financing</b>			<u>7,069</u>
		<b>Management of Liquid Resources</b>			
0		Net Change in Short Term Investments (Note 3)		(2,000)	
(83)		Net Change in Other Liquid Investments (Note 3)		(453)	
	(83)				(2,453)
		<b>Financing</b>			
		<i>Cash Outflows</i>			
2,000		Short Term Loans Repaid		1,000	
		Long Term Loans Repaid		8,000	
		<i>Cash Inflows</i>			
(2,000)		Short Term Loans Borrowed		(1,000)	
(3,000)		Long Term Loans Borrowed		(12,125)	
	(3,000)				(4,125)
	<u><u>661</u></u>	<b>(Increase)/Decrease in Cash</b>			<u><u>491</u></u>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1. EXCEPTIONAL ITEMS AND PRIOR PERIOD ADJUSTMENTS

#### Exceptional Items

As a result of retrospective changes in liability for VAT, the Council's retained VAT advisers successfully challenged and recovered payments made over a substantial number of years. The recovery which included sporting and cemetery services and bulky waste totalled £332,341 and included £162,811 in respect of compound interest. This total sum was included in the Council's revised budget and is shown in the Income and Expenditure Account as an exceptional item by virtue of its nature and materiality. There were no extraordinary items

#### Prior Period Adjustments

The SORP 2009 recognises that the collections of both Council Tax and Non Domestic Rates by billing authorities are carried out under agency arrangements and the core statements including the year end balance sheets for 2008/09 have been restated to accord with this new treatment which is effective from 2009/10. This is further described on pages 59 and 60.

In advance of the full adoption of International Financial Reporting Standards for the 2010/11 financial year which will involve restating prior year balance sheets and comparatives, the opportunity has been taken to closely examine the Council's balance sheet and make any necessary technical and presentational amendments in 2009/10. Adjustments have been made to general government grants and unapplied grants and contributions and the necessary 2008/09 comparatives have been restated.

The prior period adjustments above have no effect on the outturn for the previous year.

### 2. MEMBERS ALLOWANCES

The total allowances paid to members in 2009/10 were £206,940 (£212,330 in 2008/09).

### 3. TRUST FUNDS

The Council administers an Education Trust Fund amounting to £4,250 at 31 March 2010 (£4,220 in 2008/09). 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 is now separately identified within the Council's reserves and earns internal interest (note 29f refers).

### 4. GENERAL GOVERNMENT GRANTS

General government grants that are not attributable to specific services comprise.

	2008/09 £'000 (restated)	2009/10 £'000
Revenue Support Grant	883	1,361
Local Authority Business Growth Incentive	130	53
Area Based Grant	49	71
Housing & Planning & Delivery Grant	340	402
	<b>1,402</b>	<b>1,887</b>

This heading includes grants that are required to be shown as a separate financing item on the face of the Income and Expenditure account, the content of which has been reviewed to ensure compliance with the SORP with 2008/09 being restated accordingly.

## 5. AGENCY INCOME AND EXPENDITURE

The Council's agency agreement for the provision of highways maintenance and management was terminated by Hampshire County Council on 1 May 2002 and the service was then funded and managed directly by the County although staff remained within the Borough Council offices. The Borough Council retained the agencies for Traffic Management and Development Control with the County Council reimbursing the Borough for this work and making a contribution towards administration costs.

The Traffic Management and Development Control agreement was terminated on 31 March 2009 with future highways management and maintenance being dealt with directly by Hampshire County Council.

A contribution continues to be paid by the County Council towards treework and grasscutting (environmental maintenance) and this is summarised below.

	2008/09 £'000	2009/10 £'000
Treework	32	34
Grasscutting	99	101
	131	135
Hampshire County Council contribution	(129)	(123)
Net Cost	<b>2</b>	<b>12</b>

## 6. AUDIT COSTS

In 2009/10 the Council incurred the following fees relating to external audit and inspection.

2008/09 £'000		2009/10 £'000
	Fee payable to the Audit Commission with regard to external audit services carried out by appointed auditors	
107	External audit services	106
6	Statutory inspection	9
53	Certification of grant claims and returns	35
8	Other Services	6
<b>174</b>		<b>156</b>

## 7. OFFICERS REMUNERATION

The number of employees (excluding senior officers which are disclosed individually in separate tables) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

Remuneration band	Number of Employees	
	2008/09	2009/10
£50,000 - £54,999	0	0
£55,000 - £59,999	0	0
£60,000 - £64,999	1*	1*
£65,000 - £69,999	1*	0

\* Figure represents an employee who left during the year with compensation for loss of employment

<b>2008/9 Senior Officers emoluments - Salary is more than £50,000 but less than £150,000 per year</b>									
Post Title	Notes	Salary Including Allowances	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2008/9	Pension Contributions	Total Remuneration including pension contributions 2008/9
		£	£	£	£	£	£	£	£
Chief Executive		90,785	0	0	0	764	91,549	12,816	104,365
Deputy Chief Executive & Borough Treasurer		82,362	0	0	0	0	82,362	11,767	94,129
Borough Solicitor	1	63,307	0	0	0	0	63,307	9,179	72,486
Director of Economic Development, Tourism & the Arts	2	12,370	0	0	0	0	12,370	1,760	14,130
Financial Services Manager		62,796	0	0	0	0	62,796	8,973	71,769
Corporate Services Manager		62,400	0	0	0	0	62,400	8,973	71,373
Housing Services Manager		57,048	0	0	0	0	57,048	8,242	65,290
Leisure Services Manager		62,892	0	0	0	0	62,892	8,973	71,865
Development Services Manager		61,836	0	0	0	0	61,836	8,790	70,626
Environmental Services Manager		57,468	0	0	0	0	57,468	8,242	65,710
		<b>613,264</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>764</b>	<b>614,028</b>	<b>87,715</b>	<b>701,743</b>

1. The Borough Solicitor works 32 hours per week. The whole time equivalent salary is £66,696. In addition, Returning Officer fees are included.

2. The Director of Economic Regeneration post was created in 2008/9 and filled from 26 January 2009. The whole time equivalent salary is £66,428.

<b>2009/10 Senior Officers emoluments - Salary is more than £50,000 but less than £150,000 per year</b>									
Post Title	Notes	Salary Including Allowances	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2009/10	Pension Contributions	Total Remuneration including pension contributions 2009/10
		£	£	£	£	£	£	£	£
Chief Executive		92,340	0	0	0	440	92,780	13,074	105,854
Deputy Chief Executive & Borough Treasurer		82,182	0	0	0	0	82,182	11,767	93,949
Borough Solicitor	1	58,882	0	0	0	0	58,882	9,896	68,778
Director of Planning and Economic Development Services	2	68,314	0	0	0	496	68,810	9,773	78,583
Financial Services Manager		63,864	0	0	0	318	64,182	9,156	73,338
Corporate Services Manager		63,468	0	0	0	0	63,468	9,156	72,624
Housing Services Manager		58,680	0	0	0	0	58,680	8,425	67,105
Leisure Services Manager		63,732	0	0	0	0	63,732	9,156	72,888
Development Services Manager	3	47,025	0	0	93,016	0	140,041	6,730	146,771
Environmental Services Manager		58,392	0	0	0	0	58,392	8,425	66,817
		<b>656,879</b>	<b>0</b>	<b>0</b>	<b>93,016</b>	<b>1,254</b>	<b>751,149</b>	<b>95,558</b>	<b>846,707</b>

1. The Borough Solicitor works 32 hours per week. The whole time equivalent salary is £66,696. In addition, Returning Officer fees are included.

2. Post previously designated Director of Economic Development, Tourism & the Arts.

3. The Development Services Manager post became redundant 31 December 2009. The whole time equivalent salary is £61,884.

## 8. RELATED PARTIES

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).

Members of the Council have direct control over the Council's financial and operating policies. During 2004/05, 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 1 April 2009 to 31 March 2010 was £8,000.

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

Other Public Bodies – related party transactions are as below:

		2008/09	2009/10
		£'000	£'000
Hampshire County Council	Precept payments	27,405	28,173
	Pension Fund payments	1,607	1,772
Hampshire Police Authority	Precept payments	3,718	3,932
Hampshire Fire & Rescue Authority	Precept payments	1,598	1,669
Building Control Partnership	Income from Fareham Borough Council	87	99

### 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 2009/10 the Council received £110,000 (£108,000 in 2008/09) 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.

## 9. 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 £1,137,050 (£1,112,530 in 2008/09). Transactions between the Joint Committee and the Council are outlined in note 8.

## **10. EXPLANATION OF THE SIGNIFICANCE OF THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

While the surplus or deficit on the Income and Expenditure Account is the best measure of the Council's financial performance for the year as encapsulated by generally accepted accounting practice, the movement on the General Fund is also an important aspect of the Council's stewardship. Up until 2005/06 the local authority statement of performance was the Consolidated Revenue Account (CRA) and the movement on the CRA was also the movement for the year on the General Fund balance.

In accordance with both statute and non-statutory proper practices, certain amounts are required to be charged or credited to the Income and Expenditure surplus or deficit in order to determine the movement on the General Fund balance for the year and relate the Income and Expenditure Account back to Council Tax levels.

The Statement of Movement on the General Fund Balance is the vehicle by which this reconciliation exercise takes place. It consists of two parts – the 'statement' – effectively a summary of the total additional figures linking the Income and Expenditure surplus or deficit to the General Balance brought forward and carried forward and then a more detailed note of the summarised reconciling items which are considered in more detail in note 12.

## **11. BREAKDOWN OF RECONCILING ITEMS IN THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

The main reconciling items include:

- Reversals of the charges made in the Net Cost of Services for the use of fixed assets. Principally, depreciation, impairment losses chargeable to the net cost of services, amortisation of intangible assets and revenue expenditure funded from capital under statute.
- The removal of any net gain or loss on the sale of fixed assets
- Adjustment for the difference between the amount by which pension costs are calculated in accordance with FRS17 and the SORP and the contributions to the pension scheme due under the pension scheme regulations and chargeable to services.
- The statutory provision for the repayment of debt ('the minimum revenue provision') and any voluntary provision for the repayment of debt
- Transfers to and from earmarked reserves
- The statutory transfer of the HRA surplus or deficit for the year to the HRA balance
- Any capital expenditure charge to revenue
- A transfer from usable capital receipts to meet the payments to the Housing Capital Receipts Pool.

These items including their respective values are detailed in note 12

2008/09 £'000 (restated)		2009/10 £'000
<b>12. NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND</b>		
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>		
(96)	Amortisation of intangible fixed assets	(86)
(2,937)	Depreciation and impairment of fixed assets	(3,635)
438	Government Grants Deferred amortisation	375
(79)	Revenue Expenditure funded from Capital under Statute financed from capital resources	(94)
290	Gain or Loss on the disposal of fixed assets	(5,511)
(2,520)	Net charges made for retirement benefits in accordance with FRS17	(3,670)
(58)	Collection Fund Adjustment account	(151)
<b>(4,962)</b>		<b>(12,772)</b>
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>		
(1)	Statutory provision for the repayment of debt	195
(98)	Transfer from Capital Receipts reserve to meet payments to the Housing Capital Receipts Pool	(154)
1,620	Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners	1,770
<b>1,521</b>		<b>1,811</b>
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>		
(187)	HRA deficit transferred to HRA Reserves	(132)
507	Net transfer to Earmarked Reserves	1,088
<b>320</b>		<b>956</b>
<b>(3,121)</b>	<b>Net additional amount required to be credited to the General Fund balance for the year</b>	<b>(10,005)</b>

### 13. SUMMARY OF CAPITAL EXPENDITURE AND FIXED ASSET DISPOSALS

#### Movement on Fixed Assets

The Revaluation Reserve which replaced the Fixed Asset Restatement Account on 31 March 2007 is derived from the revaluation amounts on individual assets after 1 April 2007.

The table on page 28 shows the movement of fixed assets for 2009/10 analysed between historic costs and current values. The difference between the two total figures is the total in the Revaluation Reserve at 31 March 2010. The b/fwd historic cost balance (£199.852m) has been restated to agree with the closing historic cost balance for 2008/09.

#### Information about Depreciation methodologies

The table below summarises the methods of depreciation used for the Council's assets. In line with the CIPFA Statement of Recommended Practice, land and non-operational investment properties are not depreciated. There have been no changes in depreciation methods in 2009/10.

Asset	Depreciation Method
<b>Intangible Assets</b>	IT software has been reassessed to provide a more accurate analysis of asset life for both amortisation/depreciation and minimum revenue provision (MRP) charges from 2010/11. Previously an average 4 year life was used for all IT expenditure.
<b>Tangible Assets</b>	
Council Dwellings	Set equal to the Major Repairs Allowance, the capital sum received annually from the government to maintain the Council's Housing Stock
Other Land & Buildings (Operational Property and Garages)	Straight line method with asset lives being individually assessed Garages are not depreciated as it is the Council's view that most of the value is in the land
Vehicles, Plant & Equipment	Straight line method over 5 to 10 years IT hardware – see note against software above
Infrastructure	Straight line method over 20 to 50 years depending on the asset
Community Assets	No charge – it is the Council's view that most of the value of Community Assets is held in land and is not therefore depreciable
<b>Non Operational Assets</b> (Investment Properties and Assets under Construction)	No depreciation charge

#### Intangible Fixed Assets

Intangible Assets consist primarily of software licences and in line with SORP guidance do not require revaluation.

Movement on Fixed Assets	31st March 2009				Movement in 2009/10						31st March 2010			
	Gross	Depreciation	Impairment	NBV	Additions	Disposals	Revaluation	Impairments	Depreciation	Transfers	Gross	Depreciation	Impairment	NBV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Historical Cost</b>														
Intangible Fixed Assets	834	(673)	0	161	336	0		0	(86)		1,170	(759)	0	411
Tangible Fixed Assets											0	0	0	0
Operational Assets											0	0	0	0
Council Dwellings	158,678	(4,295)	(3,519)	150,864	2,651	(185)		(2,312)	(2,543)	2	161,144	(6,836)	(5,831)	148,477
Other Land & Buildings	16,557	(1,657)	(519)	14,381	821	(5,307)		(137)	(347)	547	11,846	(1,368)	(520)	9,958
Vehicles, Plant, Equipment	4,388	(3,493)	0	895	385	(57)		0	(204)		4,716	(3,697)	0	1,019
Infrastructure	15,889	(3,634)	0	12,255	459	(2,423)		0	(360)	328	13,925	(3,666)	0	10,259
Community Assets	4,417	0	0	4,417	313	(1,600)		0			3,130	0	0	3,130
Non-Operational Assets				0							0	0	0	0
Investment Properties	16,580	0	(601)	15,979	49	0		(131)		89	16,854	0	(868)	15,986
Assets under Construction	900	0	0	900	234	0		0			1,134	0	0	1,134
	<b>218,243</b>	<b>(13,752)</b>	<b>(4,639)</b>	<b>199,852</b>	<b>5,248</b>	<b>(9,572)</b>	<b>0</b>	<b>(2,580)</b>	<b>(3,540)</b>	<b>966</b>	<b>213,919</b>	<b>(16,326)</b>	<b>(7,219)</b>	<b>190,374</b>
<b>Current Value</b>														
Intangible Fixed Assets	834	(673)	0	161	336	0			(86)		1,170	(759)	0	411
Tangible Fixed Assets											0	0	0	0
Operational Assets											0	0	0	0
Council Dwellings	165,000	(2,161)	(6,523)	156,316	2,651	(183)		(9,867)	(385)	2	167,468	(2,544)	(16,390)	148,534
Other Land & Buildings	18,211	(1,349)	(549)	16,313	821	(5,307)	17	(171)	(425)	547	13,517	(1,138)	(584)	11,795
Vehicles, Plant, Equipment	4,388	(3,493)	0	895	385	(57)			(204)	0	4,716	(3,697)	0	1,019
Infrastructure	15,888	(3,634)	0	12,254	459	(2,424)			(360)	328	13,923	(3,666)	0	10,257
Community Assets	4,418	0	0	4,418	313	(1,601)				0	3,130	0	0	3,130
Non-Operational Assets				0	0	0				0	0	0	0	0
Investment Properties	18,622	0	(601)	18,021	49	0		(319)		89	18,896	0	(1,056)	17,840
Assets under Construction	901	0	0	901	234	0				0	1,135	0	0	1,135
	<b>228,262</b>	<b>(11,310)</b>	<b>(7,673)</b>	<b>209,279</b>	<b>5,248</b>	<b>(9,572)</b>	<b>17</b>	<b>(10,357)</b>	<b>(1,460)</b>	<b>966</b>	<b>223,955</b>	<b>(11,804)</b>	<b>(18,030)</b>	<b>194,121</b>



## 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.

The following table shows the movements on the CFR for 2009/10

	2008/09 £'000	2009/10 £'000
<b>Opening Capital Financing Requirement</b>	<b>6,379</b>	<b>8,693</b>
Capital Investment		
Operational Assets	5,944	5,200
Non-Operational Assets	74	48
Revenue Expenditure funded from Capital under Statute	931	730
Sources of Finance		
Capital Receipts	(283)	(623)
Government Grants & Other Contributions	(3,926)	(3,565)
Other Adjustments		
Long Term Debtors	(427)	-
Refinancing of previous expenditure		64
Sum set aside from Revenue (MRP & VRP)	1	(195)
<b>Closing Capital Financing Requirement</b>	<b>8,693</b>	<b>10,352</b>
Explanation of Movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	6	-
Increase in underlying need to borrow (unsupported by Government financial assistance)	2,709	1,788
Decrease in underlying need to borrow because of Long Term Debtors, MRP & VRP and other adjustments	(401)	(129)
<b>Increase / (decrease) in Capital Financing Requirement</b>	<b>2,314</b>	<b>1,659</b>

#### 14. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Revenue expenditure funded from capital under statute (formerly known as Deferred Charges) represents capital expenditure that does not result in the creation of an asset. Movements on revenue expenditure funded from capital under statute during the year were as follows

	Balance at 1 April £'000	Expenditure £'000	Charged to Revenue £'000	Balance at 31 March £'000
Housing Grants	0	280	(280)	0
Affordable Housing	0	379	(379)	0
Other Capital Schemes	0	71	(71)	0
<b>Total 2009/10</b>	<b>0</b>	<b>730</b>	<b>(730)</b>	<b>0</b>
<b>Total 2008/09</b>	<b>0</b>	<b>931</b>	<b>(931)</b>	<b>0</b>

#### 15. VALUATION INFORMATION

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 Savills (L&P) Ltd on behalf of the Council. The valuations are gross balance sheet value before depreciation.

	Historical £'000	Revalued when indicated					Total £'000
		2009/10 £'000	2008/09 £'000	2007/08 £'000	2006/07 £'000	2005/06 £'000	
Intangible Fixed Assets	1,170						1,170
Tangible Fixed Assets							
Operational Assets							
Council Dwellings		167,468					167,468
Other Land & Buildings		2,622	2,187	2,080	6,197	431	13,517
Vehicles, Plant & Equipment	4,716						4,716
Infrastructure	13,923						13,923
Community Assets	3,130						3,130
Non-Operational Assets							
Investment Properties		863	1,025	7,273	1,403	8,332	18,896
Assets under Construction	1,135						1,135
	<b>24,074</b>	<b>170,953</b>	<b>3,212</b>	<b>9,353</b>	<b>7,600</b>	<b>8,763</b>	<b>223,955</b>

#### 16. COMMITMENTS UNDER CAPITAL CONTRACTS

Significant commitments for future expenditure at 31 March 2010 include:

<u>31 March 2009</u>	<u>£'000</u>	<u>31 March 2010</u>	<u>£'000</u>
Affordable Housing	130		
PHA – Social Housing	900	PHA – Social Housing	600
High Street Refurbishment	205		
Accommodation & IT	352	Accommodation & IT	116
Landing Stage replacement #	4,184	Landing Stage replacement #	4,565
Holbrook Recreation Centre replacement #	10,850	Holbrook Recreation Centre replacement – phase 1#	7,000
# per capital programme		# per capital programme	
	<b>16,621</b>		<b>12,281</b>

## 17. INFORMATION ON ASSETS HELD

Major fixed assets held at 31<sup>st</sup> March 2010 include

Council Dwellings
3,219 Council Dwellings
763 Garages
Other Land and Buildings
1 Town Hall
40 Car Parks
1 Cemetery
23 Public Conveniences (including 4 boarded up)
Vehicles, Plant and Equipment
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
1 Disinfestation Centre

## 18. LEASES

Equipment and Software – the authority uses equipment and software financed under terms of an operating lease. The amount paid under these arrangements in 2009/10 was £66,960 (£47,460 in 2008/09).

The authority was committed at 31 March 2010 to making payments of £72,000 under operating leases in respect of equipment and software in 2010/2011, comprising:

Leases expiring in 2010/11	0
Leases expiring between 2011/12 and 2015/16	65
Leases expiring beyond 2015/16	7

## 19. INVESTMENTS

	2008/09 £'000	2009/10 £'000
Long Term Investments	2,000	1,000
Interest accrued at 31 March	22	11
	<b>2,022</b>	<b>1,011</b>
Current Investments	5,000	3,000
Interest accrued at 31 March	136	14
Money Market Funds - Principal	1,277	797
Money Market Funds – Interest	463	490
	<b>6,876</b>	<b>4,301</b>
Total Investments	<b>8,898</b>	<b>5,312</b>

**20. LONG TERM DEBTORS**

	2008/09 £'000	2009/10 £'000
Housing Act Advances	3	2
Sale of Houses	77	63
Voluntary and Sporting Organisations	8	2
Car Loans to Staff (payable after 12 months)	249	216
Priddys Disposal – Crest Land		575
	<b>337</b>	<b>858</b>

**21. SUNDRY DEBTORS**

	2008/09 £'000 (restated)	2009/10 £'000
Sundry Debtors	4,798	4,744
Car Loans to Staff (payable within 12 months)	151	150
Housing Rents - arrears (including General Fund)	501	805
Council Tax – GBC	440	481
Council Tax – Precepting Authorities	1,156	2,083
NNDR – arrears	-	-
Government Departments	1,872	2,776
	<b>8,918</b>	<b>11,039</b>
Less Provision for Bad Debts		
Sundry Debtors	955	968
Housing Rents (inc General Fund)	226	226
Council Tax	143	181
NNDR	-	-
	<b>7,594</b>	<b>9,664</b>

**22. BORROWING**

	2008/09 £'000	2009/10 £'000
Public Works Loan Board – repayable within 12 months		198
	<b>0</b>	<b>198</b>
Public Works Loan Board – repayable in excess of 12 months	11,000	14,802
Interest accrued at 31 March	162	118
Discount on debt restructuring	-	169
	<b>11,162</b>	<b>15,089</b>
Total Borrowing	<b>11,162</b>	<b>15,287</b>

**23. SUNDRY CREDITORS**

	2008/09 £'000 (restated)	2009/10 £'000
Collection Fund (HCC, HPA, HFRA)	-	-
Other Creditors	2,456	1,541
Payments in Advance	184	455
Government Departments	3,886	4
	<b>6,526</b>	<b>2,000</b>

## 24. FINANCIAL INSTRUMENTS

The purpose of the disclosure information for financial instruments is to provide information that enables users to evaluate:

- The significance of financial instruments for the authority's financial position and performance
- The nature and extent of risks arising from financial instruments to which the authority was exposed and how the authority manages those risks

### Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

	31 March 2009		31 March 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB Debt	(11,162)	(11,155)	(15,287)	(15,699)

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans. The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest

<b><u>PWLB - Maturity Analysis</u></b>				
Maturing within:-	2008/09		2009/10	
	Amount £'000	Avg Rate %	Amount £'000	Avg Rate %
Up to 1 year	0	0.000%	198	2.900%
Over 1 but not over 2 years	0	0.000%	1,203	1.653%
Over 2 but not over 5 years	0	0.000%	6,646	2.443%
Over 5 but not over 10 years	3,000	4.387%	4,953	3.851%
Over 10 but not over 15 years	0	0.000%	0	0.000%
Over 15 but not over 20 years	1,000	4.000%	0	0.000%
Over 20 but not over 25 years	0	0.000%	0	0.000%
Over 25 but not over 30 years	1,000	3.900%	0	0.000%
Over 30 but not over 35 years	0	0.000%	0	0.000%
Over 35 but not over 40 years	0	0.000%	0	0.000%
Over 40 but not over 45 years	5,000	3.900%	0	0.000%
Over 45 years	1,000	3.750%	2,000	4.720%
<b>Total of 9 Loans</b>	<b>11,000</b>	<b>4.028%</b>	<b>15,000</b>	<b>3.154%</b>
Fair Value as at 31st March 2009	11,155			
Fair Value as at 31st March 2010			15,699	

## Financial Assets

Financial assets are classified into two types:

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

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

The Council makes interest free car loans available to certain employees as part of its recruitment and retention package. These constitute 'soft loans' being made at less than market rates. No accounting adjustment is made for these as the effect is not considered material.

The Council has no available for sale assets.

The table shows both Carrying and Fair Values of Fixed Rate Loans advances to Approved Third Parties

	Long Term		Current	
	31 March 2009 £'000	31 March 2010 £'000	31 March 2009 £'000	31 March 2010 £'000
Loans and receivables (principal amount)	2,000	1,000	5,000	3,000
Accounting adjustments	22	11	136	14
Loans and receivables at amortised cost	2,022	1,011	5,136	3,014
Loans and Receivables at fair value	2,162	1,083		

The financial asset and liability fair values have been ascertained using the present value of future cash flows, with the rate of discount equivalent to a similar financial asset or liability with a duration equivalent to the remaining period of the actual financial asset or liability

Maturity Analysis of Financial Instruments		
	31 March 2009 £'000	31 March 2010 £'000
Less than 1 year	5,000	3,000
Between 1 and 2 years	1,000	1,000
Between 2 and 3 years	1,000	-
More than 3 years		
	<b>7,000</b>	<b>4,000</b>

The following analysis summarises the Authority's maximum exposure to credit risk. The table (composite defaults from Fitch, Standard & Poor's and Moody's) gives details of global corporate finance average cumulative default rates (including financial organisation's) for the period since at least 1990 to 2009. Defaults shown are by long term rating category on all Council's Investments out to a maximum of 2 years, which were the most commonly held investments during the year.

	Amount at 31 March 2010	Historical experience of default	Adjustment for market conditions at 31 March 2010	Estimated maximum exposure to default
	£'000 (a)	% (b)	% (c)	£ (d)
Deposits with banks and financial institutions				
AAA rated counterparties	1,000	0.00%	0.00%	0
AA rated counterparties	2,000	0.03%	0.03%	600
A rated counterparties	-	0.08%	0.08%	0
Other counterparties BBB+	- 1,000	42.67% 0.24%	42.67% 0.24%	0 240

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds. The Council had a £1m deposit outstanding with Northern Rock as at 31 March 2010. Normally this would be rated at BBB+; however as it was "guaranteed" by the UK Government at this date, its rating was "AAA".

#### Short Term Deposit Accounts

Temporary Investments and Short Term Borrowing are primarily treasury management and cash flow transactions with banks and building societies. This heading includes short term deposits through the Council's Global Treasury Fund (a money market fund) and the Corporate Deposit and Liquidity Select Call Accounts. Short term deposits are disclosed separately from the fixed investments described above.

	2008/09 £'000	2009/10 £'000
Long Term Investments	2,000	1,000
Interest Accrued	22	11
	<u>2,022</u>	<u>1,011</u>
Current Investments	5,000	3,000
Accrued Interest	136	14
Money Market Funds - Principal	1,277	797
Money Market Funds - Interest	463	490
	<u>6,876</u>	<u>4,301</u>
<b>Total Investments</b>	<b>8,898</b>	<b>5,312</b>

#### Financial Instrument Gains and Losses

The gains and losses recognised in the Income and Expenditure Account and Statement of Recognised Gains and Losses (STRGL) in relation to financial instruments are made up as follows

	2008/09 £'000	2009/10 £'000
Financial Liabilities		
Interest from financial liabilities measured at amortised cost	372	417
Financial Assets		
Interest from loans and receivables	(667)	(318)
	<u>(295)</u>	<u>99</u>

There are no losses or gains on de-recognition, impairment or revaluation to disclose for either of the above financial years.

### **Disclosure of the Nature and Extent of Risks arising from Financial Instruments**

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

- Credit Risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity Risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market Risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the associated risks.

The procedures for risk management are set out through a legal framework that is included in the Local Government Act 2003 and associated regulations. Compliance with the CIPFA Prudential Code, the CIPFA Treasury Management Code of Practice and Treasury Management Strategy is compulsory.

Before the start of the forthcoming financial year and in conjunction with the annual budget approval process, the Council must formally adopt the Treasury Management Code of Practice, Treasury Management Strategy and Prudential Indicators.

The Treasury Management Strategy provides written principles for overall risk management as well as written policies covering specific areas such as borrowing, debt and investment strategy

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks and financial institutions unless they conform to the following investment criteria.

- o all investments are to be fixed rate transactions
- o no investment to exceed 364 days
- o a minimum credit rating with Moodys Credit Rating Agency of P1 Short Term and AA3 Long Term (to September 2009)
- o investments to be placed with
  - > the top three building societies
  - > the Council's bank
  - > major British banks and their wholly owned subsidiaries (Royal Bank of Scotland, HSBC, Lloyds/HBOS, Barclays and Co-op)
  - > Irish Banks (to September 2009)
- o short term surplus funds to be invested in money market funds or deposit accounts operated by the Royal Bank of Scotland and the Bank of Scotland
- o a £3m limit with any single group other than the Council's bank
- o The main principles governing the Council's investment criteria are the security and liquidity of its investments, although the yield or return on the investment will be a consideration, subject to adequate security and liquidity.

The Council has no history of default with any of its counterparties in relation to deposits made or received. No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.



The Council's debtors include Council Tax, Business Rates and Housing Benefits. These are all statutory debts for which the Council is the responsible body and cannot influence who the counterparties are. Statutory debts are not classed as financial instruments and are not included below.

The following analysis summarises the council's potential maximum exposure to credit risk based on experience of default and uncollectability.

	Note	Amount at 31 March 2010	Historical experience of default	Historical experience adjusted for market conditions at 31 Mar 2010	Estimated maximum exposure to default & uncollectability
		£'000	%	%	£'000
Deposits with banks & financial institutions	a	5,312	-	-	-
General debtors arrears	b	817	30%	30%	242
Housing debtors & rents arrears	b	805	46%	46%	370
Other	a	2,926	-	-	-
					<b>612</b>

(a) The council does not expect any default in relation to these elements

(b) The council does not generally allow credit for customers and the estimated risks are covered by bad debt provisions which derive from aged debt analysis and historical experience.

#### Liquidity Risk

As the authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Existing long term debt is repayable between 1 and 10 years ahead and over 45 years ahead. While the Council has no short term debt, it does have ready access to borrow short term to cover any day to day cash flow requirements should the need arise. All trade and other payables are due to be paid in less than one year.

	2008/09 £'000	2009/10 £'000
Payables	<b>2,162</b>	<b>1,459</b>

#### Market Risk

##### Interest Rate Risk:

Movement in interest rates can have a complex impact on an authority, depending on the complexity and policies of treasury management activity employed. For instance, a rise in interest rates would have the following effects

- Borrowings at variable rates – the interest cost will rise
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest earned will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Income and Expenditure account and affect the General Fund balance £ for £. Movements in the fair value of fixed rate investments would be reflected in the STRGL.

The Council's Treasury Management Strategy only permits fixed interest rate investment and borrowing transactions so while the Council has some risk exposure to interest rate movements, this is limited to the effect that interest rate movements have on the marketplace generally when placing investments or raising loans in relation to the annual budget. Cash flows and interest rate changes are actively monitored.

If average interest rates in 2009/10 had been 1% higher or lower then an additional £299,000 interest may have been earned or foregone.

**Price Risk:**

The authority has no shareholdings and is therefore not exposed to losses from movements in the prices of shares.

## 25. ANALYSIS OF NET ASSETS EMPLOYED

	2008/09 £'000 (restated)	2009/10 £'000
General Fund	32,419	26,567
Housing Revenue Account	158,081	150,222
<b>Total</b>	<b>190,500</b>	<b>176,789</b>

## 26. PROVISIONS

The Council has no provisions apart from the Provision for Bad Debts which is included in note 21

## 27. 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.

	2008/09 £'000	2009/10 £'000
Balance 1 April	13,098	13,358
Grant Receivable	698	321
Disposals	-	(1,756)
Grant Released	(438)	(375)
<b>Balance 31 March</b>	<b>13,358</b>	<b>11,548</b>

## 28. UNAPPLIED GRANTS AND CONTRIBUTIONS

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

	2008/09 £'000 (restated)	2009/10 £'000
Balance 1 April	5,524	4,331
Receipts & Refunds	104	-
Unapplied Grants & Contributions to Reserves	(402)	
Payments	(895)	(742)
<b>Balance 31 March</b>	<b>4,331</b>	<b>3,589</b>

Unapplied grants and contributions of £402,000 have previously been included in this heading and are now restated as revenue reserves. Note 29f refers.

## 29. RESERVES

Reserve	1 April 2009 £'000 (restated)	Net Movement in Year £'000	31 March 2010 £'000	Purpose of Reserve	Further details of Movements
Capital Adjustment Account	177,801	(9,327)	168,474	Store of capital resources set aside to meet past expenditure	Note a below
Revaluation Reserve	9,427	(5,680)	3,747	Store of gains on revaluation of fixed assets not yet realised through sales	Note b below
Collection Fund Adjustment Account	56	(151)	(95)	Reconciling account for accrued income and income under regulations	Note c below
Usable Capital Receipts	136	(71)	65	Proceeds of fixed asset sales available to meet future capital investment	Note d below
Deferred Capital Receipts	77	561	638	Capital Receipts receivable in future years	Note e below
Fund Balances and Reserves	3,003	957	3,960		Note f below
Pensions Reserve	(31,700)	(12,620)	(44,320)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 31 to the Core Financial Statements
<b>Total</b>	<b>158,800</b>	<b>(26,331)</b>	<b>132,469</b>		

**Note (a): Capital Adjustment Account**

	2008/09 £'000	2009/10 £ '000
Balance as at 1 April	180,048	177,801
Write down of Assets		
Depreciation	(1,433)	(1,141)
Government Grants Deferred	438	375
Impairments	(1,600)	(2,580)
Disposals	(90)	(6,814)
Fixed Asset Register adjustment		
Depreciation adjustment	20	109
Resources used to finance Capital		
Capital Receipts	283	623
Revenue Expenditure funded from Capital under Statute	(79)	(94)
Open Space Developer Contributions	213	
Other Financing Grants and Contributions	2	
Repayment of Debt	(1)	195
<b>Balance as at 31 March</b>	<b>177,801</b>	<b>168,474</b>

The Capital Financing Account accumulates (on the debit side) the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. This process also applies to expenditure that is only capital by statutory definition (revenue expenditure funded from capital under statute). The balance on the account therefore represents timing differences between the amount of the historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements.

**Note (b): Revaluation Reserve**

	2008/09 £'000	2009/10 £ '000
Balance as at 1 April	11,057	9,427
GF revaluation gains (losses)	1,424	(184)
GF depreciation adjustment	(20)	(109)
HRA revaluation gains (losses)	(3,034)	(5,387)
<b>Balance as at 31 March</b>	<b>9,427</b>	<b>3,747</b>

The Revaluation Reserve records the accumulated gains on the fixed assets held by the authority arising from increases in value. It contains revaluation gains recognised since the date of its formal implementation, 1 April 2007. Gains arising before that date were consolidated into the Capital Adjustment Account.

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

**Note (c): Collection Fund Adjustment Account**

	2008/09 £'000 (restated)	2009/10 £ '000
Balance as at 1 April	113	56
Movements in year	57	(151)
Balance as at 31 March	<b>56</b>	<b>(95)</b>

**Note (d): Usable Capital Receipts Reserve**

	2008/09 £'000	2009/10 £ '000
Balance as at 1 April	136	136
Receipts	283	552
	419	688
Financing of capital expenditure	283	623
Voluntary Set Aside of Capital Receipts	-	-
Balance as at 31 March	<b>136</b>	<b>65</b>

The Usable Capital Receipts balance at 31 March 2010 comprises £65,000 in respect of Camden Allotments which must be applied in accordance with the provisions of Section 32 of the Smallholdings and Allotments Act 1908.

**Note (e): 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 Houses Built for Sale, the sale of Council Houses and the sale of former Crest Land within the Priddys Hard site disposal.

	2008/09 £'000	2009/10 £ '000
Houses Built for Sale	7	7
Sale of Council Houses	70	56
Priddys Disposal – Crest Land		575
	<b>77</b>	<b>638</b>

**Note (f): Fund Balances and Reserves**

	1 April £'000 (restated)	Receipts £'000	Payments £'000	31 March £'000
General Fund surplus	890			890
Housing Revenue Account	490		132	358
Civic	1			1
Royan Twinning Fund	6		2	4
Museum Purchases	10			10
Open Spaces	99		6	93
A32 Bus Shelter Maintenance	30			30
Cherque Farm commuted sums	208			208
Regional Housing Capital Grant	164	105	53	216
LPSA2 Grant		175		175
LPSA2 Capital		109		109
Education Fund	4			4
Miscellaneous	3			3
Business Growth Incentive Grant	279	53	91	241
Building Control Partnership	62	10	15	57
Revenue Financing Reserve	757	804		1,561
<b>Total</b>	<b>3,003</b>	<b>1,256</b>	<b>299</b>	<b>3,960</b>

The Collection Fund balance is now included within the Collection fund adjustment account. in line with the SORP.

Unapplied grants and contributions totalling £402,000 have been restated as revenue reserves and included in this heading. Note 28 refers.

**30. 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 of the company 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 31 March 2010.

- 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 continue to be investigated by the Environment Agency and a final report is awaited.

## 31. RETIREMENT BENEFITS

### Participation in Pension Schemes

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 pension 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.

Gosport Borough Council's contribution rate, expressed as a percentage of members' contributions, for 2009/10 was 280%. The contribution rate for 2010/11 is estimated at 287% (approximately £1.5m), a rate which is not expected to be subject to further increases.

### Transactions relating to Retirement Benefits

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement on the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement on the General Fund during the year:

	2008/09		2009/10	
	Funded £'000	Unfunded £'000	Funded £'000	Unfunded £'000
<b>Income and Expenditure Account</b>				
<b>Net Cost of Services</b>				
▪ Current service costs	1,110		1,080	
▪ Past service costs	20		120	
<b>Net Operating Expenditure</b>				
▪ Interest Cost	4,140	180	4,270	180
▪ Expected return on assets in the scheme	(2,930)		(1,980)	
<b>Net Charge to the Income and Expenditure Account</b>	<b>2,340</b>	<b>180</b>	<b>3,490</b>	<b>180</b>
<b>Statement of Movement in the General Fund Balance</b>				
▪ Reversal of net charges made for retirement benefits in accordance with FRS17	(910)	10	(1,910)	10
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>				
▪ Employers' contributions payable to scheme	<b>1,430</b>	<b>190</b>	<b>1,580</b>	<b>190</b>

## Assets and Liabilities in relation to Retirement Benefits

### Reconciliation of present value of scheme liabilities

	Funded Liabilities		Unfunded Liabilities	
	31 March	31 March	31 March	31 March
	2009	2010	2009	2010
	£m	£m	£m	£m
1 April	61.26	64.09	2.67	2.71
Current service cost	1.11	1.08		
Interest cost	4.14	4.27	0.18	0.18
Contributions by participants	0.52	0.52		
Actuarial (gains) / losses	(0.57)	19.91	0.05	0.38
Net benefits paid out	(2.39)	(2.41)	(0.19)	(0.19)
Past service cost	0.02	0.12		
31 March	<b>64.09</b>	<b>87.58</b>	<b>2.71</b>	<b>3.08</b>

### Reconciliation of fair value of scheme assets

	31 March	31 March
	2009	2010
	£m	£m
1 April	44.62	35.10
Expected return on assets	2.93	1.98
Actuarial gains / (losses)	(12.01)	9.57
Contributions by employer	1.43	1.58
Contributions by participants	0.52	0.52
Net benefits paid out	(2.39)	(2.41)
31 March	<b>35.10</b>	<b>46.34</b>

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of £10.720m (£11.490m for 2008/09) have been included in the Statement of Total Recognised Gains and Losses. Cumulative actuarial gains and losses are £32.259m.

### Scheme History

	2005/06	2006/07	2007/08	2008/09	2010/11
	£m	(restated) £m	(restated) £m	£m	£m
Funded					
Fair value of assets	41.68	43.73	44.62	35.10	46.34
Present value of liabilities	(64.84)	(67.75)	(61.26)	(64.09)	(87.58)
Surplus / (deficit)	(23.16)	(24.02)	(16.64)	(28.99)	(41.24)
Unfunded liability	(2.84)	(2.91)	(2.67)	(2.71)	(3.08)
	<b>(26.00)</b>	<b>(26.93)</b>	<b>(19.31)</b>	<b>(31.70)</b>	<b>(44.32)</b>

In accordance with Paragraph 77(o) of FRS17 (as revised), the assets for the current period and previous three periods are measured at current bid price. Asset values previously measured at mid-market value for periods ending 2008 and 2007 have been re-measured for this purpose. Asset values for periods ending 2006 is shown at mid-market value and has not been re-measured as permitted by FRS17 (as revised).



The liabilities show the underlying commitments 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. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2010 are estimated at £1.7 million

#### **Basis for estimating assets and liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Hewitt Bacon and Woodrow, an independent firm of actuaries, with estimates for Hampshire County Council.

The principal financial assumptions used for the purposes of FRS 17 in their calculations are:

	31 March 2009	31 March 2010
Rate of inflation	3.4% pa	3.9% pa
Rate of increase in salaries	4.9% pa	5.4% pa
Rate of increase to pensions in payment	3.4% pa	3.9% pa
Rate of increase to deferred pensions	3.4% pa	3.9% pa
Discount rate	6.7% pa	5.5% pa
Take up of option to convert annual pension into retirement grant	Pre 2008 service 25.0%	Post 2008 service 75.0%

The principal mortality assumptions are:

	31 March 2009	31 March 2010
Longevity at 65 for current pensioners (years)		
Men	22.2	22.3
Women	24.2	24.3
Longevity at 65 for future pensioners (years)		
Men	24.5	24.7
Women	26.4	26.5

The Council employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2010.

	31 March 2009	31 March 2010
Long-term expected rates of return on:		
Equities	7.0% pa	8.0% pa
Property	6.0% pa	8.5% pa
Government Bonds	4.0% pa	4.5% pa
Corporate Bonds	5.8% pa	5.5% pa
Other assets	1.6% pa	0.7% pa
Average long term expected rate of return	5.7% pa	6.7% pa

The proportions of total assets held in each asset type by the Fund as a whole at 31 March 2009 and 31 March 2010 are as follows:

	31 March 2009	31 March 2010
Equities	55.2%	61.3%
Government Bonds	27.4%	24.4%
Corporate Bonds	3.9%	2.4%
Property	7.3%	6.1%
Other	6.2%	5.8%

The actual return on scheme assets in 2009/10 was a gain of £11.550m. The return in 2008/09 was a loss of £9.080m.

### History of experience gains and losses

The actuarial gains / (losses) identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories measured as a percentage of assets or liabilities at 31 March 2010.

	2005/06	2006/07	2007/08		2008/09		2009/10	
	£m	£m	Funded £m	Unfunded £m	Funded £m	Unfunded £m	Funded £m	Unfunded £m
Experience gains / (losses) on assets	5.63	(0.06)	(1.63)		(12.01)		9.57	
Experience gains / (losses) on liabilities #	0.04	(0.16)	(0.30)	0.3	(0.30)	(0.04)	0.84	0.08

In accordance with Paragraph 79 of FRS 17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. The history of experience gain / (loss) on liabilities shown has not been re-stated for periods ending 2007 or 2006 and includes the experience relating to unfunded liabilities.

# This item consists of gains / (losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

### Impact of RPI to CPI announced in the Budget on 22 June 2010

In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases are currently determined by reference to the Retail Price Index (RPI).

The rate at which pensions will increase is one of the key factors in determining the liabilities of defined benefit pension funds. Any change in the rate at which pensions will increase will therefore affect the value of pension fund liabilities. The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI is therefore expected to result in a reduction in the pensions liabilities and therefore the pension deficit on the balance sheet. The change will also impact upon the income and expenditure / profit and loss account over the next accounting period.

Hewitt have estimated that the impact on the balance sheet if the CPI change had occurred at the accounting date would have been to reduce the value of the liabilities on the balance sheet by between 8% and 10% (£7.0m to £8.8m), with the exact figure depending on the member profile of the employer. Hewitt have based this estimate on the FRS 17 assumptions applicable at the accounting year end, and allowing for CPI increases being lower than RPI increases by around 0.7% p.a. in the long term (Hewitt's best estimate of the differential at the accounting date). The actual figure will also reflect the date of measurement and assumptions used when producing next

year's figures.

It is anticipated that the reduction in liabilities will be accounted for as a (negative) past service cost i.e. this change constitutes a change to benefits since pension scheme members will expect a lower benefit following the change than before the change.

It is also anticipated that the move to CPI will reduce the interest cost and current service cost calculated for the next accounting period compared to the position if pension increases remained linked to the RPI.

This change in methodology is being treated as a non adjusting post balance sheet event.

### **32. EVENTS AFTER THE BALANCE SHEET DATE**

There were no material events between the balance sheet date and the date the accounts were authorised for issue which had a bearing upon the financial results of the past year.

In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI) as opposed to the Retail Price Index (RPI). As outlined in Note 31 this is being treated as a non-adjusting post balance sheet event.

### **33. AUTHORISATION OF ACCOUNTS FOR ISSUE**

The accounts were authorised for issue on 25 June 2010 by Mr Peter Wilson, Deputy Chief Executive and Borough Treasurer.

## 34. NOTES TO THE CASH FLOW STATEMENT

<b>1. Reconciliation of Income and Expenditure Account to Net Revenue Cash Flow</b>	
<b>2008/09</b>	<b>2009/10</b>
<b>£'000</b>	<b>£'000</b>
3,091 (Surplus) / Deficit on Income and Expenditure Account	10,005
(58) Council Tax Deficit	(151)
<u>3,033</u> Total (Surplus) / Deficit for the year	<u>9,854</u>
<u>Non cash transactions</u>	
(2,937) Depreciation & Impairment of Fixed Assets	(3,635)
342 Amortisation of Intangible Fixed Assets	289
(80) Statutory Provision	(153)
(98) Miscellaneous adjustments	151
(900) Pension Fund adjustments	(1,900)
320 Transfers	379
<u>(3,353)</u>	<u>(4,869)</u>
<u>Adjustment for items reported separately on cashflow statement</u>	
607 Interest and investment income	452
(347) Interest payable and similar charges	(391)
290 Gain or loss on the disposal of fixed assets	(5,511)
2,162 Government Capital Grant (MRA)	
Miscellaneous Item	(730)
145 Capital Receipts included in I&E Account	182
<u>2,857</u>	<u>(5,998)</u>
<u>Accruals adjustments</u>	
(5) Increase/(Decrease) in Stock	(20)
2,286 Increase/(Decrease) in Debtors	1,959
(4,875) (Increase)/Decrease in Creditors	4,526
<u>(2,594)</u>	<u>6,465</u>
<u>(57)</u> Net Cash (inflow) / outflow from Revenue Activities	<u>5,452</u>

<b>2. Movement in cash</b>	
<b>2008/09</b>	<b>2009/10</b>
<b>£'000</b>	<b>£'000</b>
367 Cash and bank balance 1 April	(294)
(294) Cash and bank balance at 31 March	(785)
<u>(661)</u> Increase / (Decrease) in cash	<u>(491)</u>

**3. Reconciliation of movement in Cash to Net Debt**

2008/09 £'000		2009/10 £'000
(661)	Increase / (Decrease) in Cash	(491)
	Increase / (Decrease) in Cash	Note 4
(1,000)	Long Term - Temporary Investments	(1,000)
0	Short Term - Temporary Investments	(2,000)
(83)	Temporary Deposits	(453)
(3,000)	Long Term Borrowing	(4,000)
(4,744)	Change in Net Debt arising from cashflows	(7,944)
2,189	Net Funds 1st April	(2,555)
<b>(2,555)</b>	Net Funds 31st March	<b>(10,499)</b>

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

2008/09 £'000		2009/10 £'000	Movement £'000
8,740	Temporary Investments	5,287	(3,453)
0	Short Term Borrowing	0	0
(11,000)	Long Term Borrowing	(15,000)	(4,000)
<b>(2,260)</b>		<b>(9,713)</b>	<b>(7,453)</b>



<b>HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE ACCOUNT</b>		
<b>2008/09 £'000 (restated)</b>		<b>2009/10 £'000</b>
	<b>INCOME</b>	
(9,929)	Dwelling Rents	(10,271)
(235)	Non Dwelling Rents - Shops & Garages	(228)
(358)	Service Charges	(377)
<u>(10,522)</u>	<b>TOTAL INCOME</b>	<u>(10,876)</u>
	<b>EXPENDITURE</b>	
2,300	Repairs & Maintenance	2,596
2,776	Supervision & Management	2,571
68	Rents, Rates, Taxes & Other Charges	45
3,178	Negative HRA Subsidy Payable	2,909
3,230	Depreciation & Impairment of Fixed Assets	4,855
36	Debt Management Costs	33
<u>11,588</u>	<b>TOTAL EXPENDITURE</b>	<u>13,009</u>
<u>1,066</u>	<b>NET COST OF HRA SERVICES PER AUTHORITY INCOME &amp; EXPENDITURE ACCOUNT</b>	<u>2,133</u>
0	HRA Services share of Corporate & Democratic Core	0
<u>1,066</u>	<b>NET COST OF HRA SERVICES</b>	<u>2,133</u>
(40)	Gain on the disposal of Fixed Assets	(24)
123	Interest Payable	166
(31)	Interest and Investment income	(12)
311	Pensions Interest Cost and Expected Return on Pensions Assets	638
<u>1,429</u>	<b>DEFICIT FOR THE YEAR ON HRA SERVICES</b>	<u>2,901</u>

**STATEMENT OF MOVEMENT ON THE HRA BALANCE**

<b>2008/09 £'000 (restated)</b>		<b>2009/10 £'000</b>
1,429	Deficit for the year on the HRA Income and Expenditure Account	2,901
(1,242)	Net additional amount required by statute to be credited to the HRA Balance for the year	(2,769)
<u>187</u>	<b>(Increase) or decrease in the HRA Balance</b>	<u>132</u>
(677)	HRA Surplus brought forward	(490)
<u><u>(490)</u></u>	<b>HRA Surplus carried forward</b>	<u><u>(358)</u></u>



## NOTES TO THE HOUSING REVENUE ACCOUNT (HRA)

### 1. Local Government and Housing Act 1989

The Housing Revenue Account reflects a statutory obligation to maintain a separate revenue account for the provision of local authority housing in accordance with the Local Government and Housing Act 1989. This specifies the credit and debit items to be taken into account in determining the surplus or deficit on the HRA for the year.

The amounts included in the HRA differ from those included in respect of HRA services in the Income and Expenditure Account for the authority as a whole. The latter includes income and expenditure in accordance with the SORP rather than in accordance with statutory and non-statutory proper practices. The HRA statement has two parts in order to reconcile these two approaches – the Income and Expenditure Account shows in more detail the income and expenditure on HRA services included in the whole authority income and expenditure account and this is reconciled to the movement on the HRA balance for the year in the Statement of Movement on the HRA Balance.

In line with SORP guidance the Contribution of Housing Capital Receipts to the Government Pool has been removed from the statements from 2008/09.

### 2. NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

2008/09 £'000 (restated)		2009/10 £'000
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>		
(1,068)	Impairment of Fixed Assets	(2,312)
40	Gain on the disposal of Fixed Assets	24
(559)	Net charges made for retirement benefits in accordance with FRS17	(916)
<u>(1,587)</u>		<u>(3,204)</u>
<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
345	Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners	435
<u>345</u>		<u>435</u>
<u>(1,242)</u>	<b>Net additional amount required by statute to be credited to the HRA Balance for the year</b>	<u>(2,769)</u>

### 3. Charges for Services and Facilities

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

### 4. Housing Stock

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

	31 March 2009	31 March 2010
Houses	1,320	1,318
Bungalows	441	440
Flats	1,461	1,461
	<b>3,222</b>	<b>3,219</b>
Analysis of bedroom type		
	31 March 2009	31 March 2010
1 bedroom	1,587	1,585
2 bedroom	541	542
3 bedroom	1,008	1,006
4 or more bedrooms	86	86
	<b>3,222</b>	<b>3,219</b>
Analysis of stock by age		
	31 March 2009	31 March 2010
Pre 1945	266	268
1945 – 1964	1,329	1,327
1965 – 1974	659	659
1974 onwards	968	965
	<b>3,222</b>	<b>3,219</b>

### 5. 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 2009		31 March 2010	
	Number	Value £'000	Number	Value £'000
<b>Operational Assets</b>				
Standard Dwellings	2,976	150,773	2,974	143,215
Sheltered Housing	246	5,543	245	5,319
Garages and Parking Spaces	811	875	763	896
Community Asset	1	33	1	33
	<b>4,034</b>	<b>157,224</b>	<b>3,983</b>	<b>149,463</b>
<b>Non Operational Assets</b>				
Premises	2	74	2	74
<b>Total</b>		<b>157,298</b>		<b>149,537</b>

The analysis below shows the value of dwellings within the HRA if they were sold on the open market with vacant possession and free from any legal or regulatory tenancies. The difference between the vacant possession value and the balance sheet value represents the economic cost to the government of providing Council Housing at less than market rents.

	31 March 2009 Value £'000	31 March 2010 Value £'000
Dwellings	347,372	330,072
Other Land and Buildings	875	896
	<b>348,247</b>	<b>330,968</b>

## 6. Major Repairs Reserve

The major repairs reserve was set up in 2001/02 to account for the new government subsidy for major repairs to council dwellings – the major repairs allowance (MRA).

	2008/09 £'000	2009/10 £'000
Balance Brought Forward	0	0
Receipts in year	2,162	2,543
Expenditure in year		
o Houses and Flats	(2,160)	(2,543)
o Environmental Improvements	(2)	0
o Surveys / Other	0	0
Balance Carried Forward	<b>0</b>	<b>0</b>

## 7. Housing Repairs

	2008/09 £'000	2009/10 £'000
Expenditure on repairs	5,397	4,658
Of which planned	4,062	3,408
% of Planned / Response	75.3%	73.2%

£2.663 million of the 2009/10 expenditure (£3.801 million in 2008/09) on repairs was capital. The main categories of expenditure were central heating, window and door replacement and the modernisation of kitchens and bathrooms.

## 8. Capital Expenditure

	2008/09 £'000	2009/10 £'000
HRA Properties – capital repairs & maintenance	3,751	2,613
LA Tenants Disabled Persons Grants	50	50
	<b>3,801</b>	<b>2,663</b>

## 9. Capital Financing

	2008/09 £'000	2009/10 £'000
Major Repairs Reserve (Government Grants)	2,162	2,543
Borrowing	1,639	120
	<b>3,801</b>	<b>2,663</b>

## 10. Capital Receipts

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

	2008/09 £'000	2009/10 £'000
Right to Buy sales	110	232
Auction sales	0	0
Land sales	0	0
	<b>110</b>	<b>232</b>

## 11. Depreciation and Impairments

The depreciation charged to the HRA which is equal to the Major Repairs Allowance was

	2008/09 £'000	2009/10 £'000
Depreciation	<b>2,162</b>	<b>2,543</b>

The impairment charge to the HRA in respect of reductions in the value the Council's housing stock which cannot be offset against a Revaluation Reserve balance was

	2008/09 £'000	2009/10 £'000
Impairment	<b>3,336</b>	<b>2,312</b>

## 12. Subsidy

	2008/09 £'000	2009/10 £'000
Management and maintenance	5,124	5,271
Major Repairs Allowance	2,162	2,243
Interest on receipts	(12)	(8)
Rent income	(10,452)	(10,715)
HRA Adjustment pre budget	0	300
	<b>(3,178)</b>	<b>(2,909)</b>

## 13. Rent Arrears

	2008/09 £'000	2009/10 £'000
Current Tenants	210	202
Former Tenants	65	72
Garages	1	1
Total Rent Arrears	<b>276</b>	<b>275</b>
Gross Rent Income	(9,929)	(10,271)
Arrears as a % of Gross Rent Income	<b>2.8%</b>	<b>2.6%</b>

The provision for HRA bad debts at 31 March 2010 is unchanged from that at 31 March 2009 at £125,000.

### 13. Rent Income from Dwellings

	2008/09 £'000	2009/10 £'000
Full rental income from dwellings	10,072	10,413
Less Rent due on void properties	(85)	(109)
Less Irrecoverable	(58)	(33)
<b>Total</b>	<b>9,929</b>	<b>10,271</b>

### 14. Service Charge Breakdown

Service charge income is

	2008/09 £'000	2009/10 £'000	
Service Charges	49	56	Leaseholders
Housing Care	172	172	Care element of sheltered rent
Insurance	36	39	Leaseholders insurance repayments
Water / Alarms	22	16	Sheltered accommodation recharge
Court Costs	8	7	From tenants
Service Charges	15	15	Tenants
Management	46	50	Non care element sheltered rent
Other	10	22	
	<b>358</b>	<b>377</b>	

### 15. Pensions

The following transactions have been included in the HRA Income and Expenditure Account and Statement of Movement on the HRA Balance with no net residual cost to the HRA.

	2008/09 £'000	2009/10 £'000
<b>Net Cost of Services</b>		
▪ Current service costs and past service costs	(97)	(157)
<b>Surplus or (Deficit) for the year on HRA Services</b>		
▪ Pensions interest cost and expected return on Pensions Assets	311	638
<b>Statement of Movement on the HRA Balance</b>		
▪ Reversal of net charges made for retirement benefits in accordance with FRS17	(559)	(916)
<b>Actual amount charged against Rents</b>		
▪ Employers' contributions payable to scheme	345	435



<b>COLLECTION FUND</b>		
<b>2008/09</b>		<b>2009/10</b>
<b>£'000</b>		<b>£'000</b>
	<b>INCOME</b>	
(33,706)	Council Tax	(34,180)
(4,529)	Transfers from General Fund Council Tax Benefits	(5,133)
(14,008)	Income collectable from Business Ratepayers	(13,984)
<u>(52,243)</u>		<u>(53,297)</u>
	<b>EXPENDITURE</b>	
38,149	Precepts and demands from County and District	39,386
	Business Rate	
13,926	Payment to National Pool	13,900
82	Costs of Collection	84
	Bad and Doubtful Debts	
(155)	Write Offs	(50)
259	Provisions	340
383	Contributions - release of surplus	705
<u>52,644</u>	<b>TOTAL EXPENDITURE</b>	<u>54,365</u>
<u>401</u>	<b>MOVEMENT ON FUND BALANCE</b>	<u>1,068</u>
	<b>APPROPRIATIONS</b>	
(793)	(Surplus) at 1 April	(392)
401	Deficit for the year	1,068
<u>(392)</u>	(Surplus) / Deficit at 31 March	<u>676</u>

## NOTES TO THE COLLECTION FUND

### 1. The Collection Fund

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

Council tax is normally set before the financial year on the basis of estimates that would result in the Collection Fund balancing to zero. Inevitable changes in yield and assumptions about collectability during the year cause a surplus or deficit to arise on the fund at year end.

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 that 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	4,867.9	6/9	3,245.3
B	10,793.1	7/9	8,394.6
C	7,587.4	8/9	6,744.4
D	4,212.8	9/9	4,212.8
E	1,675.2	11/9	2,047.5
F	1,289.8	13/9	1,863.0
G	308.3	15/9	513.8
H	4.3	18/9	8.5
			27,029.9
	Plus MOD contributions in lieu		819.0
	Less allowance for losses on collection		(271.2)
	Add second homes adjustment		93.0
	Tax Base for 2008/2009		<b>27,670.7</b>

The Band D Council Tax for a Gosport property in 2009/10 was £202.81

### 3. Non-Domestic Rateable Value

The NNDR multiplier for the year was 48.5 pence. The total non-domestic rateable value at the year-end was £32,072,810



#### 4. Precepts and Demands

	2008/09 £'000	2009/10 £'000
Hampshire County Council	27,405	28,173
Hampshire Fire & Rescue Authority	1,598	1,669
Hampshire Police Authority	3,718	3,932
Gosport Borough Council	5,428	5,612
	<b>38,149</b>	<b>39,386</b>

#### 5. Release of Collection Fund surpluses

	2008/09 £'000	2009/10 £'000
Hampshire County Council	276	506
Hampshire Fire & Rescue Authority	16	30
Hampshire Police Authority	36	69
Gosport Borough Council	55	100
	<b>383</b>	<b>705</b>

#### 6. Accounting for the Collection Fund balance

##### Council Tax

The SORP 2009 requires that the Council Tax included in the Income and Expenditure Account is the accrued income for the year rather than, as previously, the amount included under regulations comprising the approved annual precept plus the estimate of the Collection Fund surplus made at the previous 15<sup>th</sup> January. The difference between the accrued amount and the amount required to be included under regulations (the precept plus estimated Collection Fund surplus or deficit) is adjusted through the Collection Fund Adjustment Account and as a reconciling item in the Statement of Movement on the General Fund Balance

The SORP 2009 recognises that the collection of Council Tax is in substance an agency arrangement with the cash collected by the billing authority belonging proportionately to the billing authority and major preceptors. There is therefore a debtor / creditor position between the billing authority and major preceptors at the year end and this position is recognised in their respective balance sheets. This change of accounting policy for Council Tax requires a prior year adjustment for the 2008/09 accounts and this is reflected in the core financial statements. Note 21 refers.

The following amounts are included in the balance sheet

	2008/09 £'000 (restated)	2009/10 £'000
<u>Debtors</u>		
Hampshire County Council	963	1,736
Hampshire Fire & Rescue Authority	136	244
Hampshire Police Authority	57	103
Gosport Borough Council	248	245
<u>Collection Fund Adjustment Account</u>	(56)	95
	<b>1,348</b>	<b>2,423</b>

### Non Domestic Rates

From 1 April 2009, the SORP recognises that the collection of National Non Domestic Rates by billing authorities is undertaken under an agency arrangement and is to be accounted for accordingly.

Therefore, NNDR income billed and collected, associated impairment allowances, debtor and creditor balances and cash flows are not assets and liabilities of the billing authority and are not recognised in the billing authority's financial statements as such.

Under the 2009 SORP, the correct debtor / creditor position that is recognised in the billing authority's balance sheet is the net amount of cash collected from NNDR taxpayers that has either not yet been paid to the government or which has been overpaid to the government. A prior period adjustment is also required for the opening balance sheet figures.

The cost of collection allowance received by billing authorities continues to be included as income in Income and Expenditure Account.

The following amount is included in the 2009/10 accounts in respect of the above transactions.

	2008/09 (Restated) £'000	2009/10 £'000
NNDR National Pool Creditor (owing to) or Debtor (owing from)	(3,869)	1,107
	<b>(3,869)</b>	<b>1,107</b>

**GOSPORT BOROUGH COUNCIL**  
**ANNUAL GOVERNANCE STATEMENT 2009/10**

**Scope of responsibility**

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

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

Gosport Borough Council has completed the Corporate Governance Compliance Checklist which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

This statement explains how Gosport Borough Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

**The purpose of the governance framework**

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

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

The governance framework has been in place at Gosport Borough Council for the date of approval of the 2009/10 Statement of Accounts.

**The governance framework**

Our governance framework derives from six core principles identified in a 2004 publication entitled The Good Governance Standard for Public Services. This was produced by the Independent Commission on Good Governance in Public Services - a commission set up by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Office of Public Management. The Commission utilised work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA/SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007. The six core principles are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;

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

The key elements of each of these core principles are as follows:

**Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.**

The Sustainable Community Strategy sets out Gosport's 2026 Vision which has been developed in parallel with the Local Development Framework (which sets out future land use in the Borough).

The first stage in developing the Vision involved extensive data collection on a range of quality of life issues which provided a statistical picture of the Borough. This is the [data baseline](#). The second stage involved a large-scale community consultation, 'Make your Mark', which allowed residents, businesses and visitors to comment and prioritise the key issues. Over 1200 people took part in this highly successful participation event and the [results](#) were used to inform the Vision.

In addition to this key service providers were consulted and other consultation findings and local and regional plans and strategies were assessed.

Drawing on the information obtained from the research and consultations Gosport's 2026 Vision was produced.

The Sustainable Community Strategy will be refreshed annually and fully reviewed every three to five years.

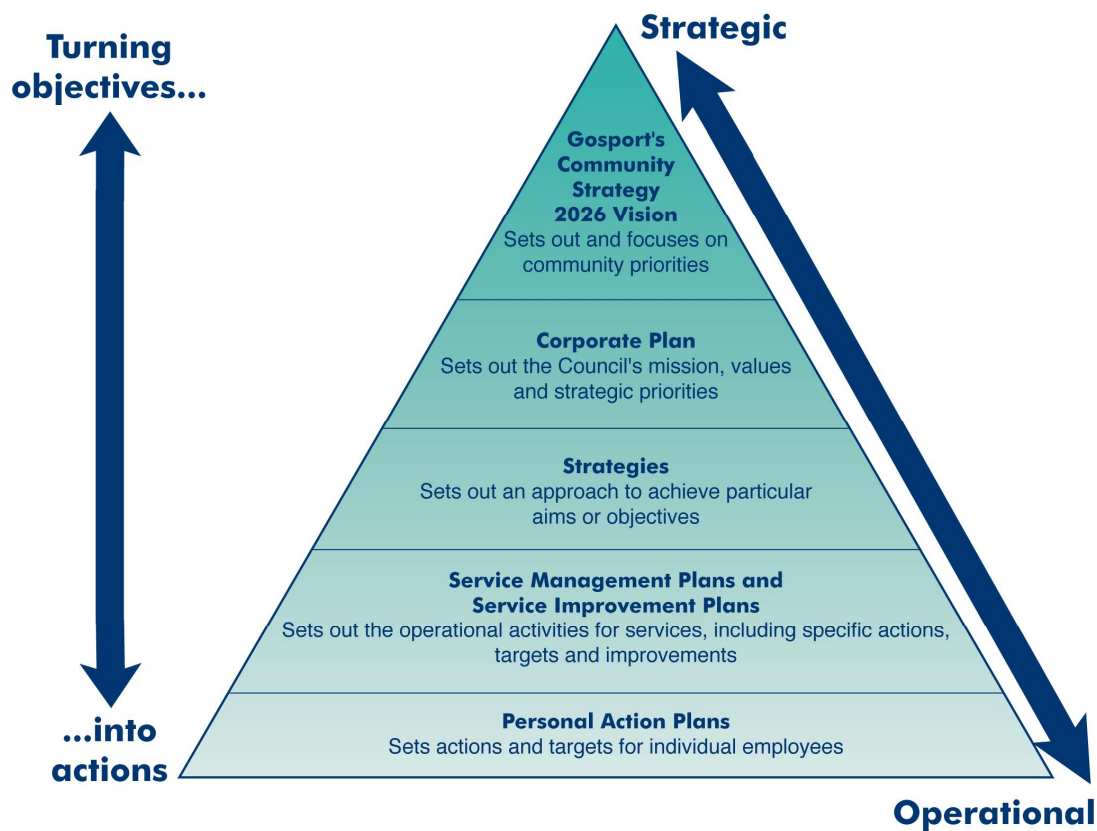
The Council's Corporate Plan sets out Gosport Borough Council's Mission and Values which will help us provide quality service delivery. The Corporate Plan also identifies the Council's strategic priorities (People, Places, Prosperity and Pursuit of Excellence), which are based on a combination of factors including what matters most to local people, national priorities set by the Government and the challenges from Gosport's changing social, economic and environmental context.

Much work has been completed around Climate Change and carbon reduction throughout the business and the signing of the Nottingham Declaration. This has culminated in a Climate Change Strategy being introduced.

The Council's mission is:

***"To work with our community to improve everyone's quality of life and deliver a sustainable future for the Borough."***

The diagram below sets out the various links in the process of establishing and monitoring the achievements of the Council's ambitions, and shows the links between the Community and Corporate Plan which then feed into, and are informed by, strategies, service management and service improvement plans and individual personal action plans:



The Council has a well established Performance Management Framework and will be further enhanced with the imminent roll out of new software to maintain this key information.

The Overview & Scrutiny Committee and Performance Sub Group monitor and scrutinise progress against targets and performance in priority areas effecting relevant service areas, and consider corrective action where necessary, on a quarterly basis.

The Council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.

Through reviews by external auditors, external agencies, Internal Audit, and internal review teams (service efficiency reviews), the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which it functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council's Corporate Procurement Strategy, approved in 2009, provides a consistent strategic framework within which to undertake and continuously develop procurement to deliver the Council's corporate objectives, to improve performance and deliver efficiencies. The Strategy encompasses the policy objectives of the National Procurement Strategy and adapts and prioritises them to meet the Council's local context. The Strategy recognises that the Council cannot achieve its objectives alone and emphasises the need to work in collaboration with public, private, social enterprise and voluntary sector partners. A core theme throughout the Strategy is the Council's commitment to social, economic and environmental sustainability. This strategy has been updated in 2009/10.

The Council reviewed its Financial Regulations in 2006. These Regulations are planned to be updated in 2010/11.

Risk Management is monitored by the Corporate Risk Management Group, which meets approximately every six weeks. The Group reviews risk arrangements and advises Management Team on risk issues within the Council and on existing and planned risk controls.

Risks are reported by use of risk registers. Each section is required to update its own register. These registers will be further enhanced with the roll out of the "risk module" as part of the new performance management software in 2010/11. In addition, the Council's high level risks have been captured and agreed within the strategic risk register (March 10) which has been agreed by CMT and Members in 2009/10. This will be reviewed six monthly by the Corporate Risk Management Group as well as Members of the Standards & Governance Committee.

**Members and Officers working together to achieve a common purpose with clearly defined functions and roles**

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. The introduction of the Local Government Act 2000 made it the duty of every Council to review their political management structures. As part of the review Councils were required to consider the type of structure to be adopted and were given a choice of four models from which to choose. Councils with a population of less than 85,000 were offered the opportunity to adopt 'alternative arrangements' or what is sometimes referred to as the 'fourth option', and this is the option that was approved by Gosport Borough Council in 2000.

The option to employ 'alternative arrangements' allows the Council to retain a Committee structure for making decisions but together with a system that allows other Councillors to scrutinise decisions that have been made. Members of the Policy and Organisation Board are disqualified from membership of the twelve strong Overview and Scrutiny Committee. There are six meetings of the Overview and Scrutiny Committee each year.

Decisions are made by Boards and Sub-Boards of the Council with the following having the responsibility for the majority of decision making:

***Council***  
***Policy and Organisation Board***  
***Community and Environment Board***  
***Housing Board***  
***Regulatory Board***  
***Licensing Board***

As the Regulatory Board deals only with planning applications and the Licensing Board with Licensing matters the law does not allow their work to be scrutinised by other Councillors. This is because the decisions made by these Boards are already subject to an appeal process, either through an independent inspector or the courts.

In addition to the Boards, there is also a Standards and Governance Committee in place to promote and maintain the highest standards of conduct by members and officers of the Council. The Committee comprises six Councillors and two Independent Members. Additionally, from May 2008 the Standards and Governance Committee is required to deal with complaints made about the conduct of Councillors as the majority of these cases will, from that point, be determined locally.

Officers give advice, implement decisions and manage the day-to-day delivery of its services. Some officers have specific duties to ensure that the Council acts within the law and uses its resources wisely. A code of practice governs the relationship between officers and members of the Council. In certain circumstances, senior and other officers of the Council can make decisions under delegated authority, as detailed in the Borough's constitution.

The Council Management Team (CMT) meet weekly to develop policy and strategic issues commensurate with the Council's aims, objectives and priorities. CMT also considers other internal control issues, including risk management, performance management, compliances, efficiency and financial management. Three CMT sub-groups, Performance, Organisation and Resources, are in place to consider specific areas of work. The Leader and Deputy Leader of the Council hold twice-weekly meetings with the Chief Executive Officer to review progress in achieving the Council's objectives, priorities for action, performance management and forward planning for major issues.

Pre-Agenda meetings are held for the three Service Boards, Policy and Organisation, Housing and Community and Environment three weeks before the meeting of the Board. The Chairman of the Board will be present at Pre-Agenda meetings along with relevant officers of the Council. At the Pre-Agenda meeting the Chairman will consider a list of items that it has been proposed to take forward to the Board meeting and will make a decision on whether each item in his opinion should be placed on the final Agenda, decided under the delegated powers approved by Council or referred to the Overview and Scrutiny Committee. Following such Pre-Agenda meetings all Members of the Council are furnished with a Key Decision List of items allowing four working days from publication to call in an item for scrutiny. Informal briefings are also held for the Chairmen of the Regulatory Board and Licensing Board shortly before the Board meeting.

Information that would be of benefit to other members of the Council staff is disseminated through regular meetings between Line Managers and the relevant Unit manager, and then through to the rest of the unit via monthly section meetings.

The Council has also adopted a number of codes and protocols that will govern both member and officer activities. These include:

- Code of Conduct for Members of Gosport Borough Council
- Code of Conduct for the Guidance of Employees
- Code of Conduct for Councillors in the Regulatory Process
- Protocol for Councillor/Officer Relationships
- Anti-Fraud and Corruption Policy
- Whistle Blowing Policy
- Protocol on Principles of Scrutiny

**Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

It is the shared responsibility of the Chief Officers, primarily the Monitoring Officer (the Borough Solicitor) and Chief Executive Officer, and the Personnel section to ensure compliance with established policies, procedures, laws and regulations. Issues of conduct and governance must often be considered by the Standards and Governance Committee, in which case a report and recommendations are prepared by the Monitoring Officer. All posts within the authority have a detailed job specification and training needs are identified on an on-going basis and also through the six-monthly Appraisal and Personal Development Scheme.

The Council has achieved re-accreditation under the Investors in People Standard, which is a quality framework to ensure that the Council's employees have the right knowledge, skills and motivation to work effectively.

The Environmental Health Unit has achieved accreditation under the Charter Mark standards, which is the Government's national standard for excellence in customer service.

The financial management of the Authority is conducted in accordance with the financial rules set out in the Constitution and underpinned with Financial Regulations. The Council has designated the Deputy Chief Executive and Borough Treasurer as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.

The Council operates an Internal Audit section, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. However, this section now operates under a partnership arrangement with Eastleigh Borough Council.

Service Improvement Plans and Service Management Plans are regularly updated by Unit and Line Managers and are a standing item on monthly team meetings. These plans incorporate Corporate Plan requirements into service activities, so that services know what they are required to do to achieve the Council's priorities and ambitions.

**Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

As the Council chose to adopt 'alternative arrangements' following publication of the Local Government Act 2000, a Board/Committee structure is in place and each party is represented proportionally on each Board and Committee according to the number of seats held. Consequently the Council enjoys a high level of transparency when it comes to decision making and any Member of the Council is afforded the right to sit on the Boards if they are nominated for such a position at the commencement of the Municipal Year.

The Overview and Scrutiny Committee will accept and investigate formal requests for scrutiny and receive selected policies and strategies for review throughout the year.

The Standards and Governance Committee promotes, monitors and enforces probity and high ethical standards amongst the Members, as well as providing a vessel for Audit and Risk issues to be considered.

**Developing the capacity and capability of members and officers to be effective**

A designated Members' Portal covering a wide range of useful materials and guidance information is available for Members and staff to view on the intranet system. This resource enables the Council to better provide for Members the opportunity to locate important stored information and data. Within the Portal is the Members' Information Pack which provides Members with detailed corporate, strategic and financial information as well as relevant policies and other useful information such as floor plans and complaints guidance.

New Members are provided with an induction training programme to prepare them for their new role, commencing with an induction evening hosted by the Chief Executive, Borough Solicitor and Borough Treasurer that covers topics such as the role of the councillor, finance, standards, code of conduct and major projects. A rolling programme of topical briefings such as those on economic prosperity, crime reduction, local government finance and making decisions on planning and licensing issues are held throughout the year to correlate with the Board cycle.

There is a wide range of further training opportunities available to Members to increase their knowledge base from skills development (e.g. chairing skills, dealing with challenging people and



media and image) to need-to-know subjects (e.g. Code of Conduct, planning issues and scrutiny) detailed in the ' Training Opportunities for Members' booklet within the Members Information Pack.

**Engaging with local people and other stakeholders to ensure robust public accountability**

Local government is accountable in a number of ways. Elected local authority members are democratically accountable to their local area and this gives them a clear leadership role in building sustainable communities. All members must account to their communities for the decisions they have taken and the rationale behind those decisions. All authorities are subject to external review through the external audit of their financial statements. They are required to publish their financial statements and are encouraged to prepare an annual report. Many are subject to national standards and targets. Their budgets are effectively subject to significant influence and overview by government, which has powers to intervene. Both members and officers are subject to codes of conduct. Additionally, where maladministration may have occurred, an aggrieved person may appeal either through their local councillor or directly to the Ombudsmen.

**Review of effectiveness**

Gosport Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

1. The Borough Solicitor (the "Monitoring Officer") has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes.
2. The Council has an Overview and Scrutiny Committee. They can establish sub-groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to the Board/Council.
3. Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate a three-year plan, and from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager. The report includes recommendations for improvements that are included within an action plan (and regarded as critical, essential, important & advisory) and requires agreement or rejection by service managers. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months.

The Standards & Governance Committee also received Internal Audit monitoring reports on a quarterly basis throughout 2009/10.

Internal Audit reviews and computer-based assignments had been undertaken in accordance with the risk index previously agreed with Members and the Council's external auditors.

A weakness in journal authorisation was identified in 2009/10. This has been addressed with new monitoring procedure alongside the introduction of a new financial suite during 2010/11.

**Significant governance issues**

The following governance issues were identified during 2009/10 as a result of the review of arrangements and by the work of external and internal audit.

NO	ISSUE	ACTION/PROGRESS TO DATE
1	Closely monitor the Housing repairs contract budget.	Increased information and systems in place to ensure contract is financially controlled (This area has improved through the introduction of a robust control environment).
2	Homelessness debt management.	Working group established to streamline the process and reduce the level of arrears (COMPLETED).
3	Accounting reconciliations require evidence of review.	Evidence to be retained on file (COMPLETED)
4	Review the current procurement strategy and contract standing orders.	Contract procedure rules to be updated in 2010/11.
5	Improve the risk management arrangements throughout the Council.	Ensure adequate resource is provided to support this key business process.
6	Enhance governance arrangements in the Council's strategic partnership arrangements.	Run workshops and perform risk assessments with stakeholders to determine the strength of the governance arrangements and make improvements where necessary.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed .....

**Leader of the Council**

**Chief Executive**

# Independent auditor's report to Members of Gosport Borough Council

## **Opinion on the accounting statements**

I have audited the Authority accounting statements and related notes of Gosport Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies

This report is made solely to the members of Gosport Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## **Respective responsibilities of the Chief Finance Officer and auditor**

The Chief Finance Officer's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice of the financial position of the Council and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

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**Basis of audit opinion**

I conducted my 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In my opinion the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

**Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources****Council's responsibilities**

The Council 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 regularly to review the adequacy and effectiveness of these arrangements.

**Auditor's responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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**Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Gosport Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Patrick Jarvis  
Officer of the Audit Commission  
Collins House  
Bishopstoke Road  
Eastleigh  
Hampshire